

Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	24 <sup>th</sup> June 2015

## INTERNAL AUDIT ANNUAL REPORT 2014/15

### PURPOSES OF REPORT

1. To summarise the work undertaken by the Internal Audit Service during the 2014/15 financial year;
2. To give an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control;
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 2014/15 be noted.

### EXECUTIVE SUMMARY OF REPORT

5. The report demonstrates the successful delivery of the 2014/15 Internal Audit programme of work; the results of which provide members with assurance that the Council's governance, risk and control environment continues to be effective.

<b>Confidential report</b>	Yes	<b><u>No</u></b>
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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	<b>X</b>

## INTERNAL AUDIT PLANS

7. **Appendix 1** to this report provides a detailed account of the individual audits undertaken in respect of Chorley Council and Shared Services during the 2014/15 financial year. It shows the approach taken, the controls assurance rating that was awarded and a summary of any actions that have been agreed with management to further improve controls within all the areas audited.
8. The following tables also provide an analysis of the planned and actual auditor days used during the year together with an explanation of any variations that have occurred.

### ***Chorley Council***

	<b>Planned (Days)</b>	<b>Actual (Days)</b>	<b>Variance (Days)</b>
Audits undertaken	260	276	(16)
Audits not undertaken			
• Payroll Project	10	0	10
• Planning Income	5	0	5
Contingency	80	57	23
<b>TOTALS</b>	<b>355</b>	<b>333</b>	<b>22</b>

9. There was some variation between the planned and actual time spent on the audits undertaken as the individual estimates proved to be insufficient, resulting in a net deficit of 16 days over the course of the year.
10. With regard to audits not undertaken, the start of the Payroll Contract Review Project has been postponed and this will now be undertaken as part of the 2015/16 Internal Audit Plan to reflect our involvement during the coming year. The Planning Income audit was replaced by our on-going participation in the Single Front Office Project Team which includes an examination of the way in which Planning Income is collected.
11. There was some variation between the planned and actual time spent on contingency as the individual estimates proved to be excessive in practice, resulting in a net surplus of 23 days over the course of the year.

### ***Shared Financial Services***

	<b>Planned (Days)</b>	<b>Actual (Days)</b>	<b>Variance (Days)</b>
Audits undertaken	95	67	28
Audits not undertaken	0	0	0
Contingency	50	80	(30)
<b>TOTALS</b>	<b>145</b>	<b>147</b>	<b>(2)</b>

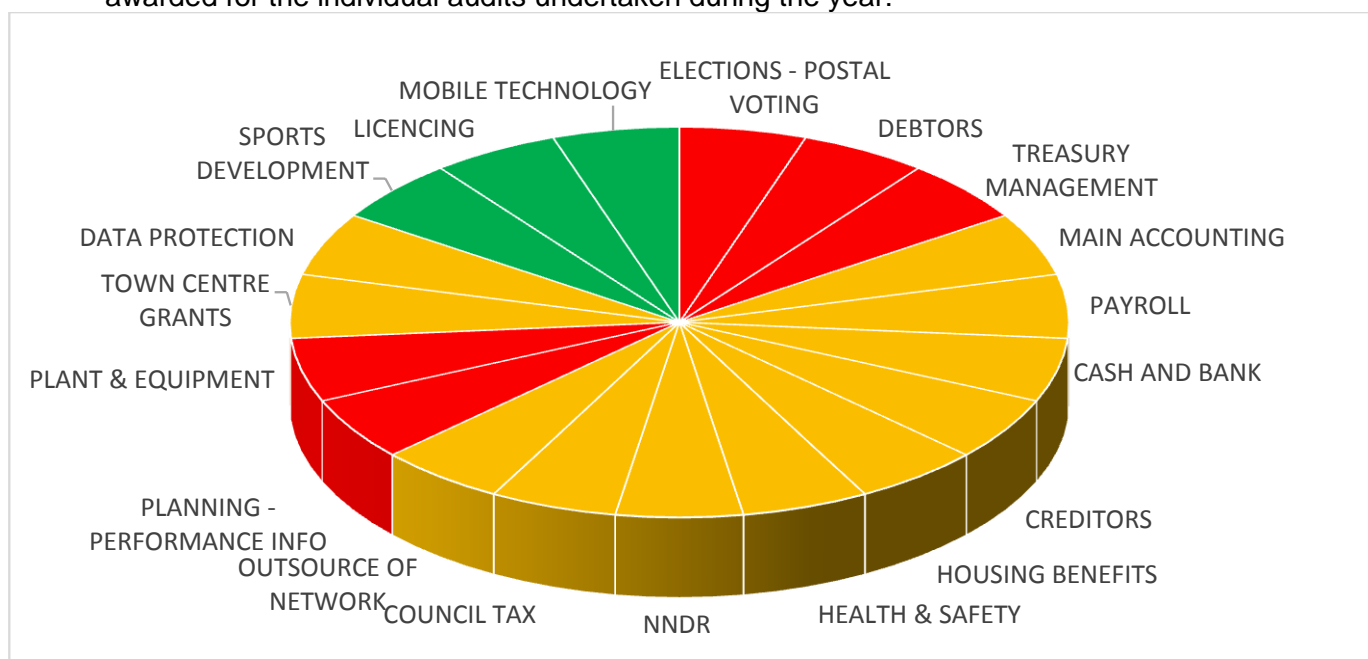
12. The reviews of the key financial systems were largely completed on time and the remaining work finalised in quarter one of 2015/16.
13. The planned contingency allocation has largely been exceeded for Shared Financial Services due to two substantive investigations in support of the Council's Disciplinary Policy.

