

<b>REPORT TO</b>	<b>DATE OF MEETING</b>
Governance Committee	26 June 2013

Report template revised June 2008



<b>SUBJECT</b>	<b>PORTFOLIO</b>	<b>AUTHOR</b>	<b>ITEM</b>
Internal Audit Annual Report 2012-13	Not Applicable	G. Barclay D Highton	8

## SUMMARY AND LINK TO CORPORATE PRIORITIES

The purpose of this report is:

- to summarise the work undertaken by the Internal Audit Service from April 2012 to March 2013;
- 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 2012/13 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 2012/13 Internal Audit Plans for South Ribble and Shared Financial Services as at 31<sup>st</sup> March 2013.

Members should note that both Audit Plans were successfully completed by the end of the financial 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 2012/13 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 the majority of 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.

Two reviews – Overtime Payments and Flexi Time System were both given a limited assurance rating. Management actions for these reviews have now been implemented in full.

**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 2012/13. 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 Shared Financial Services is 98%

The following 2 areas varied significantly from the agreed targets and therefore explanations are provided below:

#### ***% of planned time used***

A target of 459 (90%) productive auditor days was set across the 2 plans in 2012/13 and that actually delivered was 416 (82% for South Ribble Borough Council (SRBC) and 81% for Shared Services (SS)). This is due to the in year departure of 2 senior audit personnel and the subsequent restructuring of the service.

The next indicator provides an explanation as to how this shortfall in resource impacted on planned audit work.

#### ***% of audit plan complete (SRBC only)***

15 audit assignments were scheduled in 2012/13 of which 13 were completed. The remaining 2 were either no longer required or needed to be rescheduled for 2013/14 as follows:

Catering Services (not required)  
My Neighbourhoods (rescheduled)

This enabled us to absorb the shortfall in auditor days in 2012/13. Members are advised however that there was a surplus on the 2012/13 budget and those funds could have been re-directed to procure additional auditor days from LCC had it been necessary to undertake any of the above audits during the year.

### **Revised Performance indicators for 2013/2014**

At the April meeting of the Governance Committee members agreed changes to the way in which the KPI's covering the implementation of audit recommendations were measured and reported. It was agreed that these would be reported annually and compared to previous years to demonstrate continuous improvement. This replaces the previous practice of reporting on a quarterly basis against a target of 100%.

Therefore the following sets out the targets for 2013/14 which are based on average figures over the past 3 years and these will set the benchmark for next year and beyond.

KPI	CUSTOMER	TARGETS 2013/14
% of Agreed Management Actions Implemented	SRBC	90%
	SS	77%
Of the Agreed Management Actions Implemented - % implemented On Time	SRBC	70%
	SS	68%

## Key Achievements

The following are some of the key achievements by the Internal Audit Service in 2012/13:

### ISO 9001:2008

In January 2013, Internal Audit retained ISO 9001 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 maintains a high quality service.

### Staff Development

Two members of the Audit Team were successful in their Institute of Internal Auditor examinations. One member now holds the Diploma in Internal Audit, whilst the other hopes to complete their studies in the near future.

### External Contract

During 2012/13 Internal Audit completed two reviews for St Catherine's Hospice, both of which received excellent customer feedback. This has resulted in the extension of the Internal Audit agreement into 2013/14.

### 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; Penetration testing Electoral Commission performance standards for electoral registrations and delivery of elections; Annual local government ombudsman complaints report; Investors in People.

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.		
<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

