



AGENDA ITEM: 8

AUDIT AND GOVERNANCE COMMITTEE:

26th June 2012

Report of: Borough Treasurer

Relevant Managing Director: Managing Director (People and Places)

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SUBJECT: INTERNAL AUDIT ANNUAL REPORT 2011/12

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To present the Internal Audit Annual Report 2011/12 and the Audit Manager's opinion on the control environment.

2.0 RECOMMENDATIONS

2.1 That the Annual Internal Audit Report be noted and that members raise any questions on its contents with the Audit Manager who will be present at the meeting.

3.0 BACKGROUND

3.1 The Chartered Institute of Public Finance and Accountancy "Code of Practice for Internal Audit in Local Government in the United Kingdom" requires the Head of Internal Audit to present a written report to those charged with governance annually. Consideration of the report is included in this Committee's Terms of Reference.

3.2 The report provides the Audit Manager's opinion on the overall adequacy and effectiveness of the Council's control environment and gives a summary of the work on which the opinion is based.

3.3 The report would also be used to disclose matters requiring the Audit Manager to qualify his opinion or draw attention to issues which the Audit Manager judged

particularly relevant to Member's consideration and approval of the Annual Governance Statement which appears as a separate item on this agenda.

4.0 SUMMARY OF FINDINGS

4.1 The Internal Audit Annual Report concludes that West Lancashire Borough Council's risk management systems and internal control environment are adequate and operating effectively.

4.2 At the current time there is inevitably a heightened risk of isolated control failures due to rapid changes in systems commissioned through the business plan to manage the current budget constraints on the Council. This risk is being controlled and no significant weaknesses in the internal control framework have been identified.

5.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY

5.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

6.0 FINANCIAL AND RESOURCE IMPLICATIONS

6.1 All the activity referred to in this report is funded from existing budget provision.

7.0 RISK ASSESSMENT

7.1 There is a statutory requirement for the Council to maintain an adequate and effective system of internal audit. The Internal Audit Manager's Annual Report forms part of the evidence that the Council is complying with this duty and that the Audit Service is operating in accordance with auditing standards.

7.2 The conclusion to the report contains the Audit Manager's Opinion on the Council's control environment. Internal Audit activity is a key element of assurance to this Committee that risks are being properly managed so as to increase the likelihood that the Council will achieve its overall objectives.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

Appendices

1. Internal Audit Annual Report 2011/12

West Lancashire Borough Council Internal Audit Annual Report

2011 – 2012

1.0 INTRODUCTION

The Council is required by the Accounts and Audit Regulations 2011 to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices.

Those proper practices are set out in The CIPFA Code of Practice for Internal Audit in Local Government which requires the Head of Internal Audit to present a written report to those charged with governance.

The primary purposes of this report are to present the Audit Manager's opinion on the overall adequacy and effectiveness of the Council's internal control framework, to provide a summary of internal audit activity from which that opinion is derived and comment on performance against the plan for the year. This report also identifies any matters which have affected compliance with auditing standards and draws attention to any significant audit findings which may inform the Annual Governance Statement.

The Annual Internal Audit Plan approved annually by this Committee is constructed in accordance with relevant professional standards to enable the Internal Audit Service to discharge these requirements.

Internal Audit's work evaluates the effectiveness of the control environment in securing the Council's objectives. It also examines and reports on its adequacy as a means of ensuring that the Council fulfils its responsibility to conduct its business in accordance with the law and proper standards and in such a way that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

2.0 INTERNAL AUDIT ACTIVITY IN 2011/12

The assignments set out in the annual Internal Audit Plan are the primary source of assurance on which the Audit Manager's Opinion is based.

The 2011/12 Internal Audit Plan was substantially completed in the year and sufficient coverage was achieved to enable the Internal Audit Manager to provide his opinion on the control environment without caveat.

3.0 SUMMARY OF ASSURANCE WORK FROM THE ANNUAL PLAN

Commentary on work undertaken from the 2011/12 Internal Audit Plan.

Corporate Governance

Annual Governance Statement

Internal Audit work informs the Annual Governance Statement and time is included in the plan for a review of audit findings and other sources of assurance to support input to it.

Corporate Management & Performance Improvement

Data Quality & Performance Indicators

The arrangements for the collection and processing of data for a sample of performance indicators was tested and the latest available results were verified to source data and the calculations checked. Minor anomalies were identified which would not have influenced publicly reported performance figures appreciably. Work on re-aligning Performance Indicators to the priorities linked to the Council's Business Plan was still in progress and further work is included in the 2012 / 13 audit plan to examine the new indicator set now formally approved.

