

APPENDIX 1

ANNUAL AUDIT REPORT

2015/16

Internal Audit Work 2015/16

1. There have been 40 reports compiled which relate to audit work undertaken for the 2015/16 financial year. Within this total, 4 reports were carried forward from 2015/16 and 4 reports slipped into the 2015/16 financial year for completion. The main system reviews comprising this slippage were Housing Benefits, Council Tax, N.N.D.R. and Main Accounting. It is worth noting that it is not unusual for main systems to sometimes slip into the following financial year, as these are the largest areas and for testing purposes, they are normally audited in the last quarter of the financial year.
2. All high risk and key financial systems have been audited and based upon our examination as part of the managed audit approach, together with the other financial systems audited, our overall opinion is that there is sound and fundamental internal control within the majority of the Council's systems.

Audit Resources and Training

3. The Internal Audit Unit comprises the Audit and Performance Manager, a Senior Auditor, and an Auditor.
4. The Audit and Performance Manager is a qualified member of the Chartered Institute of Internal Auditors. The Senior Auditor is a qualified Association of Chartered Certified Accountants (A.C.C.A.) member. The Auditor is part qualified as a Chartered Institute of Management Accountant (C.I.M.A.).
5. As part of his progression, the Senior Auditor takes part in an ongoing development programme which is organised by the A.C.C.A.. This takes up half a day each month and the programme is internet based from which feedback and his level of grading is obtained.
6. The Audit staff have attended the North West Audit Risk & Governance Group's training course on Counter Fraud and Governance this year, which was provided by C.I.P.F.A..
7. The Senior Auditor is the appointed Web Champion for the Financial Services area. He is tasked with keeping information held on the Pendle Council Website and the Staff Intranet up to date. Accordingly, he regularly takes part in update training provided by the Web Administrators. He is also a member of the Continuous Improvement Group, which is a group of middle managers tasked with suggestions for improvements in how the Council operates, particularly from a Human Resources perspective.
8. The Audit and Performance Manager regularly attends the Lancashire District Councils' Audit Group and the Senior Auditor attends Computer Audit Group meetings throughout the year, thus maintaining close contact with Heads of Internal Audit Units within the Lancashire region.

Internal Control

9. In support of the Accounts and Audit (Amendment) Regulations 2015, the Council must now include an Annual Governance Statement (A.G.S.) in the yearly Statement of Accounts which should include an assurance by Internal Audit of the Council's internal control arrangements. The A.G.S. requires the Council to undertake a broader review of the Council's governance framework and arrangements. The statement must be approved by the Leader of the Council and the Strategic Director and considered by the

Executive. Directors and Service Managers also provide a signed assurance to support the statement and in this way acknowledge their individual responsibilities for internal control.

10. Internal Audit reports on both Corporate Governance and Internal Control arrangements and these are key elements of the A.G.S.. The Audit and Performance Manager was satisfied through the review of internal control during 2015/16 that Internal Control in the Council is good; although it is not possible to provide absolute assurance about the overall system of internal control.

External Audit

11. Internal Audit has worked closely with staff from Grant Thornton who took over the role of external auditors from the Audit Commission in September 2012. Trust, co-operation and understanding is key to this relationship and much reliance is placed on work performed through the "Managed Audit" to underpin the overall opinion and judgment of the Council's internal control arrangements. Grant Thornton will be the Council's External Auditors until 2017/18.

Programmed Audits

12. These audits involved testing and appraising controls and procedures and making recommendations where weaknesses were identified. Listed below is a sample of the work completed and the recommendations accepted by the relevant Service Managers and Liberata Management. A breakdown of the use of Internal Audit time for 2015/16 is contained at [Appendix A](#).
13. **Housing Benefits** – 1 recommendation was put forward involving the monitoring of the accuracy of Housing Benefit calculations and the setting of a performance indicator in order to measure this key area.
14. **Council Tax** – 4 recommendations were made; these included an annual review of the Council's Collection and Enforcement Policy, use of Planning records to inform Council Tax staff of changes, the sign off of exemption/discount parameters in the system and checking of exemption end dates.
15. **Payroll** – 4 recommendations were made which covered updating written procedure notes in the Payroll section, proper documentation and authorisation of changes to the Payroll system, evidence of checks on parameter changes and sign off and improved control of user access rights to the system.
16. **Creditors & Purchasing** – 4 recommendations were made regarding ordering procedures and the monitoring of orders within the Purchasing module of the system, a review of BACS approvals over £5,000 and the timely publishing of supplier payment details.
17. **National Non Domestic Rates, Collection, Treasury Management, Client Function and Post** were all given a report with no recommendations, indicating a clean bill of health in these key areas.
18. **Cemeteries** – 4 recommendations were made concerning reviewing the procedures re income collection and the monitoring of Sundry Debtor records and arrears.

