Chief Executive's Office

Please ask for: Mrs D Scambler
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Date: 16 March 2006

Chief Executive:
Donna Hall

Dear Councillor

AUDIT COMMITTEE - MONDAY, 27TH MARCH 2006

You are invited to attend a meeting of the Audit Committee to be held in the Council Chamber, Town Hall, Chorley on Monday, 27th March 2006 commencing at 3.00 pm.

AGENDA

1. **Apologies for absence**

2. **Declarations of Any Interest**

   Members of the Committee are reminded of their responsibility to declare any personal interest in respect of matters contained in this agenda in accordance with the provisions of the Local Government Act 2000, the Council's Constitution and the Members Code of Conduct. If the personal interest is a prejudicial interest, then the individual Member should not participate in a discussion on the matter and must withdraw from the Council Chamber and not seek to influence a decision on the matter.

3. **Minutes** (Pages 1 - 4)

   To confirm as a correct record the minutes of the meeting of the Audit Committee held on 9 January 2006.

4. **Audit Commission Items**

   a) Use of Resources Audit Score Feedback (Pages 5 - 20)

      Report of Audit Commission (enclosed).

   b) Interim Audit Report (Pages 21 - 36)

      Report of Audit Commission (enclosed).

   c) Opinion Memorandum (Pages 37 - 46)

      Report of Audit Commission (enclosed).

   d) Performance Management (Pages 47 - 70)

Continued….

Report of Audit Commission (enclosed).

    e)   <u>Best Value Performance</u> (Pages 71 - 90)

Report of Audit Commission (enclosed).

5.   **<u>Internal Audit Plan 2006/07</u> (Pages 91 - 102)**

Report of the Director of Finance (enclosed).

6.   **<u>Role and Membership of the Audit Committee</u> (Pages 103 - 110)**

Report of the Director of Finance (enclosed).

7.   **<u>Any other item(s) that the Chair decides is/are urgent</u>**
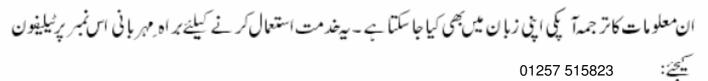

Yours sincerely

JMHall.

Chief Executive

<u>Distribution</u>

1.   Agenda and reports to all Members of the Audit Committee (Councillor L Lennox (Chair), Councillor T McGowan (Vice-Chair) and Councillors K Ball, Mrs P Case, P Goldsworthy, G Russell, R Snape and J Wilson) for attendance.

2.   Agenda and reports to Donna Hall (Chief Executive), Gary Hall (Director of Finance), Andy Armstrong (Assistant Audit Manager) and Dianne Scambler (Trainee Democratic Services Officer)for attendance.

This information can be made available to you in larger print or on audio tape, or translated into your own language. Please telephone 01257 515118 to access this service.

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 جا سکتا ہے ۔ یہ خدمت استعمال کرنے کیلئے براہ مہربانی اس نمبر پر ٹیلیفون کیجئے: 01257 515823

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CHORLEY BOROUGH COUNCIL

Audit Committee

9 January 2006

Present: Councillor T McGowan (Vice-Chair) in the Chair and Councillors P Goldsworthy, G Russell, R Snape and J Wilson

06.AU.01 APOLOGIES FOR ABSENCE

Apologies for absence were received by Councillor Lennox (Chair) and Ball.

06.AU.02 DECLARATIONS OF ANY INTEREST

No Members declared an interest.

06.AU.03 MINUTES

RESOLVED – That the minutes of the meeting of the Audit Committee held on 11 July 2005 be confirmed as a correct record and signed by the Chair.

06.AU.04 INTERIM REPORT ON INTERNAL AUDIT ACTIVITIES AS AT 9TH DECEMBER 2005

The Director of Finance submitted an interim report of the work undertaken in respect of the Annual Audit Plan during the first, second and third quarters of 2005/06 and provided details on further review investigations and other Internal Audit activities during the period.

An appendix to the report gave an assessment and rating on the adequacy of the controls for each of the systems examined by the Internal Audit Section during the period

The report highlighted a number items of work that were being looked at by the Internal Audit Service in a wide range of areas across the Authority that fell under the following headings.

- Main Financial & Other Significant Systems
- Reviews into Key Business Risk Areas
- Audit Specialisms
- Work in Progress.

Under Audit Specialisms concern was expressed over the accuracy of the Best Value Performance Indicators.

The Review of Best Value Performance Indicators (BVPI's) was given an Assurance rating of Limited. The indicators to be reviewed were selected using a selection criteria agreed with the Audit Commission. This resulted in the selection of 15 separate BVPI's covering a range of Units for scrutiny. In only 4 cases could the figure be verified as accurate and free from interpretation. In all remaining cases the figure required some kind of amendment or alteration.

