

REPORT TO	DATE OF MEETING
Governance Committee	29th April 2010

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SUBJECT	PORTFOLIO	AUTHOR	ITEM
Internal Audit Annual Report 2009-10	Not Applicable	G. Barclay C. Ware	

SUMMARY AND LINK TO CORPORATE PRIORITIES

The purpose of this report is:

- to summarise the work undertaken by the Internal Audit Service from April 2009 to March 2010;
- to give an Audit opinion on the adequacy and effectiveness of the control environment in the Council as a whole and for individual Audit reviews;
- to give an appraisal of the Internal Audit Service's performance and
- to provide an evaluation of the effectiveness of the Council's 'system of internal audit'.

The report links with all of the corporate priorities, in particular to be an 'efficient, effective and exceptional Council'.

RECOMMENDATIONS

That the Internal Audit Annual Report for 2009/10 be noted.

DETAILS AND REASONING

Internal Audit Opinion

A schedule of Internal Audit work undertaken during 2009/10 is shown at Appendix 1. This gives individual opinions on the adequacy of control for each of the areas audited during the year.

In arriving at an annual judgement on the overall level of control a view has been taken on the relative importance of each area audited and the nature and significance of the weaknesses identified. Taking this into account, it is Internal Audit's opinion that overall the Council continues to operate within a strong control environment.

Internal Audit Performance

Key Performance Indicators

The table at Appendix 2 sets out the key performance data for the Internal Audit Service as at the end of March 2010. This indicates that overall the Service's performance was around or above target and in some cases targets have been exceeded.

The figures for Shared Services are the only ones below target and appear to show a significant under performance but these statistics could be misconstrued and therefore require some explanation.

In particular, the Shared Services Audit Plan forms a relatively small proportion of the overall internal audit work carried out for both Councils and therefore whilst the shortfalls here seem large in percentage terms, in absolute terms they are not. Fuller explanations for each indicator are as follows:

% of planned time used

Although an actual out-turn of 64% against a target of 90% was achieved, the remaining 36% equates to only 35 days. This is due to an incidence of staff sickness and some unplanned work undertaken in the final quarter. Also the carry over has been provided for in the Audit Plans for 2010/11 which appear on this meeting's agenda.

% audit plan completed

This indicator relates to the number of final audit reports that have been agreed by / issued to management and therefore the low percentile figure is explained by the fact that the bulk of the fieldwork has been completed and 3 out of the 5 reports have been drafted but some residual time is needed in the first quarter of 2010/11 to finalise the audits. Again this has been provided for in the 2010/11 Audit Plans.

It should also be noted that the 3 audits currently at draft stage have received a substantial or adequate assurance rating.

Other Achievements

In January 2010, Internal Audit retained ISO 9001 certification. This is a significant achievement for the Service and demonstrates how well the Team has adapted to the new merged working practices and processes, following the implementation of the Shared Service Partnership.

In terms of staff development, one member of staff completed the Practitioner stage of the Institute of Internal Auditors (PIIA). Three other members of the Team were successful in their Institute of Internal Auditor examinations during the year and will continue to work towards completing the qualification.

The latest Shared Services Business Improvement Plan agreed by the Shared Services Joint Committee in March includes key projects and targets which aim to drive up service and performance standards even further in 2010/11.

Review of the Effectiveness of the System of Internal Audit

The Accounts and Audit (Amendment) (England) Regulations 2006 state at paragraph 6 (3) that (the Council) 'shall at least once a year conduct a review of the effectiveness of its system of internal audit' and in addition, that the findings of this review be considered by a committee of the Council as part of the wider consideration of its system of internal control / governance.

The Council's External Auditors conduct a detailed review of Internal Audit on a triennial basis. The latest CIPFA (Chartered Institute of Public Finance & Accountancy) Code of Practice for Internal Audit in Local Government contains a self assessment checklist for the same purpose.

For the purpose of conducting the annual review of Internal Audit, the Council relies upon the External Audit triennial review plus self-assessments against the CIPFA Code of Practice in the intervening years.

