

REPORT TO	DATE OF MEETING
Governance Committee	28 June 2011

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SUBJECT	PORTFOLIO	AUTHOR	ITEM
Internal Audit Annual Report 2010-11	Not Applicable	D Highton C Ware	9

SUMMARY AND LINK TO CORPORATE PRIORITIES

The purpose of this report is:

- to summarise the work undertaken by the Internal Audit Service from April 2010 to March 2011;
- 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 2010/11 be noted.

DETAILS AND REASONING

Internal Audit Opinion

Appendix 1 to this report provides a summary of the audit work that was undertaken in respect of the 2010/11 Internal Audit Plans for South Ribble and Shared Services as at 31st March 2011.

Members will note that whilst the vast majority of reviews were completed on time, some work was carried forward or deferred into the first quarter of 2011/12 in respect of the Shared Services Plan. This is largely due to additional work being completed for three areas in the South Ribble Audit Plan, namely Physical Security/Hardware, Land Charges and Unplanned Reviews.

A detailed schedule of Internal Audit work undertaken during 2010/11 is shown at **Appendix 2**. 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. It is pleasing to report that all reviews, both completed and those at draft stage have been given either substantial or adequate assurance rating. Taking this into account, it is Internal Audit's opinion that, overall, the Council continues to operate within a strong control environment.

Key Performance Indicators (KPIs)

The tables at **Appendix 3** set out and summarise the key performance data for the Internal Audit Service during 2010/11. These indicate that, overall, the Service's performance was around or above target and in some cases targets have been exceeded.

There are 3 areas where performance appears to be below target and these require further explanation.

% of planned time used & % audit plan completed (Shared Services only)

Actual out-turns of 68% and 43% against targets of 90% and 92% respectively have already been explained above in that some audit work was carried forward or deferred to the first quarter of 2011/12.

However as these audits were at draft report stage at the end of March they were unable to be counted as completed for the purpose of this indicator. These audits have now been finalised.

Members should also note that 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.

% of agreed management actions implemented

Actual out-turns of 89% (SRBC) and 68% (SS) against a target of 100% for Priority 1 actions, this equates to only 20 management actions overall and revised implementation dates were subsequently agreed. Over the course of the year, a total of 101 agreed management actions for both SRBC and Shared Services have been fully implemented.

% overall customer satisfaction rating (assignment level)

Actual out-turns of 90% (SRBC) and 86% (SS) against a target of 96% were achieved and whilst are below target, no underlying trends or concerns were identified when the completed surveys were analysed.

Service Improvements

In addition to delivering the Annual Audit Plan and KPIs, Internal Audit continually seeks to improve the quality of its services. The following represents key service improvements which were contained within the Shared Assurance Service Business Improvement Plan (BIP) for 2010/11:

Internal Audit Charter

The Internal Audit Charter was updated and presented to the Governance Committee in February 2011.

ISO 9001:2008

In February 2011, Internal Audit retained ISO 9001:2008 accreditation. This is a significant achievement for the Service and demonstrates how well the Team continues to adapt to merged working practices and processes following the implementation of the Shared Service Partnership.

Governance Policies / Strategies

Policies which fall under the 'governance' umbrella, were reviewed, revised where necessary and published on Connect and Councillor Connect.

Meritec, a corporate fraud awareness package was issued on Connect and Councillor Connect for completion by Officers and Members to raise awareness of the revised policies and fraud prevention in general.

IDEA Interrogation Software

We have added to the repertoire of existing interrogation programmes and reports to assist in the detection of irregularities.

Shared Services' Customer Survey

A customer survey of the Shared Services' Partnership was undertaken in 2010, the results of which were extremely encouraging with Internal Audit receiving an overall customer satisfaction rating of 98% from respondents at South Ribble.

Other Achievements

Staff Development

Three members of the Audit Team were successful in their Institute of Internal Auditor examinations during the year and will continue to work towards completing the qualification.

In addition, the Service Manager successfully completed the Leadership Development Programme.

Future Improvements

In order to continually improve our service delivery and efficiency, Internal Audit has recently reviewed its internal processes and is amending the way in which agreed management actions are monitored to ensure they are implemented within a timely fashion.

The new system will come into effect from July 2011 and should improve our overall performance and KPIs. The results of this will be reported to the Governance Committee throughout the course of the year.

Annual Review of the Effectiveness of the System of Internal Audit

The Accounts and Audit Regulations 2011 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. 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 the Internal Audit Service on a triennial basis. They undertook this review in June 2010. The CIPFA (Chartered Institute of Public Finance & Accountancy) Code of Practice for Internal Audit in Local Government 2006, contains a self assessment checklist for the same purpose.

