

Audit Committee

Agenda and Reports

For consideration on

Thursday, 21st June 2007

In Committee Room 1, Town Hall, Chorley

At 4.30 pm



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Chief Executive's Office

Please ask for: Dianne Scambler
Direct Dial: (01257) 515034
E-mail address: Dianne.scambler@chorley.gov.uk
Date: 13 June 2007

Chief Executive: Donna Hall

Chorley
Council

Town Hall
Market Street
Chorley
Lancashire
PR7 1DP

Dear Councillor

AUDIT COMMITTEE - THURSDAY, 21ST JUNE 2007

You are invited to attend a meeting of the Audit Committee to be held in the Council Chamber, Town Hall, Chorley on Thursday, 21st June 2007 commencing at 4.30 pm.

AGENDA

1. **Apologies for absence**

2. **Declarations of Any Interests**

Members are reminded of their responsibility to declare any personal interest in respect of matters contained in this agenda. If the interest arises **only** as result of your membership of another public body or one to which you have been appointed by the Council then you only need to declare it if you intend to speak.

If the personal interest is a prejudicial interest, you must withdraw from the meeting. Normally you should leave the room before the business starts to be discussed. You do, however, have the same right to speak as a member of the public and may remain in the room to enable you to exercise that right and then leave immediately. In either case you must not seek to improperly influence a decision on the matter.

3. **Minutes (Pages 1 - 6)**

To confirm the minutes of the meeting of the Audit Committee held on 29 March 2007 as a correct record for signing by the Chair (enclosed)

4. **Audit Committee Programme (Pages 7 - 8)**

Draft Audit Committee Programme 2007/08 (enclosed)

5. **External Audit and Inspection Plan 2007/08 (Pages 9 - 32)**

Report of the Audit Commission (enclosed)

6. **Internal Audit Annual Report 2006/07 (Pages 33 - 44)**

Report of the Director of Finance (enclosed)

7. **Annual Accounts (inc. Annual Governance Statement) (Pages 45 - 56)**

Report of the Director of Finance – Annual Governance Statement (enclosed)

Continued....

Annual Accounts (to follow)

8. **Any other item(s) that the Chair decides is/are urgent**

Yours sincerely



Chief Executive

Distribution

1. Agenda and reports to all Members of the Audit Committee (Councillor Anthony Gee (Chair), Councillor Mary Wilson (Vice-Chair) and Councillors Alan Cain, Magda Cullens, Michael Devaney and Keith Iddon) for attendance.
2. Agenda and reports to Gary Hall (Director of Finance), Donna Hall (Chief Executive), Garry Barclay (Audit and Risk Manager), Andy Armstrong (Assistant Audit Manager), Steve Pearce (Assistant Head of Democratic Services) and Dianne Scambler (Trainee Democratic Services Officer) for attendance.
3. Agenda and reports to Tony Hough and Mike Thomas (Audit Commission) for attendance.

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આ માહિતીનો અનુવાદ આપની પોતાની ભાષામાં કરી શકાય છે. આ સેવા સરળતાથી મેળવવા માટે કૃપા કરી, આ નંબર પર ફોન કરો: 01257 515822

ان معلومات کا ترجمہ آپ کی اپنی زبان میں بھی کیا جاسکتا ہے۔ یہ خدمت استعمال کرنے کیلئے براہ مہربانی اس نمبر پر ٹیلیفون

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کیجئے:

Audit Committee**Thursday, 29 March 2007**

Present: Councillor Anthony Gee (Chair), and Councillors Geoffrey Russell and Shaun Smith

Officers Present: Gary Hall (Director of Finance), Garry Barclay (Audit and Risk Manager) and Dianne Scambler (Trainee Democratic Services Officer)

Also in attendance: Gareth Kelly (Audit Commission) and Mike Thomas (Audit Commission)

07.AU.01 APOLOGIES FOR ABSENCE

Apologies for absence were received by Councillors Magda Cullens, Keith Iddon, Joyce Snape, Mary Wilson and Jack Wilson.

07.AU.02 MINUTES

RESOLVED – That the minutes of the meeting of the Audit Committee held on 18 January 2007 be confirmed as a correct record for signing by the Chair.

07.AU.03 DECLARATIONS OF ANY INTEREST

No declarations of interest were received.

07.AU.04 ANNUAL AUDIT & INSPECTION LETTER

The Audit Commission submitted a report on the Annual Audit and Inspection Letter. This report provided an overall summary of the Audit Commission's assessment of the Council. The letter included a review of how well the Council had progressed, under the Direction of Travel report and the auditor's assessment of how well the Authority had managed its finances, through the Use of Resources scores. It is these results that would feed into any future decision regarding the potential for rescoring the Council's Comprehensive Performance Assessment (CPA) category.

Overall the findings in the report were pleasing and the main messages for the Council included, that:

- more significant improvements in our performance had been made over the last three years compared to all district councils, including those categorised as excellent district councils;
- our service level performance was good in all areas except minor planning although performance had been above the Governments stipulated target and this was to be addressed through e-planning and other management actions;
- support was being given to the Lancashire children and young people partnership to deliver a better deal for the young within the area;
- we continue to perform well in our use of resources, particularly strongly in value for money; and
- further improvements had been secured that enabled us to perform strongly in delivering value for money in terms of a range of economic, effective and efficient services.

Continuing actions were identified for the Council that related to members' responsibilities including the need to:

- monitor the impact of the large scale voluntary transfer of its housing stock in terms of the retained strategic housing function and overhead re-allocation across remaining service areas;
- further support and participate in developing governance and accountability arrangements within Lancashire Children and Young People Partnership;
- work with all the authorities in Lancashire to better integrate the approach to the Local Area Agreement and the county and district Local Strategic Partnerships.
- monitor the implementation of the revised Corporate Strategy to achieve top performance on the Council's overall use of resources;
- maintain and further develop financial management and value for money skills to challenge the future use of the Council's resources;
- further embed a wider ethical governance culture; and
- oversee the development of a data quality strategy and policy statement to drive accurate and timely performance information; with ownership and an understanding at the services level, that is the bedrock of performance management framework.

Mr Thomas stated that the Council had improved on its value for money in the delivery of its services and had scored 4 out of 4 in its use of resources category. The Authority is one of only a few district councils to have achieved this top performance.

The Director of Finance explained that a lot of work has been done to improve on our partnership working arrangements and the results of this were now being driven forward.

Mr Kelly reported that the Audit Commission had been liaising with the Director of Customer, Democratic and Legal Services regarding the management of Governance arrangements. The Ethical Governance Workshops had been very well received and it was planned to hold more in the future. The Members of the Committee made a commitment to encourage the Members of their political groups to attend these sessions.

To facilitate the strategic involvement of Members in performance management, the Audit Committee had been restructured as a cross party group to consider corporate governance. The acting Chair advised that as the Chair of this Committee does not receive a special responsibility allowance, the status of the Committee is diluted and he would like the present administration to look at this issue.

The Director of Finance also stated that they had been looking at the way in which the Audit Committee was constituted, It was acknowledged that the work of the Committee is now more specialised and Members need a degree of knowledge. A smaller Committee benefiting from extra training on the subject may be the answer.

