

REPORT TO	ON
Governance Committee	28 th June 2017

Jan 2017



TITLE	AUTHOR	Agenda item No.
Internal Audit Annual Report 2016-17	G Barclay D Highton	

1. PURPOSE OF THE REPORT

The main purposes of this report are:

- to summarise the work undertaken by the Internal Audit Service from April 2016 to March 2017;
- to give an Audit opinion on the adequacy and effectiveness of the Council's framework of control, risk management and governance;
- to give an appraisal of the Internal Audit Service's performance including a review of the Council's internal control system.

2. RECOMMENDATIONS

That the Internal Audit Annual Report for 2016/17 be noted.

3. EXECUTIVE SUMMARY

The Public Sector Internal Audit Standards requires the Head of Shared Assurance to provide an opinion on the overall adequacy and effectiveness of the organisation's framework of control, risk management and governance.

Control – The report demonstrates the successful delivery of the 2016/17 Internal Audit programme of work. No Internal Audit reports with a limited assurance rating were issued during 2016-17.

Risk Management – the Council's arrangements for the recording and monitoring of risks have been strengthened by the acquisition of the Governance, Risk and Control Self-Assessment (GRACE) software.

Governance – a range of actions have recently been taken to strengthen the Council's governance arrangements. The Annual Governance Statement Action Plan includes details of actions to further strengthen Council's governance arrangements.

4. CORPORATE PRIORITIES

The report relates to the following corporate priorities

Clean, green and safe		Strong and healthy communities	
Strong South Ribble in the heart of prosperous Lancashire		Efficient, effective and exceptional council	X

5. Internal Audit Plan

Appendix 1 to this report provides a detailed account of the individual audits undertaken in respect of the 2016/17 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	230	(30)
Audits not undertaken <ul style="list-style-type: none"> • Training & Development 	15	0	(15)
Contingency	70	93	23
TOTALS	345	323	(22)

With regard to audits not undertaken, the Review of Training and Development has been deferred due to the absence of the Head of Service.

Shared Financial Services

	Planned (Days)	Actual (Days)	Variance (Days)
Audits undertaken	95	88	(7)
Contingency	50	41	(9)
TOTALS	145	129	(16)

The 38 (22 + 16) days shortfall in the number of planned days for both South Ribble Council and Shared Services is offset by a period of sickness absence by a member of the Internal Audit Team.

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 control, risk management and governance. This responsibility falls on the Head of Shared Assurance Services on behalf of South Ribble Borough Council.