The report contained a number of recommendations to effectively address the control weaknesses identified and to ensure that improvements in procedures are

implemented for the accurate capture of data and calculation of figures for the current financial year.

The Committee Members expressed their concern about the cost of regulation and assurance was sought that the Council uses its limited resources to best effect in terms of gathering and validating the data. Assurances were given that with respect to the audit input there is a risk-based approach that targets areas to be targeted.

The issue was raised in respect of the Council's approach to partnership arrangements and whether any audit work would be undertaken in this area. The Director of Finance informed the Committee that the initial audit planning work for 2006/07 had identified this area as requiring some audit input and would be dealt with as part of the 2006/07 plan.

RESOLVED – That the report be noted.

06.AU.05   AUDIT COMMISSION ITEMS

(a)   Civil Contingencies

The Audit Commission submitted a report on the new requirements of the Civil Contingencies Act in relation to Chorley Borough Council.

Local Authorities have seven main duties:

- risk assessment;
- business continuity management ;
- emergency Planning;
- maintaining public awareness and arrangements to warn, inform and advise the public;
- promotion of business continuity management to the commercial sector and to voluntary organisations;
- co-operation; and
- information sharing.

A self-assessment checklist based on the 'self-assessment tool: local authority emergency planning and business continuity' was used to approach this audit.

Chorley Borough Council had responded to the Civil Contingencies Act and had updated their Emergency Plan and developed a Business Continuity Plan. The main elements to comply with the Act appear to be in place or under development.

Some areas of improvement were identified with recommendations given in the form of an Action Plan.

RESOLVED – 1.   That the report be noted.
2.   That the recommendations be actioned by the Head of Customer, Democratic and Office Support Services by the required date.

(b)   Other Work in Progress

Mr G Kelly of the Audit Commission gave a verbal report outlining a number of other activities that they were working on with the Authority, these included;

- Performance Indicators Report
- Performance Management Update
- Early closedown of the 2005/06 Accounts

The Authority's Direction of Travel was already in draft form and talks were currently taking place with Senior Management Group on whether to publish at this stage.

Continuous work was being made on the Annual Audit Inspection on which they were hoping to report back on 6 March 2006.

Other work included the steps being taken to minimise the impact of the new International Standards of Auditing that were being imposed on the Audit Commission.

Chair

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audit
commission

Use of Resources Audit Score Feedback

Chorley Borough Council

Audit 2005-2006

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 to the Council

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.

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Chorley Borough Council

4 Use of Resources Audit Score Feedback │ Introduction

Introduction

1   The annual use of resources (UoR) assessment evaluates how well councils manage and use their financial resources. It is a more stringent test than the auditor scored judgements that formed part of the comprehensive performance assessment (CPA) framework up until 2004. The scope of the assessment has also been widened.

2   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, covering five themes.

3   Previously, 'adequate arrangements' were sufficient to score 3, but under the new approach meeting 'adequate performance' will score 2. Scoring is based on the following scale.

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

4   The overall score for use of resources will be reported to the Council by the Audit Commission on 13 March 2006. The scores for Chorley Borough Council for the five themes are outlined overleaf.

Chorley Borough Council

Summary scores for each theme

Overall, Chorley Borough Council is performing well on its use of resources.

Key lines of enquiry (KLOE)	Score
Financial reporting	**2**
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	2
1.2 The Council promotes external accountability.	2
Financial management	**3**
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly-based and designed to deliver its strategic priorities.	2
2.2 The Council manages performance against budgets.	3
2.3 The Council manages its asset base.	3
Financial standing	**3**
3.1 The Council manages its spending within the available resources.	3
Internal control	**2**
4.1 The Council manages its significant business risks.	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	2
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	1
Value for money	**3**
5.1 The Council currently achieves good value for money.	3
5.2 The Council manages and improves value for money.	3

Chorley Borough Council

6 Use of Resources Audit Score Feedback │ Theme summaries

Theme summaries

5   The key findings and conclusions for each of the five themes are summarised below.

Financial reporting

FINANCIAL REPORTING **Overall score 2**	
Key findings and conclusions	
A satisfactory and reasonably supported set of accounts have been presented for audit, with good basic processes in place to make accounts available on a very timely basis and to publicise summary accounts. Although the accounts did contain a material error in each of last two years, these were isolated instances relating to SoRP compliant technical issues. Need to introduce a process of consultation with a range of stakeholders on content and format of future summary accounts. Consider the benefits of producing an annual report in a user-friendly format.	
Improvements needed to move to performing strongly	
KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	Complete and cross reference the working paper checklist to electronic working papers along with a predictive analytical review. Develop the planned approach to achieving WGA (Whole of Government Accounts) deadlines in the future, with further evidence of the necessary re-engineering of processes. Improve the QA arrangements to ensure Statement of Accounts is fully SoRP compliant and free from material and non trifling errors.
KLOE 1.2 The Council promotes external accountability.	Consult with stakeholders on summary accounts and then publish a format in response to that consultation. The summary should include an explanation of key financial information which is understandable to the public and available in a wide variety of formats. Compile an annual report which is user-friendly and available in a wide variety of formats.

