

REPORT TO	DATE OF MEETING
Governance Committee	13th April 2016

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SUBJECT	PORTFOLIO	AUTHOR	ITEM
Internal Audit Plan 2016-17 & Member Reporting Protocol	N/A	G. Barclay & D. Highton	8

SUMMARY AND LINK TO CORPORATE PRIORITIES

This report explains the content of the Internal Audit work programme for the 2016/17 financial year which has been determined following a detailed risk assessment and consultation exercise. The Internal Audit Plan is the vehicle by which audit workload is identified and prioritised.

The main purposes of the report are to:

- Remind members of the respective roles of managers and Internal Audit to maintain a sound system of governance and internal control within the Council;
- Summarise and explain the basis of the Annual Internal Audit Plan for 2016/17;
- Seek the Committee's approval of the Audit Plan.

The report also contains a formalised protocol for reporting the results of Internal Audit work to members, following a review of the current arrangements by the Governance Committee Task Group and Senior Management Team (SMT).

In addition to being a statutory requirement, Internal Audit has a pivotal role to play in ensuring a strong system of governance and internal control and in so doing contributes to making South Ribble an "efficient, effective and exceptional Council"

RECOMMENDATIONS

That the Committee:

- approves the 2016/17 Internal Audit Plan (Appendix 1)
- approves the Member Reporting Protocol (Appendix 3)

DETAILS AND REASONING

The Role of Management and Internal Audit

The responsibility for implementing a strong system of governance and internal control within the Council lies primarily with the Senior Management Team (SMT). Directors and Heads of Service need to ensure that they maintain effective control procedures not least because services and business systems are subject to on-going change.

Internal Audit is an independent appraisal function whose core objective is to evaluate and report on the adequacy of the Council's system of governance and internal control. In the main this is achieved through an annual programme of reviews, following a detailed risk assessment of audit need.

Audit Plan

The 2016/17 Internal Audit Plan contains the programme of reviews for the next financial year and is shown at **Appendix 1**. This has been constructed following an assessment of audit need by considering a range of factors, such as significant changes in staffing, systems and procedures, the length of time since an area was last audited and items in the Corporate Risk Register. There has also been extensive consultation within each service and by the SMT which has taken an overview of audit requirements.

The following paragraphs summarise the individual areas that will be subject to audit coverage in 2016/17.

Corporate

- Undertaking corporate and service level governance reviews in support of the Annual Governance Statement;
- Raising Officers' and Members' awareness of fraud by publishing regular fraud bulletins;
- Co-ordinating the Council's input to the National Fraud Initiative (NFI) which enables specific data on the Council's computer systems to be collated and matched with similar data from other councils / public bodies, in order to identify any potential irregularities.

Corporate Governance & Business Transformation

Scrutiny and Performance

- A review to verify the integrity of performance information within the Corporate Plan.

Revenues & Benefits

- A review of the key financial systems within Revenues and Benefits.

ICT

- A review of corporately issued mobile devices to include allocation and usage and security of data.

Development, Enterprise & Communities

Community Works

- Membership of the Bamber Bridge Project Team.

Housing

- Membership of the Housing Capital Project Working Group.
- A review to assess the effectiveness of the revised arrangements of Disabled Facilities Grants.

Planning

- A system review of Development Control.
- A review of the effectiveness of the operational arrangements for Developers Contributions.

Neighbourhoods, Environmental Health & Assets

- Membership of the Withy Grove Project Working Group.

Parks and Neighbourhoods

- A review of the maintenance and inspection regimes for the Council's trees, parks and footpaths.

Waste & Transport

- A review of the Council's fleet management and vehicle maintenance operations.

Public Health

- A follow up review of the administration and enforcement of key licences.
- A review of compliance with the Council's Health & Safety Policies regarding lone working.
- A review of the Council's compliance with the revised "Prevent" duty guidance from central Government.

Property Services

- A review of the operational arrangements of Leyland Market.

Human Resources

- A value for money review to ascertain that the Council is achieving an economic, efficient and effective use of the training budget.

