

Report of	Meeting	Date
Head of Shared Assurance Services	Audit Committee	30 June 2010

INTERNAL AUDIT ANNUAL REPORT 2009/10

PURPOSES OF REPORT

1. To summarise the **work undertaken** by the Internal Audit Service during the 2009/10 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**".

RECOMMENDATIONS

4. That the Internal Audit Annual Report for 2009/10 be noted.

EXECUTIVE SUMMARY OF REPORT

5. The report demonstrates the successful delivery of the 2009/10 internal audit programme of work, the results of which provide members with assurance that the Council's governance and control environment continues to be effective.

CORPORATE PRIORITIES

6. This report relates to the following Strategic Objectives:

Strengthen Chorley's economic position in the central Lancashire sub region		Develop local solutions to climate change	
Improving equality of opportunity and life chance		Develop the character and feel of Chorley as a great place to live	
Involving people in their Communities		Ensure Chorley is a consistently top performing organisation	✓

INTERNAL AUDIT OPINION

7. A schedule of Internal Audit work undertaken during 2009/10 is shown at **Appendix 1**. This gives individual opinions on the adequacy of control for each of the areas audited during the year.

In arriving at an annual judgement on the overall level of control a view has been taken on the relative importance of each area audited and the nature and significance of the weaknesses identified. **Taking this into account it is Internal Audit's opinion that, overall, the Council's control environment continues to be effective.**

At the time of compiling this report some of the residual work brought forward from 2009/10 had still to be finalised but this will not impact on the annual judgement.

We can also report that no serious breaches of internal control were reported during 2009/10.

INTERNAL AUDIT PERFORMANCE

Business Improvement Plan (BIP) Key Projects

8. The end of March 2010 saw the completion of the first full financial year of operation for the new Shared Services Partnership between Chorley and South Ribble councils and whilst it was a challenging transitional year it was nevertheless a successful one for Internal Audit in that all the key projects and service developments set out in the 2009/10 BIP were achieved. These include:
 - Key contributions to the successful Use of Resources outcomes of both host authorities
 - Accreditation with the ISO 9001 quality standard following the merger of the previously separate audit teams and processes. This is a significant achievement for the Service and demonstrates how well the Team has formed into a single unit following the implementation of the Shared Service Partnership.

In terms of staff development, one member of staff completed the Practitioner stage of the Institute of Internal Auditors (PIIA). Three other members of the Team were successful in their Institute of Internal Auditor examinations during the year and will continue to work towards completing their qualifications.

The Shared Services Partnership will not rest on its laurels and this is underpinned by a revised BIP for 2010/11 which further raises the bar in terms of even more, challenging service improvements in the new financial year and seeking to respond to any suitable opportunities to grow the Partnership, including the Internal Audit Service.

Key Performance Indicators

9. The table at **Appendix 2** sets out the key performance data for the Internal Audit Service as at 31st March 2010. This indicates that overall, the Service's performance was around target. Summary explanations for any variations are provided in the table.

The figures for Shared Services are the only ones significantly below target and appear to show an under performance but these statistics could be misconstrued and therefore require some explanation. The Shared Services Audit Plan forms a relatively small proportion of the overall internal audit work carried out for both Councils and therefore whilst the shortfalls here seem large in percentage terms, in absolute terms they are not. Fuller explanations for each of the Shared Services indicators are as follows:

% of planned time used

Although an actual out-turn of 64% against a target of 90% was achieved, the remaining 36% equates to only 35 days. This is due to an incidence of staff sickness and some important unplanned work which was required undertaken in the final quarter. The carry over has been provided for in the Audit Plans for 2010/11.

% audit plan completed

This indicator relates to the number of final audit reports that have been agreed by / issued to management and the low percentile figure is explained by the fact that whilst the majority of the fieldwork had been completed at year end, some residual time was needed in the first quarter of 2010/11 to finalise the audits. Again this has been provided for in the 2010/11 Audit Plans.

REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

9. The Accounts and Audit (Amendment) (England) Regulations 2006 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.

The Council's External Auditors conduct a detailed review of Internal Audit on a triennial basis. The latest CIPFA Code of Practice for Internal Audit in Local Government contains a self assessment checklist for the same purpose. For the purpose of conducting the annual review of Internal Audit, the Council relies upon the External Audit triennial review plus self-assessments against the CIPFA Code of Practice in the intervening years. Given that 2009/10 was the first full year of operation for Internal Audit under Shared Services, the Audit Commission has opted to undertake their triennial review this year and this is planned for June 2010.

