

<b>REPORT TO</b>	<b>DATE OF MEETING</b>
Governance Committee	27 June 2012

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<b>SUBJECT</b>	<b>PORTFOLIO</b>	<b>AUTHOR</b>	<b>ITEM</b>
Internal Audit Annual Report 2011-12	Not Applicable	G. Barclay D Highton C Ware	7(b)

## SUMMARY AND LINK TO CORPORATE PRIORITIES

The purpose of this report is:

- to summarise the work undertaken by the Internal Audit Service from April 2011 to March 2012;
- 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;
- to provide an evaluation following the 'review 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 2011/12 be noted.

## DETAILS AND REASONING

### Internal Audit Plans

**Appendix 1** to this report provides a summary of the audit work that was undertaken in respect of the 2011/12 Internal Audit Plans for South Ribble and Shared Services as at 31<sup>st</sup> March 2012.

Members should note that both Audit Plans were successfully completed by the end of the financial year, albeit that some residual audit work on the key financial systems continued into the current year. As is normally the case there were some variations between the planned and actual time spent on individual assignments as some of the original time estimations proved to be insufficient or excessive in practice.

### Internal Audit Opinion

A detailed schedule of Internal Audit work undertaken during 2011/12 is shown at **Appendix 2**. This gives individual opinions on the adequacy of control for each of the areas audited during the year and forms the basis of our annual judgement on the overall control environment within the Council.

**It is pleasing to report that with the exception of one audit all the reviews received a substantial or adequate controls assurance rating. Taking this into account, it is Internal Audit's opinion that the Council continues to operate within a strong control environment.**

Only one report was given an adequate / limited assurance rating. This related to the review of Data Protection & Freedom of Information Acts and was due to the high volume of data, both electronic and in paper format held by the Council. Management actions have now been agreed to address this issue.

**Appendix 2** also summarises the key actions that have been agreed with management to further improve controls within the individual areas audited and their timely implementation will be monitored in due course.

### **Key Performance Indicators (KPIs)**

The table at **Appendix 3** sets out and summarises the key performance data for the Internal Audit Service during 2011/12. This indicates that the majority of indicators are on or above target. It is particularly pleasing to report that the average customer satisfaction for South Ribble and the Shared Service is 92.5%.

The following 3 areas varied significantly from the agreed targets and therefore explanations are provided below:

#### *% of planned time used*

(SRBC)

An actual out-turn of 76% against a target of 100% has been achieved. This is largely due to 45 days set aside for irregularities and unplanned reviews which were not required as at the end of March.

(Shared Services)

Input to Shared Services' audits required 27 days (11%) more than originally planned.

#### *% of agreed management actions implemented*

Actual out-turns of 88% (SRBC) and 78% (Shared Services) against a target of 100% were achieved. Of the 123 Management Actions agreed, 103 (84%) have been implemented; we have agreed a revised deadline for the remaining 20 (16%).

#### *% of agreed management actions implemented on time*

Actual out-turns of 67% (SRBC) and 36% (SS) against a target of 100% were achieved. Of the 103 management actions implemented, 57 (55%) were implemented on time. The remaining 46 (45%) were implemented later than originally agreed.

Members will be aware that the management actions indicators are largely outside the gift of Internal Audit to control, as the responsibility for implementing agreed actions lies with the service managers themselves. Moreover as the target is 100%, a degree of under achievement is almost inevitable. Nevertheless, the indicators for eventual implementation are performing strongly and demonstrate an improvement on those reported to members for 2010/11. The "implemented on time indicators" are low but these are historical in nature and are largely due to organisational and system changes which necessitated putting some actions on hold. These have since been addressed and are reflected in the higher percentile figures for eventual implementation.

## **Adding Value**

Whilst the prime role of Internal Audit is to review and recommend improvements to the control environment it also has a remit to provide proactive, direct support to service areas to improve business systems and identify efficiencies wherever possible. This is particularly important in the current financial climate.

The following are two examples of where we have provided added value during 2011/12:

By using IDEA interrogation software on the results of the Audit Commission's National Fraud Initiative it was possible to reduce the number of "matches" requiring investigation by 131 (17%) of the initial 754. This significantly reduced the input required by the Benefits Enquiry Unit.

