

REPORT TO	DATE OF MEETING
Governance Committee	22 nd September 2010

Report template revised June 2008



SUBJECT	PORTFOLIO	AUTHOR	ITEM
Internal Audit Interim Report as at 27th August 2010	Not Applicable	D Highton	6

SUMMARY AND LINK TO CORPORATE PRIORITIES

The purpose of this report is:

- to advise members of the work undertaken in respect of the Annual Internal Audit Plan during the initial five months of 2010/11 and to comment on the results
- to give an appraisal of the Internal Audit Service's performance to date
- to inform members of any other developments involving or impacting upon the work of the Internal Audit Service.

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

RECOMMENDATIONS

That the report be noted.

DETAILS AND REASONING

Background

This is the first progress report for the current financial year and covers the period between 1st April 2010 and 27th August 2010.

Internal Audit Plan

Appendix 1 to this report provides a "snapshot" of the overall progress made in relation to the 2010/2011 Internal Audit Plan, indicating which audits have been completed, those that are in progress and those that have yet to start. Appendix 1 also shows the time planned and actually spent on individual audits.

Appendix 2 provides more detailed information on the audit work undertaken to date.

The 2009 / 10 residual work and irregularities have exceeded the time allocated. However, this is not expected to impact on the achievement of the 2010 / 2011 Audit Plan.

All the residual work in relation to the 2009/10 Audit Plan has now been completed.

With regard to the irregularities, we provided assistance to the Benefit Enquiry Unit in investigating a number of Benefit frauds and we have also assisted management with investigations into the misappropriation of several minor amounts of cash.

Internal Audit Performance

Appendix 3 provides information on Internal Audit performance as at the end of August 2010.

The majority of the measures are on or around target and full explanations are provided in the table.

Other / Future Developments

Audit Commission

Following an announcement by the new Coalition Government on 26th May, we were informed by the Audit Commission that their work on Comprehensive Area Assessments (CAA) including the Use of Resources Assessment and work on Data Quality would cease.

On Friday 13th August 2010, there was an announcement by the Secretary of State for Communities and Local Government about the proposed abolition of the Audit Commission from 2012. At this stage we are uncertain how these changes will impact on future Internal Audit Plans.

Triennial Review

We have previously informed members that the Audit Commission were due to undertake their triennial review of the Internal Audit Service. This review has now been completed and we will inform members of the results when they become available.

Examination Success

Two members of the Internal Audit team were successful in their recent Institute of Internal Auditor examinations.

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	The Interim Report is a requirement of the CIPFA Code of Practice for Internal Audit in Local Government (2006).		
RISK	The full risk assessment forms part of the background papers to this report.		
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

APPENDIX 1 - INTERNAL AUDIT PLAN 2010/11

Audit Areas	Qtr	Plan	Actual	Bal	Status
SHARED SERVICES					
Capital	2	20	0.3	19.7	Work in Progress
Main Accounting / General Ledger	4	20	0.0	20.0	To commence Q4
Cash and Bank	4	20	0.0	20.0	To commence Q4
Creditors	4	20	0.0	20.0	To commence Q4
Payroll	4	20	0.0	20.0	To commence Q4
Treasury Management	4	15	0.0	15.0	To commence Q4
Emergency Planning / Business Continuity	4	20	0.0	20.0	To commence Q4
Project Support / General Controls Advice	All	20	1.9	18.1	ongoing
TOTAL		155	2.2	152.8	
SOUTH RIBBLE					
CORPORATE GOVERNANCE					
External Inspection (CAA, UofR)	1	15	15.3	-0.3	Complete
Service Assurance Statements	1	18	18.1	-0.1	Complete
Data Quality incl., Partnerships	ALL	25	2.8	22.2	Not required
ANTI-FRAUD & CORRUPTION					
NFI	ALL	30	13.1	16.9	On-going
Systems Interrogation	ALL	10	1.6	8.4	On-going
Anti Fraud & Corruption Policies / Fraud	ALL	17	2.5	14.5	On-going
KEY BUSINESS SYSTEMS					
External Partnership / Funding	ALL	15	1.8	13.2	On-going
Procurement	3	20	0	20	To commence Q3
COMPUTER AUDIT					
Penetration Testing	3	15	1	14	To commence Q3
Physical Security / Hardware	2	20	4.5	15.5	On-going
FINANCIAL SYSTEMS					
Key Systems Review (ISA)	3 & 4	40	0.5	39.5	To commence Q3
Asset Management / Estates	3	20	0	20	To commence Q3
KEY OPERATIONS					
Regeneration / Leyland Board	4	15	0	15	To commence Q4
Regeneration of Leyland (External Funding)	3	20	0.1	19.9	To commence Q3
Refuse Collection / Recycling Contract	3	15	0.1	14.9	To commence Q3
Sanctuary Scheme / Homelessness	3/4	15	0.5	14.5	To commence Q3
Planning Control	1	15	17	-2	On-going
Transport	2	20	1	19	To commence Q2
Land Charges	1/2	20	13.5	6.5	On-going
GENERAL AREAS					
Irregularities	ANY	20	41.4	-21.4	On-going
Post Audit Review	ALL	20	4.7	15.3	On-going
Residual Work from 2009/10	1	23	44.2	-21.2	Complete
Unplanned Reviews (Contingency)	ANY	20	15.7	4.3	On-going
Project Support	ANY	15	2.9	12.1	On-going
Governance Committee Reporting / Training	ALL	22	14.1	7.9	On-going
TOTAL		485	216.4	268.6	

SUMMARY OF INTERNAL AUDIT ACTIVITY APRIL – AUGUST 2010

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
1.	SHARED SERVICES			
	All reviews to be undertaken in Quarters 2 & 4			
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.
	Service 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 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 Annual Governance Statement.
	Data Quality	Internal Audit input no longer required following the abolition of Comprehensive Area Assessments including Use of Resources Assessment and Data Quality.		

