

Report of	Meeting	Date
Head of Shared Assurance Services	Audit Committee	30/09/10

## INTERNAL AUDIT INTERIM REPORT AS AT 31st JULY 2010

### PURPOSES OF REPORT

- 1 The purposes of this report are to:
  - advise members of the work undertaken in respect of the Annual Internal Audit Plan during the initial four months of 2010/11 and to comment on the results.
  - give an appraisal of the Internal Audit Service's performance to date.
  - inform members of any other developments involving or impacting upon the work of the Internal Audit Service.

### RECOMMENDATIONS

- 2 That the Interim Report be noted.

### CORPORATE PRIORITIES

- 3 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	✓

- 4 The Accounts and Audit Regulations 2003 require every local authority to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices". Such practices are laid down as standards in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

- 5 The CIPFA Code of Practice defines Internal Audit as “an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources”.
- 6 The Internal Audit Service therefore seeks to provide assurance that the Council is a **consistently top performing organisation**.

## BACKGROUND

- 7 This is the first interim progress report for the current financial year and covers the period between 1<sup>st</sup> April 2010 and 31<sup>st</sup> July 2010.

## INTERNAL AUDIT PLAN

- 8 **Appendix 1** to this report provides a “snapshot” of the overall progress made in relation to the 2010/2011 Internal Audit Plan, indicating which audits have been completed, those that are in progress and those that have yet to start. Appendix 1 also shows the time planned and the time spent as at the end of July on individual audits.
- 9 **Appendix 2** provides more detailed information on the Internal Audit work undertaken to date.
- 10 All the residual audit work in relation to the 2009/10 Audit Plan has now been finalised. The time allocation has been exceeded slightly but this will not impact on achieving the Audit Plan.
- 11 At this stage two of the audits that we anticipated would have been completed in quarter 1 are still ongoing. This is because further work was requested by management in respect of the Asset Management audit which has continued into quarter 2. Maintenance Inspection Regimes has been postponed to quarter 3 when the implementation of new maintenance schedules will allow a more effective Audit to take place.

## INTERNAL AUDIT PERFORMANCE

- 12 The table at **Appendix 3** provides information on Internal Audit performance as at the end of July 2010.
- 13 The majority of the measures are around target and full explanations are provided in the tables.

## OTHER DEVELOPMENTS

### *Audit Commission*

- 14 Following an announcement by the new Coalition Government on 26<sup>th</sup> May, we were informed by The Audit Commission that their work on Comprehensive Area Assessments (CAA) including the Use of Resources Assessment and work on Data Quality would cease.

On Friday 13<sup>th</sup> August 2110, there was an announcement by the Secretary of State for Communities and Local Government about the proposed abolition of the Audit Commission

from 2012. At this stage we are uncertain how these changes will impact on future Internal Audit Plans.

*Planning Ahead for 2011/12*

- 15 Although we are only half way through the current financial year we will soon begin to prepare the Audit Plan for 2011/12. The Comprehensive Spending Review is likely to put pressure on all budgets including that for Internal Audit.
- 16 The abolition of CAA and Use of Resources and the introduction of a shared financial system with South Ribble should however create opportunities to reduce Internal Audit inputs and therefore costs. We will keep members informed of the audit planning process as it develops.

*Triennial Review*

- 17 We have previously informed members that the Audit Commission were due to undertake their triennial review of the Internal Audit Service. This review has now been completed and we will inform members of the results when they become available.

*Examination Success*

- 18 Two members of the Internal Audit team were successful in their recent Institute of Internal Audit examinations.

**IMPLICATIONS OF THE REPORT**

- 17 The matters raised in the report are cross cutting and impact upon the authority as a whole, rather than specific directorates.

GARRY BARCLAY  
HEAD OF SHARED ASSURANCE SERVICES

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
Accounts & Audit Regulations	2003	Shared Assurance Services	Civic Centre - Leyland

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Jan Minchinton	01257 515468	18/08/10	AC Interim Report Aug 10

