

REPORT TO	ON
Governance Committee	29 <sup>th</sup> May 2018



TITLE	REPORT OF
Internal Audit Annual Report 2017-18	G Barclay / D Highton

Is this report confidential?	No
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## 1. PURPOSES OF THE REPORT

The main purposes of this report are:

- to summarise the work undertaken by the Internal Audit Service from April 2017 to March 2018;
- to give an 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 during the year;
- to summarise the results of an independent peer review of the Internal Audit Service undertaken by the Heads of Audit of 2 Lancashire authorities.

## 2. RECOMMENDATIONS

2.1 That the Internal Audit Annual Report for 2017/18 be noted.

## 3. EXECUTIVE SUMMARY

3.1 The Public Sector Internal Audit Standards require 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 Internal Audit Service provides an independent opinion on the adequacy of the internal control system. All recommendations for improvement are agreed with Senior Management and overall progress is reported to the Governance Committee. No Internal Audit reports with a limited assurance controls assurance rating were issued during 2017/18.

**Risk Management** – the Council's arrangements were further strengthened during 2017/18 by the continued development of the GRACE risk management system. Extensive officer training was supplemented by Member Learning Hours covering the Corporate Risk Register and the revised Risk Management Framework which was approved by the Governance Committee in April.

**Governance** – a range of actions have been taken during 2017/18 to strengthen the Council's governance arrangements. The Annual Governance Statement Action Plan for 2018/19 includes details of actions to further strengthen Council's governance arrangements.

The 2018 AGS has been produced following a rigorous assessment process, both internal and external.

It is therefore the opinion of the Head of Shared Assurance that once the remaining improvement actions are implemented the Council's system of corporate governance will incorporate the very highest standards of practice.

#### 4. CORPORATE PRIORITIES

The report relates to the following corporate priorities:

Excellence and Financial Sustainability	X
Health and Wellbeing	
Place	

Projects relating to People in the Corporate Plan:

People	
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#### 5. INTERNAL AUDIT PLAN

5.1 **Appendix 1** to this report provides a detailed account of the individual audits undertaken in respect of the 2017/18 Internal Audit Plans for South Ribble Council and Shared Services. A summary of any actions that have been agreed with management to further improve controls within all the areas audited is also included within the appendix.

5.2 The following tables 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	210	199	11
Audits still in progress			
• Environmental Enforcement	15	5	10
• Health & Safety (incl. Legionella & Asbestosis Management)	30	7	23
• Commercial Properties	15	4	11
Contingency	90	110	(20)
<b>TOTALS</b>	<b>360</b>	<b>325</b>	<b>35</b>

5.3 Environmental Enforcement, Health & Safety and Commercial Properties were each the subject of a detailed service review (either internal or external) during 2017/18 resulting in considerable changes to processes and procedures. Completion of these audits has therefore been carried forward to 2018/19 to allow the revised procedures to be embedded. The 35 days variance on the audit plan has been offset by a reduction in the audit fees paid to Lancashire Audit Services (LCC).