General Areas

This aspect of the Plan is to enable us to:

- Undertake investigations;
- Follow-up management actions agreed in earlier audit reports;
- Complete any residual work from 2015/16;
- Respond to requests from Management for unplanned reviews; and
- Prepare reports for and attend the Governance Committee.

Shared Services

Shared Financial Services

- A series of reviews to provide assurance that effective controls remain in place within the Council's key financial systems.

Risk Ratings

Appendix 1 shows the risk rating that has been applied to each review included in the 2016/17 Internal Audit Plan. Each review is considered against a range of risks and the impact that it would have if the system was to fail. An overall risk score is allocated to the review and this determines the risk rating. **Appendix 2** shows how the risk scores / ratings have been derived.

The 2016/17 Internal Audit Plans therefore contain 21 reviews of which 10 are Critical systems and the remaining 11 are classed as Major systems.

Audit Days

The Internal Audit Plan for 2016/17 is based on a resource of 345 audit days for South Ribble Council and 145 days for Shared Services. This is the number of chargeable days available within the existing budget (after deducting annual leave and other non-chargeable time) and includes an element of bought-in computer audit resources from Lancashire County Council.

MEMBER REPORTING PROTOCOL FOR INTERNAL AUDIT REPORTS

At the January meeting of the Governance Committee a discussion took place relating to the release of Internal Audit Reports to members outside of the Committee and to Cabinet Members in particular.

A meeting of the Committee's Task Group was therefore convened for 9th March in order to review the current procedures and to agree a reporting protocol which formalised and facilitated appropriate member access. In preparation for this meeting the Chair of the Committee and Head of Shared Assurance Services met to discuss arrangements and produce a draft protocol.

Subject to some slight amendments the Task Group agreed in principle with the draft protocol but felt it was inappropriate for the Committee to decide upon changes to established management process without full consideration by chief officers and so it was agreed that the draft protocol would be discussed and agreed by SMT.

Appendix 3 has been considered by SMT at its meeting on 22nd March and is now being presented for member approval. The draft protocol largely represents existing practice but has been formalised to give greater clarity over access by members.

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	The Cabinets of both host authorities have already approved the budgets which underpin the Internal Audit Plans for 2016/17.		
LEGAL	The Internal Audit function is a statutory function derived from Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2015		
RISK	A detailed Risk Assessment has been carried out which forms the basis of the audit assignments included in the 2016/17 Audit Plan.		
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 Risk Assessment.

INTERNAL AUDIT PLAN 2016/17

APPENDIX ONE

SOUTH RIBBLE COUNCIL	RISK RATING	DAYS
CORPORATE AREAS		
Annual Governance Statement	N/A	20
Anti-Fraud & Corruption	N/A	15
NFI	N/A	20
GOVERNANCE & BUSINESS TRANSFORMATION		
Scrutiny and Performance		
Performance Data Quality	Critical	10
Revenues and Benefits		
Council Tax	Critical	35
Non Domestic Rates	Critical	
Housing Benefits	Critical	
Debtors	Critical	
ICT		
Mobile Technology	Major	10
DEVELOPMENT, ENTERPRISE & COMMUNITIES		
Community Works		
Bamber Bridge Project	N/A	10
Housing		
Housing Capital Programme Working Group	N/A	10
Disabled Facilities Grants	Major	15
Planning		
Development Control	Major	15
Developers Contributions	Major	15
NEIGHBOURHOODS, ENVIRONMENTAL HEALTH & ASSETS		
Withy Grove Project	N/A	5
Parks & Neighbourhoods		
Maintenance & Inspection Regimes	Major	15
Waste, Transport & Neighbourhoods		
Fleet Management / Vehicle Maintenance	Major	15
Public Health		
Licensing	Major	15
Lone Working	Major	15
Counter Terrorism "Prevent" Duty	Major	10
Property Services		
Leyland Market	Major	10
HUMAN RESOURCES		
Training & Development	Major	15
GENERAL AREAS		
Irregularities (Contingency)	N/A	10
Post Audit Reviews	N/A	10
Residual Work from 2015/16	N/A	20
Unplanned Reviews	N/A	10
Governance Committee	N/A	20
TOTAL		345