Risk Management

A significant piece of work in the previous year concluded that the Risk Management framework in West Lancashire is useful in helping to secure the Council's objectives. The brief for the current audit was expanded to include further analysis of procedures following changes to personnel and structures arising from Major Service Reviews etc. Work to finalise it is still in progress

Information Technology

Information Technology is an integral part of the delivery of the majority of the Council's Services and examination of individual systems is included in many service audits.

In addition separate reviews of aspects of the corporate technological infrastructure may be carried out. Although a risk assessment was carried out with external audit during the year work in this area was limited due to the proposed arrangement with

Lancashire County Council / One Connect Ltd. Internal Audit were however involved in reviewing the emerging contract documentation relating to this service.

The section also continued its involvement with the Lancashire Districts Computer Audit Group during the year.

HR issues

Work in the year included audit input to the new absence management process and the implementation of the Matrix agency agreement.

Contract and Procurement Improvement and Compliance

Contract Procedure Rules / procurement audit

The Council's spending on capital and revenue contracts is significant. Given previous audit findings reported in the 2010/11 Annual Governance Statement Internal Audit has continued with its work in this area.

Improvements have been implemented in the framework for controlling expenditure on contracts. A far greater emphasis is now being placed on services considering value for money issues through documenting purchasing decisions adequately either through positive evidence of compliance with the purchasing procedures or recording formal approval of any exemption and the justification for it in accordance with the Council's formal Contract Procedure Rules. In this way positive evidence of the steps taken to secure Value for Money is retained as an audit trail of the justification for spending decisions.

There is evidence that this approach supports better spending decisions both in individual services and corporately.

Client function – contract management for arrangements for shared services / Joint Venture Company

The JVC contract was implemented during the year and internal audit have been involved in scrutiny of the practical arrangements involved in delivering the contract. This has included governance arrangements such as the development of the performance management framework and practical issues such as examining checking processes for benefit payments as well as an overview of changes to procedures in individual services to crystallise the boundaries in the client and contractor split.

Financial Audits – Probity, Income and Collection Improvement

Council Tax

This audit examined logical controls on access to the Council Tax system, document retention routines, reconciliations to financial feeder systems, account changes and the transfer of revaluations from the Valuation Office to the property database.

The report was positive.

NNDR

A sample of accounts were recalculated manually, write offs were examined, properties were tested against a Schedule of Alteration from the Valuation Office, the operation of mandatory reliefs were checked together with reconciliations of the cash balances on the NNDR system to ICON (the Cash receipting system) and the General Ledger. No significant issues were identified.

Debtors

A sample of invoice requests examined confirmed that accounts were raised and invoices despatched from the debtors section as soon as practicable following provision of goods or services. Appropriate detail appeared on invoices. Clear information was available on terms and methods of payment. Controls on access to the system itself were effective.

Benefits

Work relating to the JVC's operation of the benefits system has concluded, no major issues were reported however work on the development of procedures on the client side of the contract are still developing and work in this area is ongoing.

Payroll

Controls on overtime payments, standby payments, and salary protection following Harmonisation and Single Status were examined together with controls on the setting up of "new starters" and deductions from salaries. Budget monitoring routines for Salaries were also examined. The system was found to be well controlled with only minor issues flagged to management.

Rents

The main focus of the audit was the controls incorporated into the new QL rent accounting system including access to the system, annual debit raises and postings at individual account level, examination of procedures for reconciliations of rent collection transactions from feeder systems and onwards to the general ledger and controls on adjustments to accounts.

Documentation of key controls in the new system had still to be finalised with the result that the auditor had to ascertain the operation of parts of the system for themselves.

Many controls remained unchanged from the previous software however some issues were identified requiring further audit work.

Creditors

Attention was paid to the implications of the provision of services under contract. It is no longer appropriate for the creditor section to maintain the list of authorised signatories

for creditors and, as the signature on invoices will become the authorisation for the contractor to make payment, an accurate and up to date list will be essential.

A key recommendation was made in relation to the purchasing system whereby Officers had been set up as Authorising Officers for Purchase Orders on the e-procurement system and also authorised signatories for the Payment of Invoices. Financial Regulations state that both tasks should not be undertaken by the same Officer although this stipulation alone would obviously not protect the Authority or support the detection of errors. The procedure for maintenance of the signatory list is being revised and the list reviewed accordingly.

Separate work was undertaken within Property Services to assess the capability of QL to control the processing of orders (in relation to ordering of goods and services relating to Council Property and Housing Stock only) directly without "double handling" through the e-procurement system. Following work on development of suitable controls QL was adopted as an official purchasing process for these order types only.

Accounting controls

Bank reconciliations were reviewed and a batch of transactions from two feeder systems were reconciled to the General Ledger. Budgetary control and monitoring processes were reviewed and found to be robust as were controls on virement.

