

REPORT TO	DATE OF MEETING
Governance Committee	29 th June 2016

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SUBJECT	PORTFOLIO	AUTHOR	ITEM
Internal Audit Annual Report 2015-16	Not Applicable	G. Barclay D. Highton	5

SUMMARY AND LINK TO CORPORATE PRIORITIES

The purpose of this report is:

- to summarise the work undertaken by the Internal Audit Service from April 2015 to March 2016;
- 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 including a review of the Council's internal control system.

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 2015/16 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 2015/16 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	265	245	20
Audits not undertaken			
• Commuted Sums	15	0	15
Contingency	65	81	(16)
TOTALS	345	326	19

There was a slight variation between the planned and actual time spent on the audits undertaken, resulting in a net surplus of 19 days over the course of the year.

With regard to audits not undertaken, our work on Commuted Sums was deferred to 2016-17 due to changes in national policy and will be undertaken as part of our work on the Housing Capital Group.

There was some variation between the planned and actual time spent on contingency resulting in a net deficit of 16 days over the course of the year.

Shared Financial Services

	Planned (Days)	Actual (Days)	Variance (Days)
Audits undertaken (Key Financial Systems)	115	98	17
Audits not undertaken	0	0	0
Contingency	50	36	14
TOTALS	165	134	31

The reviews of the key financial systems were finalised in quarter one of 2016/17.

The surpluses on the South Ribble / Shared Services Audit Plans are offset by a corresponding deficit on the Chorley Plan. The Shared Services Agreement makes provision for such service variations and the reciprocal nature of this arrangement is one of the strengths underpinning the partnership between Chorley and South Ribble Councils.

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.

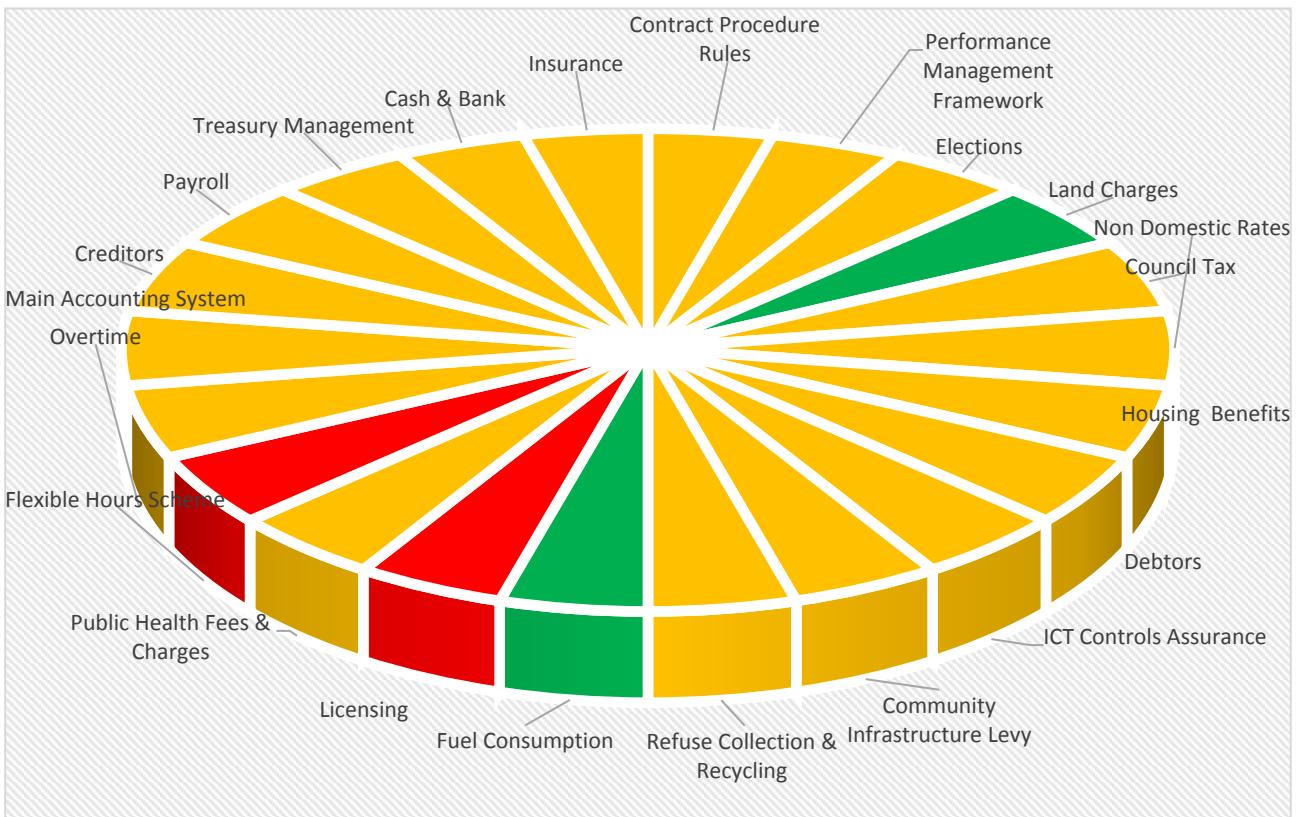
Members will recall that individual audits are awarded a separate controls assurance rating from the following matrix:

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

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 2015/16 a total of 22 systems/areas were reviewed, 17 of which were critical and 5 of which were major systems. The chart below shows the controls assurance ratings that were awarded for the individual audits undertaken during the year.



