

Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	28 th June 2012

INTERNAL AUDIT ANNUAL REPORT 2011/12

PURPOSES OF REPORT

1. To summarise the work undertaken by the Internal Audit Service during the 2011/12 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 2011/12 be noted.

EXECUTIVE SUMMARY OF REPORT

5. The report demonstrates the successful delivery of the 2011/12 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.

Confidential report	Yes	No

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 PLANS

7. **Appendix 1** to this report provides a summary of the audit work that was undertaken in respect of the 2011/12 Internal Audit Plans for Chorley Borough Council and Shared Services as at 31st March 2012.
8. Members should note that both Audit Plans were in the main successfully completed. Two pieces of Computer Audit work were completed in the first quarter of 2012/13 due to staff sickness and pressing work demands in ICT and Transactional Services in the final quarter of 2011/12. These reports are now being finalised. The Transport Audit which was 'work in progress' as at 31st March has also now been completed.
9. 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

10. A detailed schedule of Internal Audit work undertaken during 2011/2012 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.
11. **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.**
12. Four out of fourteen reviews have been given a limited rating. In the case of two of the reviews, Astley Hall (reported to Committee 19th January 2012) and Neighbourhoods, all management actions have now been fully implemented. In the case of the Maintenance Inspection Regimes and Information Security Framework Audits, all management actions have been agreed and steps have already been taken to make improvements in these areas.
13. **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

14. The table at **Appendix 3** sets out and summarises the key performance data for the Internal Audit Service during 2011/12. This indicates that the majority of indicators are on or above target. It is particularly pleasing to report that the average customer satisfaction for Chorley and Shared Services is 91%.
15. Four areas varied significantly from the agreed targets and therefore explanations are provided below:

% of planned time used & (Shared Services only)

Input to Shared Services' audits required 27 days (11%) more than originally planned.

% of audit plan complete (CBC only)

The out-turn of 86% against a target of 92% respectively has already been explained above in that some audit work was carried forward or deferred to the first quarter of 2012/13.

% of management actions implemented

Actual out-turns of 88% (CBC) and 78% (Shared Services) against a target of 100% were achieved. Of the 146 agreed management actions for both CBC and Shared Services; 123 (84%) have been fully implemented; we have agreed a revised deadline for the remaining 23 (16%).

% of agreed management actions implemented on time

Actual out-turns of 52% (CBC) and 36% (SS) against a target of 100% were achieved. Of the 123 Management actions agreed, 58 (47%) were implemented on time. The remaining 65 (53%) were implemented later than originally agreed.

16. Members will be aware that these indicators are largely outside the gift of Internal Audit to control as the responsibility for implementing agreed actions lies with service managers. Moreover as the target is 100% a degree of under achievement is almost inevitable. Nevertheless the indicators for eventual implementation are strong and demonstrate an improvement on those reported to members for 2010/11. The “implemented on time indicators” are low but are historical in nature and are largely due to organisational and system changes which necessitated putting some actions on hold. These have since been addressed and are reflected in the higher percentile figures for eventual implementation.

ADDING VALUE

17. 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 and identify efficiencies wherever possible. This is particularly important in the current financial climate.
18. One example of where we have added value during 2011/12 is in relation to the Astley Hall audit which identified unpaid service charges by the cafe operating in the park since the lease commenced in April 2009, totalling over £20,000 for the financial years 2009/10 and 2010/11. This resulted in a Sundry Debtor invoice being raised for the outstanding amount.

SERVICE IMPROVEMENTS

19. The following represent key service improvements which were contained within the Shared Assurance Service’s Business Improvement Plan (BIP) for 2011/12.

Audit Assignment Process

Following a review of the audit procedures a new monitoring process, to ensure Management Actions are implemented, was introduced. This has significantly improved our efficiency and has had a positive effect on senior management.

ISO 9001:2008

In February 2012, Internal Audit retained ISO 9001 accreditation. The Quality System is amended to reflect any changes in working practises and the retention of the Standard demonstrates that the Team continues to seek improved and more efficient working practises and strives to maintain a high quality service.

Governance Policies/Strategies

Internal Audit produced a new Anti-Fraud Response Plan and updated the Anti-Fraud and Corruption Strategy; both were approved by this Committee in March 2012.

IDEA Interrogation Software

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

OTHER ACHIEVEMENTS

20. We would also like bring the following significant developments to members' attention:

Staff Development

Four members of the Audit Team were successful in their Institute of Internal Auditor examinations; two of whom now hold the Diploma in Internal Audit, whilst two hope to complete their studies in the near future.