SHARED SERVICES	RISK RATING	DAYS
SHARED FINANCIAL SERVICES		
Main Accounting System	Critical	95
Creditors	Critical	
Payroll	Critical	
Treasury Management	Critical	
Cash & Bank	Critical	
GENERAL AREAS		
Shared Services Joint Committee Accounts	N/A	5
Residual Work from 2015/16	N/A	15
Post Audit Reviews	N/A	10
Contingency	N/A	20
TOTAL		145

RISK RATINGS

APPENDIX TWO

	S	F	P	I	RY	RN	O	E	FR	Score	Rating
GOVERNANCE & BUSINESS TRANSFORMATION											
Scrutiny and Performance											
Performance Data Quality	•	•	•	•	•	•	•	•		8	Critical
Revenues and Benefits											
Council Tax		•	•	•	•	•	•		•	7	Critical
Non Domestic Rates		•	•	•	•	•	•		•	7	Critical
Housing Benefits		•	•	•	•	•	•		•	7	Critical
Debtors		•	•	•	•	•	•		•	7	Critical
ICT											
Mobile Technology	•		•	•	•	•				5	Major
DEVELOPMENT, ENTERPRISE & COMMUNITIES											
Housing											
Disabled Facilities Grants		•	•	•	•	•			•	6	Major
Planning											
Development Control		•	•	•	•	•		•		6	Major
Developers Contributions		•	•	•	•	•		•		6	Major
NEIGHBOURHOODS, ENVIRONMENTAL HEALTH & ASSETS											
Parks & Neighbourhoods											
Maintenance & Inspection Regimes		•	•	•		•	•	•		6	Major
Waste, Transport & Neighbourhoods											
Fleet Management / Vehicle Maintenance		•	•		•	•	•	•		6	Major
Public Health											
Licensing			•	•	•	•	•		•	6	Major
Lone Working			•	•	•	•	•			5	Major
Counter Terrorism "Prevent" Duty			•	•	•	•	•			5	Major
Property Services											
Leyland Market			•	•	•	•			•	5	Major
HUMAN RESOURCES											
Training & Development	•		•	•	•		•			5	Major

SHARED SERVICES	S	F	P	I	RY	RN	O	E	FR	Score	Rating
SHARED FINANCIAL SERVICES											
Main Accounting System		•	•	•	•	•	•		•	7	Critical
Creditors		•	•	•	•	•	•		•	7	Critical
Payroll		•	•	•	•	•	•		•	7	Critical
Treasury Management		•	•	•	•	•	•		•	7	Critical
Cash & Bank		•	•	•	•	•	•		•	7	Critical

RISK RATING KEY

S	STRATEGIC	Risks that relate to doing the wrong things
F	FINANCIAL	Risks that relate to losing monetary resources or incurring unacceptable liabilities
P	PEOPLE	Risks associated with service stakeholders
I	INFORMATION	Risks relating to loss or inaccuracy of data, systems, procedures or documents
RY	REGULATORY	Risks associated with current or potential changes in national or European law
RN	REPUTATION	Risks relating to the status or image of the service
O	OPERATIONAL / VOLUME	Risks that relate to doing the right things in the wrong way / Significant number of transactions
E	ENVIRONMENTAL	Risks that relate to environmental considerations, locally and further afield
FR	FRAUD	Risks that consider the Council's exposure to the risk of fraud

Score	Rating
1 – 3	MINOR
4 – 6	MAJOR
7 – 9	CRITICAL

Controls Assurance Rating Key

<p>Control Rating</p> <p>Limited - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist.</p> <p>Adequate - the Authority can place only partial reliance on the controls. Some control issues need to be resolved.</p> <p>Substantial - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist</p>	Control Rating	Limited	4	7	9
		Adequate	2	5	8
		Substantial	1	3	6
			Minor	Major	Critical
		Risk Rating			
		<p>Risk Rating</p> <p>Minor, Major or Critical reflects the relative risk of each system and the impact on the Council if it was to fail. The risk rating for each audit has been agreed following a detailed risk assessment by Internal Audit and approval by Senior Management.</p>			