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

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

The CIPFA Audit Panel 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 Director / Head of Service.

Directors / Heads of Service have provided evidence where they have obtained independent sources of assurance for their service. Examples of these include: the Customer Excellence Award; ISO 9002, Government Connect, ITL Accreditation, The Office of Surveillance Commissioner RIPA Inspection report 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	An Internal Audit Annual Report is a requirement of the CIPFA Code of Practice for Internal Audit in Local Government (2006). The Accounts and Audit (Amendment) Regulations 2011 require an annual review of the effectiveness of the System of Internal Audit.		
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 Plan 2010/11

APPENDIX 1 – REVISED INTERNAL AUDIT PLAN 2010/11 AS AT 31/3/2011

Audit Areas	Qtr	Plan	Actual	Bal	Status
SHARED SERVICES					
Capital	2	20	15.5	4.5	Work in progress – completed Q1 2011/12
Main Accounting / General Ledger	4	20	13.4	6.6	Work in progress –completed Q1 2011/12
Cash and Bank	4	20	23.8	-3.8	Work in progress –completed Q1 2011/12
Creditors	4	20	0.9	19.1	Deferred to Quarter 1 - completed Q1 2011/12
Payroll	4	20	12.9	7.1	Work in progress –completed Q1 2011/12
Treasury Management	4	15	16	-1.0	Complete
Project Support / General Controls Advice	All	20	8.8	11.2	Complete
TOTAL		135	91.3	43.7	
SOUTH RIBBLE					
CORPORATE GOVERNANCE					
Annual Governance Statement	1	15	15.3	-0.3	Complete
Service Assurance Statements	1	18	18.1	-0.1	Complete
Data Quality incl., Partnerships	ALL	3	3.2	-0.2	Complete
ANTI-FRAUD & CORRUPTION					
NFI	ALL	30	31.2	-1.2	Complete
Systems Interrogation	ALL	6	1.6	4.4	Complete
Anti Fraud & Corruption Policies / Fraud Bulletins	ALL	14	13.2	0.8	Complete
KEY BUSINESS SYSTEMS					
External Partnership / Funding	ALL	8	4.5	3.5	Work in progress –completed Q1 2011/12
Procurement	3	17	16.7	0.3	Complete
COMPUTER AUDIT					
Penetration Testing	3	15	15.9	-0.9	Complete
Physical Security / Hardware	2	12	19.5	-7.5	Complete – additional work undertaken.
FINANCIAL SYSTEMS					
Key Systems Review (ISA)	3 & 4	40	39.8	0.2	Complete
KEY OPERATIONS					
Regeneration of Leyland (External Funding) / Section 106 agreements	3	20	23	-3	Complete
Sanctuary Scheme / Homelessness	3/4	15	17.5	-2.5	Complete
Planning Control	1	15	18.7	-3.7	Complete
Transport	2	20	15.2	4.8	Complete
Land Charges	1/2	25	32.7	-7.7	Additional work undertaken – to be carried over to 2011/12 plan
GENERAL AREAS					
Irregularities	ANY	53	48.8	4.2	Complete
Post Audit Review	ALL	13	17.1	-4.1	Complete
Residual Work from 2009/10	1	48	51	-3.0	Complete
Unplanned Reviews (Contingency)	ANY	20	28.6	-8.6	Complete
Project Support	ANY	8	5.4	2.6	Complete
Governance Committee Reporting / Training	ALL	22	28.1	-6.1	Complete
TOTAL		437	465.1	-28.1	

SUMMARY OF INTERNAL AUDIT ACTIVITY 2010/11

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
1.	SHARED SERVICES PLAN			
	Capital	To provide assurance that the Council's IFRS implementation project will be completed on time, producing IFRS compliant statement of accounts by the statutory deadline of 30 th June 2011.	Substantial (Draft) as at 31/3/2011 – report now finalised	A number of issues were identified which have been agreed to be addressed as part of the accounts closedown procedure.
	Main Accounting / General Ledger	A high level review was undertaken to verify that the controls and procedures in place are operating effectively.	Adequate (Draft) as at 31/3/11 – report now finalised	Management actions were agreed to improve the overall budgetary control process.
	Cash and Bank	To verify that the controls and procedures in place for the Cash and Bank system are adequate and operating effectively.	Adequate	Weaknesses were identified with the identifying of income within Service Areas. Management actions were agreed to address these weaknesses.
	Creditors	To verify that the controls and procedures in place for the Creditor's system are adequate and operating effectively.	Substantial (Draft)	No key control issues identified
	Payroll	A high level review was undertaken to verify that the controls and procedures in place are operating effectively.	Adequate (Draft) as at 31/3/11 – report now finalised	Management actions were agreed to improve the completeness and accuracy of claim forms and ensure that data retention issues are addressed.
	Treasury Management	A high level review has been undertaken of procedures and systems in place, to verify that they are operating effectively.	Substantial	No key control issues identified.