RESOLVED 1. That the Audit Committee notes the Annual Audit Inspection Letter and asks the Executive Cabinet to respond to the issues set out in paragraph 4 of the report and report back to this Committee.

2. That the Leaders Liaison Group be asked to reduce the membership of the Audit Committee to 6 Members.

3. That the Independent Remuneration Panel be requested to examine the possibility of giving a special responsibility allowance to the Chair of Audit Committee.

07.AU.05 USE OF RESOURCES

The Audit Commission submitted a report on the annual Use of Resources assessment which evaluates how well council's manage and use their financial resources.

This is the second year that the assessment had been carried out and the work had focused on the previous years work and updated it for any changes and improvements to the Council's arrangements.

The assessment focused on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services covering five themes.

- Financial Reporting
- Financial Management
- Financial Standing
- Internal Control
- Value for Money

The Council had scored highly on its use of resources, scoring a 3 on four of the themes and scoring a 4 on its value for money.

Findings show that the Council delivered a range of services in line with statutory duties and local needs. High performance and resident satisfaction was evident in key priority service areas. 71 per cent of all Best Value Performance Indicators had improved, achieved or exceeded target and resident satisfaction with council services remained high in priority areas.

RESOLVED – That the report be noted.

07.AU.06 DATA QUALITY REVIEW

The Audit Commission submitted a report giving details of a Data Quality Review of the Council. The Audit Commission had developed a new three-stage approach to the audit of performance indicators for 2005/06 in local government that focused on the Authority's arrangements to ensure quality data comprising:

(i) Management arrangements

A review had been taken to determine whether adequate corporate management arrangements for data quality were in place, and if they had been practically applied. They were assessed in relation to data quality against five key lines of enquiry (KLOE):

- Governance and leadership
- Policies and procedures
- Systems and processes
- People and skills
- Data use

(ii) Completeness check

An arithmetical check of specified BVPIs and non-BVPIs had been completed.

(iii) Data quality spot checks

An in-depth review of a sample of specified BVPIs and non-BVPIs had been carried out based on an assessment of risk. The sample had been drawn from two key service areas: housing and environment.

The authorities Best Value Performance Plan had also been reviewed to establish if it had been prepared and published within statutory guidance. The review had identified the following issues in terms of future targets:

- Future targets set below 2005/06 outturn; and
- Inconsistencies between targets for linked BVPIs

It was Important to place the target setting issue in context of 57 per cent of 2005/06 BVPIs, as identified from the CPA comparators toolkit, already being within the top quartile.

RESOLVED – That the report be noted.

07.AU.07 INTERNAL AUDIT PLAN 2007/2008

The Director of Finance submitted a report to remind Members of the respective roles of senior officers, members and Internal Audit to maintain a sound system of internal control within the Council and sought Members approval of the Annual Internal Audit Plan for 2007/08.

Corporate Governance is the product of all the interlocking systems and process through which an organisation manages and directs itself to determine and deliver its objectives.

The responsibility for the implementation of a sound system of governance and internal control lies primarily with the Council's senior management. To facilitate this the Corporate Improvement Board, comprising the following key officers have conducted the governance self-assessment:

- Director of Customer, Democratic and Legal Services (Monitoring Officer)
- Director of Finance (Section 151 Officer)
- Director of Policy and Performance

Internal Audit is an independent appraisal function, whose prime objective is to evaluate and report on the adequacy of the Council's system of governance and internal control. This is achieved by the Annual Internal Audit Plan that sets out a programme of reviews of the key business risks/systems that are pertinent at the time.

The 2007/08 Internal Audit Plan is structured into seven sections:

- Corporate Governance
- Risk Management
- Anti-Fraud and Corruption
- Review of Key Business Systems
- Review of Financial Systems
- Review of Key Operations
- Contingency

The plan is required to ensure that the Council has in place an adequate and effective internal audit of its system of governance, risk management and internal control in accordance with best practice and professional standards.

RESOLVED – That the 2007/08 Internal Audit Plan be approved and submitted to the Executive Cabinet for adoption.

07.AU.08 GARETH KELLY

The Director of Finance advised the Committee that this would be the last meeting that Mr Gareth Kelly of the Audit Commission would be attending as he was transferring to the Cumbria area.

The Members and Officers of the Audit Committee thanked Mr Kelly for all his work and support with the Authority over the years and extended best wishes for the future.

Chair

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CHORLEY COUNCIL

DRAFT AUDIT COMMITTEE PROGRAMME 2007/8

INDUCTION TRAINING 15/6/07

- **Role of the Audit Committee**
- **Governance Overview**
- **Role of External / Internal Audit**

21 JUNE 2007

- **Audit Committee Programme 2007/8**
- **External Audit & Inspection Plan 2007/8**
- **Internal Audit Annual Report 2006/7**
- **Annual Accounts (inc Annual Governance Statement)**

27 SEPTEMBER 2007

- **Performance & Risk Management Frameworks / Strategic Risk Register**
- **Framework for Partnership Working**
- **Auditor's Report on the Annual Accounts (ISA 260)**
- **Interim Report on Internal Audit Activity**
- **Performance / Risk Management Update**

17 JANUARY 2008

- **Use of Resources**
- **Ethical Governance**
- **Use of Resources Report**
- **Best Value Performance Plan**
- **Data Quality**
- **Health Inequalities**
- **Final Account Memorandum**
- **Interim Report on Internal Audit Activity**

19 MARCH 2008

- **Annual Audit & Inspection Letter**
- **External Audit Plan 2008/9**
- **Internal Audit Annual Plan 2008/9**
- **Framework for Partnership Working Update**

KEY

- **Training & Awareness Items (to be delivered prior to the meeting itself)**
 - **Audit Commission Items**
 - **Internal Audit Items**
 - **Other Items**
-

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Audit and Inspection Plan

01/06/2007

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Audit and Inspection Plan

Chorley Borough Council

Audit 2007/2008

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

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Introduction

- 1 This plan has been developed by the Relationship Manager and Appointed Auditor. It sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2007/08;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.
- 3 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

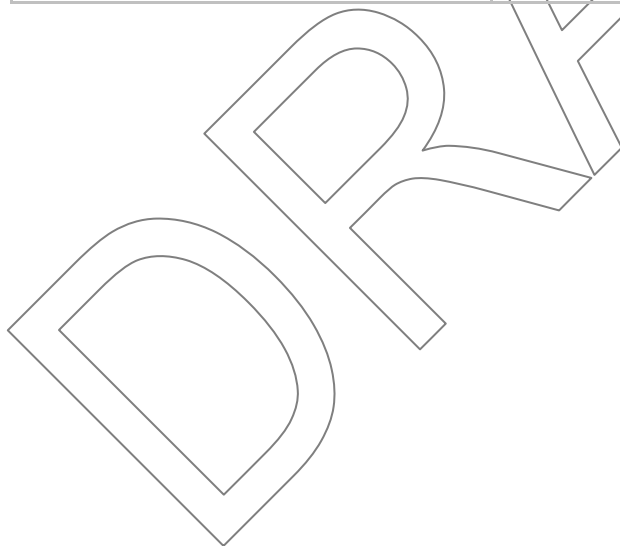
- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999 (best value inspection and audit); and
 - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the Statement on Internal Control (SIC)); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of Responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