MEMBER REPORTING PROTOCOL FOR INTERNAL AUDIT REPORTS

1. Core Principles

- 1.1 Internal Audit is an independent appraisal function of the system of internal control and is supportive of the management process. It is therefore essential that there is full engagement by management in the audit process including the commissioning of internal audit assignments.
- 1.2 Internal Audit reports should be considered as vehicles for improvement and any recommendations emanating from audit work are intended to support managers in enhancing the good management of the organization.
- 1.3 The results of internal audit work should not be misinterpreted and seen as a criticism of management rather than its correct purpose as an improvement vehicle as this could foster a blame culture, discouraging management from engaging in the audit process and leading to a deterioration in the internal control environment.
- 1.4 Internal Audit reports are primarily written for managers and often contain detailed, technical information relating to systems and processes which needs to be summarized and interpreted to be helpful to members.
- 1.5 Senior managers are responsible for managing risk within their areas of responsibility. Internal Audit makes recommendations to enhance levels of internal control but the decision to accept or reject those recommendations ultimately lies with management.
- 1.6 The Governance Committee's key purpose is to hold Chief Officers and therefore the Cabinet to account on internal control matters by ensuring their full engagement in the audit process.
- 1.7 Governance Committee is independent of Cabinet and is the only member reporting line for the Head of Internal Audit.
- 1.8 Chief Officers should therefore appraise their portfolio holders of any emerging internal control issues emanating from internal audit work and provide copies of audit reports if that is helpful to them.
- 1.9 The differing responsibilities of elected members and Chief Officers for strategic and detailed operational matters should be understood and observed.

2. Member Reporting Arrangements

- 2.1 Interim Audit Reports are presented to Governance Committee during the course of each financial year showing:
 - progress against the Annual Internal Audit Plan;
 - summaries of audits completed in the period;
 - the controls assurance rating of each audit completed;
 - a summary of the key control issues identified.
- 2.2 Following their receipt of an Interim Audit Report, the Committee may elect to receive any audit report in full and consider whether it should be included on a subsequent agenda for discussion. The relevant Director or Head of Service may also be asked to attend to respond to questions.

2.3 Following the issue of audit reports, the Committee will be informed of any unreasonable delays in the implementation of agreed management actions where the officer escalation process has been exhausted.

2.4 An Annual Internal Audit Report is presented to the June meeting of the Governance Committee showing:

- out-turn against the Annual Internal Audit Plan;
- summaries of audits completed in the year;
- the controls assurance rating of each audit completed;
- a summary of the key control issues identified.

2.5 The Head of Shared Assurance Services will also give an opinion on the adequacy of the overall control environment within the Council taking into account the totality of audit work completed during the previous financial year and other available sources of assurance.

3. Proposed Reporting Protocol

3.1 All final internal audit reports are issued to:

- the Lead Officer
- the Director / Head of Service
- External Audit

3.2 Arrangements are also made to discuss key issues arising from final internal audit reports with the Chief Executive

3.3 Directors / Heads of Service are required to provide their portfolio holder with any internal audit reports in their area and to arrange a discussion with them on their content.

3.4 Individual Portfolio holders are to exercise their discretion as to whether to copy in their Cabinet colleagues.

3.5 Internal Audit reports will continue to be provided to Governance Committee in summary format at their regular meetings.

3.6 Any final internal audit reports containing a red controls assurance rating are issued to the Chair of Governance Committee.

3.7 At the Chair's discretion any final internal audit report containing a red controls assurance rating may be included as a separate agenda item at the next meeting of the Governance Committee (unless this is prejudicial to any ongoing enquires).⁶

3.8 Where time is of the essence a special meeting of the Governance Committee may be called to discuss a final internal audit report containing a red controls assurance rating.

3.9 The relevant Director/Head of Service may be asked to attend Governance in respect of red rated reports.

3.10 The distribution of Governance Committee papers to continue as at present inclusive of all Cabinet members.

3.11 On an exception basis, where the subject matter reported requires it, meetings to discuss full audit reports will be held in closed session.