

REPORT TO	DATE OF MEETING
Governance Committee	9 th February 2011

Report template revised June 2008



SUBJECT	PORTFOLIO	AUTHOR	ITEM
Internal Audit Interim Report as at 24 th December 2010	Not Applicable	C Ware / D Highton	4

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 24th December 2010 and to comment on the results;
- give an appraisal of the Internal Audit Service's performance to date;
- seek the Committee's approval of the proposed Audit Plan covering the first quarter of 2011/12;
- 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 Committee note the report and approve the proposed Audit Plan for the first quarter of 2011/12.

DETAILS AND REASONING

Background

This is the third progress report for the current financial year and covers the period between 1st April 2010 and the 24th December 2010.

Internal Audit Plan

Appendix 1 to this report provides a "snapshot" of the overall progress made in relation to the 2010/11 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.

We have previously 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 2010/11 have been exceeded.
- 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.

Members will also note from Appendix 1 that a number of other reviews have exceeded their planned days, however this has been compensated for by other reviews whereby all the planned days have not been utilised.

At the last meeting, a revised plan was brought to Members' attention and at this stage, all of the audits within the revised plan are either fully completed or are in progress for the South Ribble aspect of the plan. The Shared Services reviews will be the focus for the last quarter of the financial year.

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

All reviews completed to date have now been given either, a substantial or adequate assurance rating.

Internal Audit Performance

Appendix 3 provides information on Internal Audit performance as at the 24th December 2010.

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

Proposed Audit Plan 2011/12 - First Quarter

The Internal Audit Plan for the next financial year is usually presented to the Governance Committee following a rigorous risk assessment and consultation exercise involving the Senior Management Team. At this stage, the risk assessment is still in progress. This is particularly difficult this year given that consideration has to be given to the impact that the Comprehensive Spending Review / financial settlement has on the organisation.

As agreed with the Chair, we have compiled an Internal Audit Plan for the first quarter of 2011/12 which is shown at **Appendix 4**. There is sufficient workload of a routine nature to enable this and it is the intention to present the full year Internal Audit Plan to the Governance Committee for approval at the meeting in June.

Other Developments

Triennial Review

We have received verbal feedback from the Audit Commission that no significant issues were identified during the review of Internal Audit.

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 – REVISED INTERNAL AUDIT PLAN 2010/11

Audit Areas	Qtr	Plan	Actual	Bal	Status
SHARED SERVICES					
Capital	2	20	2.2	17.8	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	3.4	11.6	Work in Progress
Project Support / General Controls Advice	All	20	5.1	14.9	Ongoing
TOTAL		135	10.7	124.3	
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	3	2.8	0.2	Complete
ANTI-FRAUD & CORRUPTION					
NFI	ALL	30	25.7	4.3	On-going
Systems Interrogation	ALL	6	1.6	4.4	On-going
Anti Fraud & Corruption Policies / Fraud Bulletins	ALL	14	10.5	3.5	On-going
KEY BUSINESS SYSTEMS					
External Partnership / Funding	ALL	8	1.8	6.2	On-going
Procurement	3	17	9.2	7.8	Work in progress
COMPUTER AUDIT					
Penetration Testing	3	15	12.3	2.7	Work in Progress
Physical Security / Hardware	2	12	18.6	-6.6	Complete
FINANCIAL SYSTEMS					
Key Systems Review (ISA)	3 & 4	40	21.7	18.3	Work in Progress
KEY OPERATIONS					
Regeneration of Leyland (External Funding) / Section 106 agreements	3	20	23	-3	Complete
Sanctuary Scheme / Homelessness	3/4	15	15.7	-0.7	Work in Progress
Planning Control	1	15	18.7	-3.7	Complete
Transport	2	20	13.4	6.6	Draft report issued
Land Charges	1/2	25	24.4	0.6	Draft report issued
GENERAL AREAS					
Irregularities	ANY	53	48.4	4.6	On-going
Post Audit Review	ALL	13	14.1	-1.1	On-going
Residual Work from 2009/10	1	48	50.9	-2.9	Complete
Unplanned Reviews (Contingency)	ANY	20	25.9	-5.9	On-going
Project Support	ANY	8	4.3	3.7	On-going
Governance Committee Reporting / Training	ALL	22	22.9	-0.9	On-going
TOTAL		437	399.3	37.7	

SUMMARY OF INTERNAL AUDIT ACTIVITY APRIL – DECEMBER 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 £3,800. 3. Results were released on the 25th January 2011. Investigations have commenced on the high priority 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).
	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

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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
	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.	Adequate	Management actions have been agreed to: improve overall arrangements regarding ICT hardware inventories; user agreements and corporate recovery procedures for Council owned portable equipment.

