

Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	27 June 2013

INTERNAL AUDIT ANNUAL REPORT 2012/13

PURPOSES OF REPORT

1. To summarise the work undertaken by the Internal Audit Service during the 2012/13 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 2012/13 be noted.

EXECUTIVE SUMMARY OF REPORT

5. The report demonstrates the successful delivery of the 2012/13 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
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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 2012/13 Internal Audit Plans for Chorley Borough Council and Shared Services as at 31st March 2013.
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 2012/2013 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. Five out of twenty six reviews have been given a limited rating. For each of these reviews, management actions have either been implemented in full (Penetration Testing) or are in progress (Disaster Recovery and Health and Safety – Lone Working). For the remaining reviews (Active Directory and ICT Service Management) short implementation timescales have been agreed.
12. **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

13. The table at **Appendix 3** sets out and summarises the key performance data for the Internal Audit Service during 2012/13. This indicates that the majority of indicators are on or above target.
14. Two areas varied significantly from the agreed targets and therefore explanations are provided below:

% of planned time used

15. A target of 459 (90%) productive auditor days was set across the 2 plans in 2012/13 and that actually delivered was 425 (84% for CBC and 81% for SS.) This is largely due to the in year departure of 2 senior audit personnel and the subsequent restructuring of the service.

The next indicator provides an explanation as to how this shortfall in resource impacted on planned audit work.

% of audit plan complete (CBC only)

16. 22 audit assignments were scheduled in 2012/13 of which 18 were completed. For various reasons, the remaining 4 were either no longer required or needed to be rescheduled for 2013/14 as follows:

Impact of Localism (not required)
Choice Based Lettings (not required)
Financial Regulations (rescheduled)
Data Quality (rescheduled)

This enabled us to absorb the shortfall in auditor days in 2012/13. Members are advised however that there was a surplus on the 2012/13 budget and those funds could have been

re-directed to procure additional auditor days from LCC had it been necessary to undertake any of the above audits during the year.

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. 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:

New Income Streams – this review not only introduced controls for a newly formed income stream but management actions were also agreed to generate additional income by improving publicity for the new planning services offered to the public.

Lone Working – as the health and safety service had only recently been brought back in-house, the review greatly assisted the newly appointed Advisor in re-launching the corporate system and procedures to reduce the risks associated with lone working.

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 638 matches requiring investigation and this was reduced by 209.

KEY ACHIEVEMENTS

18. The following are some of the key achievements by the Internal Audit Service in 2012/13:

ISO 9001:2008

19. In January 2013, 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

20. Two members of the Audit Team were successful in their Institute of Internal Auditor examinations. One member now holds the Diploma in Internal Audit, whilst the other hopes to complete their studies in the near future.

External Contract

21. During 2012/13 Internal Audit completed two reviews for St Catherine's Hospice, both of which received excellent customer feedback. This has resulted in the extension of the Internal Audit agreement into 2013/14.

ANNUAL REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

22. 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.
23. 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.

24. Directors / Heads of Service have provided evidence where they have obtained independent sources of assurance for their service. Examples of these include: ISO9000:2008 for the Streetscene and Leisure Service; independent inspection of council vehicles by the Freight Transport Association; Electoral Commission performance standards for electoral registrations and delivery of elections; Accreditation from SFEDI (Small Firms Enterprise Development Initiative)
25. Internal Audit has collated this evidence and it supports our overall opinion that the Council continues to operate within a strong control environment.
26. 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

27. 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	2012/13	Shared Assurance Services	Civic Centre Leyland

Report Authors	Ext	Date	Doc ID
Garry Barclay Dawn Highton	(01772) 625272 (01257) 515468	June 2013	Annual Report 12-13.doc