Given that 2009/10 was the first full year of operation for Internal Audit under Shared Services, the Audit Commission has opted to undertake their triennial review this year. However, this has not been done at the time of compiling this report. Therefore, the outcome will be included in the next progress report to this committee.

The CIPFA Audit Panel has recently provided a definition of the 'system of internal audit' which clarifies and expands the scope of 'internal audit' from the Internal Audit Service, to a requirement on the council to identify other independent sources of assurance obtained by each Head of Service.

Heads of Service have now provided evidence where they have obtained independent sources of assurance for their service. Examples of these include: the Customer Excellence Award; ISO 9001 and the Ministry of Justice Data Standards on Electoral Registration Data. Internal Audit has collated this evidence and it supports our overall opinion that the Council continues to operate within a strong control environment.

IMPLICATIONS OF REPORT

The matters raised in the report are cross cutting and impact upon individual services and the council as a whole.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	There are no financial implications arising directly from this report.		
LEGAL	<p>The Accounts and Audit Regulations require the Council to conduct a review of the effectiveness of its internal control system and to publish an annual Statement on the adequacy of such a system, (the Annual Governance Statement).</p> <p>An Internal Audit Annual Report is a requirement of the CIPFA Code of Practice for Internal Audit in Local Government (2006).</p> <p>The Accounts and Audit (Amendment) Regulations 2006 require an annual review of the effectiveness of Internal Audit.</p>		
RISK	A Risk Assessment has been carried out which concluded that adequate controls are in place to mitigate any risks identified.		
OTHER (see below)			
<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Crime and Disorder</i>	<i>Efficiency Savings/Value for Money</i>
<i>Equality, Diversity and Community Cohesion</i>	<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Health Inequalities</i>
<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>	<i>Staffing, Training and Development</i>	<i>Sustainability</i>

BACKGROUND DOCUMENTS

Risk Assessment
Internal Audit 2009/2010 Annual Plan

SUMMARY OF INTERNAL AUDIT ACTIVITY 2009–2010

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
1.	SHARED SERVICES			
	Main Accounting / General Ledger	A high level review was undertaken to verify that the controls and procedures in place are operating effectively.	Adequate (Draft report stage)	Management actions have been put forward to improve procedural guidance available to officers and improve financial reporting to Senior Management Team (SMT).
	Cash and Bank	To verify that the controls and procedures in place for the Cash and Bank system are adequate and operating effectively.	Adequate (Draft report stage)	Management actions have been put forward to improve the clearing of unidentified income and to improve the monitoring of controlled stationery.
	Creditors	To verify that the controls and procedures in place for the Creditor's system are adequate and operating effectively.	Not yet available	Work in progress – to be completed during quarter one 2010/11
	Treasury Management	A high level review has been undertaken of the procedures and systems in place, to verify that they are operating effectively.	Substantial (Draft Report)	No key control issues were identified.
	Risk Management Framework	Review to be completed in quarter one 2010/11	Not yet available	Not yet available

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
2.	CORPORATE GOVERNANCE			
	External Inspection (CAA, Use of Resources)	Support was provided in collating information for external inspections particularly in respect of internal control issues.	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable to this item. Proactive input provided rather than an audit / review.
	Management Assurance Statements	Co-ordinated a review of the system of governance and provided a gap analysis highlighting areas of control weakness to feed into the 2008/2009 Annual Governance Statement.	Not applicable to this item. Proactive input provided rather than an audit / review	Gap analysis provided showing areas of control weakness which were reported in the 2008/2009 Annual Governance Statement.
	Data Quality	Supporting the ongoing data quality control process, including sample checks of "high risk" National Indicators, and reviewing the Data Quality processes.	Adequate	Management Actions were agreed to raise the profile of data quality throughout the Authority and with Partner organisations.
	Sustainability Strategy	To provide assurance that the council's arrangements to meet its sustainability obligations are adequate and effective, ensuring that the council's role is appropriate and exposure to risks is minimised.	Substantial	No key control issues were identified