## Shared Services

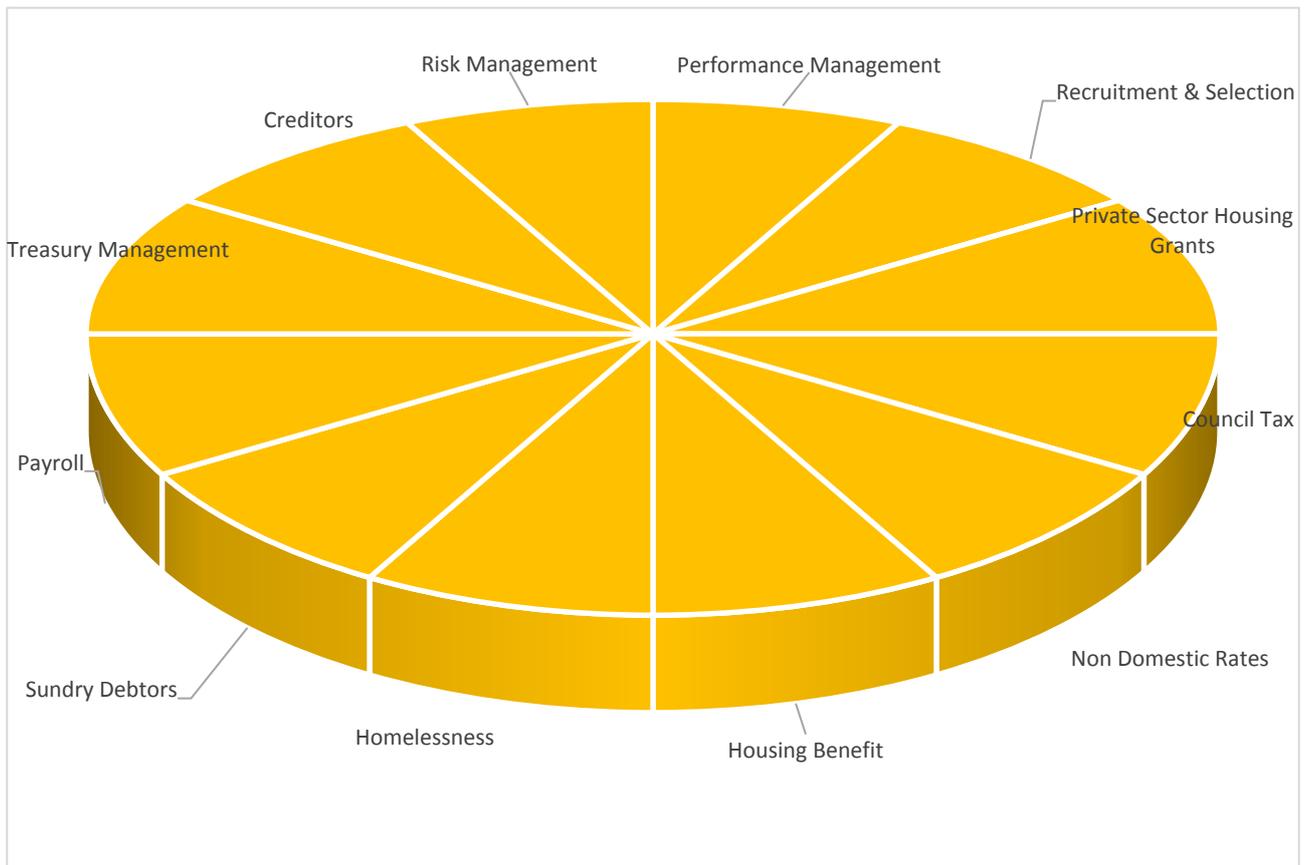
	Planned (Days)	Actual (Days)	Variance (Days)
Audits undertaken	75	76	(1)
Contingency	45	43	2
<b>TOTALS</b>	<b>120</b>	<b>119</b>	<b>1</b>

## 6. CONTROLS ASSURANCE

- 6.1 The Public Sector Internal Audit Standards require the Head of Shared Assurance to give an opinion on the overall adequacy and effectiveness of the Council's framework of internal control. Members will recall that individual audits are awarded a separate controls assurance rating from the following matrix:

<b>Risk Rating</b>	Critical	4	8	12	16
	Major	3	6	9	12
	Standard	2	4	6	8
	Minor	1	2	3	4
		Full	Substantial	Adequate	Limited
<b>Control Rating</b>					

- 6.2 Risk ratings are inherent to each system audited and they reflect the impact that they would have on the Council if they were to fail.
- 6.3 Control ratings are awarded after the audit is completed to reflect the level of internal control that is present in each system audited.
- 6.4 During 2017/18 a total of 11 systems were reviewed, 8 of which were deemed to be critical and 3 of which were major systems. The chart below shows the controls assurance ratings that were awarded for the individual audits undertaken during the year.



