

REPORT TO	DATE OF MEETING
Governance Committee	1 st December 2010

Report template revised June 2008



SUBJECT	PORTFOLIO	AUTHOR	ITEM
Internal Audit Interim Report as at 29 th October 2010	Not Applicable	C Ware	

SUMMARY AND LINK TO CORPORATE PRIORITIES

The purposes of this report are to:

- advise members of the work undertaken in respect of the Annual Internal Audit Plan up to the end of October 2010 and to comment on the results;
- advise members of proposed revisions to the Internal Audit work programme for the remainder of the current financial year, which takes account of changing priorities and other developments that have occurred since the original Audit Plan was approved by members in April 2010;
- give an appraisal of the Internal Audit Service’s performance to date; and
- inform members of any other developments involving or impacting upon the work of the Internal Audit Service.

The report links with all of the Council’s 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 second progress report for the current financial year and covers the period between 1st April 2010 and 29th October 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.

At the last meeting we advised members of the following:

- The number of days allocated to complete the 2009/10 residual work and to investigate irregularities brought to our attention during 2010/2011 have been exceeded. However, this will not impact on the achievement of the 2010/11 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.

Appendix 2 provides a brief summary of the Audit reviews undertaken to date, the assurance rating and any agreed areas for improvement.

Revised Audit Plan

The original Audit Plan was approved by members in April 2010 and reflected the prevailing organisational risks and priorities for Internal Audit input at that time.

However, the Council does not operate in a vacuum. It is normal for the risk environment and the demands on Internal Audit time to change during the course of each financial year and it is therefore essential for Audit Plans to be flexible to meet such changing circumstances.

Appendix 3 therefore contains a table showing the proposed variations to this year's Audit Plan and the underlying reasons for those changes.

Members will note that there is a net reduction of days in the Audit Plan. This does not materially impact on the level of audit coverage provided and is therefore offered as a potential contribution to the efficiencies which the Council needs to make in the current financial year.

Members will be aware that there are vacancies in the Internal Audit structure and the resulting salary savings have been used to procure internal audit resources from an external provider. It is proposed to procure fewer days from the external provider than was originally planned for the current financial year.

Internal Audit Performance

Appendix 4 provides information on Internal Audit performance as at the end of October 2010.

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

Other Developments

Triennial Review

At the last meeting we informed members that the Audit Commission had completed their triennial review of the Internal Audit Service and that we were awaiting the results. This is still the case.

Shared Services' Customer Survey

A customer survey of the Shared Services' Partnership has recently been undertaken. The results of which were extremely encouraging with Internal Audit receiving an overall customer satisfaction rating of 98% from respondents at South Ribble.

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	Proposals to make financial savings are referred to in the body of the 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	1.2	18.8	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	3.1	16.9	ongoing
TOTAL		155	4.3	150.7	
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	21.1	8.9	On-going
Systems Interrogation	ALL	10	1.6	8.4	On-going
Anti Fraud & Corruption Policies / Fraud	ALL	17	6.6	10.4	On-going
KEY BUSINESS SYSTEMS					
External Partnership / Funding	ALL	15	1.8	13.2	On-going
Procurement	3	20	1.3	18.7	Work in progress
COMPUTER AUDIT					
Penetration Testing	3	15	2.8	12.2	Work in Progress
Physical Security / Hardware	2	20	15.6	4.4	Complete
FINANCIAL SYSTEMS					
Key Systems Review (ISA)	3 & 4	40	0.8	39.2	Work in Progress
Asset Management / Estates	3	20	0	20	To commence Q4
KEY OPERATIONS					
Regeneration / Leyland Board	4	15	0	15	To commence Q4
Regeneration of Leyland (External Funding) / Section 106 agreements	3	20	18.2	1.8	Work in Progress
Refuse Collection / Recycling Contract	3	15	0	15	To commence Q4
Sanctuary Scheme / Homelessness	3/4	15	2.7	12.3	Work in Progress
Planning Control	1	15	18.5	-3.5	Complete
Transport	2	20	6.9	13.1	Work in Progress
Land Charges	1/2	20	22.1	-2.1	Work in Progress
GENERAL AREAS					
Irregularities	ANY	20	46.7	-26.7	On-going
Post Audit Review	ALL	20	10.8	9.2	On-going
Residual Work from 2009/10	1	23	50.7	-27.7	Complete
Unplanned Reviews (Contingency)	ANY	20	17.7	2.3	On-going
Project Support	ANY	15	4.1	10.9	On-going
Governance Committee Reporting / Training	ALL	22	18.5	3.5	On-going
TOTAL		485	304.7	180.3	