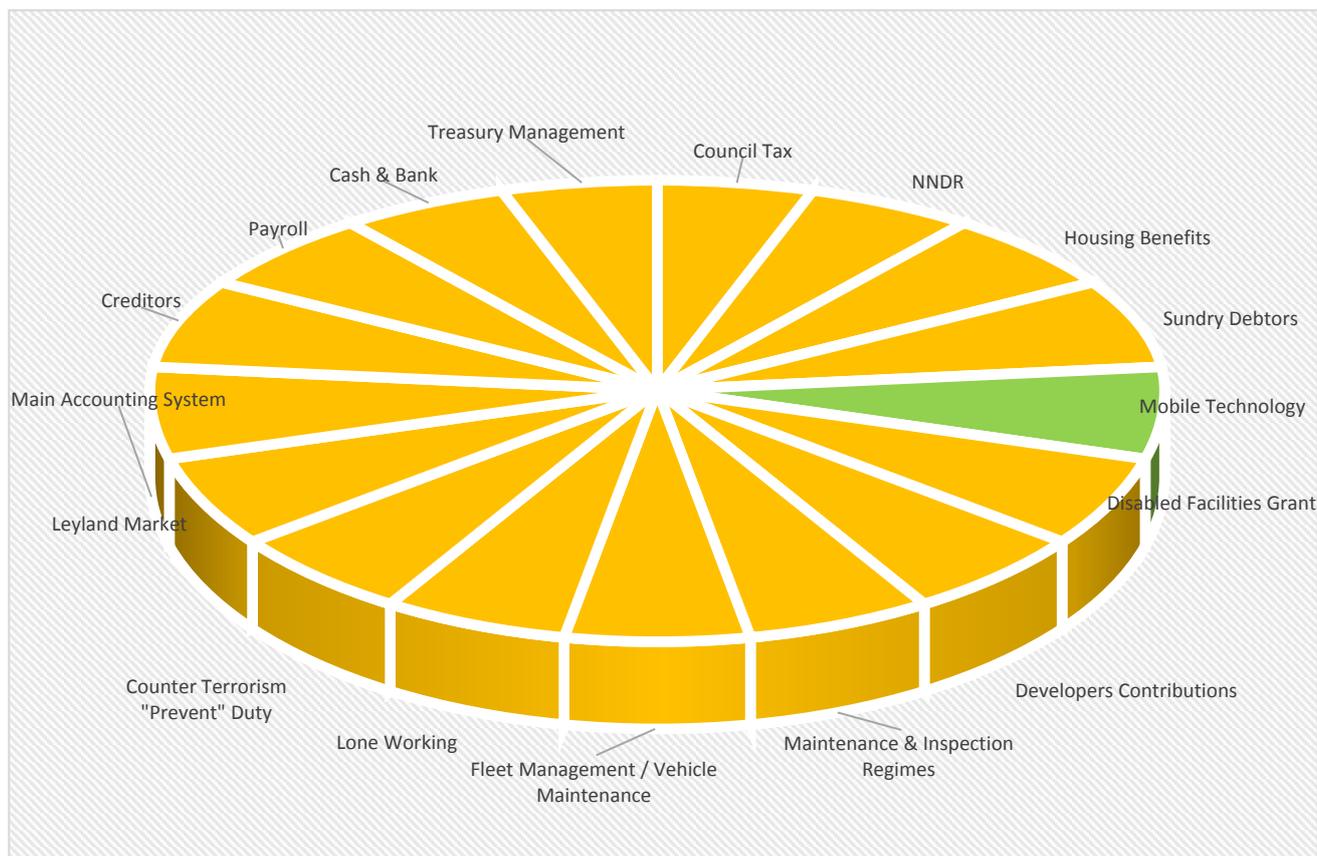
Members will recall that individual audits are awarded a separate controls assurance rating from the following matrix:

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 2016/17 a total of 17 systems/areas were reviewed, 9 of which were critical and 8 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 all were awarded an amber or green controls assurance rating. 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.

In addition to the above, previously reported control issues in respect of the Licensing Service, flexitime and overtime have also been rectified.

Licensing - as agreed with the Chair of the Governance Committee, our follow up review of Licensing was undertaken in January 2017 once the management arrangements within the service had stabilised. The review confirmed that the key control issues regarding the issuing of taxi licences had been rectified. Some residual control matters relating to the documentation of procedures and enforcement activities are still being addressed and these are contained within the Licensing Service Improvement Plan

It is our intention to undertake a further, comprehensive review of Licensing as a matter of priority in 2018/19 to enable all improvement activities to become established.

As recommended in the Scrutiny Task Group Review of Licensing, we also undertook a review of the costs associated with the procurement of Wilkin Chapman. Further information is provided at Appendix 1.

Flexi-time and Overtime - the Head of Human Resources presented a report to the Governance Committee in November 2016, which gave assurances that the issues identified in the our previous reviews carried out by Internal Audit had been addressed. Recent checks undertaken by Internal Audit on both flexitime and overtime confirm that the controls within the systems are now working effectively.

Key Performance Indicators (KPIs)

The table at **Appendix 2** summarises the key performance data for the Internal Audit Service during 2016/17 and demonstrates that the majority of performance indicators have either been achieved or exceeded with explanations for any variances provided above. Only two indicators are below the target figure (SRBC) and explanations are as follows:

Audit Plan Completed – this is due to the deferment of the review of Training and Development due to the absence of the Head of Service.

% of Agreed Management Actions Implemented - this is due to temporary managerial pressures in one service area resulting in revised dates being agreed for the implementation of a number of actions.

