

24 June 2014

Dear Councillor

GOVERNANCE COMMITTEE - WEDNESDAY, 25TH JUNE 2014

I am now able to enclose, for consideration at the above meeting of the Governance Committee, the following reports that were unavailable when the agenda was printed.

Agenda No	Item
4	<u>Internal Audit Annual Report 2013/14 (Pages 163 - 174)</u> Report of Shared Assurance Service (enclosed).

Yours sincerely



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Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	25 th June 2014

INTERNAL AUDIT ANNUAL REPORT 2013/14

PURPOSES OF REPORT

1. To summarise the work undertaken by the Internal Audit Service during the 2013/14 financial year;
2. To give an opinion on the adequacy and effectiveness of the control environment in the Council as a whole and in individual service areas;
3. To give an appraisal of the Internal Audit Service's performance, including an evaluation of the effectiveness of the Council's "system of internal audit".

RECOMMENDATION

4. That the Internal Audit Annual Report for 2013/14 be noted.

EXECUTIVE SUMMARY OF REPORT

5. The report demonstrates the successful delivery of the 2013/14 Internal Audit programme of work; the results of which provide members with assurance that the Council's governance, risk and control environment continues to be effective.

Confidential report	Yes	No
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CORPORATE PRIORITIES

6. This report relates to the following strategic objectives

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	X

INTERNAL AUDIT PLANS

7. **Appendix 1** to this report provides a summary of the audit work that was undertaken in respect of the 2013/14 Internal Audit Plans for Chorley Borough Council and Shared Services as at 31st March 2014.
8. Members should note that both Audit Plans were successfully completed. As is normally the case there were some variations between the planned and actual time spent on individual assignments as some of the original budget estimations proved to be insufficient or excessive in practice.

INTERNAL AUDIT OPINION

9. A detailed schedule of Internal Audit work undertaken during 2013/14 is shown at **Appendix 2**. This gives individual opinions on the adequacy of control for each of the areas audited during the year and forms the basis of our annual judgement on the overall control environment within the Council.
10. **It is pleasing to report that the majority of the reviews received a substantial or adequate controls assurance rating. Taking this into account, it is Internal Audit's opinion that the Council continues to operate within a strong control environment.**
11. **Appendix 2** also summarises the key actions that have been agreed with management to further improve controls within all the individual areas audited and their timely implementation will be monitored in due course.

INTERNAL AUDIT PERFORMANCE

Key Performance Indicators

12. The table at **Appendix 3** sets out and summarises the key performance data for the Internal Audit Service during 2013/14. This indicates that the majority of indicators are on or above target.
13. Two areas varied significantly from the agreed targets and therefore explanations are provided below:

% of planned time used (Shared Services only)

14. A target of 121 (90%) productive auditor days was set for the Shared Service Plan in 2013/14 and 94.9 days were actually delivered. The variance of 26 days was due to the completion of 2 reviews by Grant Thornton.

% of audit plan complete

CBC

15. 16 audit assignments were scheduled in 2013/14 of which 14 were fully completed. The remaining 2 were postponed for the reasons given below and will be considered as part of the risk assessment for the 2015/16 Internal Audit Plan:

Information Management – postponed due to the delayed implementation of MyShare;
Financial Regulations – postponed due to the delayed review of the regulations.

ADDING VALUE

16. Whilst the prime role of Internal Audit is to review and recommend improvements to the control environment, it also has a remit to provide proactive, direct support to service areas to improve business systems. Examples of where Internal Audit's work has added value by considering aspects other than the standard control environment or by providing support to key officers are listed below:

Review of CCTV – This was a value for money review which considered camera location, manning hours and provided a range of options for the future delivery of the Service.

Internal Audit also made improvements to the current system by creating an outcome recording system for use by the CCTV team. Data was collected by the CCTV operators for a 7 month period June to December 2013. This was provided to the CSP Analyst, who accessed the Lancashire Constabulary crime recording and intelligence systems and was able to produce a detailed report of CCTV usage and resulting outcome statistics. This report can be used to assess the impact of CCTV in the borough.

IDEA interrogation software was used as part of a joint exercise between the Council's Benefit Enquiry Unit and Lancashire County Council (LCC). Benefits data was matched to LCC free school meals data to identify individuals that are entitled to free school meals, but are not currently claiming them. The Benefits Team Leader acknowledged that this prevented the Benefits Enquiry Unit having to spend a significant, but unquantifiable amount of time and effort identifying target families.