SUMMARY OF INTERNAL AUDIT ACTIVITY APRIL – OCTOBER 2010

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
1.	SHARED SERVICES			
	Capital	To ascertain whether effective arrangements are in place to ensure the Council will be able to comply with the new International Financial Reporting Standards (IFRS) for Capital Accounting.	Not yet available	Work in progress
	All other reviews to be undertaken in Quarter 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. (As reported in the first Interim Report).
	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. (As reported in the first Interim Report).
	Data Quality	Internal Audit input no longer required following the abolition of Comprehensive Area Assessments including Use of Resources Assessment and Data Quality.		As reported in the first Interim Report

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
3	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 are on-going and have to date identified total discounts awarded incorrectly of £1322.62 3. Results due in February 2011. Internal Audit will co-ordinate the investigation of the relevant matches
	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. (As reported in the first Interim Report).

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	Anti Fraud and Corruption Policies / Fraud Awareness	<p>Fraud Bulletins have been placed on Connect and Councillor Connect to highlight specific fraud risks.</p> <p>The Governance documents are currently being reviewed and where necessary, revised.</p>	Not applicable to this item	On-going
4	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
	Review of Procurement	To determine whether officers are complying with all aspects of Standing Orders for Contracts.	Not yet available	Work in progress
5	COMPUTER AUDIT			
	Penetration Testing	To provide assurances that a control framework has been developed to ensure continuing mitigation against network vulnerabilities and that actions taken will deliver ongoing compliance with the required controls under the Government Connect project.	Not yet available	Work in progress

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	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.	Limited	Management actions have been agreed: to improve overall arrangements regarding ICT hardware inventories; user agreements and corporate recovery procedures for Council owned portable equipment.
6	FINANCIAL SYSTEMS			
	Key Systems Review (ISA)	Review of: National Non Domestic Rates (NNDR); Housing & Council Tax Benefits; Debtors; and Council Tax, to provide assurance that all high risk controls are in place and operating effectively.	Not yet available	Work in progress
	Asset Management / Estates	Review planned for Quarter 4. Proposed to include in the 2011/2012 Risk Assessment. See appendix 3.		
	Regeneration / Leyland Board	Review planned for Quarter 4. As the future of the Leyland Board is under consideration, it is proposed to cancel this review. See appendix 3.		
	Regeneration of Leyland (external funding) / Section 106 agreements	To review the adequacy and effectiveness of the systems and processes in operation for the control of Section 106 funding.	Not yet available	Work in progress

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	Refuse collection / recycling	Review planned for Quarter 4. Proposed to include in the 2011/2012 Risk Assessment. See appendix 3.		
	Review of Homelessness / Sanctuary Scheme	To provide assurance that the internal controls operated: meet the homelessness service obligations; are adequate and effective; ensuring that the council's role is appropriate and exposure to risk is minimised.	Not yet available	Work in progress
	Planning Control	To provide assurance that the procedures operated in respect of the planning system are adequate and effective.	Adequate	Management Actions were agreed to improve the communication of legislative and procedural requirements and reporting performance to monitor compliance with new legislation.
	Review of Transport	To verify that effective procedures are in place for procurement, sustainability, planning and maintenance of the council's vehicle fleet.	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.	Adequate (Draft Report)	Draft report and the management actions have been put forward for consideration by the Director of Corporate Governance.

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
8	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; Housing and Council Tax Benefits; Council Tax, NNDR and Sundry Debtors; Donation box at Longton Brickcroft;	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 reflects any prevailing national, regional or local directives and to evaluate the system controls in place for their subsequent payment.	Adequate	Management Actions have been put forward to improve the overall arrangements regarding payments and the level of evidence required. (As reported in the first Interim Report).
	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). (As reported in the first Interim Report).

	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. (As reported in the first Interim Report).
	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 (As reported in the first Interim Report).
	Treasury Management	A high level review was undertaken to verify that the procedures and systems in place are operating effectively.	Substantial	No key control issues (As reported in the first Interim Report).
	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. (As reported in the first Interim Report).
	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. (As reported in the first Interim Report).
	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. (As reported in the first Interim Report).

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.