CPA and Inspection

- 8 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 9 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. For CPA 2004, the Council was categorised as 'Fair'.
- 10 We have applied the principles set out in the CPA framework, *CPA – district council framework from 2006*, recognising the key strengths and areas for improvement in the Council's performance.
- 11 Strengths in the Council's performance include:
 - significant improvements in its performance over the last three years;
 - effective arrangements in place to deliver a better deal for the young within the area through the Lancashire children and young people partnership; and
 - strong performance in delivering value for money in terms of a range of economic, effective and efficient services.
- 12 Areas for improvement in the Council's performance include:
 - to better integrate the approach to the Local Area Agreement and the county and district Local Strategic Partnerships with other authorities in Lancashire;
 - monitoring the implementation of the Corporate Plan to achieve top performance on the Council's overall use of resources;
 - further development of financial management to challenge the future use of Council's resources;
 - embedding a proactive anti fraud and corruption and wider ethical governance culture;
 - the development of a data quality strategy and policy statement to drive accurate and timely performance information, with ownership and an understanding at the service level, that it is the bedrock of the performance management framework; and
 - monitoring the impact of the large scale voluntary transfer of its housing stock in terms of the retained strategic housing function and overhead re-allocation across all remaining service areas.
- 13 On the basis of our planning process we have identified where our inspection activity will be focused for 2007/08 as follows.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission’s primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT statement will be reported in the annual audit and inspection letter. The DoT assessment summary will be published on the Commission’s website.
CPA re-assessment	The Council has various opportunities during 2007/08 to apply for re-categorisation of its CPA assessment. If the Council chooses to apply then during 2007/08 we may carry out a CPA re-assessment. The fee for this work will be invoiced separately and is not included in this plan.



Work under the Code of Audit Practice

Financial statements

- 14 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 15 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year.
- 16 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Council.

Use of resources

Value for money conclusion

- 17 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 18 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 19 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 20 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.
- 21 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

- 22 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes.

Theme	Description
Financial Reporting	<ul style="list-style-type: none"> • Preparation of financial statements. • External reporting.
Financial Management	<ul style="list-style-type: none"> • Medium-term financial strategy. • Budget monitoring. • Asset management.
Financial Standing	<ul style="list-style-type: none"> • Managing spending within available resources.
Internal Control	<ul style="list-style-type: none"> • Risk management. • System of internal control. • Probity and propriety.
Value for Money	<ul style="list-style-type: none"> • Achieving value for money. • Managing and improving value for money.

- 23 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services.
- 24 The auditor’s scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

Data quality

- 25 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- stage 1 - management arrangements;
 - stage 2 - completeness check; and
 - stage 3 - risk-based data quality spot checks of a sample of performance indicators.
- 26 The work at stage 1 will link to our review of the Council’s arrangements to secure data quality as required for our value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission’s CPA assessment.

- 27 Our fee estimate reflects an assessment of risk in relation to the Council's performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Best Value Performance Plan

- 28 We are required to carry out an audit of your Best Value Performance Plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

Assessing risks

- 29 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 30 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.
- 31 We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We may issue a separate opinion audit plan, if necessary, for our audit of the 2007/08 financial statements during in the year. At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- issues around the Large Scale Voluntary Transfer of the housing stock in March 2007;
 - changes to the SORP for 2007, and
 - potential accounting adjustments in preparation of the move to International Financial Reporting Standards in 2008/09.

- 32 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.

Health inequalities

- 33 Health and well being is a key national focus for improvement and a significant risk for organisations if not adequately addressed in strategic plans. The promotion of healthier communities has an effect on the well-being and prosperity of the population and investment is likely to yield significant long term benefit. Addressing such a large issue is not the preserve of any organisational sector alone – but must be approached through co-operation and shared vision across sectors recognising the key role of the voluntary, charity and faith groups.
- 34 Currently Lancashire has areas with life expectancies well below the English national average. For females the life expectancy ranges from 78.6 to 82.7 (English national average is 81.1). For men it ranges from 74.4 to 78.6 (English national average is 76.9). Despite progress in recent years Lancashire is not projected to achieve the Public Service Agreement (PSA) targets.
- 35 The Health Inequalities (HI) project will involve engaging with clients across all sectors in Lancashire using a three phase approach.
- Phase 1 - research a wide range of health and wellbeing issues across the county using fieldwork to include interviews and documentary reviews across all organisations which will identify the overall strengths and weaknesses across Lancashire.
 - Phase 2 – arrange workshops to look in depth and breadth at the key points in greatest need of attention arising from the review in phase one.
 - Phase 3 - will pull together the action plans arising from the workshops.
- 36 The benefits to clients of this project will be a full report and agreed action plans with local feedback as required to discuss the way forward on key questions including:
- Do HI strategies 'fit' within other strategic priorities?
 - Do partnerships charged with addressing HI function effectively?
 - Do the resources used in gathering information and intelligence on health inequalities support partnerships efficiently?
 - Are the workforce planning arrangements adequate to address the skills and competencies needed to address health inequalities?
 - Do partnerships have performance management frameworks that ensure resources are utilised to their optimum?

- 37 The review is particularly relevant to Chorley because of its adopted strategic objective for 'Improving Equality of Opportunities and Life Chances' and its expected long term outcomes of 'Healthier Communities and Reduced Health Inequalities'. We will review health inequalities throughout Lancashire and involve health and voluntary bodies as well as local authorities. Whilst the main output will focus on the main messages for Lancashire, we will also highlight specific actions Chorley could take to reduce health inequalities.

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Work specified by the Audit Commission

Whole of Government Accounts (WGA)

- 38 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office which is proportionate to risk.

National Fraud Initiative

- 39 The Council participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

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Voluntary improvement work

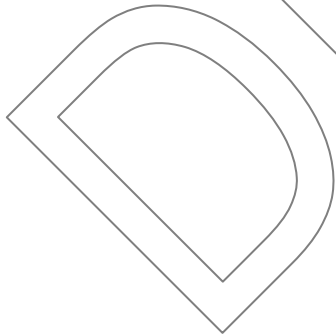
- 40 Under section 35 of the Audit Commission Act 1998, the Commission may undertake voluntary improvement work at the request of the audited body. . We have identified to do the following voluntary improvement work which appears relevant to Chorley Borough Council for 2007/08:
- Improvement through Better Financial Management; and
 - Audit Committee development workshop.
- 41 If you request us to do this work, we will agree specific project specifications for each of the above and agree an additional fee with Director of Resources and the Audit Committee prior to commencing the work.

Certification of grant claims and returns

- 42 We will continue to certify the Council's claims and returns on the following basis:
- claims below £100,000 will not be subject to certification;
 - claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
 - claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

The audit and inspection fee

- 43 The details of the structure of scale fees are set out in the Audit Commission's 'Work programme and fee scales 2007/08'. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 44 The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £110,000 which compares with the actual fee of £105,080 for 2006/07. The 2007/08 fee includes an element to cover the audit of the Whole of Government Accounts returns. This work was not included in the 2006/07 base fee.
- 45 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee (for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers), specific actions Chorley Borough Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically excluded.
- 46 In addition we estimate that we will charge approximately £24,000 for the certification of claims and returns.
- 47 As indicated in paragraph 3, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 43 above. Any changes to the fee will be agreed with you.