Chorley Borough Council

Financial management

FINANCIAL MANAGEMENT Overall score 3	
Key findings and conclusions	
The Council has taken effective action to ensure that its medium-term financial strategy (MTFS), budgets and capital programme are soundly-based and are adequately designed to deliver its strategic priorities. Further improvements to the Council's financial management arrangements can be made through incorporating the new community plan and other internal plans into the future MTFS to assist in the delivery of its strategic priorities. Performance is actively managed against budgets and the Council performs well on managing its asset base, and the capital strategy is being updated to reflect current priorities.	
Improvements needed to move to performing strongly	
KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.	Council needs to prepare regular cash flow forecasts during the year. Ensure new community plan priorities are incorporated within the updated MTFS. Corporate business plan needs to include a three-year sensitivity analysis on revenue and capital assumptions. MTFS needs to be linked into other internal strategies and model balance sheets and cash flow over three years, which is agreed with partners and other stakeholders. Council needs to regularly review FM arrangements to ensure they are fit for purpose and proactively manage any changes from future wider developments.
KLOE 2.2 The Council manages performance against budgets.	Review financial performance of the Council's partners. Deliver regular financial management training for members and non-financial officers. Produce accurate profiled financial monitoring reports for all budget holders ten days post month-end. Link operational activity-based cost driver indicators and risk assessments in budget monitoring reports.

Chorley Borough Council

8 Use of Resources Audit Score Feedback │ Theme summaries

Improvements needed to move to performing strongly	
KLOE 2.3 The Council manages its asset base.	Performance measures and benchmarking should be used to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities, and the results shared with stakeholders.
	The Council needs to further develop an approach for the co-ordination of asset management information and its integration with relevant organisational financial information.

Chorley Borough Council

Financial standing

FINANCIAL STANDING **Overall score 3**
Key findings and conclusions
In common with most authorities, the Council operates within tight budgets. The Council has a good track record of managing it's spend within budget, linking the level of reserves against the financial risks it faces. Minor improvements can be made on monitoring debtor income collection and the effectiveness of recovery arrangements. Strong performance can be secured through members monitoring of financial health indicators.
Improvements needed to move to performing strongly

KLOE 3.1 The Council manages its spending within the available resources.	Members need to monitor key financial health indicators and the Council should consider opportunity cost of reserve levels against benefits accrued.

Chorley Borough Council

10 Use of Resources Audit Score Feedback │ Theme summaries

Internal control

INTERNAL CONTROL
Overall score 2

Key findings and conclusions
The Council does have well-performing arrangements to manage its significant business risks largely achieved through the integration of risk management into its performance management and business planning framework. Although risk management is considered within each of the major partnerships, more work is required through formulating a partnership RM policy framework. To secure strong performance on managing risks broader staff and member RM-related training is required.
There are sufficient basic controls, strategies and policies in place to give the Council a well-performing regulatory framework, although there are no formalised arrangements for regular review of this documentation. There are arrangements to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. Members are involved in the process which monitors systems of internal control. Some formalisation and development of existing procedures will be required before advancement to strong performance.
However, some important elements have still not been embedded to ensure probity and propriety in the conduct of the Council's business such as an adopted whistle blowing policy. Partnership arrangements need to be developed in this area. The approach to promote and ensure probity and propriety in the conduct of its business needs to be more proactive.

Improvements needed to move to performing strongly	
KLOE 4.1 The Council manages its significant business risks.	Adopt a formal assurance policy framework to manage partnerships risks. Formalise member arrangements through agreed terms of reference and regular reporting on corporate risks and ensure appropriate RM training for all members not already trained.
	Ensure risks in relationship to partnerships are formulated into a policy.
	Ensure risk management is embedded into the new performance management system including the appropriate capture and management of emerging strategic risks.
	The Council needs to consider how to be explicit in considering the upside of risks in its decision-making arrangements through to its day-to-day management of its activities.
	RM needs to be explicitly linked to policy review.

