

<b>REPORT TO</b>	<b>DATE OF MEETING</b>
<b>GOVERNANCE COMMITTEE</b>	<b>30<sup>th</sup> JANUARY 2013</b>

Report template revised June 2008



<b>SUBJECT</b>	<b>PORTFOLIO</b>	<b>AUTHOR</b>	<b>ITEM</b>
<b>2<sup>nd</sup> Internal Audit Interim Report as at 30<sup>th</sup> November 2012</b>	<b>N/A</b>	<b>G Barclay / D Highton</b>	<b>6</b>

## **SUMMARY AND LINK TO CORPORATE PRIORITIES**

The purposes of this report are:

- To advise Members of the progress made on the South Ribble and Shared Services Internal Audit Plans for the period April 2012 to November 2012 and to comment on the outcomes;
- To give an appraisal of the Internal Audit Service's performance to date;
- To inform Members of any general developments involving or impacting upon the work and / or performance of the Internal Audit Service.

The report links with all of the corporate objectives, especially to be an 'efficient, effective and exceptional council'.

## **RECOMMENDATIONS**

That the report be noted.

That the Committee approve the recommendation resulting from the review of the Internal Audit Key Performance Indicators, as proposed within the body of this report.

That the Committee endorse the request from the Constitution Task Group that Internal Audit undertake a review of the tendering process for the banking contract.

## **DETAILS AND REASONING**

### **Background**

This is the second progress report for the 2012/13 financial year and covers the period 1<sup>st</sup> April to 30<sup>th</sup> November 2012.

### **Internal Audit Plans**

**Appendix 1** provides a "snapshot" of the overall progress made in relation to the 2012/13 Internal Audit Plans, indicating which audits have been completed and their control rating, 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.

Members will note that at this stage, the Internal Audit Plans are on target to be achieved. Of the 5 reviews completed since the last Governance Committee meeting, 3 have been given either substantial or adequate assurance ratings. However, 2 reviews, Overtime Payments and Flexi Time System have been given a limited assurance rating. Management actions for both of these reviews have been agreed with Senior Management and are due to be implemented in full prior to the end of this financial year.

The table below provides a summary of the audit work completed during the period 1<sup>st</sup> August to 30<sup>th</sup> November 2012, together with any control issues identified.

Audit Area	Control Rating	Comments
System Interrogations	Substantial	Using computer interrogation software, a data matching exercise was undertaken to establish if any payments had been made to either employees or members through the creditors system which should have been processed through payroll. Only 4 payments had been made through creditors and all had justifiable explanations.
National Fraud Initiative (NFI)	Not applicable	All required data sets were successfully uploaded in October. The results of the matches are due to be issued on the 29 <sup>th</sup> January 2013 for further analysis and investigation.
Corporate Inventories	Adequate	The review was undertaken in order to provide assurance that suitable inventory management procedures are in place.  Recommendations were made to improve corporate oversight of inventories, including the introduction of service level guidance to ensure that the Council's All Risks insurance schedule is accurate and complete.
Desk top roll out	Substantial	No significant control issues were identified
Overtime payments	Limited	These audits were included in this year's audit work programme at the request of chief officers in order to evaluate the effectiveness of the Council's policies and procedures and establish whether they are applied consistently throughout the Council.  The audits identified that the policies and procedures are fit for purpose but there have been some inconsistencies in the way they have been applied by departments, largely due to decentralised management and monitoring arrangements. There has also been a lack of management information to assist in this process and this is reflected in a limited controls assurance rating.
Flexi Time System	Limited	The Human Resources department has now assumed a corporate control role for these areas and this will be supplemented by the issue of regular monitoring reports to service managers. The new approach has been discussed and agreed by Senior Management Team following visits to departments by HR Advisors and will come into effect in January 2013.

## Internal Audit Performance

**Appendix 2** provides information on Internal Audit performance as at 30<sup>th</sup> November 2012.

We are pleased to report that the majority of indicators have either been achieved or exceeded.

## GENERAL DEVELOPMENTS

### Review of Internal Audit Performance Indicators

At the September meetings of the Shared Services Joint Committee and South Ribble / Chorley Governance Committees we advised members that a baseline review of Internal Audit performance indicators would be undertaken. This was in response to queries raised by the Joint Committee regarding the value of some indicators and also whether it is appropriate to set a 100% target for certain indicators.