The use of IDEA interrogation software on the results from the Audit Commission's National Fraud Initiative reduced the number of matches identifying potential fraudulent claims for Single Person Discount (SPD). There were initially 718 matches requiring investigation and this was reduced by 74.

OTHER DEVELOPMENTS

17. The following are some of the other developments impacting upon the Internal Audit Service in 2013/14:

ISO 9001:2008

18. In March 2014, Internal Audit retained ISO 9001 accreditation. The Quality System is amended to reflect any changes in working practices and the retention of the Standard demonstrates that the Team continues to seek improved and more efficient working practices and maintains a high quality service.

Staff Development

19. To maintain a skilled and motivated team all members of Internal Audit have undertaken training on a wide range of topic areas over the past 12 months. This increased knowledge is applied when undertaking reviews.

ANNUAL REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

20. The Accounts and Audit Regulations 2011 state at paragraph 6 (3) that (the Council) 'shall at least once a year conduct a review of the effectiveness of its system of internal audit'. In addition, 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.
21. The Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Panel provided a definition of the 'system of internal audit' which clarifies and expands the scope of 'internal

audit' from the Internal Audit Service, to a requirement on the Council to identify other independent sources of assurance obtained by each Director / Head of Service.

- 22. Directors / Heads of Service have provided evidence where they have obtained independent sources of assurance for their service. Examples of these include: QUEST accreditation for Sport and Play Service; Museums accreditation for Astley Hall, Investors in People accreditation, Public Services Network approval, independent inspection of council vehicles by the Freight Transport Association; Electoral Commission performance standards for electoral registrations and delivery of elections; independent inspection of RIPA processes and investigations, recent appointment of a qualified SFEDI Business Advisor in Economic Development (Small Firms Enterprise Development Initiative), External Audit scrutiny and assessment of Shared Financial Services work.
- 23. Internal Audit has collated this evidence and it supports our overall opinion that the Council continues to operate within a strong control environment.
- 24. In addition, the Internal Audit Service undertook a self-assessment of its compliance with the Public Sector Internal Audit Standards (PSIAS) and has concluded that the Service complies with all aspects of the Standards. *(Members will be aware that the Council will in future need to arrange an independent external assessment of the Internal Audit Service's compliance with the new Public Sector Internal Audit Standards at least once every 5 years).*

IMPLICATIONS OF THE REPORT

- 25. This report has no implications for specific services. The matters raised in the report are cross cutting and impact upon the authority as a whole

GARRY BARCLAY
 HEAD OF SHARED ASSURANCE SERVICES

Background Papers			
Document	Date	File	Place of Inspection
Internal Audit Plan Risk Assessment	2013/14	Shared Assurance Services	Civic Centre Leyland

Report Authors	Ext	Date	Doc ID
Garry Barclay Dawn Highton	(01772) 625272 (01257) 515468	June 2014	Annual Report.doc

APPENDIX 1 – INTERNAL AUDIT PLAN 2013/14 AS AT 31 MARCH 2014

AUDIT AREA	PLAN (Days)	ACT (Days)	BAL (Days)
SHARED FINANCIAL SERVICES			
Main Accounting System	15	12.4	2.6
Creditors	15	0.2	14.8
Payroll	20	22.8	-2.8
Treasury Management	15	9.6	5.4
Cash & Bank / Cheque Control	20	23.8	-3.8
Post Audit Reviews	10	6.1	3.9
Contingency	20	0.3	19.7
Residual Work from 2012/13	20	19.7	0.3
TOTAL	135	94.9	40.1
CHORLEY			
CORPORATE AREAS			
Annual Governance Statement	15	18.6	-3.6
Anti-Fraud & Corruption	15	12.8	2.2
National Fraud Initiative (NFI)	20	21.2	-1.2
System Interrogations	10	7.8	2.2
Financial Regulations	5	0	5
PARTNERSHIPS, HOUSING & PLANNING			
Cotswold House	15	12.8	2.2
CIL (with PCC & SRBC)	10	2.3	7.7
Markets	10	11.3	-1.3
TRANSFORMATION			
Performance Management	5	11.9	-6.9
Facilities & Building Management	15	14.8	0.2
Mobile Phones	15	18.4	-3.4
Information Management	15	0	15
Asset Management	15	17.8	-2.8
New Payroll System	15	0.1	14.9
Revenues & Benefits			
Council Tax Discounts	15	16.4	-1.4
Council Tax			
Non Domestic Rates			
Housing & Council Tax Benefits	30	31.3	-1.3
Debtors			
PEOPLE & PLACES			
Fuel Management	10	11.5	-1.5
Neighbourhood Officers	10	11.9	-1.9
Review of CCTV	15	33.8	-18.8
GENERAL AREAS			
Irregularities (Contingency)	20	7.1	12.9
Post Audit Reviews	10	12.5	-2.5
Residual Work from 2012/13	15	11.3	3.7
Unplanned Reviews (Contingency)	20	19.7	0.3
Governance Committee	20	18.4	1.6
TOTAL	345	323.7	21.3

