

West Lancashire Borough Council

Internal Audit Annual Report

2012 – 2013

1.0 INTRODUCTION

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

For 2012/13 proper practices were those defined in The CIPFA Code of Practice for Internal Audit in Local Government. This 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 2012/13

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 2012/13 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.

3.0 COMMENTARY ON ASSURANCE WORK FROM THE 2012/13 INTERNAL AUDIT PLAN

Annual Governance Statement

Internal Audit work supports the Annual Governance Statement presented elsewhere on this agenda and time is included in the plan for a review of audit findings and other sources of assurance to support its preparation and review the final draft of the document.

Shared Services

The framework for the overall management of services secured through the shared service arrangement with LCC/OCL has evolved during the year. During the settling in period Internal audit has maintained communication with the Transformation Manager in relation to governance arrangements and emerging developments separately from the work it does on the individual systems delivered under the contract.

MSR and OR implementation

The Council's Business Plan recognises the Major Service Review process and Organisational Re-engineering are essential tools in helping to deliver savings and efficiencies for the authority in a planned and co-ordinated way. Both these processes result in changes to systems and internal audit needs to keep these under review to ensure that controls are maintained as changes occur.

Data Management

In line with with the Information Commissioner's Office (ICO) advice and as part of a voluntary undertaking to the ICO the Council reviewed its data management arrangements. This work included an audit of data protection processes in a sample of services. The audit identified that corporate policy was not being consistently applied and a range of areas for development were identified.

The resulting recommendations to secure improvements were incorporated into the action plan developed in the context of the wider initiatives relating to data management which are specifically identified in the Annual Governance Statement elsewhere on this agenda. The AGS reports that the actions identified have now been substantially completed and that satisfactory levels of compliance with ICO requirements are being consistently achieved. The 2013/14 Internal Audit Plan makes provision for a follow up exercise to review current practises and to assess the impact of the Council's recent implementation of the Senior Information Risk Owner model recommended by the ICO and the DCLG.

ICT

The Council's ICT requirements are now secured through arrangements with Lancashire County Council and One Connect Limited. This has brought in extra resources for ICT investment and has secured a range of other advantages for the Council. This represents a major change in approach and many of the Council's services are heavily dependent on ICT systems for delivery. Internal audit have monitored the roll out of these arrangements and are currently working with the Transformation Manager to readdress the risk assessment for these areas of operation in consultation other interested parties.

Matrix

The Matrix system is used to secure the services of agency workers as and when required. It incorporates a variety of operational controls, and payments under the contract are processed through the system. Some dilution of the separation of duties built into the manual system which preceded it were noted and steps are being taken to address these issues.

Human Resources

Internal audit have worked closely with H.R. on a number of issues in the year such as the arrangements for the “legacy” documentation from the old payroll service and validation of the arrangements for the calculation of sickness statistics in the new payroll system.

Performance Management

The Council’s performance is monitored through quarterly updates to Cabinet on a range of indicators and in addition to this the Council reports publicly annually on a suite of indicators and provides data to various government departments. Performance indicators are no longer prescribed by central government. The Council has a Data Quality Protocol which sets out its approach to data quality.

The purpose of the audit is to provide assurance that the arrangements for the collection and calculation of this data comply with the Data Quality Protocol and are proportional to risks associated with inaccuracies. The majority of the indicators examined met the principles of the Data Quality Protocol with amendments agreed in the case of a number of indicators and definitions. These areas will be re-examined in 2013/14.

Corporate Health and Safety

The management of health and safety within the authority was examined, including the role of managers, employees and the central health and safety unit. No significant issues were identified.

Business Continuity

The Council’s business continuity arrangements are reviewed on a regular basis. The pace and scale of change in the authority has increased pressure on the systems and procedures for keeping plans up to date and new ways of working have had significant implications for Business Continuity Planning.

Audit attended an exercise named Operation Stevenson to observe the plan in operation first hand and examine the adequacy of the arrangements to keep the plan up to date. The conclusions were positive recognising that “lessons learned” from the exercise are being taken forward appropriately by management.