Internal Audit Plan Risk Assessment  
Internal Audit Plan 2012/13

**APPENDIX 1 - INTERNAL AUDIT PLANS 2012/13**

<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	15	16.3	-1.3
Creditors	15	0	15
Payroll	20	0.3	19.7
Treasury Management	15	14.4	0.6
Cash & Bank / Cheque Control	20	18.4	1.6
<b>REVENUES &amp; BENEFITS</b>			
Council Tax	15	15.7	-0.7
National Non Domestic Rates	15	13.8	1.2
Housing & Council Tax Benefits	15	14.6	0.4
Debtors	20	19.5	0.5
<b>GENERAL</b>			
Post Audit Reviews	10	5.1	4.9
Unplanned Reviews / Contingency	10	0	10
Residual Work from 2011/12	15	32.4	-17.4
<b>TOTAL</b>	<b>185</b>	<b>150.5</b>	<b>34.5</b>
<b>SOUTH RIBBLE</b>			
<b>CORPORATE AREAS</b>			
Annual Governance Statement	15	12.5	2.5
Anti-Fraud & Corruption / Awareness	10	4.3	5.7
NFI	30	29.3	0.7
System Interrogations	10	6.1	3.9
Corporate Inventories	10	13.9	-3.9
Corporate Projects	10	0	10
<b>CORPORATE GOVERNANCE</b>			
Data Quality	5	5.1	-0.1
Equality	10	14	-4
<b>BUSINESS TRANSFORMATION &amp; ICT</b>			
Active Directory	15	13.6	1.4
Desk Top Roll Out	15	9.9	5.1
Project Management Framework	10	7.5	2.5
<b>REGEN &amp; HEALTHY COMMUNITIES</b>			
My Neighbourhoods	15	0	15
Indoor Leisure Contract	10	10	0
Catering Services	10	0	10
<b>PLANNING / HOUSING / PROPERTY</b>			
Disabled Facilities Grant	15	17.1	-2.1
Community Infrastructure Levy	10	4.1	5.9
Wesley Street Mill	10	12.4	-2.4
Window Replacement Project	10	9.4	0.6
<b>HUMAN RESOURCES</b>			
Overtime Payments	15	16.8	-1.8
Flexi Time System	15	18.1	-3.1
<b>GENERAL AREAS</b>			
Irregularities (Contingency)	15	0	15
Post Audit Reviews	10	5.8	4.2
Residual Work from 2011/12	10	2.8	7.2
Unplanned Reviews (Contingency)	15	28.3	-13.3
Governance Committee	25	24.5	0.5
<b>TOTAL</b>	<b>325</b>	<b>265.5</b>	<b>59.5</b>

**APPENDIX 2 - SUMMARY OF INTERNAL AUDIT ACTIVITY 2012/13**

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
<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.	Substantial	No key control issues identified.
Creditors	Review undertaken by Grant Thornton	Not applicable to this item	No key control issues identified.
Payroll	Review undertaken by Grant Thornton	Not applicable to this item	No key control issues identified.
Treasury Management	To review the adequacy of the key controls in the Council's main financial systems.	Substantial	No key control issues identified.
Cash and Bank	To review the adequacy of the key controls in the Council's main financial systems.	Substantial	No key control issues identified.
<b>Revenues and Benefits</b>			
Council Tax, Non Domestic Rates and Debtors.	To verify that controls in place in respect of the Council Tax, Non Domestic Rates, and Debtors system are adequate and operating effectively	Substantial.	No key control issues identified.
Housing and Council Tax Benefits	Review undertaken by Grant Thornton	Not applicable to this item	No key control issues identified.
<b>Residual Work from 2011/12</b>			
Main Accounting  Creditors Payroll Treasury Management Cash and Bank Travel and subsistence	To review the adequacy of the key controls in the Council's main financial systems.	Adequate.  Substantial Substantial Substantial Substantial	Management actions were agreed to improve controls relating to virement coding.  No key control issues No key control issues No key control issues No key control issues No key control issues

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
Post Audit Reviews	All reports are followed up three times a year. The majority of the management actions have been put in place and the remainder have been given revised dates for implementation	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.	Gap analysis provided showing areas of control weakness which were reported in Section 5 of the Annual Governance Statement.
Anti-Fraud and Corruption / Fraud Awareness	Fraud Bulletins have been placed on Connect and Councillor Connect to highlight specific fraud risks and scams.	Not applicable to this item.	Not applicable to this item. Proactive input provided rather than an audit / review.
National Fraud Initiative (NFI)	<p>On-going monitoring of the results from the 2011/12 Single Person Discount / Electoral Registers exercise.</p> <p>Co-ordination of the Council's input to the main 2012/13 exercise in October 2012. This includes: Benefits, Payroll, Creditors, Taxi Licenses, Personal Licenses, Market Traders, Parking Permits (residents) and Insurance Claims data.</p>	Not applicable to this item.	<p>The exercise has to date identified £31,707 (99 cases) whereby Single Person Discount has been incorrectly awarded and is now in the process of being repaid back to the Council.</p> <p>Results were received in February 2013. Investigation of the relevant matches is currently underway</p>
System Interrogations	1 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.	Substantial	Although some payments had been made through creditors, they had justifiable explanations.