Chorley Borough Council

Improvements needed to move to performing strongly	
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	Introduce a formal procedure for the annual review of basic regulatory documentation.
	Extend the Audit Committee's terms of reference to more clearly specify its risk and governance remit and to support this with more awareness training.
	Put agreements in place for all the Council's significant partnerships.
	Provide improved evidence that compliance with standing orders, standing financial instructions and the scheme of delegation is monitored by management, with any breaches identified and appropriate action taken.
	Ensure the assurance framework is fully embedded in the Council's business processes.
	Set up an audit committee which is constituted as a full committee of the Council and is independent of both the executive and scrutiny functions.
	Take steps to ensure that the audit committee chair has received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime.
	The standing orders, standing financial instructions and scheme of delegation should make specific reference to partnerships.

Chorley Borough Council

12 Use of Resources Audit Score Feedback │ Theme summaries

Improvements needed to move to performing strongly	
KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	Produce a whistleblowing policy which is issued to members, staff and made available to third parties on the Council's website.
	Introduce a register of interests for officers along with arrangements to review them to ensure appropriate action is taken were disclosures raise issues.
	Assess standards of conduct, including how effectively members are complying with the code of conduct, the number and type of complaints received, and takes action as appropriate.
	Develop a strong counter fraud and wider ethical governance culture which is supported and promoted by members and senior officers.
	Undertake proactive counter fraud and corruption work which is determined by a formal risk assessment.

Chorley Borough Council

Value for money

VALUE FOR MONEY Overall score 3
Key findings and conclusions

Costs for major services are at or below average compared with other district councils providing similar levels of service, allowing for the local context. The Council's major service areas are typified by above average levels of performance and comparatively high levels of customer satisfaction. In overall terms, there is a positive relationship between costs, spending and levels of resident satisfaction.

The Council understands the underlying reasons why its costs and spending patterns differ from nearest neighbours and there is evidence that these reflect policy decisions of elected members. Significant resources have been redirected and re-aligned to support key priorities. However, structures and processes for assessing the wider VFM of policy decisions for the whole community are not yet clear.

Information on costs and how these compare to others and to the quality of services achieved is being used to review and challenge VFM corporately and in major service areas. However, benchmarking of costs and service quality is not yet being used consistently throughout all services as a means of challenging costs, performance and VFM both currently and over time.

Links between spending, investment and the Council's corporate priorities are evident within day-to-day operational arrangements, and demonstrable improvement has been achieved in priority areas. However, there is not yet an agreed definition of what VFM means at Chorley BC. Service-based VFM assessments are not routinely undertaken and VFM targets are not widely set, suggesting that VFM considerations have not yet been fully integrated by all services into day-to-day management arrangements.

The Council has recognised the importance of Business Process Transformation (BPT) in securing improvements in service delivery and VFM. It reviewed its key processes in 2004 and a programme of priority areas was identified for BPT. There is evidence that this approach has helped to focus greater attention and resources on delivering efficiency improvements, particularly in relation to back office functions. Best value and other reviews have led to improvements in performance and VFM across a range of priority services.

Major variations between budget and spend to date are highlighted through the existing corporate financial monitoring reports. However, reports do not necessarily report on wider VFM issues, nor do they bring together information on costs and quality. The Council has still to fully integrate regular VFM monitoring into its existing performance management arrangements.

Chorley Borough Council

14 Use of Resources Audit Score Feedback │ Theme summaries

Key findings and conclusions
Members have agreed a programme of savings and efficiency gain targets linked to priorities. An efficiency statement is in place that sets out some detailed work streams and efficiency targets. The Council has identified a need to further develop its existing structures for monitoring and reviewing efficiency savings and is in the process of implementing initiatives to address identified areas of weakness.
The Council understands the full short and long-term costs of its actions and there is evidence that it is taking account of these when evaluating options and making policy decisions. Capital projects are clearly and consistently appraised against the Council's priorities, the MTFP and its capital investment strategy. There is evidence that recent procurement and other spending decisions take account of full long-term costs and are supported by business cases to help guide and support further decision-making.
More effective procurement practices are currently being developed and implemented by the Council so that VFM from procurement can be more clearly demonstrated at both strategic and transaction cost levels. There are some good examples of how wider procurement, including opportunities for joint and partnership procurement, are being used by the Council to improve service performance, quality and VFM. There is awareness that, in addition to cost, quality and VFM are relevant to procurement decisions.
There is evidence that the Council is making effective use of IT as a means of managing and improving VFM in its internal management processes, back office functions and frontline service delivery.

Improvements needed to move to performing strongly	
KLOE 5.1 The Council currently achieves good value for money (VFM).	Benchmarking information on costs and quality of services achieved currently and over time needs to be used consistently throughout all services and corporately as a means of challenging performance and VFM.
	VFM considerations need to be integrated by all services into their day-to-day operational management arrangements. Clear VFM targets are needed for senior managers and members to assess VFM and monitor its achievement.
	Structures and processes for assessing the wider VFM of policy decisions for the whole community need to be formalised.