APPENDIX 2 - SUMMARY OF INTERNAL AUDIT ACTIVITY 2013/14

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
1. SHARED SERVICES			
Finance			
Main Accounting System.	To review the adequacy of the key controls in the Council's main financial systems.	Substantial	No key control issues identified
Creditors	Review undertaken by Grant Thornton.	Not applicable	No key control issues identified.
Payroll	Review undertaken by Grant Thornton.	Not applicable	No key control issues identified.
Treasury Management	To review the adequacy of the key controls in the Council's main financial systems.	Substantial	No key control issues identified.
Cash and Bank	The purpose of this review was to determine that the Councils new banking arrangements were being adequately and effectively delivered.	Substantial	No key control issues identified.
2. CHORLEY COUNCIL			
Corporate Areas			
Annual Governance Statement.	Co-ordinated a review of the system of governance and provided a gap analysis highlighting areas of control weakness to feed into the Annual Governance Statement.	Not applicable to this item. Proactive input provided rather than an audit / review.	Gap analysis provided showing areas of control weakness which were reported in Section 5 of the Annual Governance Statement.
Anti-Fraud and Corruption.	Fraud awareness bulletins are placed on the Loop and In the Know on a regular basis to highlight specific fraud risks.	Not applicable	Proactive input provided rather than an audit / review.

	National Fraud Initiative (NFI)	<p>1. On going monitoring of the results from the 2012/13 main exercise.</p> <p>2. Co-ordination of the Council's input to the 2013/14 Single Person Discount / Electoral Roll exercise.</p>	Not applicable	<p>The exercise has to date identified £48,740 (33 cases) whereby benefits had been incorrectly claimed and is now in the process of being repaid to the Council. There have been 3 prosecutions, 3 admin penalties and 10 official cautions applied. Admin penalties of £959 have been applied.</p> <p>The exercise has to date identified £10128 (20 cases) whereby Single Person Discount has been incorrectly awarded and is now in the process of being repaid to the Council.</p>
	Systems Interrogations	<p>1 IDEA software was utilised to identify unusual activity within the Creditors Payments System, for example payment runs completed outside the normal processing periods. Data from October 2012 to October 2013 were included and incorporated Creditors, Benefits, Council Tax and NNDR refunds.</p> <p>2 IDEA software was used as part of a joint exercise between the Council's Benefit Enquiry Unit and LCC. Benefits data was matched to LCC free school meals data to identify individuals that are entitled to free school meals, but do not currently claim them.</p> <p>3 NFI reports were matched to current SPD claimants to identify any individuals who have already informed the Council that their circumstances have changed.</p>	Not applicable	<p>No unusual activity was identified.</p> <p>The exercise identified 245 potential cases.</p> <p>The exercise identified 74 matches out of 718 (11%) which required no further investigation by the Benefits Investigation Officers.</p>
Partnerships, Housing & Planning				
	Cotswold Supported Accommodation	To verify that the controls relating to cash collection and banking, arrears and writes off, rent calculation and recording, Codes of Conduct and Hostel insurance are adequate and	Substantial	No key control issues identified