Other information

The audit and inspection team

- 48 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

Table 2

Name	Contact details	Responsibilities
<p>Mike Thomas Relationship Manager and District Auditor</p>	<p>m-thomas@audit-commission.gov.uk 01204 877300</p>	<p>The primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.</p> <p>Responsible for the overall delivery of the audit including the quality of outputs, signing the audit opinion and vfm conclusion, and liaison with the Chief Executive and Audit Committee.</p>
<p>Tony Hough Audit Manager</p>	<p>t-hough@audit-commission.gov.uk 01204 877300</p>	<p>Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Finance.</p>
<p>Wanda Rossiter Area Performance Lead</p>	<p>w-rossiterr@audit-commission.gov.uk 01204 877300</p>	<p>Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment.</p>

Independence and objectivity

- 49 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 50 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

Quality of service

- 51 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the Relationship Manager or Audit Manager in the first instance. Alternatively you may wish to contact the Head of Operations, Frank Kirkham.
- 52 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.

Planned outputs

- 53 Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 3

Planned output	Indicative date
Data Quality Findings Report	December 2007
Use Of Resources Report	December 2007
BVPP Report	December 2007
Direction of Travel	December 2007
Opinion Audit Plan (If required)	January 2008
Health Inequalities	January 2008
Interim Audit Memorandum (If required)	June 2008
Annual Governance Report	September 2008
Opinion On The Financial Statements and Value For Money Conclusion	September 2008
Final Accounts Memorandum (If required)	November 2008
Annual Audit And Inspection Letter	To be confirmed.
CPA Re-Assessment (If undertaken)	To be confirmed.

Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<p>Risk of incorrect value for money conclusion. In accordance with the Code of Audit Practice, auditors are required to give a positive conclusion as to whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>	<p>Use of resources assurances in order to identify a plan of action for improving the Council's economy, efficiency and effectiveness.</p>	<p>Yes</p>	<p>We will complete the use of resources review to assess how well the Council manages and uses its financial resources.</p>	<p>All Use of resources KLOEs and VFM conclusion</p>
<p>Risk that the Data quality arrangements are not robust to ensure accurate and timely performance information to underpin the performance management framework.</p>	<p>The Council is aware of the weaknesses in relation to data quality and accuracy on some PIs reported.</p>	<p>Yes</p>	<p>We will carry out a data quality review to assess progress on arrangements, with targeted spot checks on specific PIs.</p>	<p>VFM Conclusion</p>
<p>Health inequalities are a significant problem in the Lancashire area. Our information shows, amongst other indicators, that there is significant variation within the county area and upon regional and national comparison, such as:</p> <ul style="list-style-type: none"> • average life expectancy; • infant mortality rates death by suicide and death by accidents; and • cancer, heart disease, stroke rates. 	<p>There are strategic partnerships in place between NHS and Local Authority bodies. These are the Lancashire Strategic Partnerships, the Local Area Agreement (LAAs) and the Local Strategic Partnership (LSP) with specific targets.</p>	<p>Yes</p>	<p>Health inequalities are not just an NHS issue, but needs a partnership approach across all public sector bodies. Therefore a cross cutting piece of audit work, including the PCT and Local Government bodies, will be completed. The audit will include areas such as:</p> <ul style="list-style-type: none"> • corporate responsibility; • performance management; • public health services; • commissioning including the identification of disadvantaged communities; and • voluntary and community sector engagement. 	<p>Use of resources - Value for money 5.1 and 5.2</p>

18 Audit and Inspection Plan | Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
<p>Use of resources indicates that the Council meets minimum requirements in its promotion of suitable probity and propriety in the conduct of its business, but needs to make improvements if it were to be able to demonstrate that:</p> <ul style="list-style-type: none"> it is proactive in raising the standards of ethical conduct amongst members and staff; and the counter fraud policy is embedded within the culture of the organisation and is supported and promoted by members and senior management. 	<p>Members and Officers are aware of the need to embed ethical governance arrangements.</p>	<p>Yes</p>	<p>We will follow up our 2006/07 review and assess the effectiveness of the actions taken to embed ethical standards and an anti-fraud culture.</p>	<p>Use of resources 4.3</p>
<p>Ethical Governance- changes to the Code of conduct from April 2007 and to the role of the Standards Board or England from April 2008.</p>	<p>Members and officers are aware of the issues.</p>	<p>Yes</p>	<p>Follow-up of ethical governance review in 2006/07.</p>	<p>VFM conclusion criterion 12 and UOR KLOE 4.3</p>
<p>The Council transferred its housing stock to Chorley Community Homes on 31 March 2007. However, it retains the strategic housing function and it will need to review overhead re-allocation across the remaining services.</p>	<p>Members and officers are aware of the issues and are monitoring the position.</p>	<p>Yes</p>	<p>We will complete the use of resources review.</p>	<p>All Use of resources KLOEs and VFM conclusion</p>

Appendix 2 – Audit and inspection fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the actual fee for 2006/07.

Table 4

Audit area	Planned fee 2007/08 £	Planned fee 2006/07 £
Audit		
Financial statements	44,600	41,536
Use of resources (including BVPP)	43,700	59,340
Data quality	13,500	Included in UoR
Whole of government accounts	2,300	Invoiced separately
Total audit fee	104,100	100,876
Inspection		
Relationship management*	2,950	1,682
Direction of Travel*	2,950	2,522
Service inspection	0	0
Corporate inspection	Invoiced separately	0
Total inspection fee	5,900	4,204
Total audit and inspection fee	110,000	105,080
Certification of claims and returns	24,000 (estimate)	26,000 (planned)

* The amounts for relationship management and direction of travel are in line with the national agreed fee levels issued by the Audit Commission in 2007.

- 2 The Audit Commission scale fee for this Council is £110,000. The fee proposed for 2007/08 is 6 per cent above the recommended scale fee for District Councils and is within the normal level of variation specified by the Commission.

- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 5 The fee (plus VAT) will be charged in 12 equal instalments from June 2007 to May 2008.

Assumptions

- 6 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by 30 June 2008;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 7 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 8 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Specific actions Chorley Borough Council could take to reduce its audit and inspection fees

- 9 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. We have identified the following actions Chorley Borough Council could take:
- information to support the accounts and use of resources could be improved in some areas;
 - improve the overall use of resources score of the Council by acting on any improvement areas reported such as financial and risk management;
 - improve the working papers supporting the Statement of Accounts especially explanations of variances;
 - provide any information requested within agreed timescales; and
 - implement audit recommendations promptly.

Process for agreeing any changes in audit fees

- 10 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Chief Executive and Director of Finance. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Corporate Services Committee.

Appendix 3 – Independence and Objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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Report of	Meeting	Date
Director of Finance	Audit Committee	21/06/07

INTERNAL AUDIT ANNUAL REPORT 2006/7

PURPOSES OF REPORT

1. To summarise the **work undertaken** by the Internal Audit Service during the 2006/7 financial year;
2. To give an **opinion on the adequacy and effectiveness of the control environment** in the Council as a whole and in individual service areas;
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**".