APPENDIX 1 – INTERNAL AUDIT PLAN 2012/13 AS AT 31 MARCH 2013

AUDIT AREAS	PLAN (Days)	ACTUAL (Days)	BALANCE (Days)
SHARED SERVICES			
FINANCE			
Main Accounting System	15	16.3	-1.3
Creditors	15	0	15
Payroll	20	0.3	19.7
Treasury Management	15	14.4	0.6
Cash & Bank / Cheque Control	20	18.4	1.6
REVENUES & BENEFITS			
Council Tax	15	15.7	-0.7
National Non Domestic Rates	15	13.8	1.2
Housing & Council Tax Benefits	15	14.6	0.4
Debtors	20	19.5	0.5
GENERAL			
Post Audit Reviews	10	5.1	4.9
Unplanned Reviews / Contingency	10	0	10
Residual Work from 2011/12	15	32.4	-17.4
TOTAL	185	150.5	34.5
CHORLEY			
CORPORATE AREAS			
Annual Governance Statement	15	12.6	2.4
Anti-Fraud & Corruption / Awareness	10	7.9	2.1
National Fraud Initiative (NFI)	30	29.9	0.1
System Interrogations	10	7.6	2.4
CSO's / Financial Regulations	5	0	5
PARTNERSHIPS & PLANNING			
Impact of Localism Act	10	0	10
Choice Based Lettings	20	0	20
Section 106 funding	10	14.5	-4.5
Community Infrastructure Levy	10	3.8	6.2
New Income Streams	10	12.3	-2.3
TRANSFORMATION			
Corporate Complaints	10	10.5	-0.5
Performance Man / Data Quality	5	2.5	2.5
Project Management Framework	5	5.7	-0.7
Win Time Recording System	15	15.7	-0.7
Health and Safety – Lone Working	5	11.9	-6.9
Active Directory	15	14.3	0.7
ICT Service Management	15	6	9
PEOPLE & PLACES			
Introduction of Mobile Working	10	21	-11
Housing Standards	5	3.6	1.4
Astley Hall	15	17.4	-2.4
Modernisation of Streetscene	5	2.8	2.2
Bereavement Services	15	10.4	4.6
GENERAL AREAS			
Irregularities (Contingency)	15	0	15
Post Audit Reviews	10	7.9	2.1
Residual Work from 2011/12	10	25	-15
Unplanned Reviews (Contingency)	15	7.4	7.6
Governance Committee	25	24.3	0.7
TOTAL	325	275	50

APPENDIX 2 - SUMMARY OF INTERNAL AUDIT ACTIVITY 2012/13

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	To review the adequacy of the key controls in the Council's main financial systems.	Substantial	No key control issues identified.
	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 systems are adequate and operating effectively.	Substantial.	No key control issues identified.
	Residual Work from 2011/12			
	Main Accounting	To review the adequacy of the key controls in the Council's main financial systems.	Adequate.	Management actions were agreed to improve controls relating to virement coding.
	Creditors		Substantial	No key control issues
	Payroll		Substantial	No key control issues
	Treasury Management		Substantial	No key control issues
	Cash and Bank		Substantial	No key control issues
	Travel and subsistence		Substantial	No key control issues
	Post Audit Reviews	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.	Not applicable	

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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 2011/12 Single Person Discount / Electoral Register exercise.</p> <p>2 Co-ordination of the Council's input to the main 2012/13 exercise in October 2012. This includes: Benefits, Payroll, Creditors, Taxi Licenses, Personal Licenses, Market Traders, Parking Permits (residents) and Insurance Claims data.</p>	Not applicable	<p>The exercise has to date identified £23,117 (69 cases) whereby Single Person Discount has been incorrectly awarded and is now in the process of being repaid to the Council.</p> <p>Results were received in February 2013. Investigation of the relevant matches is currently underway.</p>
Systems Interrogations	<p>1 A data matching exercise was undertaken to establish if any payments had been made to either employees or members through the creditors system which should have been processed through payroll.</p> <p>2 NFI reports were matched to current SPD claimants to identify any individuals who have already informed the Council that their circumstances have changed.</p>	<p>Substantial</p> <p>Not applicable</p>	<p>Although some payments had been made through creditors, they had justifiable explanations.</p> <p>The exercise identified 209 matches out of 638 (33%) which required no further investigation by the Benefits Investigation Officers.</p>