		operating effectively.		
	Community Infrastructure Levy (CIL)	Project team membership for the implementation and on – going monitoring.	Not applicable to this item.	Proactive input provided rather than an audit / review however, input has been limited due to the disbandment of the original project team and the subsequent application for judicial review.
	Markets	The purpose of the review was to provide management with assurance that suitable system controls and procedures are in place.	Substantial	No key control issues identified.
	Transformation			
	Performance Management	This review focussed on the performance data of Economic Development. It was a high-level review to ensure compliance with the Council’s Data Quality Policy.	Adequate	Management actions were agreed to strengthen current procedures which will provide a more robust system. In future, all performance indicators are to be included within the Performance Management System.
	Facilities & Building Management	The aims of the audit were to review and evaluate the operational arrangements of the Civic Attendants Team.	Adequate	A number of management actions were agreed to strengthen the current arrangements / procedures in relation to building security, risk assessments and fire evacuation.
	Mobile Phones	This review was undertaken to ensure that adequate arrangements are in place for the allocation, usage and billing of mobile phones. The review also looked at current tariffs available and cost benefits.	Limited	A number of recommendations were agreed including; the provision of a Mobile Phone Policy, the setting of a formal mobile phone allocation criteria, a review of the tariffs being used and improved usage reporting through the e-billing process.
	Asset Management	The purpose of the review was to provide management with assurance that suitable arrangements, system controls and procedures are in place to provide a core property maintenance service.	Adequate	A number of recommendations were agreed for the current system and also an action plan for the handover of the core maintenance service from Liberta to Chorley was agreed.
	Revenues & Benefits			
	Council Tax Discounts	The purpose of this review was to ascertain whether stringent controls are applied when council tax	Adequate	Improved awareness of fraud detection work and a single person discount review were the management actions

		discounts are awarded.		which were agreed.
	Council Tax, Non Domestic Rates,	A high level review was undertaken to ensure that all the requirements of the Local Government Finance Act 2012, had been fully implemented.	Substantial	No key control issues identified.
	Housing / Council Tax Benefit and Debtors.	To verify that controls in place in respect of the Housing/Council Tax Benefit and Debtors systems are adequate and operating effectively.	Substantial	No key control issues identified
	People & Places			
	Fuel Management	This review was to verify that adequate and effective controls and arrangements are in place for the procurement, consumption, monitoring and management of fuel (petrol and diesel).	Adequate	Strengthening the controls in relation to management information reports, the security of key fobs and the administration of the fuel cards were agreed.
	Neighbourhood Officers	The aim of the review was to evaluate the current operational and management arrangements to ensure that the controls in place are operating effectively.	Adequate	Management actions were agreed to help improve the use of the case management database "IDOX". To ensure the safety of officers whilst lone working management actions were agreed to identify how the GPS tracking system can be utilised.
	Review of CCTV	The aim of the review was to establish whether the CCTV surveillance system is being operated effectively in such a way that it meets the original objectives and rationale behind its installation. In addition Internal Audit worked with CCTV operators and the Community Safety Partnership Analyst to develop a system for capturing CCTV activity in order that it could be used to identify the outcomes achieved through the use of CCTV.	As this was not an assessment of levels of internal control it is not appropriate to give an assurance rating.	A number of recommendations were agreed to review camera locations and manning hours within the service. A range of options for the future delivery of the service were reported. A new reporting system was devised to capture and record raw activity data so that it can be used to provide meaningful performance management information.
	General Areas			
	Post Audit Reviews	All reports are followed up three times a year.	Not applicable to this item	

		The majority of the management actions have been put in place and the remainder have been given revised dates for implementation.		
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KEY TO CONTROL RATINGS

Substantial	The Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.
Adequate	The Authority can place only partial reliance on the controls. Some control issues need to be resolved.
Limited	The Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist.

The above control ratings relate only to the point in time when the final audit report was issued. They represent a historic rather than a current judgement as managers are charged with implementing corrective action plans to address the control issues raised. This is in turn supported by a programme of follow-up reviews by the Internal Audit Service.

APPENDIX 3 - INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 31st MARCH 2014

	Indicator	Audit Plan	Target 2013/14	Actual	Comments
1	% of planned time used	SS	90%	71%	2 reviews completed by Grant Thornton
		CBC	90%	94%	Target exceeded
2	% audit plan completed	SS	100%	100%	Target achieved
		CBC	100%	81%	2 reviews postponed.
3	% management actions agreed	SS	98%	100%	Target exceeded
		CBC	98%	98%	Target achieved
4	% overall customer satisfaction rating (assignment level)	SS	90%	94%	Target exceeded
		CBC	90%	94%	Target exceeded

SS = Shared Services
 CBC = Chorley

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