CORPORATE PRIORITIES

4. The Accounts and Audit Regulations 2003 require every local authority to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices". Such practices are laid down as standards in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
5. The CIPFA Code of Practice defines Internal Audit as "an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources".
6. The Internal Audit Service therefore seeks to provide assurance that the Council is a **performing organisation**.

RISK ISSUES

7. The report contains no specific risk issues for consideration by Members. All Internal Audit activity is geared towards the identification and management of business risks.



BACKGROUND - ANNUAL GOVERNANCE STATEMENT

8. Regulation 4 of the Accounts and Audit Regulations (2003) requires every Council to conduct an annual review of the effectiveness of its system of internal control and publish a **Statement on Internal Control (SIC)** each year alongside the authority's financial statements. The Council has produced a compliant SIC for each financial year up to and including 2005/6.
9. The Accounts and Audit Regulations also gave Councils the option to publish a wider **Statement on Governance** in place of the SIC but few have done so, largely due to a lack of clear guidance. However in June 2006 CIPFA and SOLACE issued a consultation draft document entitled "Good Governance in Local Government: A Framework", under which Councils are urged to:
 - develop and maintain an up-to-date **local code of governance** consistent with certain "core principles" set out in the Framework;
 - **review their existing governance arrangements** against the Framework;
 - prepare a **governance statement** in order to report publicly on the extent to which the Council complies with its own code on an annual basis including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
10. The new CIPFA SOLACE framework defines proper practice for the form and content of a governance statement that subsumes the requirement to prepare and publish a Statement on Internal Control (SIC). Although CIPFA SOLACE is only due to become mandatory in 2008/9 the Council has elected to publish an Annual Governance Statement for 2006/7 rather than a SIC.
11. **The Corporate Improvement Board have undertaken a self assessment of the Council's system of governance and in so doing so have taken full account of any important control issues raised by the Audit Commission and Internal Audit.**

INTERNAL AUDIT OPINION

12. With regard to Internal Audit, a schedule of audit work undertaken during 2006/7 is shown at Appendix 1, which gives individual opinions on the adequacy of control for each of the areas audited during the year. The majority of these reviews have already been reported in some detail by way of interim / progress reports to the Audit Committee during the course of 2006/7. To arrive at an annual judgement on the overall level of control a view needs to be taken on the relative significance of each area audited and the nature and significance of the weaknesses identified. Taking this into account, **in our overall opinion the Council, in general, continues to operate within a sound control environment.**
13. Our overall audit opinion should be seen in the context that Internal Audit's assurance role has changed from one of reviewing largely financial-based systems to that of evaluating the wider business risk / internal control environment, which is now recognised as best auditing practice. Internal Audit work is now being constructed more around reviewing the key business risk, governance and control issues facing the authority and as such is of significantly greater value as a source of assurance supporting the Annual Governance Statement.
14. This wider role for Internal Audit also reflects the wider remit of the Audit Committee itself, which adopted new terms of reference last year to comply with the latest guidance on audit committees published by CIPFA.

PERFORMANCE

15. Appendix 2 sets out the **key performance data** for the Internal Audit Service during 2006/7. This gives a breakdown of the key **inputs** and **outputs** for the Service including:

- An analysis of chargeable and non-chargeable **time**;
- An analysis of the percentage of the annual **Audit Plan** completed;
- An analysis of the average **customer satisfaction** score per audit assignment.

16. 2006/7 was again a challenging year due to the maternity leave of a team member. The shortfall in resources was met by extending our partnering arrangement with Lancashire County Council's Internal Audit Service.

17. During 2006/7 the authority received **685 days** of Internal Audit coverage. The Internal Audit Service produced **15 reports** containing **174 agreed recommendations** relating to controls assurance, improvements in procedure and advice on best practice.

18. The following **achievements and developments** within the Service are worthy of specific mention:

- **Annual Governance Statement** - facilitating the process leading to the publication of the Statement.
- **Use of Resources** - improved scores for Key Line of Enquiry (KLOE) 4 - Internal Control and an aggregate score of 3 indicating that the authority is performing well in this area.
- **Management of Partnerships & Partnering Contracts** - Reviewing the Council's current arrangements and producing a new corporate Framework for Partnership Working
- **Strategic Risk Register** - facilitating the revision of the Register to align it with the Corporate Strategy and the Business Improvement Planning process.
- **Insurance** - revising all the Council's insurance policies to take account of the housing stock transfer and the procurement of additional specialist covers.
- **Health & Safety** - Establishing a new service level agreement with Bolton Council for the supply of the Council's Health & Safety service

REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

19. The Accounts & Audit (Amendment) (England) Regulations 2006 state at paragraph 6(3) that (the Council) "shall at least once a year conduct a review of the effectiveness of its system of internal audit". The regulations go on to say 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.

20. The Audit Commission conduct a detailed review of Internal Audit on a triennial basis. The latest CIPFA Code of Internal Audit Practice also contains a self-assessment toolkit / checklist for the same purpose. Our recommendation therefore is that the Audit Committee relies on the Audit Commission's triennial review plus internal self-assessments in the intervening years.
21. On this basis we have undertaken a self-assessment of the system of internal audit for 2006/7 and identified no substantive compliance issues with regard to the CIPFA Code of Practice, with the exception of the need for us to produce a formal Internal Audit Strategy for Audit Committee approval which clarifies:
- our objectives & required outcomes
 - how we will form our audit opinion on the control environment
 - how our work will address local and national issues & risks
 - the audit resources and skills required
 - how the service will be sourced

COMMENTS OF THE DIRECTOR OF HUMAN RESOURCES

22. Not applicable to this report.

RECOMMENDATION

23. That the Internal Audit Annual Report for 2006/7 be noted.

REASONS FOR RECOMMENDATION

24. To appraise the Audit Committee of the work undertaken by Internal Audit during 2006/7 and to reassure members that the Internal Audit Service continues to be an effective component of the Council's internal control environment and governance arrangements.

ALTERNATIVE OPTIONS CONSIDERED & REJECTED

25. None.

GARY HALL
DIRECTOR OF FINANCE

Background Papers			
Document	Date	File	Place of Inspection
Accounts & Audit Regulations	2003		
CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom	2006	FINANCE DIRECTORATE	UNION ST. OFFICES
CIPFA and SOLACE - Good Governance in Local Government: A Framework	2006		

Report Author	Ext	Date	Doc ID
Garry Barclay	5468	13/06/07	Annual Report 06-07.doc

APPENDIX 1

SUMMARY OF INTERNAL AUDIT ACTIVITY 2006/7

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
1. Corporate Governance (Support)			
Annual Governance Statement	Co-ordinated a corporate review of the system of internal control and drafted the Statement on Internal Control (SIC)	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable to this item. Proactive input provided rather than an audit / review
Use of Resources	Assisted with the corporate self-assessments and complied the respective reports / submissions to the Audit Commission	Ditto above	Ditto Above
Whistle Blowing Policy	Produced a Corporate Policy and disseminated this to officers via the Intranet and Team Brief	Ditto above	Ditto above
National Fraud Initiative (NFI)	Co-ordinated the Council's input to the national exercise	Ditto above	Ditto Above
Best Value Performance Indicators (BVPI's)	Sample checking several indicators as part of the data quality control process	Ditto above	Ditto above