Contract audit

Previous internal audit reviews of Contracts recommended a range of actions to improve operations in this area. Internal audit have continued to monitor the operation of Contract Procedure Rules and supporting processes to ensure that they support the delivery of value for money in the goods and services procured. While there is always scope for further improvement positive progress has been maintained during the year.

QL procurement

The QL housing management system includes provision for the bulk update of items for payment into the creditor system. As part of a wider review of ordering processes, the use of this system was approved for certain classes of purchasing transaction. This

review disclosed that the bulk of transactions were appropriately routed through the new system and authorised in accordance with approved procedures following the changes. There were a small number of exceptions arising mainly from operational difficulties with the way permissions had been set up to operate on the system although there was no evidence that this had resulted in anything other than technical breaches of purchasing procedures. Officers in housing have reviewed this area and internal audit will examine the revised arrangements in the new financial year.

Procurement through official order

This piece of work was not an audit but a technical exercise to inform changes being made to the payment authorisation process. There are a number of exceptions recognised in Financial Regulations to the general rule that all payments should have a corresponding purchase order. During the year a formal process was put in place to identify exemptions where payment without a corresponding order was acceptable. This work included an interrogation of the creditor system to identify and categorise those classes of transactions. These were agreed by Service Heads and a system is now in place for payment of these exceptions.

Benefits, Council Tax and NNDR audits

Work on completing these three audits did not start until towards the end of the financial year at the request of management, mainly due to the implementation of a new Revenues and Benefits IT system in January. Audit testing of a detailed sample of transactions, system parameters, and reconciliations to other systems has been completed and has not identified any significant issues to date. However a range of matters requiring clarification is still outstanding and consequently it has not been possible to conclude these audits.

While no matters disclosed in the work carried out indicate fundamental control issues in the systems in use, it is not possible to provide full assurance that the systems are functioning effectively because of the issues outstanding. Work to complete these audits will be given priority and the results reported back to the next meeting of the Audit and Governance Committee.

Debtors

This work examined elements of the processing undertaken under the shared service arrangement and systems in the “commissioning” services. No significant issues were identified

Creditors

The operation of the creditors system itself has been included in a number of exercises during the year. Some testing of purchasing arrangements within services following changes to systems is ongoing.

Right to Buy / Housing Act Advances

This was an overview of the current position in relation to Council House Sales and residual mortgages outstanding from the time when the Council itself granted mortgages. The remaining mortgages are all scheduled to be repaid before the end of 2018. Council House Sales have increased and the system for administering this is due

to migrate onto the Aereon QL system. A number of minor issues were identified and future work will be targeted in those areas.

Accounting Controls

This work looked at arrangements for controls relating to the main accounting system through reconciliations etc. No significant issues were identified.

Payroll

Processing of the Council's payroll for the majority of staff is now provided through an arrangement with Wigan MBC. (Payroll for staff seconded to Lancashire County Council is administered through a separate arrangement). This exercise examined the arrangement with Wigan during and immediately after implementation to ensure that the main risks had been addressed by the project. Internal audit have subsequently gained access to the payroll system itself and will undertake a more comprehensive review in due course as part of the 2013/14 audit. No significant issues have been identified in the work carried out to date.

Rents

Rents are processed through the Aereon QL system. This work examined controls on the system and confirmed that transactions were posting correctly to rent accounts. It identified a number of issues relating to controls on the system itself. Solutions for these are currently being explored by staff from housing and internal audit will revisit this area in the new financial year.

Treasury Management

Internal audit examined a sample of investment transactions. Controls were found to be operating in accordance with procedures.

Fees and Charges

This work involved a review of the operation of the fees and charges policy and identification of areas for inclusion in future audit risk assessments.

Housing Stock Maintenance

Housing maintenance is a key service area utilising significant resources. This is a period of change in this area and time has been included in both the 2012/13 and 2013/14 plans for an examination of controls on programmed and responsive repairs to Council housing stock and void properties which is in progress.

Q.L.

This work looked at the use of the Aereon QL system in areas other than rent accounting. The operation of the systems was satisfactory but a number of complex issues were identified in relation to access profiles and solutions are currently being explored by housing staff.

