

Report of	Meeting	Date
Head of Shared Assurance Services	Audit Committee	30 June 2011

INTERNAL AUDIT ANNUAL REPORT 2010/11

PURPOSES OF REPORT

1. To summarise the work undertaken by the Internal Audit Service during the 2010/11 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 2010/11 be noted.

EXECUTIVE SUMMARY OF REPORT

5. The report demonstrates the successful delivery of the 2010/11 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

Strong Family Support		Education and Jobs	
Being Healthy		Pride in Quality Homes and Clean Neighborhoods	
Safe Respectful Communities		Quality Community Services and Spaces	
Vibrant Local Economy		Thriving Town Centre, Local Attractions and Villages	
A Council that is a consistently Top Performing Organisation and Delivers Excellent Value for Money			x

INTERNAL AUDIT OPINION

7. **Appendix 1** to this report provides a summary of the audit work that was undertaken in respect of the 2010/11 Internal Audit Plans for Chorley Borough Council and Shared Services as at 31st March 2011.
8. Members will note that whilst the vast majority of reviews were completed on time, some work was carried forward or deferred into the first quarter of 2011/12 in respect of the Shared Services Plan. This is largely due to a high amount of unplanned work carried out and the review of Asset Management exceeding the planned days due to additional work carried out.
9. A detailed schedule of the Internal Audit work undertaken during 2010/11 is shown at **Appendix 2**. This gives individual opinions on the adequacy of control for each of the areas audited during the year.
10. 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.

KEY PERFORMANCE INDICATORS

11. The tables at **Appendix 3** set out the key performance data for the Internal Audit Service during 2010/11. These indicate that overall the Service's performance was around or above target and in some cases targets have been exceeded.
12. There are 3 areas where performance is below target and these require further explanation:

% of planned time used & % audit plan completed (Shared Services only)

Actual out-turns of 68% and 43% against targets of 90% and 92% respectively have already been explained above in that some audit work was carried forward or deferred to the first quarter of 2011/12.

However as these audits were at draft report stage at the end of March they were unable to be counted as completed for the purpose of this indicator. These audits have now been finalised.

Members should also note that 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.

% of agreed management actions implemented

For **priority 1** there are actual out-turns of 68% (CBC) and 68% (SS) against a target of 100%. For **priority 2** there is an actual out-turn of 70% (CBC) against a target of 80%.

There are some mitigating reasons for these including a vacant Head of Service post which has delayed implementations but in overall terms it is an area requiring improvement. We will therefore be reporting this information by individual service area to Audit Committee throughout 2011/12 in order to secure greater prioritisation and ownership by the managers concerned.

% overall customer satisfaction rating (assignment level)

An actual out-turn of 91% (CBC) and 86% (SS) against a target of 96% was achieved. All of the completed surveys have been analysed and whilst these are below target, no underlying trends or concerns were identified.

SERVICE IMPROVEMENTS

13. In addition to delivering the Annual Audit Plan and KPI's, Internal Audit continually seeks to improve the quality of its services. The following represent key service improvements which were contained within the Shared Assurance Service Business Improvement Plan (BIP) for 2010/11.

ISO 9001:2008

In February 2011, Internal Audit retained ISO 9001 accreditation. This is a significant achievement for the Service and demonstrates how well the Team continues to adapt to merged working practices and processes following the implementation of the Shared Service Partnership.

IDEA Interrogation Software

We have added to the repertoire of existing interrogation programmes and reports to assist in the detection of irregularities

Shared Services' Customers Survey

A customer survey of the Shared Services' Partnership was undertaken in 2010. The results of which were encouraging with Internal Audit receiving an overall customer satisfaction rating of 78% from respondents at Chorley.

Staff Development

In terms of staff development, three members of the Team were successful in their Institute of Internal Auditor examinations during the year and will continue to work towards completing the qualification. In addition, the Service Manager successfully completed the Leadership Development Programme.

REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

14. 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.
15. The Council's External Auditors conduct a detailed review of Internal Audit on a triennial basis. The latest CIPFA (Chartered Institute of Public Finance & Accountancy) Code of Practice for Internal Audit in Local Government contains a self assessment checklist for the same purpose.
16. 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.
17. We have received feedback from the Audit Commission that no significant issues were identified during the review of Internal Audit.

18. 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 Director.
19. Directors have provided evidence where they have obtained independent sources of assurance for their service, for example: the ISO 9001:2008 accreditation for Environmental Health and Neighbourhood Services. Internal Audit has collated this evidence and it supports our overall opinion that the Council continues to operate within a strong control environment.

IMPLICATIONS OF THE REPORT

20. 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	2011	SHARED ASSURANCE SERVICES	SOUTH RIBBLE BOROUGH COUNCIL
CIPFA Code of Practice for Internal Audit in Local Government in the UK	2006		
CIPFA and SOLACE - Good Governance in Local Government: A Framework	2006		

Report Authors	Ext	Date	Doc ID
Clare Ware Jan Minchinton	(01772) 625249 (01257) 515468	15/6/11	Annual Report10-11.doc

APPENDIX 1 – REVISED INTERNAL AUDIT PLAN 2010/11 AS AT 31 MARCH 2011.

Audit Areas	Qtr	Plan	Actual	Bal	Status
SHARED SERVICES					
Capital	2	20	15.5	4.5	Work in Progress- completed Q1 11/12.
Main Accounting / General Ledger	4	20	13.4	6.6	Work in Progress- completed Q1 11/12.
Cash and Bank	4	20	23.8	-3.8	Work in progress-completed Q1 11/12
Creditors	4	20	0.9	19.1	Deferred to Q1-completed Q1 11/12
Payroll	4	20	12.9	7.1	Work in progress-completed Q1 11/12
Treasury Management	4	15	16.0	-0.1	Complete.
Project Support / General Controls Advice	All	20	8.8	11.2	Complete
SUB-TOTAL		135	91.3	43.7	
CHORLEY					
CORPORATE GOVERNANCE					
External Inspections (CAA, UofR)	1	20	20.1	-0.1	Complete
Service Assurance Statements	1	12	11.8	0.2	Complete
Efficiencies	2	20	3.3	16.7	Postponed pending confirmation of External Audit's approach to their VFM conclusion.
Data Quality National Indicators	All	10	10.3	-0.3	Complete
Contract Standing Orders	3	15	15.9	-0.9	Complete
ANTI-FRAUD & CORRUPTION					
NFI	All	30	35.2	-5.2	Complete
System Interrogations	Any	6	2.8	3.2	Complete
Fraud Awareness / Bulletins	All	5	5.5	-0.5	Complete
KEY BUSINESS SYSTEMS					
Maintenance Inspection Regimes	1	5	5.4	-0.4	Work deferred until 2011/12.
COMPUTER AUDIT					
ICT Framework	3	15	2.6	12.4	Work deferred until 2011/12
FINANCIAL SYSTEMS					
Key Systems Review (ISA)	3	40	39.6	0.4	Complete
Asset Management	1	29	44.2	-15.2	Draft report under review
KEY OPERATIONS					
Refuse Collection / Recycling Contract	1	15	16.3	-1.3	Complete
Housing (Home Improvement Agency)	3	20	12.5	7.5	Work in progress-completed Q1 11/12
Housing (Low Cost Housing)	2	20	20.2	-0.2	Complete
Review of Planning Processes	2	18	23.2	-5.2	Complete
Fees and Charges Audit	2	13	13.9	-0.9	Complete
GENERAL AREAS					
Irregularities	Any	20	2.4	17.6	Complete
Post Audit Reviews	All	22	23.9	-1.9	Complete
Residual Work from 2009/10	1	47	49.8	-2.8	All 09/10 Reviews now complete
Unplanned Reviews (Contingency)	Any	20	42.7	-22.7	Complete
Project Support	All	10	1.7	8.3	Complete
Audit Committee Reporting and Training	All	25	27.1	-2.1	Complete
SUB-TOTAL		437	430.4	6.6	