External Contract

In 2011, Internal Audit was approached by St. Catherine's Hospice who wished to procure Internal Audit Services. A formal agreement has been signed for the provision of a small number of days in which the resulting income will provide a contribution towards the cost of the service.

ANNUAL REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

21. 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.
22. 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.
23. Directors / Heads of Service have provided evidence where they have obtained independent sources of assurance for their service. Examples of these include: the North West Development Agency and European Audit's approval for the Business Start-Up Programme; ISO9000:2008 for the Streetscape and Leisure Service; independent inspection of council vehicles by the Freight Transport Association.
24. Internal Audit has collated this evidence and it supports our overall opinion that the Council continues to operate within a strong control environment.
25. In addition, the Internal Audit Service undertook a self-assessment of its compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006 and has concluded that the Service complies with all aspects of the Code.

IMPLICATIONS OF THE REPORT

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

Finance		Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area	x	Policy and Communications	

GARRY BARCLAY
HEAD OF SHARED ASSURANCE SERVICES

Background Papers			
Document	Date	File	Place of Inspection
Internal Audit Plan Internal Audit Plan Risk Assessment	2011/12	Shared Assurance Services	Civic Centre Leyland

Report Authors	Ext	Date	Doc ID
Clare Ware Jan Minchinton	(01772) 625249 (01772) 625251	15/6/12	Annual Report 11-12.doc

APPENDIX 1 – INTERNAL AUDIT PLAN 2011/12 AS AT 31 MARCH 2012

Audit	Plan	Actual	Balance
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Areas	(days)	(days)	(days)
SHARED SERVICES			
Finance			
Main Accounting Systems	20	20.7	-0.7
Creditors	20	18.1	1.9
Payroll	20	22.2	-2.2
Treasury Management	15	16.1	-1.1
Cash and Bank	20	23.5	-3.5
Travel and Subsistence	15	9.9	5.1
Revenues and Benefits			
Council Tax	15	13.4	1.6
Non Domestic Rates	15	12.6	2.4
Housing and Council Tax Benefit	15	21.2	-6.2
Debtors	20	29.3	-9.3
Assurance			
Emergency Planning and Business Continuity	20	34.5	-14.5
General Areas			
Residual work from 2010/11	20	33.0	-13.0
Post Audit Reviews (Follow-up work)	15	8.9	6.1
Unplanned Reviews / Contingency	10	3.4	6.6
SUB-TOTAL	245	271.8	-26.8
CHORLEY			
CORPORATE AREAS			
Annual Governance Statements	15	9.7	5.3
Anti-Fraud and Corruption	15	16.1	-1.1
NFI	30	32.6	-2.6
System's Interrogation	10	3.0	7.0
PARTNERSHIPS PLANNING & POLICY			
Performance Management/PIs/Data Quality	15	6.8	8.2
Building Control	10	10.8	-0.8
Land Charges	10	10.0	0.0
TRANSFORMATION			
Health and Safety	10	11.2	-1.2
Disaster Recovery	10	11.6	-1.6
Government Connect (penetration testing)	5	1.9	3.1
Estates	15	18.1	-3.1
Maintenance Inspection Regimes	20	26.2	-6.2
PEOPLE AND PLACES			
Licensing	15	15.9	-0.9
Car Parks	10	11.8	-1.8
Indoor / Outdoor Leisure Contract	10	10.1	-0.1
Astley Hall	15	18.2	-3.2
Transport	20	4.3	15.7

Audit Areas	Plan (days)	Actual (days)	Balance (days)
CHORLEY (Continued)			

GENERAL AREAS			
Irregularities	20	18.7	1.3
Post Audit Reviews	15	11.0	4.0
Residual Work from 2010/11	25	51.2	-26.2
Unplanned Reviews (Contingency)	20	8.5	11.5
Audit Committee Reporting and Training	20	19.0	1.0
SUB-TOTAL	335	326.7	8.3

APPENDIX 2 - SUMMARY OF INTERNAL AUDIT ACTIVITY 2011/12

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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1.	SHARED SERVICES			
	Finance			
	Main Accounting system.	To review the adequacy of the key controls in the Council's main financial systems. This comprised of a 2 stage process – a report following system documentation in quarter 2 and a further report following controls evaluation and testing in quarter 4.	Adequate (Draft)	Management actions have been made that the systems reports should be reviewed by the Systems Team to ensure that all amendments are accurate and appropriate and that quarterly random sampling of reconciliations should take place.
	Creditors		Adequate (Draft)	Management actions have been made to improve controls in relation to amendments to creditor standing data and authorisations of payment runs.
	Payroll		Substantial (Draft)	No key control issues identified.
	Treasury Management		Substantial (Draft)	No key control issues identified.
	Cash and Bank		Substantial (Draft)	No key control issues identified.
	Travel and Subsistence		Substantial (Draft)	No key control issues identified.