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
6	FINANCIAL SYSTEMS			
	Key Systems Review (ISA)	<p>Review of: National Non Domestic Rates (NNDR); Council Tax;</p> <p>Housing & Council Tax Benefits and</p> <p>Debtors; to provide assurance that all high risk controls are in place and operating effectively.</p>	<p>Substantial</p> <p>Not yet available</p> <p>Not yet available</p>	<p>Council Tax / NNDR: minor management action agreed to ensure that write offs are completed within 2 weeks of being authorised by the Chief Finance Officer.</p> <p>Housing and Council Tax Benefits: to be undertaken in Quarter 4.</p> <p>Debtors: Work in progress</p>
7	KEY OPERATIONS			
	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.	Adequate	Management actions have been agreed which improve the governance and communication procedures currently in place.
	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

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	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. (As reported in the second interim report)
	Review of Transport	To verify that effective procedures are in place for procurement, sustainability, planning and maintenance of the council's vehicle fleet.	Adequate (Draft report)	A number of management actions were agreed to implement / consider proposed efficiency measures. Detailed analysis of the costs per vehicle will also be incorporated into the monthly reporting procedures.
	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.
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 (cont)	All reports are followed up on an on-going basis when the date for implementation of the management action falls due.		

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	Formal Follow up reviews continued: Council Tax, NNDR and Sundry Debtors; Donation box at Longton Brickcroft; Security of Incoming Information and Planning Control.			
	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 were agreed 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).
	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).

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	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.

South Ribble Borough Council - Audit Performance Indicator Table – as at 24th December 2010

	Local Performance Indicators	Target 10/11	Target to date	Actual to Date	Comments
1	% of planned time used	90%	68%	91%	Target exceeded
2	% audit plan completed	92%	69%	69%	On Target
3	% management actions agreed	97%	97%	99%	Target exceeded.
4	% of agreed management actions (MAs) implemented.	Priority 1 100 Priority 2 80	Priority 1 100 Priority 2 80	Priority1 85% Priority 2 82%	74 out of 87 Priority 1 MAs due for implementation are now implemented. 28 out of 34 Priority 2 MAs due for implementation are now implemented. Revised dates have been agreed for 16 outstanding MAs. 3 MAs are on hold pending further developments.

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 72% Priority 2 61%	53 out of 74 Priority 1 MAs implemented on time. 17 out of 28 Priority 2 MAs implemented on time.
6	% overall customer satisfaction rating (assignment level)	96%	96%	86%	Slightly below target. Based on 13 completed satisfaction surveys

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 - Performance Indicator Table – as at 24th December 2010

	Local Performance Indicators	Target 10/11	Target to date	Actual to Date	Comments
1	% of planned time used	90%	0%	8%	Reviews to be undertaken in Q/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 included)

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

PROPOSED INTERNAL AUDIT PLAN 2011-12

QUARTER 1

Audit Areas	Plan	Comments
SHARED SERVICES		
REVIEW TO BE DETERMINED	10	RISK ASSESSMENT ONGOING
RESIDUAL WORK FROM 2010/2011	15	
POST AUDIT REVIEWS	5	FORMAL FOLLOW UP OF MANAGEMENT ACTIONS
SUB TOTAL	30	
SOUTH RIBBLE BOROUGH COUNCIL		
CORPORATE / SERVICE GROUP		
NATIONAL FRAUD INITIATIVE	15	INVESTIGATION INTO MATCHES
SERVICE ASSURANCE STATEMENTS	15	TO SUPPORT THE ANNUAL GOVERNANCE STATEMENT
PERFORMANCE MANAGEMENT	10	TO INCLUDE DATA QUALITY
SERVICE GROUP REVIEWS TO BE DETERMINED	40	RISK ASSESSMENT ONGOING
GENERAL AREAS		
IRREGULARITIES	10	
POST AUDIT REVIEWS	5	FORMAL FOLLOW UP OF MANAGEMENT ACTIONS
RESIDUAL WORK FROM 2010/11	5	
GOVERNANCE COMMITTEE REPORTING / TRAINING	5	PRODUCTION OF REPORTS & ATTENDANCE AT COMMITTEE
SUB TOTAL	105	
TOTAL	135	