SUMMARY OF INTERNAL AUDIT ACTIVITY 2010/11

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
1.	SHARED SERVICES			
	Capital	To ascertain whether effective arrangements are in place to ensure the Council will be able to comply with the new International Financial Reporting Standards (IFRS) for Capital Accounting.	Substantial (Draft) as at 31 st March 2011.	A number of issues were identified which will be addressed as part of the accounts close down procedure.
	Main Accounting & General Ledger	To verify that controls in place in respect of the main accounting/budget monitoring system are adequate and operating effectively	Adequate (Draft) as at 31 st March 2011.	Recommendations were made to improve the virement process; to ensure sign off of budgets and year end reports and review and update procedures.
	Cash and Bank	To verify that controls in place in respect of the cash and bank system are adequate and operating effectively.	Adequate (Draft) as at 31 st March 2011.	Recommendations are on going in respect of the post opening procedures. Further recommendations have been put in place regarding retention of receipt books.
	Payroll	To verify that controls in place in respect of the payroll system are adequate and operating effectively	Adequate (Draft) as at 31 st March 2011.	Recommendations made in respect of improving Leaver procedures and casual workers input into Vision.
	Treasury Management	To verify that controls in place in respect of treasury management are adequate and operating effectively	Substantial.	No control weaknesses identified.
	Projects & General Controls Advice.	Ongoing support was provided to the New financial system.	N/A	N/A

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	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
2.	CORPORATE GOVERNANCE			
	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. Internal Audit input no longer required following the abolition of Comprehensive Area Assessments. Data Quality will be considered during Audit reviews.	Not applicable to this item. Proactive input provided rather than an audit / review.	Only minor issues have been identified.
	Contract Standing Orders.	To verify that controls in place in respect of purchasing are adequate and operating effectively.	Substantial.	No control weaknesses identified.

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	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
3.	ANTI-FRAUD & CORRUPTION			
	National Fraud Initiative (NFI)	<p>1. Ongoing monitoring of the results from the 2008/09 exercise.</p> <p>2. On-going monitoring of the results from the 2009/10 council Tax/Electoral Register Exercise.</p> <p>3. Co-ordination of the Council's input to the main 2010/11 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. Investigations of the 2008/09 exercise are nearing completion and to date have identified overpayments of housing benefit and council tax benefit of £83K.</p> <p>2. Investigations are ongoing and have to date identified £43K of inapplicable single person discounts for which recovery is ongoing.</p> <p>3. Results were received in February 2011. Investigation of the relevant matches is currently underway.</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	Fraud Bulletins have been placed on the Loop to highlight specific fraud risks.	Not applicable to this item.	Not applicable to this item.

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	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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4.	FINANCIAL SYSTEMS			
	Key System Reviews- Debtors, Benefits, Council Tax and NNDR.	To verify that controls in place in respect of the debtors, benefits and Council Tax and NNDR system are adequate and operating effectively	Substantial.	No control weaknesses identified.
	Asset Management	To ascertain whether the Council manages its assets effectively to help deliver strategic priorities and service needs	Adequate	Work in progress. The council maximises the use of it's asset base however some plans and policies need to be finalised and Health and Safety administrative procedures improved.

5.	KEY OPERATIONS			
	Refuse Collection/Recycling Contract.	To provide assurance that the contract for the provision of the Council's refuse collection and recycling service is adequately and effectively managed and monitored	Substantial	No control weaknesses identified
	Housing (Home Improvement Agency)	To ensure that adequate controls are in place to ensure that Disabled Facilities; Minor Repair and Energy Efficiency grants are correctly awarded.	Substantial (Draft) as at 31 st March.	No control weaknesses identified
	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	Adequate.	Only minor issues identified. The 'low cost housing scheme resale procedure' is still at draft stage and needs to be reviewed and finalised. Some data protection issues to be resolved.