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
Revenues and Benefits			
Council Tax, Non Domestic Rates, Housing/Council Tax Benefit and Debtors.	To verify that controls in place in respect of the Council Tax, Non Domestic Rates, Housing/Council Tax Benefit and Debtors system are adequate and operating effectively	Substantial.	No key control issues identified.
Assurance			
Emergency Planning and Business Continuity.	A high level review of the overall arrangements established for Emergency Planning and Business Continuity was undertaken to ensure that statutory responsibilities are addressed.	Adequate.	Management actions were agreed that critical services need to be prioritised and a formal debrief should be developed as part of the Business Continuity arrangements and that further training should be provided for those officers with specific roles in implementing the Emergency Plan.
Residual Work from 2010/11			
Main Accounting	To verify that controls in place in respect of the main accounting/budget monitoring system are adequate and operating effectively	Adequate.	Management actions were made to improve the virement process; to ensure sign off of budgets and year end reports and review and update procedures.
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.	No key control issues identified.

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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	Cash and Bank	To verify that controls in place in respect of the cash and bank system are adequate and operating effectively.	Adequate.	Management actions were agreed in respect of the post opening procedures. Further recommendations have been put in place regarding retention of receipt books.
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	Creditors	To verify that controls in place in respect of the creditors system are adequate and operating effectively.	Substantial.	No key control issues identified.
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	Payroll	To verify that controls in place in respect of the payroll system are adequate and operating effectively.	Substantial	No key control issues identified.
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2.	CORPORATE AREAS			
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	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.
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	Anti-Fraud and Corruption.	A fraud awareness questionnaire has been placed on the Loop for completion by all officers and members. The Corporate Governance documents have also been updated and placed on the Loop. Fraud awareness bulletins are placed on the Loop and In the Know on a regular basis to highlight specific fraud risks.	Not applicable to this item. Proactive input provided rather than an audit / review	
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AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
National Fraud Initiative (NFI)	<p>1. Ongoing monitoring of the results from the 2010/11 exercise.</p> <p>2. Co-ordination of the Council's input to the Single Person Discount/Electoral Register 2011/12 exercise in October and December 2011.</p>	Not applicable to this item.	<p>1. Investigations of the 2010/11 exercise are nearing completion and the Revenues Team has, to date, identified overpayments of housing benefit and council tax benefit of £24K.</p> <p>2. The Benefits Enquiry Unit commenced investigations into matches from the 2011 exercise in May 2012.</p>
Systems Interrogations	Using IDEA software, financial payroll records were matched to the Human Resources establishment list, to determine that payments are only being made to staff currently on the establishment list.	Not applicable to this item.	No key control issues identified-payments only made to staff on the establishment list.
3. PARTNERSHIPS & PLANNING			
Building Control	To provide assurance that the controls in place within the Building Control Section are adequate and effective and that exposure to risk is minimised	Adequate	Management actions were agreed to update procedure notes, to update the income reconciliation spreadsheet and to introduce management checks on collection of inspection fees.
Land Charges	To provide assurance that the controls in place within the Land Charges section are adequate and effective and that exposure to risk is minimised	Adequate	Management actions were agreed to improve processes to verify receipt of BACS payments and improve procedural guidance.

AUDIT	AUDIT	CONTROLS	KEY CONTROL
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AREA	INPUT	RATING	ISSUES
4. TRANSFORMATION			
Performance Management / Performance Indicators and Data Quality.	Performance indicators were checked in respect of credit invoices paid in 30 days and street and environmental cleanliness.	Not applicable to this item.	No key control issues identified.
Health and safety	To provide assurance that the contract for the provision of Health and Safety services for the Council is adequately and effectively managed and monitored	Adequate	Management actions were agreed to update information on the Loop, improve recording of actions taken and ensuring that the Health and Safety Partnership follows the Framework for Partnership working.
Disaster Recovery.	A review of the ICT Disaster Recovery Planning to provide assurance that effective, tested Disaster Recovery Plans are in place.	Report in progress	Work to be completed in the first quarter of 2012/13.
Government Connect (penetration testing).	To assess the effectiveness of the control framework established by ICT Services to mitigate identified Information Security/Information Technology vulnerabilities.	Report in progress	Work to be completed in the first quarter of 2012/13.
Estates	To provide assurance that the controls in place within the Estates section are adequate and effective and that exposure to risk is minimised.	Adequate	Management actions were agreed for the documentation held by Liberator to be improved, for a void property inspection regime to be introduced and for communication to be improved between legal, finance, exchequer and Liberator by introducing quarterly meetings.