Chorley Borough Council

Improvements needed to move to performing strongly	
KLOE 5.2 The Council manages and improves value for money.	Bring together information on costs and quality of services in regular reporting to members.
	Ensure full integration between all of the Council's key strategies to enhance effective performance management arrangements.
	Strengthen structures for monitoring and reviewing efficiency savings.
	Develop comprehensive and effective procurement practices so that VFM from procurement can be more clearly demonstrated at both strategic and transaction cost levels.

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Audit Detailed Report

March 2006

audit
commission

Interim Audit Report

Chorley Borough Council

Audit 2004-2005

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Chorley Borough Council

Summary report

Introduction

1   Our Audit and Inspection plan for 2004/05 outlined the work we would be carrying out to meet our Code of Audit Practice responsibilities, which includes a review of financial core processes and aspects of corporate governance. We have also included findings from our review of Internal Audit, carried out as part of the 2005/06 audit.

2   Our findings are reported on an exception basis and we have only included the issues where we feel the Council should consider strengthening its arrangements.

Audit approach

Accounts

3   We have reviewed the Council's core processes, which include:

- the main accounting system (MAS);
- budgetary control procedures; and
- final accounts closedown procedures.

Financial aspects of corporate governance

4   We have assessed whether the Council has adequate arrangements to:

- ensure financial standing is soundly based;
- ensure systems of internal financial control are both adequate and effective;
- maintain proper standards of financial conduct and to prevent and detect fraud and corruption; and
- ensure the legality of transactions.

Internal Audit

5   Our review assessed the Internal Audit section against standards set out in the CIPFA Code of Practice for Internal Audit in Local Government, which represents proper Internal Audit practices.

Chorley Borough Council

Main conclusions

6   Table 1 sets out the main conclusions from the work we have completed as part of our interim audit.

Table 1   Main conclusions

No significant issues arose in the three interim audit review areas.

Audit area	Conclusion
Accounts	Core processes provide a sound basis for the preparation of financial statements that are free from material misstatement or error.
Financial aspects of corporate governance	The Council has adequate arrangements in place to discharge its responsibilities.
Internal Audit	Internal Audit meet the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government.

7   Core processes need to be further improved on certain financial controls and closedown procedures to ensure compliance with the whole of government accounts future requirements. Aspects of corporate governance can be enhanced through:

- promoting awareness of ethical governance issues for officers and members;
- adopting an approved whistleblowing policy;
- integrating risk management into financial management and partnership arrangements; and
- regular statutory compliance monitoring of regulations and policies.

Chorley Borough Council

6 Interim Audit Report │ Detailed report

Detailed report

Core process review

8   We are required to give an opinion as to whether the accounts present fairly the financial position of the Council and have been prepared in accordance with appropriate regulations and proper professional practices.

9   The first stage of this element of the audit has been completed by reviewing the Council's core processes:

- the main accounting system (MAS);
- budgetary control procedures; and
- final accounts closedown procedures.

10   Table 2 provides a summary of the findings for each of the core processes.

Table 2   Assessment of core processes

Core processes provide a sound basis for the preparation of financial statements that are free from material misstatement or error.

Core process	Summary of findings	Conclusion
Main accounting system	Whilst the majority of expected controls are in place, there is scope to improve the controls over: - system balancing; - control account reconciliations for the main feeder systems; - bank reconciliations; - journals; and - system access levels.	The main accounting system provides an adequate basis for the preparation of the financial statements.
Budgetary control procedures	The majority of expected controls are in place. However, there is scope to improve the controls over budget monitoring undertaken by budget holders.	Budgetary control procedures provide an adequate basis for the preparation of the financial statements.

Chorley Borough Council

Core process	Summary of findings	Conclusion
Closedown procedures	A well planned and structured approach exists to facilitate the accurate completion of the financial statements. However, there is scope to expand the closedown timetable to cover the following key tasks: • restriction of ledger access in run up to final update; • review and clearance of suspense accounts; • reconciliation of asset register to general ledger and final adjustments to capital charges; • delivery of accounts to the Director of Finance prior to deadline; • senior officer review of accounts and working papers before audit commences; and • regular progress meetings.	Closedown procedures provide a sound basis for the preparation of the financial statements. However, there is scope to expand the closedown timetable to cover all the key issues.

