

REPORT TO	DATE OF MEETING
Governance Committee	24 th June 2015

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SUBJECT	PORTFOLIO	AUTHOR	ITEM
Internal Audit Annual Report 2014-15	Not Applicable	G. Barclay D. Highton	7

SUMMARY AND LINK TO CORPORATE PRIORITIES

The purpose of this report is:

- to summarise the work undertaken by the Internal Audit Service from April 2014 to March 2015;
- to give an Audit opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control;
- 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 2014/15 be noted.

DETAILS AND REASONING

Internal Audit Plans

Appendix 1 to this report provides a detailed account of the individual audits undertaken in respect of the 2014/15 Internal Audit Plans for South Ribble and Shared Financial Services. It shows the approach taken, the controls assurance rating that was awarded and a summary of any actions that have been agreed with management to further improve controls within all the areas audited.

The following tables also provide an analysis of the planned and actual auditor days used during the year together with an explanation of any variations that have occurred.

South Ribble Council

	Planned (Days)	Actual (Days)	Variance (Days)
Audits undertaken	260	265	(5)
Audits not undertaken <ul style="list-style-type: none"> • Welfare Reform 	10	0	10
Contingency	85	68	17
TOTALS	355	333	22

There was a slight variation between the planned and actual time spent on the audits undertaken, resulting in a net deficit of 5 days over the course of the year.

With regard to audits not undertaken, our work on the Welfare Reform project was deferred due to the implementation of the Single Fraud Investigation Service. This work will now be incorporated into the 2015/16 reviews of the Revenues and Benefits Service.

There was some variation between the planned and actual time spent on contingency as the individual estimates proved to be excessive in practice, resulting in a net surplus of 22 days over the course of the year.

Shared Financial Services

	Planned (Days)	Actual (Days)	Variance (Days)
Audits undertaken (Key Financial Systems)	95	67	28
Audits not undertaken	0	0	0
Contingency	50	80	(30)
TOTALS	145	147	(2)

The reviews of the key financial systems were largely completed on time and the remaining work finalised in quarter one of 2015/16.

The planned contingency allocation was exceeded for Shared Financial Services due to two substantive investigations that were undertaken in support of the Council’s Disciplinary Policy.

Internal Audit Opinion

Public Sector Internal Audit Standards (PSIAS) require the “Head of Internal Audit” to give an opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. This responsibility falls on the Head of Shared Assurance Services on behalf of South Ribble Borough Council.

Members will recall that individual audits are awarded a separate controls assurance rating from the following matrix:

Control Rating	Limited	4	7	9
	Adequate	2	5	8
	Substantial	1	3	6
		Minor	Major	Critical
		Risk Rating		

Risk ratings (minor / major / critical) are inherent to each system/area audited and they reflect the impact that they would have on the Council in financial and/or reputational terms if they were to fail.

Control ratings (substantial / adequate / limited) are awarded after the audit is completed to reflect the level of internal control that is present in each system/area audited.

During 2014/15 a total of 18 systems/areas were reviewed, 11 of which were critical and 7 of which were major systems. The chart below shows the controls assurance ratings that were awarded for the individual audits undertaken during the year:

KPI	CUSTOMER	TARGETS 2014/15	OUTURN 2014/15
% of Agreed Management Actions Implemented	SRBC	87%	93%
	SS	78%	80%
Of the Agreed Management Actions Implemented - % implemented On Time	SRBC	75%	63%
	SS	56%	76%

Only one indicator is lower than the target figure and this is due to a number of management actions being implemented a little later than originally agreed.

OTHER DEVELOPMENTS

The following are some of the other developments impacting upon the Internal Audit Service in 2014/15:

ISO 9001:2008

In January Internal Audit retained ISO 9001 certification for its Quality Assurance System which is continuously updated to reflect any changes in working practices. Retention of the standard demonstrates that the Audit Team is continuing to seek improved and more efficient working practices to maintain a high quality service.

Staff Development

During the year the remaining member of the Audit Team without an audit qualification was successful in her final examination for the Chartered Institute of Internal Auditors Diploma. This now means that all members of the Team now hold a professional level internal audit qualification.