A review of the Debtors system identified that an invoice had not been raised for rental income in the sum of approximately £25,000 outstanding from 19<sup>th</sup> February 2011 to 31<sup>st</sup> March 2012.

## **Service Improvements**

The following represent key service improvements which were contained within the Shared Assurance Services' Business Improvement Plan (BIP) for 2011/12:

### *Audit Assignment Process*

Following a review of the audit procedures a new monitoring process to ensure Management Actions are implemented was introduced. This has significantly improved our efficiency and has had a positive impact on senior management.

### *ISO 9001:2008*

In February 2012, Internal Audit retained its ISO 9001:2008 accreditation. The Quality System is amended to reflect any changes in working practices and the retention of the Standard demonstrates that the Team continues to seek improved and more efficient working practices and strives to maintain a high quality service.

### *Governance Policies / Strategies*

Following the enactment of the Bribery Act, Internal Audit produced the Anti-Bribery Policy which, following approval by this Committee in December 2011, was communicated to staff and members via Connect and Member Connect. Anti-fraud and corruption awareness sessions were also provided to the Leadership Forum and as part of the induction programme for Members following the elections.

### *IDEA Interrogation Software*

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

## **Other Achievements**

### *Staff Development*

Four members of the Audit Team were successful in their Institute of Internal Auditor examinations; two of whom now hold the Diploma in Internal Audit, whilst two hope to complete their studies in the near future.

## *External Contract*

In 2011, Internal Audit was approached by St. Catherine's Hospice who wished to procure Internal Audit Services. A formal agreement has been signed for the provision of a small number of days in which the resulting income will provide a contribution towards the costs of the service.

## **Annual Review of the Effectiveness of the Council's 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 Chartered Institute of Public Finance & Accountancy (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 / the Council. Examples of these include: the Customer Excellence Award; ISO 9002; Government Connect; ITL Accreditation; the Office of Surveillance Commissioner's Inspection report; the Ministry of Justice Data Standards on Electoral Registration Data; Investors in People; Quest (Leisure) and the Lancashire Safeguarding Assessment.

Internal Audit has collated this evidence and it supports our overall opinion that the Council continues to operate within a strong control environment.

In addition, the Internal Audit Service undertook a self-assessment of its compliance with the CIPFA Code of Practice for Internal Audit in Local Government (2006) and has concluded that the Service complies with all aspects of the Code.

## **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.

<b>FINANCIAL</b>	There are no financial implications arising directly from this report.
<b>LEGAL</b>	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.

<b>RISK</b>	A Risk Assessment has been carried out which concluded that adequate controls are in place to mitigate any risks identified.
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<b>OTHER (see below)</b>	
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<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**

Internal Audit Plan Risk Assessment  
Internal Audit Plan 2011/12

**APPENDIX 1 - INTERNAL AUDIT PLANS 2011/12**

<b>AUDIT AREA</b>	<b>PLAN (Days)</b>	<b>ACTUAL (Days)</b>	<b>BALANCE (Days)</b>
<b>SHARED SERVICES</b>			
<b>FINANCE</b>			
Main Accounting System	20	20.7	-0.7
Creditors	20	18.1	1.9
Payroll	20	22.2	-2.2
Treasury Management	15	16.1	-1.1
Cash & Bank / Cheque Control	20	23.5	-3.5
Travel & Subsistence	15	9.9	5.1
<b>REVENUES &amp; BENEFITS</b>			
Council Tax	15	13.4	1.6
National Non Domestic Rates	15	12.6	2.4
Housing & Council Tax Benefits	20	26.2	-6.2
Debtors	20	29.3	-9.3
<b>ASSURANCE</b>			
Emergency Plan & Business Continuity	20	34.5	-14.5
<b>GENERAL</b>			
<b>Residual Work from 2010/11</b>	20	33	-13
Main Accounting System			
Capital – Implementation of IFRS			
Cash and Bank			
Creditors			
Payroll			
Post Audit Reviews	15	8.9	6.1
Unplanned Reviews / Contingency	10	3.4	6.6
<b>TOTAL</b>	<b>245</b>	<b>271.8</b>	<b>-26.8</b>
<b>SOUTH RIBBLE</b>			
<b>CORPORATE AREAS</b>			
Annual Governance Statement	15	10.3	4.7
Anti-Fraud & Corruption / Awareness	15	8.5	6.5
NFI	30	30	0
System Interrogations	10	6.9	3.1
Financial Regulations	5	3.8	1.2
<b>CORPORATE GOVERNANCE</b>			
Bribery Act	10	3.8	6.2
Licensing	20	20.8	-0.8
<b>POLICY, COMMUNITY ENGAGEMENT &amp; HUMAN RESOURCES</b>			
Performance Management / Pls	5	5.6	-0.6
Partnerships	5	0.2	4.8
Project Management	15	6.5	8.5
<b>BUSINESS TRANSFORMATION &amp; INFORMATION TECHNOLOGY</b>			
Government Connect	15	15.8	-0.8
Data Protection / Freedom of Information	20	30.1	-10.1
<b>REGEN &amp; HEALTHY COMMUNITIES</b>			
Regeneration Projects	10	2.8	7.2
<b>NEIGHBOURHOODS</b>			
Neighbourhood Management	10	8.8	1.2
Maintenance / Inspection Regimes	20	21.3	-1.3
<b>PLANNING / HOUSING / PROPERTY</b>			
Asset Management – Civic Suite Project	10	8.7	1.3
Commercial Properties / Estates	10	1.2	8.8