OTHER DEVELOPMENTS

The following are some of the other developments impacting upon the Internal Audit Service in 2016/17

ISO 9001:2008

In January Internal Audit retained ISO 9001 accreditation 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.

GRACE

Training has been delivered to over 25 officers on the use of the GRACE risk management system and currently risks and controls are in the process of being updated. These will form the basis for our reviews during 2017/18.

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 our annual self-assessment of 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. In the last 12 months we have, in conjunction with Preston City Council, carried out the review of Fylde Council Internal Audit Service with the review of Preston due to be carried out during June / July 2017. 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.

APPENDIX 1 - SUMMARY OF INTERNAL AUDIT WORK 2016-17

AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
<i>SRBC COUNCIL</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 in collating information to inform the Annual Governance Statement.
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
NFI	To co-ordinate the Council's input to the 2016/17 exercise.	Not applicable	The results from the exercise were released in January 2017 and are currently being reviewed.
Performance Information	To undertake checks to ensure compliance with the Council's Data Quality Policy	Not applicable	Results were used to inform the Annual Governance Statement
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.
Mobile Technology	Our work focussed on reviewing the arrangements to mitigate the key risks associated with the increasing use of mobile ICT devices.	Green (3)	No key control issues were identified

Bamber Bridge / City Deal	To participate in the Project Team for the delivery of the Bamber Bridge (City Deal) improvements	Not applicable	Proactive input provided rather than an audit / review
Housing Capital Working Group	To participate in the Project Team for the development of Strategic Housing Policies.	Not applicable	Proactive input provided rather than an audit / review
Disabled Facilities Grants	In 2014, the Council took the decision to administer Disabled Facilities Grants in house and the Housing Assistance Policy and operating procedures were fully revised to reflect these changes. This is the first full audit review since the changes came into effect.	Amber (5)	<p>Our work confirmed that the Council's arrangements have significantly improved since our last full review. Applications are being processed in accordance with agreed procedures and in a timely fashion. There are, however some improvements to be made including:</p> <ul style="list-style-type: none"> • Eradicating the duplication of work by only using one designated database; • Ensuring that documentary evidence to support the application is retained in all instances • Introducing a reconciliation to ensure all entries are recorded on the land charges register.
Developers Contributions	The audit sought to assess the adequacy and effectiveness of the systems for capturing, recording and monitoring Section 106 obligations.	Amber (5)	Whilst it is apparent that robust processes have been established for the recording and monitoring of S.106 obligations, there are some control issues over the drafting of S.106 agreements and the allocation of funds which need to be resolved in order to further strengthen the overall corporate arrangements.
Maintenance and inspection regimes	The review examined the maintenance and inspection regimes to ensure that there are robust arrangements in place for both planned and reactive procedures.	Amber (5)	There are good controls in place for the recording and monitoring of inspections, planned and reactive maintenance for play areas and equipment, parks and open spaces. However, several recommendations were made with regard to tree safety and car parks.
Fleet Management	The audit objectives were to assess the adequacy and effectiveness of internal controls over fleet management and vehicle maintenance.	Amber (5)	Whilst there is evidence that the fleet management and vehicle maintenance function is being effectively managed at an operational day to day level, a longer term strategic policy setting out the aims and objectives of the service is not in place, including procurement, branding & livery, economic life of vehicles etc.