We have now completed a survey to establish the indicators and targets adopted by 12 Internal Audit Services throughout Lancashire. Although the results demonstrated that a considerable variety of indicators and measures are used, the ones most commonly adopted are as follows:

	<b>Performance Indicator</b>	<b>SRBC /CBC</b>	<b>Target</b>	<b>Others</b>	<b>Ave Target</b>
<b>1</b>	<b>% Planned Time Used</b>	<b>Y</b>	<b>90%</b>	<b>3</b>	<b>86%</b>
<b>2</b>	<b>% Audit Plan Completed</b>	<b>Y</b>	<b>100%</b>	<b>5</b>	<b>90%</b>
<b>3</b>	<b>% Management Actions Agreed</b>	<b>Y</b>	<b>98%</b>	<b>4</b>	<b>96%</b>
<b>6</b>	<b>% Customer Satisfaction Rating (per assignment)</b>	<b>Y</b>	<b>90%</b>	<b>5</b>	<b>89%</b>

This suggests that we are currently measuring the right things and setting targets which are comparable with or slightly higher than our peers.

However we also currently collect the following data, which others broadly do not:

	<b>Performance Indicator</b>	<b>SRBC /CBC</b>	<b>Target</b>	<b>Others</b>	<b>Ave Target</b>
<b>4</b>	<b>% Agreed Management Actions Implemented</b>	<b>Y</b>	<b>100%</b>	<b>2</b>	<b>82%</b>
<b>5</b>	<b>% Agreed Management Actions Implemented on Time</b>	<b>Y</b>	<b>100%</b>	<b>0</b>	<b>N/A</b>

These performance indicators are not widely adopted by other Council as they do not actually measure Internal Audit performance as the responsibility for implementing agreed actions lies with service managers.

Moreover, service managers are directly accountable to the Governance Committees for any unreasonable delays in implementation and so the audit process itself ensures that this issue is addressed.

It is therefore recommended that the performance measures 1/2/3/6 are retained and 4/5 are removed from 2013/14 onwards as they add little value and are also administratively burdensome to collect and calculate.

## **Staffing Developments**

Members are aware that Audit Manager Clare Ware recently opted to take early voluntary retirement after a long career in Local Government including 13 years' service to both South Ribble Borough Council and Shared Assurance Services. Clare departs for pastures new with everyone's very best wishes for the future.

Clare's departure is one of several developments impacting on Shared Assurance Services which have prompted a review of overall staffing requirements and this is now in progress.

The review outcome including proposals for change will first be reported to the Shared Services Joint Committee on 24<sup>th</sup> January 2013 to enable a new structure to be in place for the 2013/14 financial year.

From a Governance Committee perspective the key message to members is that it will be "business as usual". Succession planning has been a central feature of the development of the shared service since its inception and there is now a strong team of experienced and qualified staff in place to take the service forward.

There will also be no impact on the Internal Audit coverage provided to the 2 host Councils and this will be re-affirmed when the new Internal Audit Plans are presented to both Chorley and South Ribble Governance Committees in March/April.

## **Constitutional Task Group Request**

Internal Audit recently received a request from the Governance Committee Constitution Task Group to undertake a review of the recent tendering process for the banking contract.

The review will cover:

- (1) An overview of the operation of the CHEST procurement portal including the internal control environment
- (2) An account of all the specialist advice that was obtained prior to setting the tender evaluation criteria
- (3) A description of the tender approval process & why the final evaluation criteria did not reflect Governance members' views on price/quality
- (4) An assessment as to whether the outcome may have been different had there been a greater emphasis on quality over price

The findings from this review will be reported at the meeting in April 2013.

## **External Contract - St Catherine's Hospice**

Following the positive feedback received following our first review, the Hospice has requested further Internal Audit work in 2013 and 2014. We have agreed to provide a maximum of 30 days for each year.

## 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.

<b>FINANCIAL</b>	There are no specific financial implications arising from this report.
<b>LEGAL</b>	The Interim Report is a requirement of the CIPFA Code of Practice for Internal Audit in Local Government (2006).
<b>RISK</b>	The audit risk assessment forms part of the background papers to this report.
<b>THE IMPACT ON EQUALITY</b>	There are no equality impacts within this report

<b>OTHER (see below)</b>			
<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

2012 / 2013 Internal Audit Plans for South Ribble Borough Council and Shared Services.  
Internal Audit Risk Assessment