AUDIT AREA	PLAN (Days)	ACTUAL (Days)	BALANCE (Days)
<b>GENERAL AREAS</b>			
Irregularities (Contingency)	20	0	20
Post Audit Reviews	15	8.8	6.2
<b>Residual Work from 2010/11</b>	10	20.7	-10.7
External Partnership Funding			
Sundry Debtors			
Land Charges			
<b>Unplanned Reviews (Contingency)</b>	45	20	25
Worden Park Kiosk			
<b>Governance Committee</b>	20	18.6	1.4
<b>TOTAL</b>	<b>335</b>	<b>253.2</b>	<b>81.8</b>

**APPENDIX 2 - SUMMARY OF INTERNAL AUDIT ACTIVITY 2011/12**

<b>AUDIT AREA</b>	<b>AUDIT INPUT</b>	<b>CONTROLS RATING</b>	<b>KEY CONTROL ISSUES</b>
<b>SHARED SERVICES PLAN</b>			
<b>FINANCE</b>			
Main Accounting System	To review the adequacy of the key controls in the Council's main financial systems.  This comprised of a 2 stage process – a report following system documentation in quarter 2 and a further report following controls evaluation & testing in quarter 4.	Adequate (Draft)	Management actions have been made that the systems reports should be reviewed by the Systems Team to ensure that all amendments are accurate and appropriate and that quarterly random sampling of reconciliations should take place.
Creditors		Adequate (Draft)	Management actions have been made to improve controls in relation to amendments to creditor standing data and authorisations of payment runs.
Payroll		Adequate (Draft)	Management actions were made to improve reconciliation procedures
Treasury Management		Substantial (Draft)	No key control issues identified.
Cash and Bank / Cheque Control		Substantial (Draft)	No key control issues identified.
Travel and Subsistence		Adequate (Draft)	Management actions were made to improve reconciliation procedures
<b>REVENUES AND BENEFITS</b>			
Council Tax / Non Domestic Rates / Housing and Council Tax Benefits	To verify that controls in place in respect of Council Tax, Non Domestic Rates, Housing/Council Tax Benefits are adequate and operating effectively.	Substantial	No key control issues identified.



AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
Debtors	To verify that controls in place in respect of Debtors are adequate and operating effectively	Adequate	Management actions were agreed to ensure that debtor invoices are raised in a timely manner and that debtor performance indicators are put in place.
<b>ASSURANCE</b>			
Emergency Planning (EP) and Business Continuity (BC).	The review provided assurance on the adequacy and effectiveness of the Council's emergency planning and business continuity arrangements.	Adequate	Management actions were agreed for a final de-brief and training strategy to be developed for EP and BC and that there should be some clarification of officer roles.
<b>RESIDUAL WORK FROM 2010/11</b>			
Main Accounting	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 the evidence held to support service areas' estimated draft budgets and budget monitoring reports.
Capital	To provide assurance that the Council's International Financial Reporting Standards (IFRS) implementation project will be completed on time, producing IFRS compliant statement of accounts by the statutory deadline of 30 <sup>th</sup> June 2011.	Substantial	No key control issues identified
Cash and Bank	To verify that the controls and procedures in place for the Cash and Bank system are adequate and operating effectively	Adequate	Improvements to a service area's income records were agreed and have been fully implemented.
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