Licensing	As agreed with the Chair of the Governance Committee, our follow up review of Licensing was undertaken in January 2017 once the management arrangements within the service had stabilised.	Not applicable	<p>The control weaknesses identified during our initial review of Licensing were incorporated within the Licensing Improvement Plan. As agreed with the Chair of the Governance Committee, this became the vehicle for monitoring and reporting of the Service's implementation of the agreed audit recommendations.</p> <p>Immediately following the issue of our initial report, we entered into a continuous dialogue with the Licensing Service and can now confirm that the key control issues regarding the issuing of taxi licences have been rectified. Some residual control matters relating to the documentation of procedures and enforcement activities are still being addressed.</p> <p>We will continue to monitor these residual issues and can also confirm it is our intention to undertake a further, comprehensive review of Licensing as a matter of priority in 2018/19 to enable all the improvement activities to become established.</p>
Lone Working	The aim of the review was to give management assurance that the current arrangements are robust and that there are adequate and effective monitoring procedures in place.	Amber (5)	The Lone Working Policy (LWP) was updated in 2016 and provides clear and accessible guidance for employees engaged in lone working. Our work established that there is extensive compliance with the LWP, however risk assessments have not been reviewed on an annual basis and not all lone workers have received relevant training.
Counter Terrorism "Prevent" Duty	The audit focused on ensuring that the key aspects of the Governments 'Revised Prevent Duty Guidance for England and Wales' had been achieved,	Amber (5)	<p>The Council's arrangements, procedures and processes in relation to delivering the Prevent Duty are sound. A significant investment in staff training has been made to ensure that employees have a good awareness of the Prevent Duty. However, as this is a relatively new requirement, not all arrangements are in place yet and some processes need further development, including:</p> <ul style="list-style-type: none"> • Reviewing property leases/agreements and procedures; • Offering basic Prevent training to casual workers and agreeing a strategy for delivering refresher training.
Leyland Market	This review was undertaken to ascertain whether there are robust controls in place in respect of all market operations.	Amber (5)	Our work confirmed that the market is managed by an experienced officer and that there are sound procedures in place for the majority of market procedures. It was however, found that the current income management procedures need to be reviewed.

<p>Review of Licensing Costs</p>	<p>An audit of the management of the legal instructions and associated costs relating to the contract between the Council and Wilkin Chapman has been carried out. This followed a finding in the Scrutiny Task Group Review of Licensing which had found that “the escalation of costs and management of the contract/relationship between the Council and Wilkin Chapman was of concern with no evidence of effective management costs”.</p>	<p>Not applicable</p>	<p>The original budgeted expenditure in respect of the review of the licensing service and the disciplinary investigation was £30k and £10k respectively and the totals as at March 2017 stood at £54k and £39k.</p> <p>The evidence that we have been able to obtain suggests that breaches of Contract Procedure Rules (CPRs) and Financial Regulations have arisen which in summary are:</p> <ul style="list-style-type: none"> • A retrospective waiver of CPRs obtained permitting the initial engagement of WC. • No authorisation to allow expenditure over the original approved contract value. • No budgetary provision in respect of expenditure over the original approved contract value. • Purchase orders raised late and after the receipt of invoices from WC. • Some expenditure incorrectly coded on the financial system. <p>However we are unable to corroborate our findings due to the departure of the former Chief Executive and Monitoring Officer and the absence of the Head of HR who is currently on long term sick leave.</p> <p>The circumstances surrounding this procurement are unprecedented and are very unlikely to recur. Nevertheless the Annual Governance Statement for 2017 contains several actions to re-enforce and strengthen the Council’s Procurement Rules to seek to prevent a repetition in future. This should now be our focus.</p>
<p>Flexi Time & Overtime Checks</p>	<p>Following the assurances provided to the Governance Committee by the Head of Human Resources in November 2016, we carried out further checks to confirm that the controls within the systems are now working effectively.</p>	<p>Not applicable</p>	<p>A sample of officers from each service was selected and checked for the month of January 2017.</p> <p>Our checks confirmed that both the flexi time and overtime systems are now operating in accordance with the Council’s policies and procedures.</p>

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.

APPENDIX 2 - INTERNAL AUDIT PERFORMANCE INDICATORS 2016/17

	Indicator	Audit Plan	Target 2016/17	Actual	Comments
1	% of planned time used	SS	90%	90%	Target achieved
		SRBC	90%	93%	Target exceeded
2	% audit plan completed	SS	100%	100%	Target achieved
		SRBC	100%	92%	Below target – 1 review deferred due to the absence of the Head of Service.
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%	96%	Target exceeded
5	% of Agreed Management Actions Implemented	SS	80%	100%	Target exceeded
		SRBC	95%	62%	Below target
6	Of the Agreed Management Actions Implemented - % implemented On Time	SS	64%	100%	Target exceeded
		SRBC	79%	94%	Target exceeded

SS = Shared Services
SRBC = South Ribble