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
2.	CORPORATE GOVERNANCE			
	Annual Governance Statement / Data Quality	Support was provided in collating information to inform the Annual Governance Statement. Initial work on Data Quality which was no longer required following the abolition of Comprehensive Area Assessments including Use of Resources Assessment and Data Quality.	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.
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 now complete and have identified overpayments of housing benefit and council tax benefit of £67,201 2. Investigations are ongoing and have to date identified £13,878 of inapplicable single person discounts for which recovery is ongoing. 3. Results were released on the 25th January 2011. Investigations have commenced on the high priority matches.

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	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	<p>Fraud Bulletins have been placed on Connect and Councillor Connect to highlight specific fraud risks & scams.</p> <p>The Governance documents have been updated & published on Connect & Councillor Connect.</p> <p>A fraud awareness questionnaire has been placed on Connect for completion by all Officers and Members.</p>	Not applicable to this item	Not applicable to this item.
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.	Substantial (Draft) as at 31/3/2011 – report now finalised	No key control issues identified
	Review of Procurement	To determine whether officers are complying with all aspects of Standing Orders for Contracts.	Substantial	No key control issues identified

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
5.	COMPUTER AUDIT			
	Penetration Testing	The review focused on the processes and procedures established by the council to address identified network vulnerabilities and maintain compliance with CoCo (version 4.1):	Adequate	A recommendation was agreed to complete an action plan for the severe vulnerabilities which were identified following internal penetration testing.
	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.
6.	FINANCIAL SYSTEMS			
	Key Systems Review (ISA))	Review of: National Non Domestic Rates (NNDR); Council Tax; Housing & Council Tax Benefits and Debtors; to provide assurance that all high risk controls are in place and operating effectively.	Substantial Substantial Adequate	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. No key control issues identified Management actions were agreed to optimise the invoicing process and address data retention issues.

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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 to 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.	Adequate	Management actions were agreed to update the Strategy action plan, re-institute management checks on homelessness cases and improve performance information / management reports
	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.	Adequate	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 administration of Land Charges.	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; Donation box at Longton Brickcroft; Security of Incoming Information and Planning Control: Transport; Section 106 funding; Procurement.	All reports are followed up on an on-going basis when the date for implementation of the management action falls due.	Not applicable	
	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.
	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 identified
	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 identified
	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 have been 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.

South Ribble Borough Council - Internal Audit Performance Indicator Table – 2010/11

	Local Performance Indicators	Target 10/11	Target to date	Actual to date	Comments
1	% of planned time used	90%	90%	106%	Target exceeded
2	% audit plan completed	92%	92%	95%	Target exceeded
3	% management actions agreed	97%	97%	98%	Target exceeded.
4	% of agreed management actions (MAs) implemented.	Priority 1 100	Priority 1 100	Priority 1 89%	80 out of 90 actions due for implementation are now implemented. Revised dates have been agreed for 10 outstanding MAs.
		Priority 2 80	Priority 2 80	Priority 2 90%	Target exceeded
5	Of the agreed management actions implemented – the % implemented on time	Priority 1 100	Priority 1 100	Priority 1 74%	59 out of 80 Priority 1 MAs implemented on time.
		Priority 2 80	Priority 2 80	Priority 2 67%	24 out of 36 Priority 2 MAs implemented on time.
6	% overall customer satisfaction rating (assignment level)	96%	96%	90%	Slightly below target. Based on 22 completed satisfaction surveys.

Shared Services - Internal Audit Performance Indicator Table – 2010/11

	Local Performance Indicators	Target 10/11	Target to date	Actual to Date	Comments
1	% of planned time used	90%	90%	68%	Some reviews carried forward into 2011/12.
2	% audit plan completed	92%	92%	43%	Some reviews carried forward into 2011/12.
3	% management actions agreed	97%	97%	100%	Target exceeded.
4	% of agreed management actions implemented.	Priority 1 100 Priority 2 80	Priority 1 100 Priority 2 80	Priority 1 68% Priority 2 82%	21 out of 31 actions due for implementation are now implemented. Revised dates have been agreed for 10 outstanding MAs. Target exceeded
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 95% Priority 2 86%	20 out of 21 MAs have been implemented on time. Target exceeded
6	% overall customer satisfaction rating (assignment level)	96%	96%	86%	Based on 6 completed satisfaction surveys

Priority 1 actions are considered essential as they impact significantly on the Council's system of governance and internal control. 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.