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
Payroll	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 the completeness and accuracy of claim forms and to ensure that data retention issues are addressed.
<b>GENERAL AREAS</b>			
Post Audit Reviews	Management Actions are now monitored 3 times per year as opposed to on an on-going basis.	Not applicable to this item	Not applicable to this item
<b>SOUTH RIBBLE PLAN</b>			
<b>CORPORATE AREAS</b>			
Annual Governance Statement	Support was provided in collating information to inform the Annual Governance Statement.	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.
Anti-Fraud and Corruption / Fraud Awareness	<p>Fraud Bulletins have been placed on Connect and Councillor Connect to highlight specific fraud risks and scams.</p> <p>Internal Audit also completed the Audit Commission's Fraud and Corruption annual survey.</p> <p>Provision of an Anti-Fraud and Corruption awareness session to the Leadership Forum and as part of the Member Induction programme.</p>	Not applicable to this item.	Not applicable to this item. Proactive input provided rather than an audit / review.

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
National Fraud Initiative	<p>Monitoring of the results from the 2010/11 exercise</p> <p>Internal Audit co-ordinated the Council's input to the Single Person Discount / Electoral Register 2011/2012 exercise.</p> <p>On-going monitoring of the results from the 2011/12 Council Tax / Electoral Register exercise</p>	Not applicable to this item.	<p>Investigations undertaken by the Benefit Enquiry Unit of the 2010/11 exercise are still on-going and to date have identified overpayments of housing benefit and council tax benefit of £26,358</p> <p>Investigations of matches from the 2011/2012 exercise are on-going and to date have identified £4,721 of discounts awarded incorrectly for which recovery is on-going.</p>
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 131 (approx 17%) fewer matches requiring further investigation.
Financial Regulations	Internal Audit provided input to the review of Financial Regulations.	Not applicable to this item.	Not applicable to this item
<b>CORPORATE GOVERNANCE</b>			
Bribery Act	Internal Audit assisted with the development of the Anti-Bribery Policy. Following approval, awareness sessions were provided to Officers and Members.	Not applicable to this item.	Not applicable to this item.
Licensing	The review was to give management assurance or otherwise on the effectiveness of the controls in place within Licensing.	Substantial	No key control issues identified

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
<b>POLICY, SCRUTINY, COMMUNITY ENGAGEMENT &amp; HUMAN RESOURCES</b>			
Performance Management / Data Quality	Processes used to compile a sample of the Corporate Plan's Success Measures were verified to ensure that figures reported are accurately produced and fairly stated.	Not applicable to this item	No key control issues identified
Partnerships	Membership of Task and Finish Group to identify Key Partnerships. Work commissioned by the Corporate Governance Group.	Not applicable to this item	Not applicable to this item.
Project Management	The audit was undertaken to determine whether the Council has project management standards in place which will help managers deliver projects that are planned, controlled and successful.	Substantial	No key control issues identified
<b>BUSINESS TRANSFORMATION AND INFORMATION TECHNOLOGY</b>			
Government Connect	The review appraised the Government Connect 2012/13 submission project to ensure an effective control framework has been developed to deliver continuing connection / access to Government Connect.	Substantial	No key control issues identified

<b>AUDIT AREA</b>	<b>AUDIT INPUT</b>	<b>CONTROLS RATING</b>	<b>KEY CONTROL ISSUES</b>
Data Protection Act & Freedom of Information Act	The purpose of the audit was to determine whether the Council has procedures in place to ensure it meets its legal obligations in respect of the Acts.	Adequate / Limited	Management actions were agreed to consider a solution for data retention throughout the Authority and improve training for both Officers and Members. It was also agreed to improve the format of the Publication Scheme on the Council's website.
<b>REGENERATION &amp; HEALTHY COMMUNITIES</b>			
Regeneration Project	The original scope of this review was for a member of Internal Audit to be involved on the project team for the proposed South Ribble Lottery. However due to a change in priorities of the Corporate Plan this project did not progress.	Not applicable to this item	Not applicable to this item
<b>NEIGHBOURHOODS</b>			
Neighbourhood Management	The review verified that suitable controls and procedures are in place to ensure that environmental enforcement is carried out effectively and efficiently and complies with statutory requirements.	Adequate	A number of management actions were agreed to enhance the overall management of enforcement. These include improving the cautions process and ensuring that Officers have access to adequate practical training.