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	Partnerships & Planning			
	Section 106 funding	The purpose of this audit was to review the adequacy and effectiveness of the systems and processes operated by users for the control of Section 106 agreements.	Adequate	Several recommendations were agreed to further strengthen and improve the current processes namely; the development and distribution of comprehensive guidance notes; the updating and maintenance of the Section 106 register and the improvement of communication between Services including the re-introduction of the Section 106 monitoring group.
	Community Infrastructure Levy	Project team membership for the implementation and on – going monitoring.	Not applicable to this item.	Proactive input provided rather than an audit / review
	New Income Streams	The purpose of this audit was to review the new planning income streams to ensure that there are adequate arrangements in place for the identification, calculation, charging and collection of fees for the new income streams introduced in January 2012.	Adequate	Several recommendations were agreed to further strengthen the current processes including improved publicity of services offered and the introduction of regular reconciliations to ensure all income is captured.
	Transformation			
	Corporate Complaints	To establish that complaints received by the Council are handled effectively and to confirm that the processes in place comply with the Councils Corporate Complaints procedures.	Substantial	No key control issues identified
	Project Management Framework	The purpose of this review was to ensure that the Project Management Toolkit is being utilized for projects supporting the Corporate Strategy.	Adequate	Several areas were identified where minor changes could be made to strengthen and improve the current arrangements and appropriate recommendations were agreed for these.
	Win Time Recording System	The purpose of this review was to evaluate the adequacy and effectiveness of the corporate arrangements for the control and operation of the Council's Flexi Time system (Wintime).	Adequate	Several recommendations were agreed to improve the current arrangements including the monitoring of system access for Wintime users, excess credit and debit hours and an annual check on the volume and type of manual corrections on the Wintime system.

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	Health and Safety – Lone Working	The aim of the review was to give management assurance that there are robust arrangements in place and that there are adequate and effective monitoring procedures in place.	Limited	Management actions were agreed for both immediate and long term solutions to reduce the risk of possible serious consequences of lone working. These included awareness raising and improving the monitoring arrangements.
	Active Directory	The review focussed on the processes and procedures to create an effective network access control environment which protects access to information systems and assets.	Limited	Management actions were agreed to strengthen the current arrangements by: Reducing the amount of domain administrator accounts, improving the security of all administrative groups and accounts and password controls.
	ICT Service Management	The review focused on the Council's management and delivery of ICT services and referenced them against the best practice guidance and recommendations contained within ISO/IEC 20000.	Limited	Management actions were agreed to procure technical training and consultancy advice in order to fully utilise the System Centre suite of produces.
	People & Places			
	Introduction of Mobile Working	This review was undertaken to establish that the project objectives had been achieved, and that suitable project records had been maintained.	Adequate	Management actions were agreed to improve project monitoring arrangements and control at a corporate level and also to develop the mobile technology further and improve service area management processes.
	Housing Standards	This review of housing standards – enforcement actions and immigration inspections was undertaken to ensure that there are adequate arrangements in place for the identification, charging and collection of fees for these charges introduced in April 2012.	Substantial	No key control issues
	Astley Hall	The review was undertaken to provide assurance that there are robust procedures in place relating to income and records management and that they are operating effectively.	Adequate	Management actions were agreed to strengthen the terms and conditions of room hire and improve written procedures for cancellations to ensure that they are handled in a sensitive and timely manner.

	AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
	Modernisation of Street Scene	Streetscene Services have recently undergone a restructure. The aim of the review was to establish that the scheduled tasks processes and procedures had been clearly documented and that effective and efficient management and monitoring processes have been implemented.	Substantial	No key control issues
	Bereavement Services	The purpose of the review was to provide management with assurance that suitable system controls and procedures are in place with regards to the administration of bereavement services. Advice and support was provided to assist during the transfer of the service to Transactional Services.	Adequate	Some issues were identified and management actions agreed to improve supervision, maintenance of records, process for transferring burial rights, application of the memorial permit system and to assess burial process risks.
	General Areas			
	Post Audit Reviews	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.	Not applicable to this item	
	Residual Work from 2011/12			
	Disaster Recovery	This review was undertaken to provide assurance that effective and tested Disaster Recovery plans are in place.	Limited	Management actions were agreed to review, update and align the Disaster Recovery Strategy with the corporate business continuity plans, and to incorporate both telephony and printing arrangements into the Disaster Recovery plans.
	Penetration Testing	The objective of this review was to consider the effectiveness of the Council's processes to mitigate vulnerabilities identified during the penetration testing.	Limited	It was agreed to improve the action plan in order to provide assurance to management that vulnerabilities are being effectively managed.

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 2013

	Indicator	Audit Plan	Target 2012/13	Actual 2012/13	Comments
1	% of planned time used	SS	90%	81%	Slightly below target
		CBC	90%	84%	Slightly below target
2	% audit plan completed	SS	100%	100%	Target achieved
		CBC	100%	82%	2 reviews cancelled / 2 reviews deferred to 13/14
3	% management actions agreed	SS	98%	100%	Target exceeded
		CBC	98%	98%	Target achieved
4	% overall customer satisfaction rating (assignment level)	SS	90%	100%	Target exceeded
		CBC	90%	88%	Slightly below target

SS = Shared Services
 CBC = Chorley