Cash to Leave and Transfer Incentive Schemes

The Transfer Incentive Scheme was found to have been administered in accordance with Council policy. A policy document has been produced in respect of the Tenants' Downsizing Scheme and the Transfer Incentive Scheme system will form a suitable basis for its operation. No significant weaknesses were found although some recommendations were made for enhancements to controls.

Licensing

This work included testing of a sample of applications and a review of the implications of the new Electronic Document Management system on the work of the section. No significant issues were identified.

Transport

The Council's transport fleet operations are secured through contract and the Assistant Director Street Scene requested an overview of the contract monitoring arrangements, commencement of which was delayed due to scheduling difficulties. This work is scheduled for completion shortly.

Community Safety – CCTV

This work was scheduled to take place following the services move to new premises which did not in fact take place during the financial year. Time has been allocated to accommodate essential elements of this review in 2013/14.

Leisure

Work in this area included an examination of systems in use at Chapel Gallery. No significant issues were identified. In addition audit have provided technical assistance to officers appraising applications for the Civic Hall, Community Resource Centres and Ashurst Meeting Room.

Customer Services

As the Council's main point of contact for the general public and having responsibility for a number of services to the public, customer services are subject to regular audit examination. Changes to the structure and organisation of the Council including the provision of services under the contract with Lancashire County Council all potentially impact on the operation of customer services and the Interactive Voice Response system has also been introduced into the contact centre. There were no significant issues identified although it is clear that the position is fluid and dynamic and requires constant monitoring to ensure that the contact centre remains an efficient and effective first point of contact.

Strategic Asset Management Plan

The pilot project for identifying and valuing assets in the Council's ownership had previously been examined and time was included in the plan to examine the development of the processes supporting the Strategic Asset Management Plan as it was rolled out. No significant issues were found with the process.

Building Control

This work examined a sample of applications and tested financial aspects of the process. Various minor issues were identified and an action plan was agreed to address them.

Estates and Valuation

This work is still in progress (No significant issues have been identified to date).

National Anti Fraud Initiative

The Council is required to take part in the Audit Commission National Anti Fraud Initiative. This exercise compares data from various public bodies every two years and where the results appear inconsistent the originating bodies are notified. This report covers activity from the previous two year cycle. The exercise resulted in investigation of a number of matches relating for example to potential tenancy, creditor payment, benefit, council tax single person discount, and insurance fraud. This resulted in 2 prosecutions, 1 administrative penalty and 1 formal caution in relation to benefits, and identified total benefit overpayments locally (including Department of Works and Pensions payments as well as WLBC Housing and Council Tax Benefits) of £45,035.42 and one duplicate creditor payment of £3,501.50. 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. No significant issues were identified during this exercise in relation to the Council's systems.

Money Laundering Controls

This time is included in the Audit Plan to cover the Audit Manager's role as the Council's Money Laundering Reporting Officer. During the period no reports of suspected money laundering were made to the Serious Organised Crime Agency. The Council's Anti Money Laundering Policy was refreshed during the year.

Anti Fraud, Bribery & Corruption Policy and Action Plan

Internal Audit have a role in the Council's anti fraud initiatives. During the year the Anti Fraud, Bribery and Corruption Policy was updated, a self assessment of Fraud and Corruption Issues was completed and the Council's Counter Fraud Plan was endorsed.

Investigations

In addition to planned fraud related checks, internal audit have a role in the investigation of potential fraud. Items referred to internal audit during the year in accordance with procedures are dealt with as appropriate. In 2012/13 no referrals were progressed to a formal investigation stage.

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 2012/13 based on the

requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

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 has been substantially completed. No control issues were identified during the course of the audit work in 2012/13 that would be likely to have a material effect on the Council's Financial Statements, however no system of control can eliminate all risk of failure to achieve policies, aims and objectives. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing key risks.

These risks are reflected in the audit plan and subject to separate reports during the course of the year and 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.

Taking into account the annual review of West Lancashire Borough Council's internal controls, as outlined in its Local Code of Governance, there are no issues arising from Internal Audit's work in year 2012/13 which need to be brought to the attention of the Audit and Governance Committee or disclosed in the preparation of the Annual Governance Statement.

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West Lancashire Borough Council