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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2. Corporate Governance (Reviews)

Anti-Fraud & Corruption Strategy	Completed a risk assessment exercise and compiled an Anti-Fraud & Corruption risk register as part of the review of the Council's Anti Fraud and Corruption Strategy.	Limited	Several risks were identified at the corporate individual directorate levels. An action plan has now been developed to address the weaknesses identified
Management of Partnerships & Partnering Contracts	An exercise to review and identify the Council's key partnerships and partnering activity together with an evaluation of the mechanisms for performance management, risk management and monitoring.	Limited	The new "Framework for Partnership Working" needs to be embedded within the Council to direct and control all current and future partnering activity
Compliance Review	A review was completed at the request of the Director of Finance to assess the level of understanding, awareness and compliance with elements of the key financial procedures in the Constitution.	Limited	The Financial Procedure Rules require some revision and there is a need to produce supplementary procedures in several areas. Some compliance issues within Directorates were also identified

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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3. Risk Management			
Strategic Risk Register	Facilitated the revision of the Register to take account of changes in the Corporate Strategy and actions taken during 2006/7	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable to this item. Proactive input provided rather than an audit / review.
Insurance	Arranged the renewal / tender for the Council's insurances. Management of the insurance function.	Ditto above	Ditto Above
Health & Safety	Established a new service level agreement with Bolton Council for the supply of the Council's Health & Safety service	Ditto above	Ditto above

4. Key Business Systems			
ICT Security	A review to establish whether the safeguards in place to protect the Council's ICT resources are adequate	Limited	Recommendations were made to improve the operation of the Information Security Policy and the Internet and Email Acceptable Use Policy
Data Protection	An audit to ascertain whether the Council has procedures in place to ensure full compliance with the Data Protection Act	Limited	Policies and procedures need to be revised and training provided for key staff Responsibilities for data protection at the corporate and directorate levels need to be clarified to avoid ambiguity

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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4. Key Business Systems (cont'd)			
Freedom of Information	An audit to ascertain whether the Council has procedures in place to ensure full compliance with the Freedom of Information Act.	Limited	Several improvements to the policy and procedural documentation were identified and the roles and responsibilities of key staff need to be clarified
Business Continuity Planning (BCP)	An audit to ensure that the Council has a clear, up to date BCP which is regularly tested and fully understood by those responsible for invoking it in the event of an emergency.	Limited	The Council's procedures need to be re-communicated and embedded and directorate BCP's need updating to reflect recent organisational changes
Project Management	An audit to ensure that corporate standards for project management conform with best practice	Adequate	None

5. Financial Systems			
Key Systems	A high-level annual review of the key controls in all the main financial systems	Adequate	None
Debt Management	An audit to ensure that debt is minimised by the adoption of alternative income collection methods, efficient and effective debt collection.	Adequate	None

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
6. Contingency			
Investigations	Enquiries into a small number of irregularities arising during the year	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable To this item. Proactive input Provided rather than an audit / review.
Post Audit Reviews	Monitoring the implementation of recommendations made in earlier Internal Audit Reports	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable To this item. Proactive input Provided rather than an audit / review.
Unplanned Review - LSVT Pre-Ballot Publicity	Investigation of a complaint to the Audit Commission alleging that the housing stock transfer guidelines may have been breached.	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable to this item. Proactive input provided rather than an audit / review.
Unplanned Review - Registers of Disclosures	Review of the system for making disclosures of pecuniary interests and offers of gifts / hospitality	Limited	Staff had not been reminded of the procedures for several years and the manual recording system had not kept pace with organisational changes
Unplanned Review - Housing Inventories	Assisted Housing Services to update inventories to facilitate a clear hand over at the point of transfer.	Not applicable to this item. Proactive input provided rather than an audit / review	Not applicable to this item. Proactive input provided rather than an audit / review.
Unplanned Review - Local Public Service Agreement / PI's	A review to ensure that the Council has adequate systems to produce the PI's required and an audit of the actual outturn figures used to obtain the performance related grant	Not applicable to this item. Proactive input provided rather than an audit / review	Not applicable to this item. Proactive input provided rather than an audit / review.

KEY TO CONTROL RATINGS

Inadequate	Cannot place sufficient reliance on the controls in place. Substantive control weaknesses exist.
Limited	Can only place limited reliance on the controls in place. Significant control or compliance issues need to be resolved.
Adequate	Can place sufficient reliance on the controls in place. Only minor control weaknesses exist.

NOTE

The above control ratings relate only to the point in time when the final audit report was issued. They represent a historic rather than a current judgement as managers are charged with implementing corrective action plans to address the control issues raised. This is in turn supported by a programme of follow-up reviews by the Internal Audit Service.

PERFORMANCE DATA 2006-7

INPUT ANALYSIS USE OF AUDITORS TIME (DAYS)	PLAN 2006/7		ACTUAL 2006/7	
	Days	%	Days	%
NON-CHARGEABLE TIME (In-house)				
Unavailable Days (Leave / Training)	146	16	182	20
Non-Chargeable Management Administration	78	8	94	10
	21	2	17	2
SUB-TOTAL	245	26	293	32
CHARGEABLE TIME (In-house & bought-in)				
Corporate Governance (Support)	135	15	160	17
Corporate Governance (Reviews)	100	11	92	10
Risk Management	90	10	58	6
Key Business Systems	120	13	130	14
Financial Systems	120	13	84	9
Contingency (Investigations & Advice)	120	13	113	12
SUB-TOTAL	685	74	637	68
TOTAL DAYS IN YEAR	930	100	930	100
Number of Auditors (in-house / FTE)	3.2		3.2	
Chargeable Days Provided In-house	578		530	
Bought In Audit Days	107		107	
Chargeable time as a % of total time available	74%		69%	
OUTPUT ANALYSIS	TARGET 2006/7		ACTUAL 2006/7	
% Audit Plan Achieved	89%		89%	
Average Customer Satisfaction Score Per Audit (Max 5)	4.4		4.3	
Unqualified reliance on IA work by the Audit Commission	Yes		Yes	

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Report of	Meeting	Date
Director of Finance	Audit Committee	21/06/07

ANNUAL GOVERNANCE STATEMENT

PURPOSES OF THE REPORT

- 1 To advise the Audit Committee of the regulatory framework requiring the Council to continuously review its system of governance / internal control and to formally publish an Annual Statement alongside its annual financial statements.
- 2 To explain the structure and processes that are in place within the Council to enable the Statement to be produced.
- 3 To invite Members to review and approve the draft Statement (shown at Appendix 1) which has been produced in accordance with new CIPFA / SOLACE guidelines.
- 4 Thereafter the approved Statement will need to be formally signed-off by the Leader & Chief Executive and be submitted for external audit as part of the 2006/7 financial statements

CORPORATE PRIORITIES

- 5 A sound system of governance and internal control is an essential ingredient of any well-managed, high performing organisation.

RISK ISSUES

- 6 The issues raised and recommendations made in this report involve risk considerations in the following categories:

Strategy		Information	
Reputation	3	Regulatory/Legal	3
Financial		Operational	
People		Other	

- 7 Failure to produce a compliant Statement would constitute a regulatory breach. More substantially, any significant governance issues emanating from the process could impact upon the Use of Resources assessment and ultimately affect the Council's score in Comprehensive Performance Assessment (CPA).