Recommendations
R1   Run trial balances on a monthly basis.
R2   Where feeder system transactions are posted to the MAS during the year, ensure that: • *related control accounts are reconciled on a monthly basis;* • *adequate working papers are maintained to evidence this process;* • *control account reconciliations are reviewed and authorised by a senior officer; and* • *unreconciled items are not carried forward.*
R3   Ensure that the monthly bank reconciliation is: • *signed by the responsible officer; and* • *independently reviewed and authorised by a senior officer.*

Chorley Borough Council

8 Interim Audit Report │ Detailed report

Recommendations

R4 *To improve control over the use of journals, ensure that:*
    • *all journals are independently reviewed and authorised;*
    • *there is adequate supporting information; and*
    • *guidance notes are prepared for completing journals.*

R5 *Review users of the MAS on a monthly basis.*

R6 *For the system of cash limited budget to be effective:*
    • *develop procedures for budget monitoring;*
    • *review budget monitoring information to ensure that it is fit for purpose; and*
    • *ensure that staff involved in budget monitoring are adequately trained.*

R7 *Expand the closedown timetable to include all key issues.*

Financial aspects of corporate governance

11   The Council has a responsibility to put in place arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness. We have a responsibility to review those arrangements.

12   Our work is structured around four key elements, as defined in the Code of Audit Practice:

- financial standing;
- systems of internal financial controls;
- standards of financial conduct and the prevention and detection of fraud and corruption; and
- the legality of transactions.

13   Table 3 provides a summary of findings for each area.

Chorley Borough Council

Table 3   Assessment of financial aspects of corporate governance

The Council has adequate arrangements in place to discharge its responsibilities.

Area	Summary of findings	Conclusion
Financial standing	The Council has adequate arrangements in terms of: • setting a balanced budget and capital programme; • financial monitoring and reporting; • meeting financial targets; and • financial reserves.	The Council has put in place adequate arrangements to ensure its financial standing is soundly based.
Systems of internal financial control	The Council has adequate arrangements in terms of: • monitoring financial systems; • Internal Audit; and • risk identification and management. However, there is scope to further embed risk management into financial management and partnership arrangements.	The Council has put in place adequate arrangements to ensure it has adequate and effective systems of internal financial control.
Standards of financial conduct and the prevention and detection of fraud and corruption	The Council has adequate arrangements in terms of: • ethical framework; • governance arrangements; • treasury management arrangements; and • preventing and detecting fraud and corruption.	The Council has put in place adequate arrangements to maintain proper standards of financial conduct and to prevent and detect fraud and corruption. However, arrangements need to be more proactive as supported by an appropriate whistleblowing policy and awareness training.

Chorley Borough Council

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Area	Summary of findings	Conclusion
	However, arrangements could be strengthened further in the following areas: • promoting awareness of conduct, ethical standards and fraud and corruption issues for officers and members; • reviewing the adequacy of policies and practices to ensure compliance with statutory and other guidance (Audit Committee function); • updating the constitution on the Council website; • developing and adopting an approved whistleblowing policy; and • monitoring and testing of the operation of the CIPFA/SOLACE framework by members.	
Legality of transactions	The Council has adequate arrangements in terms of: • clarity of roles and responsibilities; • consideration of legality within the decision-making process; and • considering the impact of new legislation.	The Council has put in place adequate arrangements to ensure the legality of transactions that may have a financial consequence.

Recommendations
R8   *Integrate risk management into financial management and partnership working arrangements.*
R9   *Introduce arrangements for the Audit Committee or other forum to review all policies and practices to ensure compliance with statutory guidance.*
R10 *Review arrangements to ensure that the Council website is updated to include revisions to the constitution.*
R11 *Develop and adopt an approved whistleblowing policy, which is support by adequate member and officer ethical standards awareness training.*

Chorley Borough Council

Internal Audit

14   Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives.

15   Our review has assessed the Council's arrangements against standards for an effective Internal Audit service as outlined in the CIPFA Code of Practice for Internal Audit in Local Government across the following areas:

- scope;

- independence;

- audit committee;

- relationships;

- staff, training and development;

- audit strategy;

- management of audit assignments;

- due professional care;

- reporting; and

- quality assurance.

16   The Internal Audit function is effective across all of the CIPFA Code of Practice areas and meets the standard. Only one exception is the Code requires the Head of Internal Audit to make provision to form an opinion where key systems are being operated by other organisations on behalf of the audited body. Arrangements to do this in relation to those elements of the payroll system which are operated by Blackpool Borough Council are inadequate.

Recommendation
R12 Review arrangements for the Audit and Risk Manager to form an opinion on those elements of the payroll system operated by Blackpool Borough Council.