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
3.	ANTI-FRAUD & CORRUPTION			
	National Fraud Initiative	<p>Co-ordinate and contribute to the investigation of matches from the NFI exercises.</p> <p>Co-ordination of the Council's input to the Council Tax / Electoral Register 2009 national exercise in October and December 2009.</p>	Not applicable to this item.	<p>The matches from the 2009 Council Tax / Electoral Register exercise have only recently been released and investigations are due to commence in the near future.</p> <p>Investigations of the 2008/9 exercise are ongoing and to date the Benefit Enquiry Unit has identified overpayments of housing benefit and council tax benefit of £62,189</p> <p>A further 12 cases are still under investigation.</p>
	Anti Fraud and Corruption Policies	Input to the council's compliance with CIPFA's document 'Managing the Risk of Fraud' (Red Book 2).	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable to this item. Proactive input provided rather than an audit / review.
	System Interrogations	Using IDEA software, a matching exercise was undertaken. Payroll data was matched to Creditors data to establish if any officers had been paid through the creditors system.	Not applicable to this item.	4 matches were identified and investigated. All of the matches had justifiable explanations for the payments.
	Fraud Awareness / Bulletins	Various bulletins publicised via Connect.	Not applicable to this item.	Ongoing
4	KEY BUSINESS SYSTEMS			
	Criminal Record Bureau (CRB)	To determine whether or not CRB checks are being undertaken appropriately.	Adequate	Management actions were agreed to improve overall arrangements to ensure compliance with the Conditions of Registration.

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
5.	COMPUTER AUDIT			
	Review of Government Connect	Review of the Government Connect project to provide assurances that an effective control framework has been developed to deliver the Code of Connection (CoCo) compliance and to establish whether developing processes and procedures will ensure continuing conformity.	Substantial	No key control issues were identified
	System Access	To review and establish that the IT systems / applications in operation are effectively controlled, secure and monitored.	Adequate	Management actions have been made to improve the corporate guidance available to officers and authorisations procedures.
6.	FINANCIAL SYSTEMS			
	Key Systems Review (IAS)	Review of National Non Domestic Rates (NNDR), Housing & Council Tax Benefits, Debtors, Council Tax and Payroll to provide assurance that all high risk controls are in place and operating effectively.	Substantial	No key control issues were identified
	Charging Policies	To ensure the Council is maximising its income generating potential, including reference to the national guidance issued by the Audit Commission	Adequate	Management actions were agreed to improve corporate guidance available to aid the fee setting and decision making process and to review existing fees and consider the introduction of new fees and charges.

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	Asset Management – Property Rentals	To verify that the systems and procedures in operation for property rentals are effective and comply with relevant policies, plans and procedures	Adequate	Management actions were agreed to: improve the tenant risk assessments and the collection of rental income.
7.	KEY OPERATIONS			
	Election Fees	To ensure that the basis for setting and administering the election fees and charges locally, reflects any prevailing national, regional or local directives and to evaluate the system controls in place for their subsequent payment.	Not yet available	Work in progress
	Housing Grants	A full review to verify that the Housing Grants process provides value for money, adheres to best practice and the operational procedures established deliver and control the various streams of housing grants available.	Limited	Management actions were agreed to improve the overall arrangements with regard to budget monitoring, performance monitoring, testing of eligibility.
	Commercial Services	The review assessed the soundness and adequacy of the controls within Commercial Services.	Adequate	Management actions were agreed to improve casual staff attendance records and income monitoring records. Management actions were also made which have been incorporated into the C-Smart process.