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
2	ANTI-FRAUD & CORRUPTION			
	National Fraud Initiative	<ol style="list-style-type: none"> 1. On-going monitoring of the results from the 2008/9 exercise 2. On-going monitoring of the results from the 2009/10 Council Tax / Electoral Register exercise 3. Co-ordination of the Council's input to the 2010/11 main exercise in October 2010. This includes: Benefits, Payroll, Creditors, Concessionary travel, Taxi Licences and Licences to supply alcohol, Market Traders and Insurance Claims data. 	Not applicable to this item.	<ol style="list-style-type: none"> 1. Investigations of the 2008/9 exercise are nearing completion and to date have identified overpayments of housing benefit and council tax benefit of £66,442 2. Investigations into the matches are on-going and results will be reported in the next interim report. 3. A briefing session for all data holders was recently held.
	System Interrogations	Using IDEA software, current Council Tax records were matched to a report generated from the NFI data, to remove cases where a change of circumstances had already been notified and Single Person Discount had already ceased.	Not applicable to this item.	This resulted in a reduction of 355 (approx 23%) fewer matches requiring further investigation
	Anti Fraud and Corruption Policies / Fraud Awareness	Fraud Bulletins have been placed on Connect and Councillor Connect to highlight specific fraud risks.	Not applicable to this item	On-going

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
3	KEY BUSINESS SYSTEMS			
	External Partnership Funding (LSP)	To ensure that there are systems / processes / monitoring controls in place and a complete audit trail for all funding allocated for LSP projects.	Not yet available	Work in progress
	All other reviews to be completed in Quarter 3			
4	COMPUTER AUDIT			
	Review of Physical Security of Hardware	To ascertain whether there are effective systems in place to mitigate any risks to the physical security of the Council's ICT hardware.	Not yet available	Work in progress
	All other reviews to be undertaken in Quarter 3			
5.	FINANCIAL SYSTEMS			
	All reviews to be completed in Quarter 3 & 4			
6.	KEY OPERATIONS			
	Planning Control	To provide assurance that the procedures operated in respect of the planning system are adequate and effective.	Not yet available	Work in progress
	Land Charges	To review the adequacy and effectiveness of the systems and processes in operation in respect of the land charges system.	Not yet available	Work in progress

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	All other reviews to be completed in Quarter 3 & 4			
7.	GENERAL AREAS			
	Post Audit Reviews			
	Formal Follow up reviews of: Data Quality; Asset Management; Housing Grants; Driving Licences and Insurance; Building Control; Government Connect; Charging Policies; System Access; CRB Checks; Sustainability; Council Tax, NNDR and Sundry Debtors.	All reports are followed up on an on-going basis when the date for implementation of the management action falls due		
	Residual Work from 2009/10			
	Election Fees	To ensure that the basis for setting and administering election fees and charges locally reflect any prevailing national, regional or local directives and to evaluate the system controls in place for their subsequent payment.	Adequate (Draft)	Management Actions have been put forward to improve the overall arrangements regarding payments and the level of evidence required.
	Main Accounting / General Ledger	A high level review was undertaken to verify that the controls and procedures in place are operating effectively.	Adequate	Management actions were agreed to improve procedural guidance available to officers and improve financial reporting to Senior Management Team (SMT).

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	Cash and Bank	To verify that the controls and procedures in place for the Cash and Bank system are adequate and operating effectively.	Adequate	Management actions were agreed 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.	Substantial	No key control issues
	Treasury Management	A high level review was undertaken of the procedures and systems in place, to verify that they are operating effectively.	Substantial	No key control issues
	Risk Management Framework	To establish that risk management is embedded throughout the Authority and that there are effective processes in place to identify, monitor and ensure that risks are appropriately reported.	Adequate	Risk management documents are currently being updated. Management actions were agreed to improve Risk Management in relation to Partnerships.
	Unplanned Reviews			
	Donations Box – Longton Brickcroft	To ascertain whether the controls surrounding the management of the donation box at Longton Brickcroft are sufficient to provide a safe and secure method for the cashing up and banking of donations and miscellaneous income.	Adequate	Management actions were agreed to improve cashing up procedures.
	Security of Incoming Information	To establish that there are effective controls and processes in place for the secure handling and distribution of incoming mail / information.	Adequate	Management actions were agreed to improve the post opening procedures at the Civic Centre and Worden Arts Centre.

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 – As At 27th August 2010

	Local Performance Indicators	Target 10/11	Target to date	Actual to Date	Comments
1	% of planned time used	90%	37.5%	44.6%	Target exceeded
2	% audit plan completed	92%	26%	27%	Target exceeded
3	% management actions agreed	97%	97%	100%	Target exceeded.
4	% of agreed management actions (MAs) implemented.	Priority 1 100 Priority 2 80	Priority 1 100 Priority 2 80	Priority 1 80% P1 Priority 2 84% P2	40 out of 50 Priority 1 MAs due for implementation are now implemented. 21 out of 25 Priority 2 MAs due for implementation are now implemented. Revised dates have been agreed for 14 outstanding MAs.
5	Of the agreed management actions implemented – the % implemented on time	Priority 1 100 Priority 2 80	Priority 1 100 Priority 2 80	Priority 1 67% P1 Priority 2 67% P2	27 out of 40 Priority 1 MAs implemented on time. 14 out of 21 Priority 2 MAs implemented on time.

6	% overall customer satisfaction rating (assignment level)	96%	96%	88%	Based on 7 completed satisfaction surveys
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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.