## INTERNAL AUDIT PLANS 2012/13

AUDIT AREA	PLAN (Days)	ACT (Days)	BAL (Days)	CONTROL RATING	COMMENTS
<b>SHARED SERVICES</b>					
<b>FINANCE</b>					
Main Accounting System	15	0	15		To commence Q4
Creditors	15	0	15		To commence Q4
Payroll	20	0	20		To commence Q4
Treasury Management	15	2	13		In progress
Cash & Bank / Cheque Control	20	0	20		To commence Q4
<b>REVENUES &amp; BENEFITS</b>					
Council Tax	15	8.3	6.7		In progress
National Non Domestic Rates	15	8.4	6.6		In progress
Housing & Council Tax Benefits	15	8.3	6.7		In progress
Debtors	20	7.1	12.9		In progress
<b>GENERAL</b>					
Post Audit Reviews	10	4.2	5.8		On-going
Unplanned Reviews / Contingency	10	0	10		No requests received
<b>Residual Work from 2011/12</b>	15	32.4	-17.4		
Main Accounting				Adequate	Complete
Creditors				Substantial	Complete
Payroll				Adequate	Complete
Treasury Management				Substantial	Complete
Cash & Bank / Cheque Control				Substantial	Complete
Travel & Subsistence				Adequate	Complete
<b>TOTAL</b>	<b>185</b>	<b>70.7</b>	<b>114.3</b>		
<b>SOUTH RIBBLE</b>					
<b>CORPORATE AREAS</b>					
Annual Governance Statement	15	5.7	9.3	N/A	Complete
Anti-Fraud & Corruption / Awareness	10	2.1	7.9	N/A	On-going
NFI	30	21.3	8.7	N/A	On-going
System Interrogations	10	2.1	7.9	Substantial	Complete
Corporate Inventories	10	10.3	-0.3	Adequate	Complete
Corporate Projects	10	0	10		Not yet started
<b>CORPORATE GOVERNANCE</b>					
Data Quality	5	5.1	-0.1	Adequate	Complete
Equality	10	4.7	5.3		In progress
<b>BUSINESS TRANSFORMATION &amp; ITC</b>					
Active Directory	15	2.2	12.8		In progress
Desk Top Roll Out	15	9.5	5.5	Substantial	Complete
Project Management Framework	10	0.4	9.6		To commence Q4
<b>REGEN &amp; HEALTHY COMMUNITIES</b>					
My Neighbourhoods	15	0	15		To commence Q4
Indoor Leisure Contract	10	10	0	Substantial	Complete
Catering Services	10	0	10		To commence Q4
<b>PLANNING / HOUSING / PROPERTY</b>					
Disabled Facilities Grant	15	17.1	-2.1	Adequate	Complete
Community Infrastructure Levy	10	2	8		In progress
Wesley Street Mill	10	9.1	0.9		In progress
Window Replacement Project	10	9.3	0.7		In progress

AUDIT AREA	PLAN (Days)	ACT (Days)	BAL (Days)	CONTROL RATING	COMMENTS
Overtime Payments	15	16.5	-1.5	Limited	Complete
Flexi Time System	15	17.8	-2.8	Limited	Complete
<b>GENERAL AREAS</b>					
Irregularities (Contingency)	15	0	15		No reviews undertaken to date
Post Audit Reviews	10	4.8	5.2		On-going
<b>Residual Work from 2011/12</b>	10	2.8	7.2		
Data Protection & FOI				Adequate	Complete
Project Management				Substantial	Complete
<b>Unplanned Reviews (Contingency)</b>	15	18.3	-3.3		
Overtime Claims				Limited	Completed
Governance Committee	25	18.2	6.8		On-going
<b>TOTAL</b>	<b>325</b>	<b>189.3</b>	<b>135.7</b>		

### 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.

INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 30<sup>th</sup> November 2012

	Indicator	Audit Plan	Target 2011/12	Target to Date	Actual to Date	Comments
1	% of planned time used	SS	90%	30%	38%	Target exceeded
		SRBC	90%	60%	58%	Slightly below target
2	% audit plan completed	SS	100%	22%	22%	Target achieved
		SRBC	100%	77%	77%	Target achieved
3	% management actions agreed	SS	98%	98%	98%	Target achieved
		SRBC	98%	98%	95%	34 out of 36 management actions agreed
4	% of agreed management actions implemented.	SS	100%	100%	85%	29 out of 34 agreed management actions implemented 5 revised dates agreed.
		SRBC	100%	100%	61%	14 out of 23 agreed management actions implemented 9 revised dates agreed.
5	Of the agreed management actions implemented – % implemented on time	SS	100%	100%	86%	25 out of 29 management actions implemented on time
		SRBC	100%	100%	79%	11 out of 14 management actions implemented on time
6	% overall customer satisfaction rating (assignment level)	SS	90%	0%	0%	No reports issued in 2012/13
		SRBC	90%	95%	95%	Target achieved

SS = Shared Services  
SRBC = South Ribble