APPENDIX 3 - REVISED INTERNAL AUDIT PLAN 2010/11

Audit Areas	Plan	Update	Comments
SHARED SERVICES			
Capital	20	20	As Original Plan
Main Accounting / General Ledger	20	20	As Original Plan
Cash and Bank	20	20	As Original Plan
Creditors	20	20	As Original Plan
Payroll	20	20	As Original Plan
Treasury Management	15	15	As Original Plan
Emergency Planning / Business Continuity	20	0	Restructures at both councils have caused delays in EP/BCP updates & tests. Include in the 2011/12 Risk Assessment.
Project Support / General Controls Advice	20	20	As original plan
TOTAL	155	135	
SOUTH RIBBLE			
CORPORATE GOVERNANCE			
External Inspection (CAA, UofR)	15	15	Complete
Service Assurance Statements	18	18	Complete
Data Quality incl., Partnerships	25	3	Dedicated Use of Resources input no longer required. Will incorporate DQ checks in individual reviews
ANTI-FRAUD & CORRUPTION			
NFI	30	30	As Original Plan
Systems Interrogation	10	6	Reduced days sufficient to complete the work required
Anti Fraud & Corruption Policies / Fraud	17	14	Reduced days sufficient to complete the work required
KEY BUSINESS SYSTEMS			
External Partnership / Funding	15	8	Reduced days sufficient to complete the work required
Procurement	20	17	Reduced days sufficient to complete the work required
COMPUTER AUDIT			
Penetration Testing	15	15	As Original Plan
Physical Security / Hardware	20	12	Completed & under budget
FINANCIAL SYSTEMS			
Key Systems Review (ISA)	40	40	As Original Plan
Asset Management / Estates	20	0	Management actions from previous review still under implementation. Include in the 2011/2012 Risk Assessment.
KEY OPERATIONS			
Regeneration / Leyland Board	15	0	Future of Leyland Board under consideration
Regeneration of Leyland (External Funding)	20	20	As Original Plan
Refuse Collection / Recycling Contract	15	0	Time required to allow new contract arrangements to embed. Include in 2011/2012 Risk Assessment.
Sanctuary Scheme / Homelessness	15	15	As Original Plan
Planning Control	15	15	Complete
Transport	20	20	As Original Plan
Land Charges	20	25	Revised estimate due to complexity of review
GENERAL AREAS			
Irregularities	20	53	Revised estimate due to investigation of cash thefts in quarters 1 and 2. Already reported to members.
Post Audit Review	20	13	Reduced days sufficient to complete the work required
Residual Work from 2009/10	23	48	Complete
Unplanned Reviews (Contingency)	20	20	As Original Plan
Project Support	15	8	Reduced days sufficient to complete the work required
Governance Committee Reporting / Training	22	22	As Original Plan
TOTAL	485	437	

South Ribble Borough Council - Internal Audit Performance Indicator Table – As At 29th October 2010

	Local Performance Indicators	Target 10/11	Target to date	Actual to Date	Comments
1	% of planned time used	90%	52.5%	63%	Target exceeded
2	% audit plan completed	92%	39%	36%	On Target – 2 reviews at draft stage
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 86% P1 Priority 2 83% P2	68 out of 79 Priority 1 MAs due for implementation are now implemented. 24 out of 29 Priority 2 MAs due for implementation are now implemented. Revised dates have been agreed for 16 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 74% P1 Priority 2 63% P2	50 out of 68 Priority 1 MAs implemented on time. 15 out of 24 Priority 2 MAs implemented on time.

6	% overall customer satisfaction rating (assignment level)	96%	96%	86%	Based on 12 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.

Shared Services - Internal Audit Performance Indicator Table – As At 29th October 2010

	Local Performance Indicators	Target 10/11	Target to date	Actual to Date	Comments
1	% of planned time used	90%	0%	0%	Reviews to be undertaken in Q3/4
2	% audit plan completed	92%	0%	0%	As above
3	% management actions agreed	97%	97%	100%	Target exceeded. (Residual work from 09/10)
4	% of agreed management actions implemented.	Priority 1 100 Priority 2 80	Priority 1 100 Priority 2 80	Priority 1 77% Priority 2 78%	Priority 1 - 10 out of 13 MAs due for implementation are now implemented. Priority 2 - 14 out of 18 MAs due for implementation are now implemented. Revised dates have been agreed for 6 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 90% Priority 2 86%	9 out of 10 MAs have been implemented on time. Target exceeded

6	% overall customer satisfaction rating (assignment level)	96%	96%	84%	Based on 5 completed satisfaction surveys (Residual work from 09-10)
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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.