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	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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5.	KEY OPERATIONS (Cont'd)			
	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.	Adequate	Only minor issues identified. Some procedures need to be put in place.
	Fees and Charges Review.	This review was carried out for the Head of Shared Financial Services to identify areas where the council could increase its income stream by amending or introducing charges for services.	Not applicable. A spreadsheet detailing areas where charges could be increased or introduced was passed to the head of Shared Financial Services for consideration by councillors.	N/A

6.	GENERAL AREAS			
	Post Audit Reviews			
	Follow-up reviews of: Licensing; Framework for Partnership Working; E-claims; Control of Cash; Debt Management; ICT Security; Budgetary Control, Whistle Blowing, Markets, Neighbourhood Assets, Transport, Car Parking; Freedom of Information and Data Protection; Mayor's Charity: Cash and Bank; Low Cost Housing and Planning.	All reports 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.	N/A	N/A

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	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
6.	GENERAL AREAS (Cont'd)			
	Residual Work from 2009/10			
	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 being updated. Recommendations were made to improve Risk Management in respect of Partnerships
	Unplanned Reviews			
	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.	Adequate	Only minor issues identified. Some recommendations made to improve controls over income collection and security.
	Irregularities			
	Astley Hall	Investigation into income collection at Astley Hall.	N/A	Audit are working with the Manager for Astley Hall to ensure that adequate controls are in place in respect of income collection.

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.

Chorley Borough Council - Internal Audit Performance Indicator Table – As At 31st March 2011

	Local Performance Indicators	Target 10/11	Target To Date	Actual to Date	Comments
1	% of planned time used.	90%	90%	98.5%	Target exceeded
2	% audit plan completed	92%	92%	92%	On target.
3	% management actions agreed	97%	97%	99%	Target exceeded
4	% of agreed management actions (MAs) implemented	Priority 1 100 Priority 2 80	Priority 1 100 Priority 2 80	Priority 1 68% Priority 2 70%	52 out of 77 actions due for implementation are now implemented. Revised dates have been agreed for 25 outstanding MAs. 38 out of 54 actions due for implementation are now implemented. Revised dates have been agreed for 16 outstanding MAs.

5	% of agreed management actions implemented within agreed timescales	Priority 1 100 Priority 2 80	Priority 1 100 Priority 2 80	Priority 1 56% Priority 2 81%	29 out of 52 actions implemented on time. Target exceeded.
6	% overall customer satisfaction rating (assignment level)	96%	96%	91%	Based on 14 completed surveys.

Shared Services - Performance Indicator Table – As At 31st March 2011

	Local Performance Indicators	Target 10/11	Target to date	Actual to Date	Comments
1	% of planned time used	90%	90%	68%	Some reviews carried forward into 2011/12.
2	% audit plan completed	92%	92%	43%	Some reviews carried forward into 2011/12.
3	% management actions agreed	97%	97%	100%	Target exceeded.

4	% of agreed management actions implemented.	Priority 1 100	Priority 1 100	Priority 1 68%	21 out of 31 actions due for implementation are now implemented. Revised dates have been agreed for 10 outstanding MAs.
		Priority 2 80	Priority 2 80	Priority 2 82%	Target exceeded
5	Of the agreed management actions implemented – the % implemented on time	Priority 1 100	Priority 1 100	Priority 1 95%	20 out of 21 MAs have been implemented on time.
		Priority 2 80	Priority 2 80	Priority 2 86%	Target exceeded
6	% overall customer satisfaction rating (assignment level)	96%	96%	86%	Based on 6 completed satisfaction surveys

Priority 1 actions are considered essential as they impact significantly on the Council's system of governance and internal control. 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.