Chorley Borough Council

Appendix 1 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Core process review						
7	R1 Run trial balances on a monthly basis.	2	Gary Hall Director of Finance	Yes	None	April 2006
7	R2 Where feeder system transactions are posted to the MAS during the year, ensure that: • related control accounts are reconciled on a monthly basis; • adequate working papers are maintained to evidence this process; • control account reconciliations are reviewed and authorised by a senior officer; and • unreconciled items are not carried forward.	2	Gary Hall Director of Finance	Yes	None	April 2006

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Interim Audit Report | Appendix 1 – Action plan **13**

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R3 Ensure that the monthly bank reconciliation is: • signed by the responsible officer; and • independently reviewed and authorised by a senior officer.	3	Gary Hall Director of Finance	Yes	None	April 2006
7	R4 To improve control over the use of journals, ensure that: • all journals are independently reviewed and authorised; • there is adequate supporting information; and • guidance notes are prepared for completing journals.	3	Gary Hall Director of Finance	Partially	Disagree on journals as compensatory controls such as budgetary and reconciliation controls.	April 2006
7	R5 Review users of the MAS on a monthly basis.	2	Gary Hall Director of Finance	Yes	None	April 2006

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14 Interim Audit Report | Appendix 1 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R6 For the system of cash limited budget to be effective: • develop procedures for budget monitoring; • review budget monitoring information to ensure that it is fit for purpose; and • ensure that staff involved in budget monitoring are adequately trained.	2	Gary Hall Director of Finance	Yes	None	June 2006
8	R7 Expand the closedown timetable to include all key issues.	2	Gary Hall Director of Finance	Yes	None	June 2006
Financial aspects of corporate governance						
10	R8 Integrate risk management into financial management and partnership working arrangements.	2	Garry Barclay Audit and Risk Manager Gary Hall Director of Finance	Yes	None	September 2006

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Interim Audit Report | Appendix 1 – Action plan **15**

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R9 Introduce arrangements for the Audit Committee or other forum to review all policies and practices to ensure compliance with statutory guidance.	2	Gary Hall Director of Finance	Partially	The Council will review as part of the re-constitution of the Audit Committee.	Ongoing
10	R10 Review arrangements to ensure that the Council website is updated to include revisions to the constitution.	1	Gary Hall Director of Finance	Yes	None	May 2006 and Ongoing
10	R11 Develop and adopt an approved whistleblowing policy, which is support by adequate member and officer ethical standards awareness training.	3	Gary Hall Director of Finance Rosemary Lyons Director of Legal Services	Yes	None	September 2006
11	R12 Review arrangements for the Audit and Risk Manager to form an opinion on those elements of the payroll system operated by Blackpool Borough Council.	2	Garry Barclay Audit and Risk Manager	Yes		

Chorley Borough Council

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Audit 2004-2005

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 to the Council

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.

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Summary report

Introduction

1   Our responsibility, as the Council's external auditors, is to form an independent view on the accounts and issue our opinion as to whether they present fairly the financial position of the Council.

2   We plan the audit in accordance with the Audit Commission's Code of Audit Practice in order to obtain reasonable assurance that the accounts are free from material misstatement, whether from fraud or other irregularity or error. We also provide assurance that the accounts comply with statutory and other proper accounting practices.

3   The purpose of this report is to summarise the matters arising from the audit of the Council's accounts for the year ended 31 March 2005.

Background

4   SAS 610 requires auditors to report to those charged with governance, as distinct from management, certain matters before they can give an opinion on the financial statements.

5   Auditors should communicate to those charged with governance:

- expected modifications to the auditors' report;

- unadjusted misstatements;

- material weaknesses in the accounting and internal control systems identified during the audit;

- their views about the qualitative aspects of the entity's accounting practices and financial reporting; and

- matters specifically required by other Auditing Standards to be communicated to those charged with governance; and on any other relevant matters relating to the audit.

6   We agreed with the Council that, the communications required by SAS 610 in advance of issuing our report on the annual financial statements of the Council was not required as:

- all non-trifling and material errors identified during the course of the audit have been amended;

- no material weaknesses in the accounting and internal control systems have been identified;

- no other accounting or auditing standards matters need to be reported; and

- an unqualified opinion has been issued.

Chorley Borough Council

Main conclusions

7   A number of issues arose during the course of the opinion audit with one material error and a few non-trifling errors, which required amendments to the statement of accounts. The amended accounts were re-approved by the Accounts Committee on 21 September 2005. As a result of all non-trifling errors being corrected no SAS 610 report, to those charged with governance, was necessary.

8   The key issues arising from the opinion audit are summarised in the next section with the matters arising set out in Appendix 1 as a detailed action plan. Overall, a reasonable set of accounts was presented for audit with future improvements largely needed to facilitate early opinion sign off in accordance with the Whole of Government Accounts agenda.

