

Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	22nd June 2016

## INTERNAL AUDIT ANNUAL REPORT 2015/16

### PURPOSES OF REPORT

1. To summarise the work undertaken by the Internal Audit Service during the 2015/16 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 a review of the Council's internal control system.

### RECOMMENDATION

4. That the Internal Audit Annual Report for 2015/16 be noted.

### EXECUTIVE SUMMARY OF REPORT

5. The report demonstrates the successful delivery of the 2015/16 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 2015/16 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	255	292	37
Audits not undertaken			
• Payroll Project	10	0	(10)
• Partnerships	15	0	(15)
Contingency	65	95	30
<b>TOTALS</b>	<b>345</b>	<b>387</b>	<b>42</b>

9. The variation between the planned and actual time spent on the audits undertaken & contingency is due to a substantive investigation relating to Community Infrastructure Levy / Section 106.
10. With regard to audits not undertaken, the start of the Payroll Project has been postponed and this will now be undertaken as part of the 2017/18 Internal Audit Plan. The review of Partnerships was deferred due to an impending update of the Corporate Partnerships Framework.

### *Shared Services*

	<b>Planned (Days)</b>	<b>Actual (Days)</b>	<b>Variance (Days)</b>
Audits undertaken	115	98	(17)
Audits not undertaken	0	0	0
Contingency	50	36	(14)
<b>TOTALS</b>	<b>165</b>	<b>134</b>	<b>(31)</b>

11. The reviews of the key financial systems were in the main, completed with the remaining work finalised in quarter one of 2016/17.
12. Planned days for both audits undertaken and contingency have only been partly utilized resulting in a net surplus of 31 days in total. This surplus offsets the excess time on the Chorley Plan. The Shared Services Agreement makes provision for such service variations and the reciprocal nature of this arrangement is one of the strengths underpinning the partnership between Chorley and South Ribble Councils.



the red controls assurance ratings awarded only one audit, Community Infrastructure Levy / Section 106, received a score of 9 (limited assurance). **Therefore when the individual ratings are aggregated it is our conclusion that the Council continues to operate within a strong control environment.**

19. 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**

20. The table at **Appendix 2** summarises the key performance data for the Internal Audit Service during 2015/16 and demonstrates that the majority of performance indicators have either been achieved or exceeded with explanations for any variances provided above.

### **ISO 9001:2008**

21. 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.

## **REVIEW OF INTERNAL CONTROL SYSTEM**

22. The Accounts and Audit Regulations 2015 require the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account Public Sector Internal Audit Standards (PSIAS) or guidance”.
23. We have therefore undertaken a self-assessment of our compliance with the PSIAS and have concluded that the Service meets all aspects of the Standards. Members will recall that the Council needs to arrange an independent external assessment at least once every 5 years and that it was agreed that we would participate with the Lancashire District Councils Audit Group in undertaking reciprocal peer reviews. Over the next 12 months we will be participating in a review of the Internal Audit Services of Fylde Council and Preston City Council. It is planned that the above 2 Councils will carry out the review of our compliance with the Standards in March 2018.
24. The regulations also require that “an authority must conduct a review of the effectiveness of the system of internal control”. In addition to preparing an annual governance statement, other independent sources of assurance obtained by the Council are also considered.
25. 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).

26. This evidence further supports our overall opinion that the Council continues to operate within a strong control environment.

### 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

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
Internal Audit Plan Risk Assessment	2015/16	Shared Assurance Services	Civic Centre Leyland

  

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## APPENDIX 1 - SUMMARY OF INTERNAL AUDIT WORK 2015/16

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 2015.
Anti-Fraud & Corruption	To provide generic fraud awareness training and issue information bulletins highlighting specific fraud risks.	Not applicable	Proactive input provided rather than an audit / review
National Fraud Initiative (NFI)	To co-ordinate the Council's input to the 2015/16 Single Person Discount / Electoral Roll data matching exercise and to monitor the results from the 2014/15 main exercise.	Not applicable	The 2014/15 exercise has to date identified £34,774 whereby benefits had been incorrectly claimed and is now in the process of being repaid to the Council.  The results for the Single Person Discount / Electoral Roll exercise identified a number of matches which are currently being investigated further.
Performance Information.	To undertake a review to ensure compliance with the Council's Data Quality Policy by Streetscene, Parks & Open Spaces.	<b>Red (8)</b>	Our work has identified that the methodology for collating and calculating some of the performance indicators requires improving and that robust arrangements for the oversight/checking of performance data needs to be introduced.
Market Walk	The aim of this review was to identify and review the adequacy of arrangements in place to manage and maintain Market Walk.	<b>Amber (6)</b>	Our work established that although improvements are needed for health and safety processes, there are robust arrangements in place for lease negotiation, debt management, maintenance and performance reporting.
Travel & Expenses	The purposes of this review were to seek assurance that the system is operating as intended, is subject to appropriate management checks and there is compliance with legislation and statutory requirements.	<b>Amber (5)</b>	Our work identified that whilst there are sound arrangements in place for the processing and administering of travel and subsistence claims, a number of areas for improvement were identified including: <ul style="list-style-type: none"> <li>The review and update of the Travel and Subsistence Policy;</li> <li>The Council is not meeting the insurers' expectations regarding vehicle and drivers checks;</li> <li>The Council is not fully complying with HMRC requirements for employees whose employment has ceased.</li> </ul>