## INTERNAL AUDIT OPINION

14. Public Sector Internal Audit Standards (PSIAS) require the “Head of Internal Audit” to give an opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. This responsibility falls on the Head of Shared Assurance Services on behalf of Chorley Council.
15. Members will recall that individual audits are awarded a separate controls assurance rating from the following matrix:

Control Rating	Limited	4	7	9
	Adequate	2	5	8
	Substantial	1	3	6
		Minor	Major	Critical
		Risk Rating		

16. Risk ratings (minor / major / critical) are inherent to each system/area audited and they reflect the impact that they would have on the Council in financial and/or reputational terms if they were to fail.
17. Control ratings (substantial / adequate / limited) are awarded after the audit is completed to reflect the level of internal control that is present in each system/area audited.
18. During 2014/15 a total of 19 systems/areas were reviewed, 14 of which were critical and 5 of which were major systems. The chart below shows the controls assurance ratings that were awarded for the individual audits undertaken during the year:



19. Members will observe that the vast majority were awarded either an amber or green controls assurance rating. Furthermore of the red controls assurance ratings awarded only one audit, Plant & Equipment, received a score of 9. **Therefore when the individual ratings are aggregated it is our conclusion that the Council continues to operate within a strong control environment.**
20. Members are also reminded that the control ratings shown relate to the point in time when the respective audit reports were issued during course of the year. They therefore represent a historical rather than a current judgement as managers have been charged with implementing corrective actions to address the control issues raised, which in turn has been supported by a programme of follow-up reviews by the Internal Audit Service.

## INTERNAL AUDIT PERFORMANCE

## Key Performance Indicators

21. The table at **Appendix 2** summarises the key performance data for the Internal Audit Service during 2014/15 and demonstrates that all the performance indicators have either been achieved or exceeded.

## ISO 9001:2008

22. In January Internal Audit retained ISO 9001 accreditation for its Quality Assurance System which is continuously updated to reflect any changes in working practices. Retention of the standard demonstrates that the Audit Team is continuing to seek improved and more efficient working practices to maintain a high quality service.

## Staff Development

23. During the year the remaining member of the Audit Team without an audit qualification was successful in her final examination for the Chartered Institute of Internal Auditors Diploma. This now means that all members of the Team now hold a professional level internal audit qualification.

## THE SYSTEM OF INTERNAL AUDIT

24. The Accounts and Audit Regulations 2011 require the Council to “at least once a year conduct a review of the effectiveness of its system of internal audit’ and 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”.
25. We have therefore undertaken a self-assessment of our compliance with PSIAS and have concluded that the Service meets all aspects of the Standards. Members are advised that the Council will in future need to arrange an independent external assessment of the Internal Audit Service’s compliance with PSIAS at least once every 5 years and the Lancashire District Councils Audit Group is currently making arrangements for reciprocal peer reviews to be undertaken.
26. The review of the “system of internal audit” is not however restricted to a review of the Internal Audit Service itself but also incorporates any other independent sources of assurance that are obtained by the Council.
27. Directors and Heads of Service have therefore provided examples of these which include: QUEST accreditation for Sport and Play Service; Museums accreditation for Astley Hall; Investors in People accreditation; Public Services Network approval; independent inspection of council vehicles by the Freight Transport Association; Electoral Commission performance standards for electoral registrations and delivery of elections and a qualified SFEDI Business Advisor in Economic Development (Small Firms Enterprise Development Initiative).
28. **This evidence further supports our overall opinion that the Council continues to operate within a strong control environment.**