19. **Asset Management I. T. system** – three recommendations were made to improve records of individual hardware items and the recovery and disposal of obsolete equipment.
20. **Trade Waste** – two recommendations were made regarding the production of accurate billing reports and the monitoring of unpaid bills leading to better recovery and suspension of service provision where necessary.
21. **Engineering & Drainage Contracts** – six recommendations were made covering the maintenance of the select list tendering procedures, reporting of tenders received and the documentation of changes made to tenders and contract valuations.

Contract Audit

22. Internal Audit carries out a final review of all building and construction contracts over the value of £50,000 prior to the final valuation certificate being issued to the Contractor by Liberata Property Services. This is to ensure accuracy and that correct monitoring of the contract has taken place in line with Contract Procedure Rules.

Pendle Leisure Trust

23. Pendle Leisure Trust relies on the grant funding provided from the Council each year to finance its services. Internal Audit undertakes reviews of the Pendle Leisure Trust financial arrangements to ensure the activities are being governed efficiently, effectively and economically. In 2015/16, the area audited was the Activo membership system and this report was submitted by Leisure Management to the Leisure Trust Board for comment.

Computer Audit

24. Furness Audit Ltd., an external provider, has been appointed to carry out the Council's IT audit. They have carried out 2 I.T. audits over the year. The areas audited were I.T. Security Policies and Asset management. Both were given "Substantial Assurance" ratings, but recommendations were made and implemented to improve procedures.

Quality Control

25. As part of the Internal Audit Unit's quality control process, Service Area Managers are requested to complete a Quality Control Questionnaire at the conclusion of each audit. This takes the form of 6 questions regarding the conduct of the Auditor, the effectiveness of the audit and the timeliness of reporting. The Service Manager ranks each question out of 5, allowing a maximum score of 30. In 2015/16 the average score was calculated at 93.24%, a slight increase from last year's figure of 90.42% and the Unit will continue to strive to improve performance. The scores form part of the Unit's annual performance indicators, which are set out at [Appendix B](#)

Acknowledgements

26. Thanks are due to all Service Area Managers and Liberata Management and their staff for their assistance and co-operation during the Audits undertaken by the Unit last year.

APPENDICES:

[Appendix A](#) - Total internal audit time – 2015/16 – auditor days

[Appendix B](#) – Performance Indicators

APPENDIX A

TOTAL INTERNAL AUDIT TIME – 2015/16 – AUDITOR DAYS

	<u>Actual</u> <u>2014/15</u>	<u>Planned</u> <u>2015/16</u>	<u>Actual</u> <u>2015/16</u>	<u>Variation</u>
Carried forward audits	8.0	8.0	8.0	0
Programmed Audits (including Contract and Computer audits)	407.5	367.0	391.3	+24.3
Audit Management	50.0	50.0	50.0	0
Value for Money, Administration and Non Audit	27.0	30.0	24.7	-5.3
Contingencies/Fraud Work/ Investigations	34.5	40.0	23.0	-17.0
Pendle Leisure Trust	9.0	15.0	7.5	-7.5
<u>Totals</u>	536.0	510.0	504.5	+5.5

APPENDIX B

PERFORMANCE INDICATORS

	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>
Number of main systems not covered	0	0	0
Number of other systems not covered	3	3	3
Number of reports completed and issued	35	36	36
Number of recommendations made	93	102	93
Number of recommendations accepted	93	102	92
Number of recommendations not implemented	1	0	0
Number of “Work in Progress” reports	4	4	4
Average Quality Control Score	90.42%	90.44%	93.24%