Contract Procedure Rules	The overarching aim of the review was to ascertain levels of compliance with the Council's Contract Procedure Rules.	<b>Amber (6)</b>	No control issues were identified. The Council's arrangements were found to be robust.
Information Security / Penetration Testing	The review will assess the effectiveness of the control framework established by ICT Services to mitigate identified IT vulnerabilities documented in the latest PSN health check exercise.	<b>Red (8)</b>	Since the last Penetration Testing report was received in December 2015 steps have been taken to introduce a more pro-active approach to manage the critical and high risks identified. In addition a PSN Information Assurance (IA) Conditions Compliance audit has recently been carried out with re-certification being received in March 2016. Our work however has highlighted some improvements to be made including the retention of documented evidence to support that the risk areas have been addressed and internal validation checks to confirm that actions taken are sufficient.
ICT Continuity Management	This work considered the effectiveness of the council's ICT service continuity management arrangements in ensuring information and communications technology and services are resilient and can be recovered to predetermined levels within agreed timescales.		The fieldwork for this review is complete and the report is currently being discussed with the ICT Manager. An update will be provided to the Committee in our first progress report.
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.
Housing Benefit, Council Tax and Non-Domestic Rates (NDR) & Sundry Debtors	To verify that controls in place in respect of the Housing Benefit, Council Tax and NDR systems are adequate and operating effectively.	<b>Amber (6)</b>	No key control issues were identified.
Empty Homes		Not applicable	We supported the newly recruited Empty Property Officer with the Empty Home Policy and record management.
Licensing – Administration & Enforcement	The aim of this review was to seek assurance that the key systems for the administration and processing of licence applications and enforcement activity are adequate and operating effectively.	<b>Amber (5)</b>	The Licensing Service has been going through a transitional period due to Transactional Services taking over the administration function and the introduction of new processes in April 2015. Officers are aware of their roles and responsibilities within the Licensing function and of statutory requirements. However, our review has highlighted some areas where arrangements could be strengthened.

Plant & Equipment	The CEO commissioned this review to ensure that issues identified during the 2014-15 review have been implemented and that no residual control weaknesses exist within the system.	<b>Amber (6)</b>	Our work confirmed that improvements had been made to the system and that robust arrangements are now in place.
Tree Maintenance & Inspection regime	The aim of this review was to seek assurance that there are robust arrangements in place which minimise the risk of trees being the cause of personal injury, property and vehicle damage whilst continuing to maintain stocks to preserve their amenity, conservation and environmental value.	<b>Amber (5)</b>	<p>Since the last review was undertaken substantive progress has been made including the:</p> <ul style="list-style-type: none"> <li>• Development and implementation of a co-ordinated approach to tree inspections which encompasses all areas of the borough;</li> <li>• Inspections of high risk tree during 2015;</li> <li>• Training of all officers carrying out inspection duties to ensure that they are carried out to a recognised standard.</li> </ul> <p>However there are some residual areas where controls could be strengthened, including:</p> <ul style="list-style-type: none"> <li>• Documenting the risk assessment assigning areas as high, medium and low risk.</li> <li>• Improving the inspections process and cross referencing remedial works to inspections forms / purchase orders / in house work orders to provide a clear audit trail.</li> <li>• Complying with the Council's Financial Procedure Rules when appointing and assigning work to contractors.</li> </ul>
The Management of Externally Organised Events	The aim of the audit was to identify and review the adequacy of the governance arrangements in place to manage the risks associated with events organised by third parties on Council owned land.	<b>Red (7)</b>	<p>Although there is some evidence of good practice, Officers are very committed to ensuring that events take place in a safe environment and no incidents arose that resulted in a claim against the Council, our review has highlighted a significant number of control improvements, including;</p> <ul style="list-style-type: none"> <li>• Improving organiser's information and guidance;</li> <li>• Developing procedural guidance for officers;</li> <li>• Developing an events database to ensure that all required documentation, consultations and process have been appropriately actioned prior to approval;</li> <li>• Introducing a robust approval mechanism for all events;</li> <li>• Ensuring that legal agreements are in place for all events.</li> </ul>
Community Infrastructure Levy	See separate agenda item	<b>Red (9)</b>	



<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>Amber (6)</b>	No key control issues were identified
Cash & Bank	To review the adequacy of the controls in a core financial system	<b>Amber (6)</b>	No key control issues were identified
Insurance	To review the systems and procedures in place in respect of South Ribble Borough Council and Chorley Council's insurance provision,	<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

INTERNAL AUDIT PERFORMANCE INDICATORS 2015-16

	Indicator	Audit Plan	Target	Actual	Comments
1	% of planned time used	SS	90%	81%	Below target due to unused contingency
		CBC	90%	112%	Target exceeded
2	% audit plan completed	SS	100%	100%	Target achieved
		CBC	100%	93%	Below target / 1 review deferred
3	% management actions agreed	SS	98%	100%	Target exceeded
		CBC	98%	100%	Target exceeded
4	% overall customer satisfaction rating (assignment level)	SS	90%	100%	Target exceeded
		CBC	90%	97%	Target exceeded

SS = Shared Services

CBC = Chorley