**APPENDIX 1 - INTERNAL AUDIT PLAN 2010/11**

Audit Areas	Qtr	Plan	Actual	Bal	Status
<b>SHARED SERVICES</b>					
Capital	2	20	0.3	19.7	Work in Progress
Main Accounting / General Ledger	4	20	0.0	20.0	To commence Q4
Cash and Bank	4	20	0.0	20.0	To commence Q4
Creditors	4	20	0.0	20.0	To commence Q4
Payroll	4	20	0.0	20.0	To commence Q4
Treasury Management	4	15	0.0	15.0	To commence Q4
Emergency Planning / Business Continuity	4	20	0.0	20.0	To commence Q4
Project Support / General Controls Advice	All	20	1.2	18.8	ongoing
<b>SUB-TOTAL</b>		<b>155</b>	<b>1.5</b>	<b>153.5</b>	
<b>CHORLEY</b>					
<b>CORPORATE GOVERNANCE</b>					
External Inspections (CAA, UofR)	1	20	19.6	0.4	Complete
Service Assurance Statements	1	12	11.6	0.4	Complete
Efficiencies	3	20	1.0	19.0	To commence Q3
Data Quality National Indicators	All	10	10.3	-0.3	Complete
Contract Standing Orders	3	15	0.1	14.9	To commence Q3
<b>ANTI-FRAUD &amp; CORRUPTION</b>					
NFI	All	30	11.7	18.3	ongoing
System Interrogations	Any	10	1.8	8.2	ongoing
Fraud Awareness / Bulletins	All	5	2.3	2.7	ongoing
<b>KEY BUSINESS SYSTEMS</b>					
Maintenance Inspection Regimes	1	30	5.4	24.6	In progress work postponed to Q3
<b>COMPUTER AUDIT</b>					
Government Connect (Version 4.1)	3/4	15	0.0	15	To commence Q3/4
ICT Framework	3	15	0.0	15	To commence Q3
<b>FINANCIAL SYSTEMS</b>					
Key Systems Review (ISA)	3	40	0.7	39.3	To commence Q3
Asset Management	1	20	19.5	0.5	In progress
Estates	2	15	0.0	15.0	Not started
<b>KEY OPERATIONS</b>					
Refuse Collection / Recycling Contract	1	15	15.0	0.0	Complete
Housing (Home Improvement Agency)	3	20	0.0	20.0	To commence Q3
Housing (Low Cost Housing)	2	20	3.5	16.5	In progress
Review of Planning Processes	2	15	8.0	7.0	In progress
Review of Neighbourhood working	3	20	0.2	19.8	To commence Q3
<b>GENERAL AREAS</b>					
Irregularities	Any	20	2.4	17.6	ongoing
Post Audit Reviews	All	30	5.1	24.9	Ongoing
Residual Work from 2009/10	1	28	40.1	-12.1	All 09/10 Reviews now complete
Unplanned Reviews (Contingency)	Any	20	8.1	11.9	ongoing
Project Support	All	15	1.5	13.5	ongoing
Audit Committee Reporting and Training	All	25	14.4	10.6	ongoing
<b>SUB-TOTAL</b>		<b>485</b>	<b>182.3</b>	<b>302.7</b>	

## APPENDIX 2

### SUMMARY OF INTERNAL AUDIT ACTIVITY APRIL 2010– JULY 2010

	<b>AUDIT AREA</b>	<b>AUDIT INPUT</b>	<b>CONTROLS RATING</b>	<b>KEY CONTROL ISSUES</b>
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<b>1.</b>	<b>SHARED SERVICES</b>			
	All reviews to be undertaken in Quarters 2 & 4			

<b>2.</b>	<b>CORPORATE GOVERNANCE</b>			
	External Inspection (CPA, 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.
	Service 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 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 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.	To date, only minor issues have been identified. Work now complete.

	<b>AUDIT</b>	<b>AUDIT</b>	<b>CONTROLS</b>	<b>KEY CONTROL</b>
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	AREA	INPUT	RATING	ISSUES
3.	<b>ANTI-FRAUD &amp; CORRUPTION</b>			
	National Fraud Initiative (NFI)	<p>1. Ongoing monitoring of the results from the 2008/09 exercise.</p> <p>2. The results of the Council Tax / Single Person Discount (SPD) exercise 2009 were issued to the Revenues Manager for investigation.</p> <p>3. Co-ordination of the Council's input to the Main 2010 national exercise in October 2010. This includes: Benefits, Payroll, Creditors, Concessionary Travel, Taxi Licenses and Licenses to supply alcohol, Market Traders and Insurance claims data. A briefing session for all data holders was held in July 2010.</p>	Not applicable to this item.	<p>1, As a result of the 2008/09 exercise 5 benefit fraud cases were identified; the total benefit overpayment amounts to £83k. A prosecution case was heard in June 2010; the claimant was found guilty and received a 2 years conditional discharge sentence. A further prosecution case heard in August, is likely to result in a custodial sentence. Several other cases are currently under investigation.</p> <p>2. The initial review stage of the Council Tax/SPD exercise 2009 is complete. The SPD review letters were sent out on 25<sup>th</sup> June 2010 and reminders issued 20<sup>th</sup> July 2010. Responses will be reviewed and investigated where necessary. Where claimants have not responded, the SPD will be automatically cancelled.</p>
	Systems Interrogations	Using IDEA software, current Council Tax records were matched to a report generated from the NFI data, to remove cases where a change of circumstances had already been notified and Single Person Discount had already ceased.	Not applicable to this item.	This resulted in a reduction of 344 (approx 24%) fewer matches requiring investigation by the Council Tax section.
	Fraud Awareness/Bulletins	Two Fraud Bulletins have been placed on the Loop to highlight specific fraud risks.	Not applicable to this item.	Ongoing

	AUDIT	AUDIT	CONTROLS	KEY CONTROL
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	<b>AREA</b>	<b>INPUT</b>	<b>RATING</b>	<b>ISSUES</b>
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<b>4.</b>	<b>KEY BUSINESS SYSTEMS</b>			
	Maintenance Inspection Regimes.	To provide assurance that the Maintenance Regimes in place in respect of buildings, infrastructure, pathways and trees are adequate and effective.	Not yet available.	Work postponed until Q3 as maintenance schedules have only recently been put in place in respect of trees, and are in the process of being put in place in respect of pathways/infrastructure and memorials.