Members will observe that the vast majority were awarded an amber controls assurance rating. In addition, there were no management actions emanating from the reviews of the key financial systems. **It is therefore our conclusion that the Council continues to operate within a strong control environment.**

Members are also reminded that the control ratings shown relate to the point in time when the respective audit reports were issued during course of the year. They therefore represent a historical rather than a current judgement as managers have been charged with implementing corrective actions to address the control issues raised, which in turn has been supported by a programme of follow-up reviews by the Internal Audit Service.

Key Performance Indicators (KPIs)

The table at **Appendix 2** summarises the key performance data for the Internal Audit Service during 2015/16 and demonstrates that the majority of performance indicators have either been achieved or exceeded with explanations for any variances provided above.

At the April 2013 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%.

The following table sets out the targets and outturn figures for 2015/16.

KPI	CUSTOMER	TARGETS 2015/16	OUTURN 2015/16
% of Agreed Management Actions Implemented	SRBC	94%	96%
	SS	79%	80%
Of the Agreed Management Actions Implemented - % implemented On Time	SRBC	74%	84%
	SS	70%	60%

Only one indicator is lower than the target figure (SS) and this is due to 8 out of 20 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 2015/16:

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.

REVIEW OF INTERNAL CONTROL SYSTEM

The Accounts and Audit Regulations 2015 require the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account Public Sector Internal Audit Standards (PSIAS) or guidance”.

We have therefore undertaken a self-assessment of our compliance with the PSIAS and have concluded that the Service meets all aspects of the Standards. Members will recall that the Council needs to arrange an independent external assessment at least once every 5 years and that it was agreed that we would participate with the Lancashire District Councils Audit Group in undertaking reciprocal peer reviews. Over the next 12 months we will be participating in a review of the Internal Audit Services of Fylde Council and Preston City Council. It is planned that the above 2 Councils will carry out the review of our compliance with the Standards in March 2018.

The regulations also require that “an authority must conduct a review of the effectiveness of the system of internal control”. In addition to preparing an annual governance statement, other independent sources of assurance obtained by the Council are also considered.

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.

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 Regulations 2015 require an annual review of the internal control system.		
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 2015/16

APPENDIX 1 - SUMMARY OF INTERNAL AUDIT WORK 2015-16

AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
SRBC COUNCIL			
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	<p>Proactive input was provided in collating information to inform the Annual Governance Statement.</p>
Anti-Fraud & Corruption	To provide generic fraud awareness training and issue information bulletins highlighting specific fraud risks.	Not applicable	<p>Fraud awareness training has been delivered to over 150 officers using an e-learning package called "Fraud Awareness for Local Government – Doing the Right Thing". The feedback following the training has been very positive as the figures below highlight;</p> <p>82% of officers confirmed that their awareness of fraud has increased as a result of the training;</p> <p>88% of officers confirmed that the training will help them in their job role.</p>
NFI	To co-ordinate the Council's input to the 2015/16 Single Person Discount / Electoral Roll data matching exercise and to monitor the results from the 2014/15 main exercise.	Not applicable	<p>The 2014/15 exercise has to date identified £55,755.70 whereby benefits had been incorrectly claimed and is now in the process of being repaid.</p> <p>The results for the Single Person Discount / Electoral Roll exercise identified a number of matches which are currently being investigated further.</p>
Contract Procedure Rules	The overarching aim of the review was to ascertain levels of compliance with the Council's Contract Procedure Rules.	Amber (6)	No control issues were identified. The Council's arrangements were found to be robust.
Performance Management Framework	The overall objective was to confirm that robust arrangements are in place regarding the Performance Management Framework	Amber (6)	Our work established that Council priorities are re-considered annually and incorporated into the Corporate Plan. Key actions are identified and outcome measures are set. Responsibilities for delivering key actions are assigned and monitoring is carried out in accordance with the Framework. No control issues were identified.