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
System Interrogations cont	2 NFI reports were matched to current SPD claimants to identify any individuals who have already informed the Council that their circumstances have changed.	Not applicable to this item	The exercise identified 78 matches out of 754 (9%) which required no further investigation by the Benefits Investigation Officers.
Corporate Inventories	The review was undertaken in order to provide assurance that suitable inventory management procedures are in place.	Adequate	Recommendations were agreed 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.
<b>CORPORATE GOVERNANCE</b>			
Data Quality – Corporate Plan Success Measures	The review was undertaken to provide management with assurance that the processes and procedures in place for the collection of data are effective and efficient.	Adequate	Management actions were agreed to review and update the Data Quality Policy and ensure that detailed definitions are in place for all Corporate Plan Success Measures.
Equality	The review was undertaken to provide an assurance opinion on the Council's compliance with the Equality legislation and that Equality Impact Assessments (EIAs) are completed in line with the principles behind the legislation.	Substantial	No key control issues identified.
<b>BUSINESS TRANSFORMATION AND INFORMATION TECHNOLOGY</b>			
Active Directory	The review focussed on the processes and procedures to create an effective network access control environment which protects access to information systems and assets.	Adequate	Management actions were agreed to strengthen the current arrangements by: improving the security of all administrative groups and accounts and to strengthen, password controls.
Desk Top Roll Out	The review was carried out to ensure that the Desk Top Roll Out Project was managed effectively, in accordance with the Council's Project Management Framework.	Substantial	No key control issues identified.



<b>AUDIT AREA</b>	<b>AUDIT INPUT</b>	<b>CONTROLS RATING</b>	<b>KEY CONTROL ISSUES</b>
Project Management Framework	The review was undertaken to confirm that projects are managed, monitored and reported effectively in accordance with the principles of the Council's Project Management Framework.	Substantial	No key control issues identified.
<b>REGENERATION &amp; HEALTHY COMMUNITIES</b>	.		
Indoor Leisure Contract	The purpose of this review was to evaluate the adequacy and effectiveness of the overall management arrangements of the Indoor leisure contract.	Substantial	No key control issues identified.
<b>PLANNING / HOUSING / PROPERTY</b>			
Disabled Facilities Grant	The purpose of this audit was to review the adequacy and effectiveness of the systems and processes for the grants.	Adequate	Management actions were agreed to put into place more effective and efficient performance monitoring processes.
Community Infrastructure Levy	Project team membership for the implementation and on – going monitoring.	Not applicable to this item.	Proactive input provided rather than an audit / review
Wesley Street Mill	Project team membership; providing on-going advice and support as required.	Not applicable to this item	Proactive input provided rather than an audit / review.
Window Replacement Project	The review was undertaken to provide assurance that Contract Procedure Rules have been followed with regards to the replacement doors and windows tender and evaluation procedure.	Not applicable to this item	No key control issues identified.
<b>HUMAN RESOURCES</b>			
Overtime Payments	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	Limited	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
Flexi Time System		Limited	

	throughout the Council.		<p>been a lack of management information to assist in this process and this is reflected in a limited controls assurance rating.</p> <p>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 came into effect in January 2013</p>
<b>GENERAL AREAS</b>			
Post Audit Reviews	All reports are followed up three times a year. The majority of the management actions have been put in place and the remainder have been given revised dates for implementation	Not applicable to this item	

#### 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 2012/13**

	<b>Indicator</b>	<b>Audit Plan</b>	<b>Target 2012/13</b>	<b>Actual 2012/13</b>	<b>Comments</b>
<b>1</b>	% of planned time used	SS	90%	81%	Slightly below target
		SRBC	90%	82%	Slightly below target
<b>2</b>	% audit plan completed	SS	100%	100%	Target achieved
		SRBC	100%	87%	Slightly below target
<b>3</b>	% management actions agreed	SS	98%	100%	Target achieved
		SRBC	98%	96%	Slightly below target
<b>4</b>	% overall customer satisfaction rating (assignment level)	SS	90%	100%	Target exceeded
		SRBC	90%	96%	Target exceeded

SS = Shared Services  
SRBC = South Ribble