6.5 Members will note that all were awarded an amber controls assurance rating, with 2 critical systems receiving full assurance. 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.

6.6 As a result of the recent management restructure, we are currently re-assigning management actions to new Directors and we will provide an update on this in the first report of 2018/19.

6.7 In arriving at an opinion on the effectiveness of the system of control it is important to take account of all independent sources of assurance obtained by the Council. Directors have provided examples of a range of these which include: the Customer Service Excellence Assessment; ISO 9002; Government Connect; Penetration testing; Investors in People Gold Standard; Green Flag awards; Peer review of Democratic Services and the Food Standards Agency audit.

## 7. KEY PERFORMANCE INDICATORS (KPIs)

7.1 The table at **Appendix 2** summarises the key performance data for the Internal Audit Service during 2017/18 and demonstrates that the majority of performance indicators have either been achieved or exceeded. The only exception being the “Audit Plan Completed” indicator for SRBC for the reasons given in 5.3 (above).

## **8. QUALITY ASSURANCE & IMPROVEMENT PROGRAMME (PEER REVIEW)**

- 8.1 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”.
- 8.2 Members will recall that the Internal Audit Service has to provide confirmation to the Governance Committee on an annual basis that the requirements of the Public Sector Internal Audit Standards (PSIAS) are being complied with. This is usually achieved via the completion of an annual self-assessment but in addition the Council needs to arrange an independent external assessment at least once every 5 years. In Lancashire this is delivered via a programme of reciprocal peer reviews under the auspices of the Lancashire District Councils Audit Group.
- 8.3 The peer review of the Shared Internal Audit Service was recently undertaken by the Heads of Audit from Wyre & Lancaster Councils and we are pleased to report that the Service fully conforms with all the requirements of the PSIAS.

## **9. ISO 9001:2008**

- 9.1 In January the Shared Internal Audit Service retained ISO 9001:2015 accreditation for its Quality Assurance System which is continuously updated to reflect any changes in working practices. Retention of the standard demonstrates that the Service is continuing to seek improved and more efficient working practices to maintain a high quality service.

## **10. BACKGROUND DOCUMENTS**

Internal Audit Plan 2017/18

## **11. APPENDICES**

Appendix 1 – Summary of Internal Audit Work 2017-18  
Appendix 2 – Internal Audit Performance Indicators as at 30<sup>th</sup> March 2018

**Garry Barclay**  
**Head of Shared Assurance Services**

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**APPENDIX 1 - SUMMARY OF INTERNAL AUDIT WORK 2017-18**

AUDITS UNDERTAKEN	AUDIT OBJECTIVES & APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
<b>SOUTH RIBBLE COUNCIL</b>			
Annual Governance Statement	<p>The Council is required under 10(1)(b) of the Accounts and Audit Regulations 2015, to publish an Annual Governance Statement (AGS).</p> <p>The role of Internal Audit was to co-ordinate a review of the system of governance and highlight any improvement actions to include in the Annual Governance Statement Action Plan.</p>	Not applicable	Proactive input provided rather than an audit / review
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)	<p>The NFI is a data matching exercise, using sophisticated computer techniques which matches data within and between organisations to help detect fraud, overpayments and error.</p> <p>Internal Audit co-ordinated the Council's input to the 2016/17 main exercise and the 17/18 Council Tax Single Person Discount / Electoral Register exercise.</p>	Not applicable	<p>Investigations undertaken by the Revenues Section of the 2016/17 exercise are still on-going and to date have identified overpayments of housing benefit and council tax reduction scheme of £36, 350 which is currently being recovered.</p> <p>Data for the Council Tax (Single Person Discount) and the Electoral Register was submitted in December 2017, with 871 matches identified which are now being investigated.</p>
Performance Management	<p>The availability of complete, accurate and timely data is important in supporting customer care, corporate governance, management, decision-making, service planning, accountability and transparency</p> <p>During 2017/18 we have been members of the project team to enhance the Council's overall arrangements.</p> <p>In addition checks were undertaken on a sample of reported performance indicators to ensure compliance with the Council's Data Quality Policy.</p>	<b>Amber (8) Substantial</b>	No significant control weaknesses were identified, however the Data Quality Policy should now be updated to reflect the current organisational structure.