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
Maintenance / Inspection Regimes	The review examined the maintenance and inspection regimes to ensure that there are robust arrangements in place for both planned and reactive procedures.	Adequate	A number of management actions were agreed relating to:  Tree works; Parks and open spaces; Play equipment; Car parks; Bus shelters.
<b>PLANNING / HOUSING / PROPERTY</b>			
Asset Management – Civic Suite Project	The review provided an assurance opinion on the project documentation and compliance with the Council’s Contract Procedure Rules.	Adequate	The civic suite project did not utilise the Council’s recently revised Project Management Framework. It was agreed the framework would be fully applied for the next large scale project. (Window Replacement)
Commercial Properties / Estates	The original scope of this review was for a member of Internal Audit to sit on the project team for the proposed sharing of these services with Preston City Council. However, less time than anticipated was used in 2011/12 and the project is on-going.	Not applicable to this item	Not applicable to this item
<b>GENERAL AREAS</b>			
Post Audit Reviews	Management Actions are now monitored 3 times per year as opposed to on an on-going basis.		The majority of the Management Actions have been put in place and the remainder have been given revised dates for implementation.

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
<b>RESIDUAL WORK FROM 2010/11</b>			
Local Strategic Partnership Funding	The review provided an assurance opinion on the adequacy and effectiveness of the controls over the use of Performance and Reward Grant (PRG) monies.	Substantial	No key control issues were identified
Key financial systems – Sundry Debtors	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 the invoicing process and address data retention issues
Local Gazetteer and Land Charges	The review included process mapping / documenting the corporate land charges system and channels of communication and gaining an understanding of the data requirements and ownership which is required to accurately complete the Local Gazetteer.	Adequate	A number of management actions have been put forward for consideration by Directors.
<b>UNPLANNED REVIEWS</b>			
Worden Park Kiosk	The main objectives of the review were to ensure that there are robust security arrangements in place for the handling of cash takings and floats.	Adequate	Management actions were agreed to strengthen internal procedures and to consider the current levels of floats for the kiosk.

## KEY TO CONTROL RATINGS

<b>Substantial</b>	The Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.
<b>Adequate</b>	The Authority can place only partial reliance on the controls. Some control issues need to be resolved.
<b>Limited</b>	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 - INTERNAL AUDIT PERFORMANCE INDICATORS 2011/12**

	<b>Indicator</b>	<b>Audit Plan</b>	<b>Target 2011/12</b>	<b>Actual 2011/12</b>	<b>Comments</b>
<b>1</b>	% of planned time used	SS	100%	111%	Above target – input to the Shared Services’ audits necessitated more input than originally planned
		SRBC	100%	76%	Unutilised contingency time reallocated to Shared Services audits (as above)
<b>2</b>	% audit plan completed	SS	92%	92%	Target achieved
		SRBC	92%	100%	Target exceeded
<b>3</b>	% management actions agreed	SS	97%	100%	Target exceeded
		SRBC	97%	100%	Target exceeded
<b>4</b>	% of agreed management actions implemented.	SS	100%	78%	39 out of 50 agreed management actions implemented 11 revised dates agreed
		SRBC	100%	88%	64 out of 73 agreed management actions implemented 9 revised dates agreed
<b>5</b>	Of the agreed management actions implemented – % implemented on time	SS	100%	36%	14 out of 39 management actions implemented on time
		SRBC	100%	67%	43 out of 64 management actions implemented on time
<b>6</b>	% overall customer satisfaction rating (assignment level)	SS	90%	90%	On target
		SRBC	90%	96%	Target exceeded

SS = Shared Services  
SRBC = South Ribble