Cash management – Icon cash receipting system and Bank reconciliation

This work mainly comprised of examinations of reconciliations of the cheque account and the cash receipting systems to the general ledger, examination of items in the Bank and Cashiers suspense account and changes necessitated by changes in the structure of the accounting system and the transfer of some elements of the system to the JVC. No major issues were identified.

Treasury management

This work centred on changes to controls in the Treasury Management system following the departure of the Treasury Accountant and arrangements for cash flow projections to maximise funds available for investment while providing adequate working balances for the Council's day to day activity.

The opportunity was also taken to review the arrangements made for the transfer of funds for Housing Self Finance from Public Works Loan Board to the Department of Communities and Local Government which was completed on the 28th March 2012.

Service Delivery – Economy, Efficiency and Effectiveness Improvement

Housing Improvement Plan

This work was undertaken to provide internal audit with an overview of progress against the Housing Improvement Plan which was the Council's response to recommendations from the Tenant Services Authority and Audit Commission following inspection of the Housing Service. Significant progress has been made in this area and Internal Audit scrutiny was concluded with the final submission to the TSA in October 2011. Internal audit have identified elements of the plan as potential areas for future audit work.

Housing Allocations Choice based lettings (CBL)

This was work programmed for the previous year which had to be postponed due to delays in implementing the new system. This work looked at whether the new systems, documents and procedures implemented secure compliance with policy and serve the needs of applicants. The examination established that a good audit trail exists for allocation decisions.

Self financing HRA proposals

The annual plan made provision for Audit scrutiny of progress on the arrangements for Housing Self Finance. This mainly revolved around financial arrangements for Treasury Management, Asset Management and the implications of the new financial arrangements for stock maintenance. Internal audit work in this area concluded after the transition took place with no major problems although these themes will be revisited in future audit work.

Lifeline

This was included to follow up on previous audit involvement with proposals for change in this area. Work ceased when recommendations were made that Home Care Link continues to operate in house and be reviewed at a later date.

Asset Management

This was included on the plan to complete work already in hand to examine the pilot project for identifying and valuing assets in the Council's ownership. Very little field work proved necessary before it was concluded that the aims of the project were being met effectively.

Transport

No work was undertaken in this area as the new arrangements did not come into force during the year as anticipated when the plan was drawn up.

Corporate Anti Fraud Initiatives

National Anti Fraud Initiative

The Council is legally obliged to take part in the National Fraud Initiative run by the Audit Commission. While this exercise falls under the remit of anti fraud work it also provides assurance in relation to some of the Council's main financial systems such as creditors and benefits. The exercise is run and reported on every two years. This is a non reporting year but work on the exercise continued.

Anti money laundering activity

This time is included in the Audit Plan to cover the Audit Manager's role as the Council's Money Laundering Reporting Officer.

Anti Fraud and Corruption Strategy

Internal Audit are involved in the maintenance and implementation of the Council's Anti Fraud, Bribery and Corruption Policy.

Investigations

In addition to planned fraud related checks, internal audit have a role in the investigation of potential fraud. Items are referred to internal audit during the year in accordance with procedures and dealt with as appropriate. In 2011/12 only one such referral was progressed to a full formal investigation. The officer concerned resigned before the matter reached a formal disciplinary hearing.

4.0 REVIEW OF EFFECTIVENESS

The regulations require that the Council shall conduct a review of the effectiveness of its system of internal audit at least once a year. Both the Internal Audit Manager and the Borough Treasurer in his role as Section 151 Officer consider that the Council has maintained an adequate and effective system of Internal Audit in 2011/12 based on the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. No restrictions have been imposed on the scope of internal audit's work during the year.

5.0 MANAGEMENT RESPONSES TO INTERNAL AUDIT REPORTS.

During the year recommendations for improvements to controls in various systems have been made by internal audit and agreed by Management. Responses from the auditees have been satisfactory and recommendations have been implemented within reasonable timescales.

6.0 AUDIT OPINION

The Internal Audit Plan was prepared without any limitations on scope and was substantially completed during the year.

Based on the work which internal audit carried out during the course of the year and taking into account other sources of assurance available, such as the Council's external auditor's Annual Audit and Inspection Letter, I conclude that West Lancashire Borough Council's risk management systems and internal control environment are adequate and operating effectively.

The authority's control framework will however continue to undergo changes as the Business Plan is rolled out and the risk of isolated control failures is inevitably heightened due to the rapid changes in systems commissioned through the business plan in response to current budget constraints on the Council.

Taking into account the annual review of West Lancashire Borough Council's internal controls, as outlined in its Local Code of Governance, I am not aware of any issues arising from Internal Audit's work in year 2011/12 which require to be brought to the attention of the Audit and Governance Committee or disclosed in the preparation of the Annual Governance Statement.

M.A.Coysh
Internal Audit Manager
West Lancashire Borough Council