Project Management	To support the revision of the Council's Project Management Framework	Not applicable	Proactive input provided rather than an audit / review
Recruitment & Selection	<p>The objective of effective recruitment and selection is to acquire the right number of people with the right skills, experience and competencies in the right jobs at the right time. Recruitment should take place in context of a manpower plan that looks at staffing requirements based upon strategic objectives and development plans.</p> <p>The objective of the audit is to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	<b>Amber (6) Substantial</b>	<p>Whilst we are able to provide assurance that the majority of the risks associated with Recruitment and Selection are being effectively managed, there are some minor control weaknesses which need to be addressed in order to further strengthen the systems in place, these are summarised below:</p> <ul style="list-style-type: none"> <li>• The recruitment and selection code of practice has not been reviewed and updated since 2012 in addition the code of practice does not include the new 'co-designed' recruitment process;</li> <li>• Not all Officers involved in recruitment and selection have received the appropriate training;</li> </ul>
City Deal	Members of the project team to provide advice and guidance on governance, control and risk.	Not applicable	Proactive input provided rather than an audit / review
Housing Capital Working Group	Members of the project team for the development of Strategic Housing Policies.	Not applicable	Proactive input provided rather than an audit / review
Private Sector Housing Grants	<p>The Council is a statutory Strategic Housing Authority and therefore it has the responsibility for ensuring all housing in the Borough, irrespective of tenure, meets the requirements of the Housing Act 2004 and other relevant legislation.</p> <p>The Housing Assistance Policy provides guidance on how the Council will discharge its duties. This includes the provision of advice and guidance to householders. Grant funding is also available to improve properties energy efficiency and dealing with category 1 hazards as defined in the Housing Act 2004. Expenditure of £500k over a three year period is anticipated.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	<b>Amber (6) Substantial</b>	Whilst we are able to provide assurance that the risks associated with Private Sector Housing Grants are being effectively managed, the Housing Assistance Policy requires slightly amending to provide clarity to officers.

Council Tax	<p>Council Tax was introduced with effect from 1 April 1993 by the Local Government Finance Act 1992. The tax is payable by residents on all domestic dwellings, with certain exceptions for exempted classes, as a way of contributing to local services.</p> <p>The 2017-2018 income value is approximately £60.2m.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	<b>Amber (8) Substantial</b>	<p>No significant control weaknesses were identified however evidence documenting refund checks should be introduced and so that there is a full audit trail, administrator access for ICT offices should be strengthened.</p>
Non Domestic Rates,	<p>Under the Local Government Finance Act 1988, the Council is required to collect non domestic rates (Business Rates). The Revenues Section are responsible for the administration of non- domestic rates, including issuing of bills, collection and recovery of income, and the granting of reliefs and discounts. The 2017-2018 income value is approximately £38.2m.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed</p>	<b>Amber (8) Substantial</b>	<p>No significant control weaknesses were identified however an independent review of the awarding of reliefs and discounts should be introduced</p>
Housing Benefits	<p>Housing Benefit is a means tested social security benefit in the United Kingdom that is intended to help meet housing costs for rented accommodation. The primary legislation governing Housing Benefit is the Social Security Contributions and Benefits Act 1992. The Revenues &amp; Benefits Sections objective is to administer Housing Benefit applications and assessments in compliance with the statutory guidance.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed</p>	<b>Amber (8) Substantial</b>	<p>The controls in place for the management and administration of Housing Benefit provide substantial assurance. Only one minor control weakness was identified relating to the retention of landlord data.</p>