BACKGROUND

- 8 Regulation 4 of the Accounts and Audit Regulations (2003) requires every Council to conduct an annual review of the effectiveness of its system of internal control and publish a Statement on Internal Control (SIC) each year alongside the authority's financial statements. The Council has produced a compliant SIC for each financial year up to and including 2005/6.
- 9 The Accounts and Audit Regulations also gave Councils the option to publish a wider Annual Governance Statement (AGS) in place of the SIC but few have done so, largely due to a lack of clear guidance. However in June 2006 the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) issued a consultation draft document entitled "Good Governance in Local Government: A Framework", under which Councils are urged to:
- develop and maintain an up-to-date local code of governance consistent with certain "core principles" set out in the Framework;
 - review their existing governance arrangements against the Framework;
 - prepare a governance statement in order to report publicly on the extent to which the Council complies with its own code on an annual basis including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- 10 The new CIPFA SOLACE framework defines proper practice for the form and content of an AGS that subsumes the requirement to prepare and publish a SIC. Although CIPFA SOLACE is only due to become mandatory in 2008/9 the Council has elected to publish an AGS for 2006/7 rather than a SIC.**
- 11 The new framework requires the most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) to sign the AGS. They must be satisfied that the document is supported by reliable evidence and accurately reflects the Council's system of governance.
- 12 The AGS is a corporate document and should involve (in addition to the most senior officer and the most senior member as signatories) a variety of people charged with delivering governance, including:
- the monitoring officer in meeting his/her statutory responsibilities;
 - the responsible financial officer who is responsible for the accounting control systems and the preparation of the statement of accounts;
 - directors assigned with the ownership of risks and the delivery of services;
 - members (e.g. through audit or scrutiny committees); and
 - others responsible for providing assurance (e.g. Internal & External Audit).
- 13 Thus as a corporate document, the AGS should be owned by all senior officers and members of the authority. A shared approach should be taken to compiling the AGS because any delegation to a single individual or section will dilute its significance and encourage other people to distance themselves from their proper responsibilities.
- 14 The guidance also states the need for a review body in the process such as the Audit Committee or Scrutiny role who should be charged with critically reviewing the AGS and its supporting documentation. It is vital that this review body remains independent from the AGS compilation and is given real powers to make recommendations and ultimately changes to the process as it sees fit.

STEPS TAKEN TO COMPILE THE ANNUAL GOVERNANCE STATEMENT

- 15 A management group consisting of the following officers has been established for some time to oversee the compilation of the SIC and more recently the AGS:
- Director of Customer, Democratic & Legal Services (Monitoring Officer)
 - Director of Finance (S151 Officer)
 - Director of Policy & Performance
 - Audit & Risk Manager
- 16 The management group has undertaken a detailed corporate self-assessment following the CIPFA SOLACE guidance. Section 5 of Appendix 1 discloses what the management group consider to be "significant governance issues". This view has been derived from the group's cumulative knowledge of the Council's system of governance and the views of independent assurance sources such as the Audit Commission.

DIRECTORATE ASSURANCE STATEMENTS

- 17 In addition to the corporate self-assessment, assurance has also been obtained from Directors, as it is they who are responsible for implementing the respective governance systems and procedures within their service areas. The Council has therefore introduced Directorate Assurance Statements, to be compiled on an annual basis to coincide with the production of the AGS. These require Directors to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues.
- 18 The completed Directorate Assurance Statements have been analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues. Again, any significant non-compliance issues emerging from the Directorate Assurance Statements have also been included in the AGS at Appendix 1.

REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

- 19 The Accounts & Audit (Amendment) (England) Regulations 2006 state at paragraph 6(3) that (the Council) "shall at least once a year conduct a review of the effectiveness of its system of internal audit". The regulations go on to say that the findings of this review be considered by a committee of the Council as part of the wider consideration of its system of governance. Such a review has been undertaken and the significant issues arising are also included in the AGS at Appendix 1.

FURTHER ACTIONS

- 20 Section 5 of Appendix 1 lists all the actions that will be taken to address all the improvement opportunities that have been identified in the corporate self-assessment, directorate assessments and review of the system of internal audit. These actions will be fed into the Business Improvement Plans of the directorates concerned.

RECOMMENDATIONS

- 21 That members review and approve the draft Annual Governance Statement (Appendix 1) which has been produced in accordance with CIPFA SOLACE guidelines.

- 22 That the approved Statement be formally signed off by the Leader and Chief Executive before being submitted for external audit as part of the 2006/7 financial statements.

GARY HALL
 DIRECTOR OF FINANCE

Background Papers			
Document	Date	File	Place of Inspection
Accounts & Audit Regulations	2003	FINANCE DIRECTORATE	UNION ST OFFICES
"Good Governance in Local Government: A Framework", (CIPFA / SOLACE)	2006		

Report Author	Ext	Date	Doc ID
Garry Barclay	5468	13/06/07	Aud Comm GAS

CHORLEY COUNCIL**ANNUAL GOVERNANCE STATEMENT****1. Scope of Responsibility**

Chorley Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

The Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Good Governance in Local Government*. This Annual Governance Statement explains how the Council has complied with the local code and also meets the requirements of Regulation 4 of the Accounts and Audit Regulations 2003 in relation to the publication of a statement on internal control.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of [the authority's] policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2007 and up to the date of approval of the annual report and statement of accounts.

3. The Governance Environment*Establishing & Monitoring the Achievement of Objectives*

- The Council's priorities are derived from consultation on the Community Strategy and the approved Corporate Strategy clearly sets out the Council's priorities and strategic objectives.

- Long term outcomes and interim performance targets have been established for each strategic objective. These are in turn transferred into individual directorate business plans and business plan monitoring reports are produced on a quarterly basis. This is supported by a system of individual staff performance and development reviews.

The Conduct of Behaviour

- The Council's Constitution contains formal Codes of Conduct that articulate the standards of ethical behaviour that are expected from members and officers. These incorporate procedures for the disclosure of pecuniary interests and offers of gifts and hospitality.

Policy & Decision Making

- The Council has adopted a constitution, which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.
- Policy and decision-making is facilitated through the Executive Cabinet supported by a framework of Statutory and Overview & Scrutiny Committees.
- Meetings are open to the public except where personal or confidential matters are being disclosed. In addition, senior officers of the Council can make decisions under delegated authority.
- The Council publishes a Forward Plan which contains details of key decisions to be made by the Council, its committees and chief officers under their delegated powers (and has specified what is significant expenditure in terms of the definition of a key decision).

Compliance

- The Council aims to ensure compliance with established policies, procedures, laws and regulations through a variety of mechanisms, including:
 - Monitoring Officer;
 - Section 151 Officer;
 - Internal Audit;
 - External Audit;
 - Performance management system.
- The Council has designated the Director of Customer, Democratic and Legal Services as Monitoring Officer, who plays a key role in ensuring compliance. After consulting with the Chief Executive, the Monitoring Officer will report to the full Council if he/she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

Risk Management

- The Council has embedded a robust structure and system for identifying and evaluating all significant business risks at both the strategic and operational / service levels. The key elements of which are a Strategic Risk Register and service level risk assessments built into the business planning process.