Annual Review of the Effectiveness of the Council's System of Internal Audit

The Accounts and Audit Regulations 2011 require the Council to "at least once a year conduct a review of the effectiveness of its system of internal audit" and 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".

We have therefore undertaken a self-assessment of our compliance with PSIAS and have concluded that the Service meets all aspects of the Standards. Members are advised that the Council will in future need to arrange an independent external assessment of the Internal Audit Service's compliance with PSIAS at least once every 5 years and the Lancashire District Councils Audit Group is currently making arrangements for reciprocal peer reviews to be undertaken.

The review of the "system of internal audit" is not however restricted to a review of the Internal Audit Service itself but also incorporates any other independent sources of assurance that are obtained by the Council.

Directors and Heads of Service have therefore provided examples of these which include: the Customer Excellence Award; ISO 9001; Government Connect; ITIL Accreditation; Penetration testing; Electoral Commission performance standards for electoral registrations and delivery of elections; Investors in People Gold Standard; Green Flag awards.

This evidence further 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 Public Sector Internal Audit Standards. 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

Internal Audit Plan Risk Assessment
Internal Audit Plan 2014/15

APPENDIX 1 - SUMMARY OF INTERNAL AUDIT WORK 2014/15

AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
<i>SOUTH RIBBLE</i>			
Annual Governance Statement	To co-ordinate a review of the system of governance and highlight any improvement actions to include in the Annual Governance Statement.	Not applicable	Proactive input was provided rather than an audit review. A gap analysis was produced showing areas of improvement which were summarised in Section 5 of the Annual Governance Statement 2014.
Anti-Fraud & Corruption	To provide generic fraud awareness training and issue information bulletins highlighting specific fraud risks.	Not applicable	Proactive input provided rather than an audit / review.
National Fraud Initiative (NFI)	To co-ordinate the Council's input to the 2013/14 Single Person Discount / Electoral Roll data matching exercise and to monitor the results from the 2014/15 main exercise.	Not applicable	The exercise has to date identified £10,071 cases where Single Person Discount has been incorrectly awarded and is now in the process of being repaid to the Council. The results from the 2014/15 main exercise were released in January 2015 and investigations into the matches are currently on-going.
Data Quality	To undertake a high-level review to ensure compliance with the Council's Data Quality Policy.	Red (8)	Management actions have been agreed to provide clarity regarding definitions, stipulate evidence retention requirements and improve the checking of performance information.
Housing Benefit, Council Tax and Non-Domestic Rates (NDR), Sundry Debtors	To verify that controls in place in respect of the Housing Benefit, Council Tax NDR and Sundry Debtors systems are adequate and operating effectively.	Amber (6)	No key control issues were identified.
Homelessness	To ensure compliance with the Prevention of Homelessness Strategy and to verify the fulfilment of the Council's statutory obligations.	Amber (5)	Our work identified that robust arrangements are in place for the discharge of homelessness duties and that a proactive approach is taken to providing advice and prevention measures. However, roles and responsibilities in relation to the Homelessness Strategy Action Plan need to be clarified and effective internal performance measures introduced to monitor the service.

AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
Cloud Services	To review the council's arrangements for the monitoring and management of cloud computing services and provide assurance that key risks to service delivery and essential data have been identified and adequately mitigated.	Amber (6)	There is evidence that the service is resilient and secure. There are a number of key controls in place to protect sensitive data, and in particular the most sensitive data can be stored locally.
Sports Development	The purpose of the review was to examine the controls in place within Sports Development, including policies and procedures, management of officers and activities, income, expenditure and performance monitoring and reporting.	Amber (5)	Although generally robust, recommendations were made to strengthen the current arrangements in respect of planning records, performance monitoring and reporting and to review the current job descriptions of key officers.
Housing Grants	To assist Housing Services with the implementation of revised policies and procedures following the changes to the way Disabled Facilities Grants are delivered.	Not applicable	Proactive input provided rather than an audit / review.
Empty Homes	To review compliance with the revised Empty Properties Policy introduced in September 2013.	Amber (5)	Adequate processes and procedures are in place within Housing Services, however they are not being rigorously applied in all instances. Management actions were also agreed to clarify roles and responsibilities, re-introduce a cross service working group and improve the monitoring of performance.
Building Control	To ensure that the Building Regulations (the Building Act 1984 & the Building Regulations 2010 and associated amendments) are correctly and rigorously applied	Amber (5)	There is clear evidence that there is compliance with Building Regulations and that the service is being well managed at an operational level. Management actions have been agreed to update procedural documentation and forms for officers and customers, explore options to automate aspects of the service and to ensure that administrative support staff are fully trained to recover all costs associated with demolitions or dangerous buildings.

AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
Community Infrastructure Levy (CIL)	To participate in the Project Team for the implementation of the CIL.	Not applicable	Project team involvement to ensure that adequate controls are built into systems and processes for CIL and that sufficient monitoring arrangements are in place.
Refuse Collection & Recycling	To participate in the Project Team for the implementation of the new Waste and Recycling Collection Service commencing in June 2015.	Not applicable	Proactive input rather than an audit review.
Licencing (Fees & Charges)	To undertake a post implementation review of the new taxi licensing fee arrangements and the changes introduced following the implementation of the Scrap Metal Dealers Act 2013.	Amber (5)	Although we found that the basis for calculating the fees and charges was compliant with legislation, we identified ways of improving the documentary evidence which supports the process.
Asset Management	The purpose of the review was to assess the effectiveness of the planned and reactive maintenance programmes.	Red (7)	<p>Whilst it was found that planned maintenance is undertaken as per the Planned Maintenance Programme, a number of weaknesses exist within the current arrangements. These include the lack of:</p> <ul style="list-style-type: none"> • Formal reporting / recording system for reactive maintenance; • Documented procedural guidance; • Inspection records; • Management information.
Commercial Properties	The purpose of this audit was to review the overall arrangements and operational procedures established for the management and control of commercial properties.	Amber (5)	<p>Although the current processes are adequate, a number of areas were identified whereby the current arrangements required improvement including:</p> <ul style="list-style-type: none"> • Introducing standardised forms and checklists for use by officers; • Re-forming a cross service property management group; • Ensuring the database contains up to date and accurate property information.
Post Audit Reviews	To ensure that agreed management actions have taken place to address the control issues identified in Internal Audit reports.	Not applicable	All relevant management actions implemented in a timely manner.

AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
Contingency – Unplanned reviews.	This consisted of responding to requests from management and providing advice and guidance	Not applicable	Spot checks were undertaken to provide evidence of compliance with the flexi time system and this identified a number of control issues for which recommendations to strengthen the current arrangements were agreed with the Head of Human Resources.
SHARED SERVICES			
Main Accounting	To review the adequacy of the controls in a core financial system	Amber (6)	No key control issues were identified
Creditors	To review the adequacy of the controls in a core financial system	Amber (6)	No key control issues were identified
Payroll	To review the adequacy of the controls in a core financial system	Amber (6)	No key control issues were identified
Treasury Management	To review the adequacy of the controls in a core financial system	Amber (6)	No key control issues were identified
Cash & Bank	To review the adequacy of the controls in a core financial system	Amber (6)	No key control issues were identified
Post Audit Reviews	To ensure that agreed management actions have taken place to address the control issues identified in Internal Audit reports.	Not applicable	All relevant management actions implemented in a timely manner
Contingency - Irregularities	Responding to requests from management	Not applicable	Over the course of the year, investigations were carried out in support of the Council's Disciplinary Policy.

APPENDIX 2 - INTERNAL AUDIT PERFORMANCE INDICATORS 2014/15

	Indicator	Audit Plan	Target 2014/15	Actual	Comments
1	% of planned time used	SS	90%	100%	Target exceeded
		SRBC	90%	94%	Target exceeded
2	% audit plan completed	SS	100%	100%	Target achieved
		SRBC	100%	100%	Target achieved
3	% management actions agreed	SS	98%	100%	Target exceeded
		SRBC	98%	100%	Target exceeded
4	% overall customer satisfaction rating (assignment level)	SS	90%	97%	Target exceeded
		SRBC	90%	91%	Target exceeded

SS = Shared Services
 SRBC = South Ribble Borough Council