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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	Maintenance Inspection Regimes	To provide assurance that the controls in place within the Maintenance and Inspection Regime are adequate and effective and that exposure to risk is minimised.	Limited	Management actions were agreed that the Tree Inspection Policy be updated and that a more robust tree inspection programme be put in place using trained staff. that a Memorial Policy be introduced and that improvements be made to play equipment and car park inspections.
5.	PEOPLE AND PLACES			
	Licensing	To provide assurance that the contract for the provision of Health and Safety services for the Council is adequately and effectively managed and monitored	Adequate	Management actions were agreed that adequate training should be provided by the system provider, Civica; to appoint an internal Systems Administrator and that data cleansing should take place to ensure quality of data on the CBC web-site.
	Car Parks	To provide assurance that the controls in place for the administration of Car Parks are adequate and effective and that exposure to risk is minimised.	Substantial	No key control weaknesses identified.
	Indoor/Outdoor Leisure	To provide assurance that the controls in place in respect of the administration of the Indoor/Outdoor Leisure contracts are adequate and effective and that exposure to risk is minimised.	Adequate	Management actions were agreed to ensure that all legal documentation in respect of CBC and Active Nation and CBC and Glendale Managed Services Ltd., is up to date and that regular review of the joint risk register and business continuity plans for Active Nation take place.

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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	Astley Hall	To provide assurance that the controls in place with regards to bookings, income management and asset security are effective and that exposure to risk is minimised.	Limited	Management actions were agreed in respect of increasing income generation, collecting service charges, improving asset control and health and safety.
	Transport	To provide assurance that the controls in place within the Transport section are effective and that exposure to risk is minimised.	Substantial	Work in progress
6.	GENERAL AREAS			
	Irregularities			
	Neighbourhoods	An investigation was carried out which resulted in a full review of the operation of Neighbourhood Services.	Limited	Management actions were agreed that a review of the working practices of Neighbourhood Officers should be carried out that there should be more proactive monitoring of staff and that a performance monitoring regime should be introduced.
	Post Audit Reviews			
	Follow-up reviews of: Transport; Astley Hall; Indoor and Outdoor Leisure; Planning; Land Charges; Building Control; Licensing; Neighbourhoods; Low Cost Housing; The Home Improvement Agency; The Health and Safety Contract; Freedom of Information and Data Protection; The information Security Framework; Car Parks and Asset Management.	All reports are followed up three times a year. 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

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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	Residual Work from 2010/11			
	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	No key control weaknesses identified.
	Asset Management	To ascertain whether the Council manages its assets effectively to help deliver strategic priorities and service needs	Adequate	The council maximises the use of its asset base however, some issues have been identified relating to the asset management strategy, plans, health and safety administrative procedures and data quality that need to be addressed.
	Information Security Framework	To provide assurance that there are controls in place to ensure that the Information Security Framework is complied with.	Limited	Management actions were agreed; that the Information Security Framework should be reviewed; that the Information Management Forum should be re-constituted and that a training strategy and communications strategy be produced.

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 2012

	Indicator	Audit Plan	Target 2011/12	Actual 2011/12	Comments
1	% of planned time used	SS	100%	111%	Target exceeded
		CBC	100%	98%	On target
2	% audit plan completed	SS	92%	92%	Target achieved.
		CBC	92%	86%	Slightly below target - 3 pieces of work in progress at year-end.
3	% management actions agreed	SS	97%	100%	Target exceeded
		CBC	97%	99%	Target exceeded
4	% of agreed management actions implemented.	SS	100%	78%	39 out of 50 agreed management actions implemented 11 revised dates agreed.
		CBC	100%	88%	84 out of 96 management action implemented 12 revised dates agreed,
5	Of the agreed management actions implemented – % implemented on time	SS	100%	36%	14 of the 39 management actions implemented on time
		CBC	100%	52%	44 of the 84 management actions implemented on time
6	% overall customer satisfaction rating (assignment level)	SS	90%	89%	On target
		CBC	90%	93%	Target exceeded

SS = Shared Services

CBC = Chorley