Sundry Debtors	<p>Day to day responsibility for administering the Council's Sundry Debtor system is performed by the Revenues Service. The objective of the Service is to support the timely and accurate invoicing and recovery of income due to the Council arising from work done, goods supplied or services rendered.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed</p>	<b>Amber (4) Full</b>	No key control weaknesses identified
Homelessness Service	<p>The Council has a statutory duty under the Homelessness Act 2002 to carry out review of homelessness in the borough and to publish a strategy. Prevention of Homelessness has the following priorities</p> <ul style="list-style-type: none"> <li>• Sufficient accommodation is and will be available;</li> <li>• Preventing homelessness is a priority;</li> <li>• A satisfactory provision of information, advice, assistance and support.</li> </ul> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed</p>	<b>Amber (6) Substantial</b>	No significant control weaknesses were identified. Officers are knowledgeable and strive to provide an effective Homelessness Service. The introduction of the Homelessness Reduction Act will introduce new duties on the Council, and work is already underway to implement the required changes.
General Data Protection Regulations	<p>The General Data Protection Regulation (GDPR) will apply within the UK from 25 May 2018. The main concepts and principles are much the same as those in the current Data Protection Act but there are new elements and significant enhancements that need to be made. The introduction of the GDPR also increases the financial risk to the Council due to the threat of significant fines.</p> <p>Members of the project team to provide advice and guidance on governance, control and risk.</p>	<b>N/A</b>	Proactive input provided rather than an audit / review

<b>SHARED SERVICES</b>			
Treasury Management	<p>The treasury management service fulfils an important role in the overall financial management of the Council's affairs. It deals with 'the management of the authority's investments and cashflows, its banking, money market and capital market transactions; the control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks' (CIPFA).</p> <p>The average daily investment figure for 2017/18 stands at £31.841m with no borrowings.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	<b>Amber (8) Substantial</b>	The controls in place for the management and administration of Treasury Management provide substantial assurance and only minor control weaknesses identified relating to the frequency and verification of reconciliations.
Payroll	<p>Staff costs form a significant proportion of the Council's expenditure. Control of staff costs is a key component to the financial success of the Council. Therefore having a robust and reliable payroll service to make payments to staff promptly and accurately, and to provide information to management on the payments made is essential.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	<b>Amber (8) Substantial</b>	No significant control weaknesses were identified however HR payroll reconciliations should be carried out more frequently and evidence documenting payroll budget holder sign-off should be re-introduced. In addition improvements should be made to HR documentation retention to improve the audit trail.
Creditors	<p>The Council's Creditors (accounts payable) function is maintained by Shared Financial Services. The Section is responsible for the processing of purchase orders, invoices and for payment of creditors of the Council using Authority Web.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	<b>Amber (4) Full</b>	No key control issues were identified.

<p>Risk Management</p>	<p>The Risk Management Framework is a key contributor to the internal assurance processes and the production of the Annual Governance Statement which reports the extent to which the Council has complied with its Governance Code. The GRACE (Governance, Risk Assessment &amp; Control Evaluation) system has been adopted for use within the Council to enable the completion of risk registers at all levels including the Strategic Risk Register and those in relation key projects, procurements, partnerships and processes.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	<p><b>Amber (8)</b> <b>Substantial</b></p>	<p>To be completed once report received</p>
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INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 30<sup>th</sup> March 2018

	Indicator	Audit Plan	Target 2017/18	Actual 2017/18	Comments
1	% of planned time used	SS	90%	99%	Target exceeded
		SRBC	90%	90%	Target achieved
2	% audit plan completed	SS	100%	100%	Target exceeded
		SRBC	100%	77%	Completion of 3 reviews carried forward to 2018/19
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

SS = Shared Services  
SRBC = South Ribble