The CIPFA Audit Panel has recently 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 Head of Service. Heads of Service have now provided evidence where they have obtained independent sources of assurance for their service. Examples of these include: the Peer Review of Regulatory Services and the achievement of Level 2 of the Membership Development Charter.

Internal Audit has collated this evidence and it supports our overall opinion that the Council operates within an effective control environment.

IMPLICATIONS OF THE REPORT

10. The matters raised in the report are cross cutting and impact upon individual services and the council as a whole.

GARRY BARCLAY
HEAD OF SHARED ASSURANCE SERVICES

Background Papers			
Document	Date	File	Place of Inspection
Accounts & Audit Regulations	2003		
CIPFA Code of Practice for Internal Audit in Local Government in the UK	2006	SHARED ASSURANCE SERVICES	SOUTH RIBBLE BOROUGH COUNCIL
CIPFA and SOLACE - Good Governance in Local Government: A Framework	2006		

Report Authors	Ext	Date	Doc ID
Garry Barclay Clare Ware	(01772) 625272 (01772) 625249	11/6/10	Annual Report 09-10.doc

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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1. SHARED SERVICES			
Main Accounting System	A high level review was undertaken to verify that the controls and procedures in place are operating effectively	Adequate	Recommendations were made to improve procedures in respect of budget monitoring and the reconciliation process.
Treasury Management	A high level review has been undertaken of the procedures and systems in place, to verify that they are operating effectively	Substantial	None

2. CORPORATE GOVERNANCE			
External Inspection (CAA & Use of Resources)	Support was provided in collating information for external inspections particularly in respect of internal control issues	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable to this item. Proactive input provided rather than an audit / review.
Directorate Assurance Statements	Co-ordinated a review of the system of governance and provided a gap analysis highlighting areas of control weakness to feed into the 2008/2009 Annual Governance Statement	Not applicable to this item. Proactive input provided rather than an audit / review	Gap analysis provided showing some areas for improvement which are now reported in the Annual Governance Statement.
Data Quality	Supporting the ongoing data quality control process, including sample checks of "high risk" National Indicators	Not applicable to this item. Proactive input provided rather than an audit / review	Some minor issues were identified and now rectified
Whistle Blowing Policy	A review to ensure that the Whistle Blowing Policy is communicated to staff, the public, sub-contractors and partners and the level of confidence among staff in reporting incidents	Adequate	Some recommendations were made to improve communication and awareness

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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3.	ANTI-FRAUD & CORRUPTION			
	National Fraud Initiative (NFI)	<p>Co-ordinate and contribute to the investigation of matches from the 2008/2009 NFI exercise.</p> <p>The majority of the matches have been fully investigated.</p> <p>Co-ordination of the Council's input to the Council Tax / Electoral Register 2009 national exercise was undertaken in October and December 2009.</p>	Not applicable to this item.	<p>As a result of the 2008/9 exercise, 2 benefit fraud cases were identified; the benefit overpayment amounts to £51k. There are currently a number of other benefit cases under investigation.</p> <p>The matches from the 2009 Council Tax/Electoral Register exercise have only recently been released and investigations are due to commence in the near future</p>
	Anti Fraud and Corruption Policies	Input to the Council's compliance with the CIPFA document 'Managing the Risk of Fraud' (Red Book 2).	Not applicable to this item.	Proactive input provided rather than an audit/review
	System Interrogations	Using IDEA software a matching exercise was undertaken. Payroll data was matched to Creditors data to establish if any officers had been paid through the creditors system.	Limited.	A number of payments in respect of equal pay claims were made through the Creditors rather than the Payroll system. Arrangements to pay the Income Tax and National Insurance on these payments are in hand
4	COMPUTER AUDIT			
	Review of Data Protection (DP) / Freedom of Information (FOI) / Environmental Information Regulations (EIR).	To ascertain whether the council has effective procedures in place to manage and respond to requests for information.	Limited	Recommendations were agreed for FOI, DP and EIR policies to be produced and awareness training and communication to be carried out

AUDIT	AUDIT	CONTROLS	KEY CONTROL
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AREA	INPUT	RATING	ISSUES
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5. FINANCIAL SYSTEMS			
Chorley Key Systems	To verify whether effective controls and procedures are in place in respect of Council Tax / NNDR, Benefits, Debtors and Payroll.	Benefits and Council Tax / NNDR Substantial. Debtors & Payroll Adequate.	Recommendations were agreed in respect of bad debt write off and improvements in payroll procedures for leavers and casual workers

6. KEY OPERATIONS			
Transport	To undertake a review of the system controls and procedures to ensure that sustainability, planning and maintenance of fleet vehicles are effective and to give assurance that an appropriate vehicle management system is in place and is operating effectively.	Limited	Policies and procedures and improved management information are required. Depot security could be strengthened. (A strategy is being produced for approval by Cabinet in August).
Leisure Contract	Review to provide assurance that the terms of the leisure contract arrangements with Active Nation (formally CLS) are being complied with and that the systems to manage and monitor the contract arrangements are adequate.	Substantial	None
Criminal Record Bureau (CRB)	To determine whether or not CRB checks are being undertaken appropriately.	Adequate	Written procedures need to be put in place and a review of posts needs to be undertaken to ensure that the correct level of CRB check is undertaken.