<b>5</b>	<b>COMPUTER AUDIT</b>			
	All reviews to be undertaken in Quarter 3			

<b>6.</b>	<b>FINANCIAL SYSTEMS</b>			
	Key System Reviews- Benefits, Debtors, Council Tax and NNDR All reviews to be undertaken in Quarters 3 & 4.			
	Asset Management	To ascertain whether the Council manages its assets effectively to help deliver strategic priorities and service needs	Not yet available.	Work in Progress
	Estates. Work to commence in Quarter 3 or 4.			
	<b>AUDIT AREA</b>	<b>AUDIT INPUT</b>	<b>CONTROLS RATING</b>	<b>KEY CONTROL ISSUES</b>

<b>7.</b>	<b>KEY OPERATIONS</b>			
	Refuse Collection/Recycling Contract.	To provide assurance that the contract for the provision of the Council's refuse and recycling collection service is adequately and effectively managed and monitored	Substantial	No control weaknesses identified
	Housing (Home Improvement Agency) Review to be commenced in Quarter 3			
	Housing (Low Cost Housing)	To provide assurance that the controls in place within the administration for Low Cost Housing provision are adequate and effective and that exposure to risk is minimised	Not yet available.	Work in Progress
	Review of Planning Processes.	To provide assurance that internal controls in respect of the use of S106 monies for play and recreation fund schemes and controls over the planning fee collection process are adequate and effective	Not yet available.	Work in Progress
	Neighbourhood Working. Review to commence in quarter 3.			

	<b>AUDIT AREA</b>	<b>AUDIT INPUT</b>	<b>CONTROLS RATING</b>	<b>KEY CONTROL ISSUES</b>
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<b>8. GENERAL AREAS</b>				
<b>Post Audit Reviews</b>				
Formal follow-up reviews of: Licensing; Framework for Partnership Working; E-claims; Control of Cash; Debt Management; ICT Security; Budget Setting and Control, Whistle Blowing, Markets, Neighbourhood Assets, Transport and Car Parking.	All report are followed up on an ongoing basis when the date for implementation of the management action falls due.  The majority of the management actions have been put in place and the remainder have been given revised dates for implementation.			
<b>Residual Work from 2009/10</b>				
Cash and Bank	To verify that the controls in place for the Cash and Bank system are adequate and operating effectively.	Limited		Recommendations were made to improve the post opening procedures and to issue corporate guidance in respect of receipt of postal income
Creditors	To verify that the controls in place for the Creditor system are adequate and operating effectively.	Adequate		A recommendation was made to ensure that changes to creditor details including bank account details are actioned only on receipt of written instructions from the creditor/supplier.
Risk Management	To establish that Risk Management is embedded throughout the Authority.	Adequate		Risk Management documents are currently being updated. Recommendations were made to improve Risk Management in respect of Partnerships

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<b>8.</b>	<b>GENERAL AREAS (Cont'd)</b>			
	<b>Unplanned Reviews</b>			
	Insurance Certificates and Driving Licenses (09/10)	Review of procedures in respect of checks of insurance and driving licenses for officers and members (09/10 work).	Adequate	Recommendations were made to improve guidance in respect of annual checks and to improve processes to ensure these checks take place
	Mayor's Charity	Full review of accounting processes for the Mayor's Charity.	Not yet available.	Work in Progress

**KEY TO CONTROL RATINGS**

<b>Substantial</b>	The Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.
<b>Adequate</b>	The Authority can place only partial reliance on the controls. Some control issues need to be resolved.
<b>Limited</b>	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.

Internal Audit Performance Indicator Table – As At 30<sup>th</sup> July 2010

	Local Performance Indicators	Target 10/11	Target To Date	Actual to Date	Comments
1	% of planned time used.	90%	30%	37.6%	Target exceeded
2	% audit plan completed	92%	31%	28%	Slightly off target. One Audit nearing completion.
3	% management actions agreed	97%	97%	98.5%	Target exceeded
4	% of agreed management actions (MAs) implemented	Priority 1 100%	Priority 1 100%	Priority 1 68%	Priority 1 - 34 out of 50 MAs due for implementation are now implemented.
		Priority 2 80%	Priority 2 80%	Priority 2 69%	Priority 2 - 20 out of 29 MAs due for implementation are now implemented.
					Revised dates have been agreed for all outstanding MAs.
5	% of agreed management actions implemented within agreed timescales	Priority 1 100	Priority 1 100	Priority 1 71%	Priority 1 – 24 out of 34 implemented on time.
		Priority 2 80	Priority 2 80	Priority 2 80%	Priority 2 – Target achieved

6	% overall customer satisfaction rating (assignment level)	96%	96%	91%	Based on 9 completed satisfaction surveys.
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**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 Governance 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 Governance Committee.