Economy, Efficiency & Effectiveness

- The Council has constantly sought ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised. These now include:
 - Corporate Improvement Board;
 - Overview & Scrutiny Committees;
 - External Audit;
 - Internal Audit.
- The Council recently obtained a score of 4 for the value for money element of the Use of Resources assessment, indicating that the Council is performing excellently in this area.

Financial Management

- The Council has designated the Director of Finance as chief finance officer under Section 151 of the Local Government Act 1972.
- The financial management of the Council is conducted in accordance with the Financial Procedure Rules set out in the Council's Constitution. The Council has also adopted and implemented the relevant financial codes of practice covering such areas as treasury management and the Prudential Code.
- The Council has in place a five-year Financial Strategy, updated annually, to support the medium-term aims of the Corporate Strategy.
- The Council maintains a sound Internal Audit function which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. Internal Audit report four times annually to the Audit Committee and are a prime source of assurance to the authority regarding its financial management (including the adequacy of its financial systems, budgetary control and the efficient and effective use of resources). Internal Audit also provides assurance in the areas of governance, risk management and compliance.
- The Council has an objective and professional relationship with its external auditors and statutory inspectors.

Performance Management

- The Council's Performance Management Framework is underpinned by the Community Strategy which clearly articulates a shared vision for the Borough. Derived from this is our Corporate Strategy which articulates our corporate vision, priorities, strategic objectives and anticipated outcomes. Individual service unit Business Plans contain key projects which are geared towards achieving overall corporate objectives. This system is in turn supported by individual staff performance and development reviews to ensure that everyone understands their individual and unit contribution to corporate goals.
- Separate detailed guidance exists for Business Planning and the Performance Review processes. Performance against targets is monitored by Strategy Group, Executive Cabinet, the Overview & Scrutiny function and the Audit Committee. Where necessary corrective action is identified and implemented.
- The Council uses a bespoke performance management software system, Performance Plus. The system uses a traffic light system to monitor not only individual performance indicators, but also their combined effect on the achievement of corporate objectives. These reports are produced to ensure that trends in performance can be identified and corrective action introduced if appropriate.

4. **Review of Effectiveness**

Chorley Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of Directors within the authority who have responsibility for the development and maintenance of the governance environment, the Audit & Risk Manager's Annual Report and also by comments made by the external auditors and other review agencies and inspectorates.

The following paragraphs explain the various roles and responsibilities that have been applied in maintaining and reviewing the effectiveness of the Council's system of governance and internal control:

Corporate Level Review

- A management group consisting of the following officers has been established for some time to oversee the compilation of the Statement on Internal Control and now the Annual Governance Statement.
 - Director of Finance (S.151 Officer);
 - Director of Customer, Democratic & Legal Services (Monitoring Officer);
 - Director of Policy & Performance;
 - Audit & Risk Manager.
- The group have conducted a detailed corporate level review of the Council's system of governance in accordance with the guidance provided by CIPFA / SOLACE. The work of this management group in respect of governance will in future be undertaken by the recently constituted Corporate Improvement Board.

Directorate Level Review

- The Council has also introduced Directorate Assurance Statements requiring Directors to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues. These are analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues and as such need to be included in the Annual Governance Statement.

Monitoring Officer

- As the Council's Monitoring Officer, The Director of Customer, Democratic & Legal Services has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution each year at its Annual Meeting.

Scrutiny Committee

- The Council has an Overview and Scrutiny Committee and two subsidiary panels which can challenge a decision which has been made by the Executive Cabinet or a statutory committee but not yet implemented, to enable them to consider whether the decision is appropriate.

Audit Committee

- The Council has appointed an Audit Committee whose terms of reference comply with the latest CIPFA guidelines. These extend to monitoring the Council's governance and risk management framework and include reviewing the adequacy of the governance framework.

Standards Sub-Committee

- The Council has appointed a Standards Sub-Committee whose terms of reference comply with the guidance set out by the Standards Board for England, including the statutory functions in respect of the local Code of Conduct for Members.

Internal Audit

- Internal Audit is responsible for monitoring the quality and effectiveness of the system of governance and internal control. A risk-based Internal Audit Plan is produced each financial year. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Directorate. The report includes recommendations for improvements that are included within a Management Action Plan and require agreement or rejection by service managers. The process includes follow-up reviews of agreed recommendations to ensure that they are acted upon.
- The Internal Audit Annual Report contains a statement / judgement on overall levels of internal control (a view based on the relative significance of the systems reviewed during the year, in the context of the totality of the control environment).
- The Internal Audit Section is subject to regular inspection by the Council's external auditors, who place reliance on the work carried out by them.

External Audit

- In accordance with the Audit Commission's Code of Audit Practice, the Council receive regular reports on elements of its internal control environment, including performance management, risk management, financial management and governance.

5. Significant Governance Issues

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Corporate Improvement Board and have identified the following improvement opportunities:

No.	Control Areas	Planned Improvements
	Ethical Governance	
1	Articulating the Council's shared values regarding personal conduct and behaviour	Capture the Council's values in the Constitution and the Human Resources / Customer Care Strategies
	Decision Making	
2	Making professional legal advice available well in advance of decision making	Incorporate the comments of the Director of Customer, Democratic & Legal Services in committee reports
	Capacity / Capability of Members & Officers	
3	Ensuring that the statutory officers have the resources and support necessary to perform effectively in their roles	Address capacity issues in Finance, Legal and Policy Services
	Engaging with Local People & Stakeholders	
4	Establishing a clear policy on the types of issues the Council will meaningfully consult with stakeholders	Roll out the improved consultation strategy and review the operation of the Citizens' Panel
5	Developing and disseminating the Council's vision, strategic plans, priorities and targets	Roll out the improved communications strategy
	Directorate Compliance	
6	Managing partnering arrangements in accordance with the Council's Framework for Partnership Working	Embed the new Framework for Partnership Working including the compilation of joint risk registers for key partnerships
7	Applying the risk management procedure in the corporate project management toolkit	Roll out the risk management procedure in the corporate project management toolkit consistently across all key business projects
8	Ensuring that Directorate Business Continuity Plans are in place	Bring Directorate Business Continuity Plans up to date following organisational restructuring
9	Complying with corporate Health & safety policies and procedures	Bring health & safety risk assessments up to date and increase staff awareness of the health & safety incident reporting system
10	Achieving value for money in the use of resources	Embed the new Corporate Value for Money Framework including the application of benchmarking strategies by all directorates
11	Maintaining asset registers / inventories in accordance with corporate procedures	Bring Directorate inventories up to date following corporate restructuring
	Internal Audit	
12	Producing an up to date Internal Audit Strategy for delivering the service to meet the Council's needs and priorities	Produce a formal strategy for the Internal Audit service for Audit Committee approval

The majority of the above improvement actions are not new but represent work in progress or the need to embed frameworks or systems that have been introduced relatively recently.

We will take steps to address the above matters to further enhance our governance arrangements through the corporate business improvement planning process and are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Cllr. P Goldsworthy

Leader of the Council

D Hall

Chief Executive

G Hall

Director of Finance (Section 151 Officer)

A Docherty

Director of Customer, Democratic & Legal Services (Monitoring Officer)

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