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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6.	KEY OPERATIONS (CONT'D)			
	Neighbourhood Assets	To review the controls in place surrounding Neighbourhood Assets.	Limited (Draft Report stage)	Security over assets needs to be strengthened. Management actions were agreed to improve controls.
	Car Parking	To review the administration processes, receipt and recording of car park income and to gain an overview of the procurement and partnership arrangements in place.	Adequate	Management actions were agreed to improve the monitoring of Penalty Charge Notices issued and the issue of parking permits.
	Markets	A review of controls over: allocation of stalls; receipt and banking of income; health and safety and staff time recording.	Adequate	Management actions were agreed in respect of Health and Safety issues, time recording and the improvement of registration forms
	Homelessness	A review of procedures and controls in place at the council's hostel, Cotswold House.	Adequate	Some weaknesses identified in payment recording, notification of insurance requirements and CRB checks.

7.	GENERAL AREAS			
	Post Audit Reviews			
	Formal follow-up reviews of: Licensing; Framework for Partnership Working; E-claims; Control of Cash; Debt Management; ICT Security; Budgetary Control; Data Quality.	Formal follow up of those agreed management actions due for implementation, to verify that they have been implemented and are operating effectively.		

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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7.	GENERAL AREAS (Cont'd)			
	Work Brought Forward from 2008/9			
	Internet and E-Mail Policy.	Review of the draft policy document and the effectiveness of underlying management procedures to control and monitor usage.	Adequate	Minor suggestions to improve the draft policy document.
	Work Carried Forward into 2010/11			
	Shared Services Key Systems	Review key controls in remaining systems including cash & bank, creditors, capital & risk management	Still to be finalised	Still to be finalised
	Framework for Partnership Working	A review as to whether the council's main partners comply with the Partnership Framework in respect of Data Quality	Still to be finalised	Still to be finalised
	Insurance Certificates and Driving Licenses for Officers and Members	Review of procedures in respect of checks of insurance and driving licenses for officers and members	Still to be finalised	Still to be finalised

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 2

Internal Audit Performance Indicator Table as at 31/3/10.

	Local Performance Indicators	Target 09/10	Actual 09/10	Comments
1	% of audit time utilised	100	86%	The Audit days planned for LCC were not fully utilised following agreement by the Audit Committee to cancel and / or defer 6 audits to 2010/11
2	% of planned time used	90	81% CBC 64% Shared Services	Slightly below target due to the 6 audits noted above The remaining 36% equates to 35 days which have been provided for in the 2010/11 Audit Plan to enable outstanding work to be finalised
3	% audit plan completed	92	76% CBC 14% Shared Services	Slightly under target due to 6 reviews at draft stage as at 31/3/10 Although below target the majority of the fieldwork had been carried out as at 31/3/10
4	% management actions agreed	97	100%	Target exceeded

5	% of agreed management actions implemented	<p>Priority 1 100</p> <p>Priority 2 80</p>	<p>Priority 1 76%</p> <p>Priority 2 60%</p>	<p>19 out of 25 management actions due for implementation are now implemented</p> <p>3 out of 5 management actions due for implementation are now implemented.</p> <p>Revised dates have been set for all the outstanding actions</p>
6	Of the agreed management actions implemented – the % implemented on time	<p>Priority 1 100</p> <p>Priority 2 80</p>	<p>Priority 1 95%</p> <p>Priority 2 100%</p>	<p>On target. 18 out of the 19 management actions implemented were implemented on time.</p> <p>Target exceeded</p>
7	% overall customer satisfaction rating (assignment level)	96	86%	Based on 3 satisfaction surveys received as at 31/3/10

Priority 1 actions are considered essential as they impact significantly on the Council's system of governance and internal control and may influence external inspection outcomes. A lack of timely implementation will be reported to the Audit Committee.

Priority 2 actions will significantly improve the level of control and will be monitored by Internal Audit. A lack of timely implementation may be reported to the Audit Committee.