Elections – Postal Voting & Proofing	The objective of the review was to determine whether statutory legislation and Electoral Commission recommended practice is being followed throughout the postal voting and proof-checking process.	Amber (6)	No control issues were identified. The Council's arrangements were found to be robust.
Land Charges	This was a system review of the adequacy and effectiveness of the systems and processes in operation.	Green (3)	No control issues were identified. The Council's arrangements were found to be robust.
Council Tax Housing Benefits, Non Domestic Rates, & Sundry Debtors	To verify that controls in place in respect of the Housing Benefit, Council Tax, Sundry Debtors and NDR systems are adequate and operating effectively.	Amber (6)	No key control issues were identified.
ICT Controls Assurance	This review concentrated on selected IT controls in place at the Council, focusing upon the key risk areas of patch management and malware protection employed by the Council to safeguard its IT infrastructure and services.	Amber (6)	ICT have an effective and pragmatic set of controls in place at the Council to maintain and protect the IT infrastructure and services and this is substantiated by its continued PSN compliance. No key control issues were identified.
Community Infrastructure Levy	This review focused on the controls and operating procedures which have been implemented since the introduction of CIL to provide an assurance opinion as to whether the controls implemented by the Council are adequately designed and effectively operating.	Amber (6)	The CIL regime was introduced in September 2013 and it is apparent that robust processes have been established since the implementation.
Refuse Collection & Recycling Contract	Following a rigorous procurement exercise, the refuse collection and recycling contract was awarded to FCC Environment Services (UK) Ltd. This was a high level review to ensure that the contract and performance management arrangements are robust and operating effectively.	Amber (6)	Our work has confirmed that the partnership between the Council and FCC is subject to a high level of scrutiny and that both parties are committed to ensuring its success. There are robust arrangements in place in relation to contract management and performance monitoring.

Fuel Consumption	<p>The objectives of the audit were to assess the adequacy and effectiveness of internal controls over fuel management including:</p> <ul style="list-style-type: none"> • Procurement arrangements; • Fuel accessibility; • Management information and analysis of usage; • Waste vehicle recharging arrangements. 	Green (3)	No control issues were identified. The Council's arrangements were found to be robust.
Licensing	<p>This review emerged from our risk assessment as being necessary due to the change of service, the loss of experienced Licensing Officers and changes to the system for processing licensing applications.</p> <p>The aim of the review was to seek assurance that the key systems for the administration and processing of licence applications and enforcement activity are adequate and operating effectively.</p>	Red (7)	<p>We are unable to provide assurance that all relevant documentation has been received for all taxi licence applications / renewals. Annual invoices have failed to be set up for Premises Licence applications and pro-active enforcement activity is sporadic and unstructured.</p> <p>Management actions to address the above have been agreed and will be followed up in detail when systems are re-audited again in 2016-17.</p>
Public Health Fees & Charges	<p>The objective of this review was to determine the overall arrangements for the charges levied by Public Health including setting, publication and application.</p>	Green (3)	<p>Public Health Fees and Charges have been set in accordance with statutory or local requirements and had been appropriately publicized and applied.</p> <p>No key control issues were identified.</p>
Review of the Flexible Working Hours Scheme	<p>The aim of our work was to verify that the Flexible Working Hours Scheme is being consistently applied and that claims and adjustments are reasonable and have been appropriately authorised.</p>	Red (9)	<p>Whilst there is evidence that some improvements have been made to the administration of the Scheme since our last review and that full compliance exists in some service areas, it was found that breaches of the corporate standards and procedures still persist in other areas.</p> <p>The Head of Human Resources agreed a range of management actions to address the specific issues identified during this review and has since confirmed that they have all been implemented in full.</p>

Review of Overtime Claims	The Head of Human Resources commissioned this review to determine if the system is operating as intended since the introduction of Oracle Self-Serve. Oracle Self-Serve is a devolved system which enables employees to directly input their own overtime and standby allowance claims.	Amber (5)	Previous work we have undertaken on Oracle Self-Serve has identified that the system lacks validation controls and therefore the onus is placed on managers to ensure that the claims are complete and accurate prior to authorisation. Our work identified that not all the claims are checked in a rigorous and robust manner in all instances. The Head of Human Resources agreed a range of management actions to address the specific issues identified during this review and has since confirmed that they have all been implemented in full.
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.
Insurance	To review the systems and procedures in place in respect of South Ribble Borough Council and Chorley Council's insurance provision.	Amber (6)	No key control issues were identified.

APPENDIX 2 - INTERNAL AUDIT PERFORMANCE INDICATORS 2015/16

	Indicator	Audit Plan	Target 2014/15	Actual	Comments
1	% of planned time used	SS	90%	81%	Contingency allocation not fully utilized
		SRBC	90%	94%	Target exceeded
2	% audit plan completed	SS	100%	100%	Target achieved
		SRBC	100%	94%	Review of Commuted Sums deferred to 2016/17 due to changes in national policy.
3	% management actions agreed	SS	98%	100%	Target exceeded
		SRBC	98%	100%	Target exceeded
4	% overall customer satisfaction rating (assignment level)	SS	90%	100%	Target exceeded
		SRBC	90%	90%	Target exceeded

SS = Shared Services

SRBC = South Ribble Borough Council