## IMPLICATIONS OF THE REPORT

29. 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	2014/15	Shared Assurance Services	Civic Centre Leyland

Report Authors	Ext	Date	Doc ID
Garry Barclay Dawn Highton	(01772) 625272 (01257) 515468	June 2015	Annual Report.doc

## APPENDIX 1 - SUMMARY OF INTERNAL AUDIT WORK 2014/15

AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
<b>CHORLEY COUNCIL</b>			
Annual Governance Statement	To co-ordinate a review of the system of governance and highlight any improvement actions to include in the Annual Governance Statement.	Not applicable	Proactive input was provided rather than an audit review. A gap analysis was produced showing areas of improvement which were summarised in Section 5 of the Annual Governance Statement 2014.
Anti-Fraud & Corruption	To provide generic fraud awareness training and issue information bulletins highlighting specific fraud risks.	Not applicable	Over 150 officers completed an e-learning package called "Fraud Awareness for Local Government – Doing the Right Thing". The feedback following the training was very positive. 90% of officers confirmed that their awareness of fraud has increased as a result of the training and 92% indicated that it will help them in their job roles.
National Fraud Initiative (NFI)	To co-ordinate the Council's input to the 2013/14 Single Person Discount / Electoral Roll data matching exercise and to monitor the results from the 2014/15 main exercise.	Not applicable	The exercise has to date identified £39,250 (113 cases) where Single Person Discount has been incorrectly awarded and is now in the process of being repaid to the Council. The results from the 2014/15 main exercise were released in January 2015 and investigations into the matches are currently on-going.
Systems Interrogations	To utilise IDEA interrogation software to match current SPD claimants to Experian reports and the NFI reports issued earlier in the year.	Not applicable	The exercise identified 362 instances where SPD claimants had previously informed the Council that their circumstances had changed and as such no further investigation was required.
Town Centre Grants	To ascertain whether effective governance arrangements are in place in relation to the administration and award of grants.	<b>Amber (5)</b>	Although generally robust, recommendations were made to strengthen the current arrangements in respect of forms and guidance, grant monitoring spreadsheet and retaining evidence of management review / spot checks.
Performance Information (Planning Services)	To undertake a review to ensure compliance with the Council's Data Quality Policy by Planning Services.	<b>Red (8)</b>	The review established that whilst systems and controls are in place to meet the reporting requirements of DCLG, there is scope to strengthen the processes for ensuring the accuracy of the data submitted to DCLG and the accurate and timely reporting of indicators within the Council's Performance Management System (PMS). Agreed management actions are due to be followed up during 2015/16.
Elections (Postal Voting & Proofing).	To determine whether legislation and Electoral Commission practice are being followed by the Council throughout the postal voting and proof-checking processes.	<b>Red (8)</b>	The review identified that there are robust arrangements in place with regards to postal voting and proofing of the required documentation, however we established non-compliance with Contract Procedure Rules in relation to the procurement of documents. Agreed management actions are due to be followed up during 2015/16



AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
Health & Safety	To review the Council's arrangements against the Health & Safety Executive's guidance / requirements.	Amber (6)	No control issues were identified. The Council's arrangements were found to be robust.
Outsourcing of the Council's Network	To review the contractual arrangements for the management of the Council's networked services and to provide assurance that the arrangements under development are effectively designed to provide comprehensive, reliable and secure services.	Amber (6)	No control issues were identified. The Council's arrangements were found to be robust.
Data Protection	To ascertain whether effective procedures and controls are in place to manage information under the Data Protection Act and to ensure that data protection principles are fully embedded within the Council.	Amber (5)	A range of management actions were agreed in relation to raising awareness of data protection responsibilities through refresher training; use of the Loop and the introduction and use of a Data Sharing Protocol.
Single Front Office Project	To participate in the Project Team for the implementation of the Single Front Office.	Not applicable	Project team involvement to ensure that the Council continues to provide a professional service to customers. Our role included reviewing policies and procedures to ensure they are robust and fit for purpose and that officers receive comprehensive training and on-going mentoring.  Our involvement with the project team is continuing for 2015/16.
Housing Benefit, Council Tax and Non-Domestic Rates (NDR)	To verify that controls in place in respect of the Housing Benefit, Council Tax and NDR systems are adequate and operating effectively.	Amber (6)	No key control issues were identified.
Sundry Debtors	To verify that controls in place in respect of the Sundry Debtors system are adequate and operating effectively.	Red (8)	A number of weaknesses were established in the current system including the need to issue key documents in a more timely fashion; apply a robust approach to debt recovery over the course of the year and introduce supervisory checks throughout the entire sundry debtor process. Agreed management actions will be followed up during 2015/16.



AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
Community Infrastructure Levy (CIL)	To participate in the Project Team for the implementation of the CIL.	Not applicable	Project team involvement to ensure that adequate controls are built into systems and processes for CIL and that sufficient monitoring arrangements are in place.
Sports Development	To review the effectiveness of the procedures and controls within Sports Development and to determine whether appropriate safeguards are in place to protect employees, the public and the interests of the Council.	Green (3)	No control issues were identified. The Council's arrangements were found to be robust.
Licencing (Fees & Charges)	To undertake a post implementation review of the new taxi licensing fee arrangements and the changes introduced following the implementation of the Scrap Metal Dealers Act 2013.	Green (3)	No control issues were identified. A clear basis for calculating the taxi licensing fees has been established and complies with legislative and Local Government requirements.
Plant & Equipment	To evaluate the internal controls in place with regard to the management and control of plant and equipment.	Red (9)	A lack of internal control was identified which exposes the Council to a significant risk of misappropriation of assets and financial loss. The control weaknesses relate to the maintenance and checking of the plant and equipment asset register and security of the equipment. All agreed management actions have now been implemented.
Mobile Technology	To ensure that effective controls are employed to prevent unauthorised access to the Council's IT infrastructure and data through the use of mobile devices and that appropriate policies and procedures have been adopted for the governance of mobile ICT working.	Green (3)	No control issues were identified
Post Audit Reviews	To ensure that agreed management actions have taken place to address the control issues identified in Internal Audit reports.	Not applicable	All relevant management actions implemented in a timely manner.

AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
Contingency - Irregularities	Responding to requests from management	Not applicable	Over the course of the year, investigations were carried out in support of the Council's Disciplinary Policy.
Contingency – Unplanned reviews.	This consisted of providing advice and guidance to management upon request.	Not applicable	Proactive input was provided rather than an audit review. Audit advice was provided covering a wide range of topics including cash collection and external funding.
<b>SHARED SERVICES</b>			
Main Accounting	To review the adequacy of the controls in a core financial system	<b>Amber (6)</b>	No key control issues were identified
Creditors	To review the adequacy of the controls in a core financial system	<b>Amber (6)</b>	No key control issues were identified
Payroll	To review the adequacy of the controls in a core financial system	<b>Amber (6)</b>	No key control issues were identified
Treasury Management	To review the adequacy of the controls in a core financial system	<b>Red (8)</b>	Management actions were agreed to review the counter party limits, and internal Treasury Management practices.
Cash & Bank	To review the adequacy of the controls in a core financial system	<b>Amber (6)</b>	No key control issues were identified
Post Audit Reviews	To ensure that agreed management actions have taken place to address the control issues identified in Internal Audit reports.	Not applicable	All relevant management actions implemented in a timely manner
Contingency - Irregularities	Responding to requests from management	Not applicable	Over the course of the year, investigations were carried out in support of the Council's Disciplinary Policy.

## APPENDIX 2 - INTERNAL AUDIT PERFORMANCE INDICATORS 2014/15

	Indicator	Audit Plan	Target 2014/15	Actual	Comments
1	% of planned time used	SS	90%	100%	Target exceeded
		CBC	90%	94%	Target exceeded
2	% audit plan completed	SS	100%	100%	Target achieved
		CBC	100%	100%	Target achieved
3	% management actions agreed	SS	98%	100%	Target exceeded
		CBC	98%	98%	Target exceeded
4	% overall customer satisfaction rating (assignment level)	SS	90%	97%	Target exceeded
		CBC	90%	92%	Target exceeded

SS = Shared Services

CBC = Chorley