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	Building Control	A full system review to verify that suitable system controls and procedures are in place and operating effectively.	Adequate	Management actions were agreed to improve: the overall arrangements with regard to performance monitoring; budget monitoring; recording of information; business continuity planning; the training and cover of support staff and progress of the planned partnership with Preston City Council.
	Regeneration / Civitas	To review the Civitas project documentation and check compliance with external funding requirements	Adequate	Management actions were agreed to ensure compliance with the council's project management guidance have been made and agreed with the Head of Service.
8.	GENERAL AREAS			
	Post Audit Reviews			
	Formal follow-up reviews of: P C Workstations; DWP standards; NNDR; Taxi Licensing; Local Development Framework; Ethical Governance; Capital; Housing Grants; Building Control; Commercial Services; Housing Capital; Criminal Record Bureau Checks; Data Quality.	Formal follow up of those agreed management actions due for implementation, to verify that they have been implemented and are operating effectively.		

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	Residual Work from 2008/9			
	Capital	Review of capital spending to determine whether there is adequate monitoring of the capital programme.	Adequate.	Management actions were put forward to increase coordination between capital and revenue expenditure decision making
	Unplanned Reviews			
	Sanctuary Scheme Tender	A review of the tender procedures carried out for the Sanctuary Scheme Tender.	Not applicable. Guidance / advice provided	Management were advised of improvements which could be made to future tender exercises.
	Housing Capital Allocation	To monitor the allocation and usage of the additional funding received by Housing Services.	Adequate	Management actions were made to: formally sign off the 'Step up Grant' procedures and documents; to introduce regular cross Service meetings to highlight any possible problems; to liaise with Gateway and Financial Services to ensure that all funds are allocated within the specified time and to ensure that all documentation is adequately retained to provide a full audit trail.
	Review of procedures for checks of insurance and driving licenses for officers and members.	To ensure compliance with requirements of the council's insurance company.	Adequate	Management Actions were agreed to standardise the process throughout the authority and introduce checks for Members
	Concessionary Travel	The audit review was undertaken following the receipt of an unexpected refund from the Lancashire, Blackburn with Darwen and Blackpool Joint Concessionary Travel Scheme pool	Not applicable to this item.	Lancashire County Council has authorised that the payback to the Council is to be refunded.

KEY TO CONTROL RATINGS

Substantial	The Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.
Adequate	The Authority can place only partial reliance on the controls. Some control issues need to be resolved.
Limited	The Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist.

NOTE

The above control ratings relate only to the point in time when the final audit report was issued. They represent a historic rather than a current judgement as managers are charged with implementing corrective action plans to address the control issues raised. This is in turn supported by a programme of follow-up reviews by the Internal Audit Service.

Internal Audit Performance Indicator Table – 2009/10

	Local Performance Indicators	Target 09/10	Actual 09/10	Comments
1	% of audit time utilised	100%	86%	The Audit days planned for LCC were not fully utilised following agreement by the Governance Committee to cancel and / or defer 5 audits to 2010/11.
2	% of planned time used	90%	83% SRBC 64% Shared Services	SRBC - Slightly below target due to the 5 deferred audits noted above. The remaining 36% equates to 35 days which have been provided for in the 2010/11 Audit Plans to enable the outstanding work to be finalised.
3	% audit plan completed	92%	94% SRBC 14% Shared Services	Target exceeded. Although below target the majority of the reviews are at draft report stage.
4	% management actions agreed	97%	99%	Target exceeded. Only one management action out of a total of 80 not agreed.

5	% of agreed management actions implemented	Priority 1 100%	Priority 1 94%	18 out of the 19 management actions due for implementation are now implemented. A revised date has been set for the outstanding action.
		Priority 2 80%	Priority 2 94%	Target exceeded.
6	Of the agreed management actions implemented – the % implemented on time	Priority 1 100%	Priority 1 88%	16 out of the 18 management actions implemented were implemented on time.
		Priority 2 80%	Priority 2 88%	Target exceeded
7	% overall customer satisfaction rating (assignment level)	96%	93%	Based on 11 satisfaction surveys returned from 12 issued.

Priority 1 actions are considered essential as they impact significantly on the Council's system of governance and internal control and may influence external inspection outcomes. A lack of timely implementation will be reported to the Governance Committee.

Priority 2 actions will significantly improve the level of control and will be monitored by Internal Audit. A lack of timely implementation may be reported to the Governance Committee.