Detailed report

Opinion audit findings

9   Table 1 below outlines the material and non-trifling changes to the accounts along with the rationale for the adjustment. The Director of Finance has reported the key changes arising from the audited accounts to the Accounts Committee on 21 September 2005.

Table 1   Material and non-trifling changes

Amendment	Rationale for adjustment
£2,464,070 of grant used to fund expenditure on deferred charges has been credited directly to the CFA without going through the CRA.	Grant used to fund expenditure on deferred charges required a debit appropriation from CRA and credit against the net cost of services on the CRA. Nil impact on the bottom line of the CRA.
£818,000 of HRA expenditure included in the net cost of services section of the CRA relates to the major repairs reserve.	This amount is now included in the appropriations section of the CRA to comply with SORP accounting requirements.
Opening balance for deferred charges included £194,000 of premia on debt rescheduling, which has been reclassified as long-term debtors. The premia on debt rescheduling should be written off to the CRA or use capital receipts to avoid the impact on CRA.	Latest AC technical guidance has been followed by the Council with the debt premia set against existing capital receipts.
Pensions interest costs and expected return on pensions assets with a net position of £281,000 are not disclosed in the net operating expenditure section of the CRA.	This has been amended on the face of the CRA to ensure compliance with FRS 17 and the SORP 2004.
£418,000 of amortised intangible fixed assets have been debited to the net cost of services within the CRA and then written off to the CFA as an appropriation from the CRA.	These amortisation charges have been amended to treat them on the same basis as depreciation on fixed assets by making a matching debit and credit made to AMRA.

Amendment	Rationale for Adjustment
£673,000 of housing pooled capital receipts have been paid to the ODPM directly from the Usable Capital Receipts Reserve.	These receipts required a CRA debit to net operating expenditure, with a credit to CRA appropriations to negate the impact on the General Fund bottom line.

Other opinion related issues

10   During the course of the audit, a number of other opinion related issues arose, which need to be addressed to facilitate earlier closedown and opinion sign off to meet the challenging Whole of Government Accounts timetable.

11   The Council did present an early set of accounts for audit as approved by the Accounts Committee on 5 July 2005. The final accounts working paper checklist was not completed on commencement of the audit and although most working papers had been provided on a timely basis some delays did occur.

12   A robust Statement on Internal Control (SIC) evidence gathering process has been introduced. Although, Internal Audit will need to ensure timely reviews of key financial systems to inform SIC assurances and assist in compliance with the International Standards on Auditing 315.

13   A change in the bad debts provision for council tax calculation had a material reduction in the provision year on year, which has been justified by the Council as over-provision in previous years. A note has been added to the Collection Fund to explain the change in provision calculation and we strongly recommend close monitoring of the provision levels to manage the risk of any unexpected impact on the CRA.

14   The register of interests for members has not been reviewed as part of the process for identifying related party transactions and no equivalent officer register exists. However, a review of the members register of interests and the officer's gifts and hospitality register has not identified any significant items worthy of disclosure under FRS 8.

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8 Opinion Memorandum │ Detailed report

Disclosure requirements

15   During the course of the audit, a number of changes to the accounts were agreed, but these were presentational issues to help clarify the content of the accounts and to ensure full compliance with the Statement of Recommended Practice 2004 (SORP) and to assist in preparation for the Whole of Government Accounts agenda.

Acknowledgements

16   We would like to thank officers for their assistance during the 2004/05 financial year opinion audit.

Chorley Borough Council

Appendix 1 – Action plan

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R1 Introduce a policy for only capitalising expenditure which meets the CIPFA definition.	2	Gary Hall Director of Finance	Yes	Agree to introduce before end of 2005/06 financial year.	March 2006
R2 Ensure the working paper requirement checklist is completed as part of the closedown arrangements.	3	Gary Hall/ Michael Jackson	Yes	Agree to complete as part of closedown.	June 2006
R3 Introduce early reviews of key financial systems to support the SIC and ISA 315.	3	Garry Barclay Audit and Risk Manager	Yes	Agree to complete as part of the 2005/06 ISA work.	April 2006
R4 Monitor the adequacy of council tax bad debts provision on a regular basis.	3	Gary Hall	Yes	The Council tax bad debts provision will be reviewed on an ongoing basis.	Ongoing.
R5 Introduce an officers' register of interests and procedures to monitor member and officer registers for potential FRS 8 related party transactions.	3	Gary Hall/ Rosemary Lyons Director of Legal Services	Yes	Agree.	June 2006

Chorley Borough Council

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Audit 2004-2005

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Summary report

Introduction and background

1   Organisations with effective performance management arrangements know what they need to do and are therefore more likely to be able to improve the services they provide to local people. Managing performance involves more than just setting up a system. It is also about getting the right culture and leadership in place and focusing on what matters most.

2   In 2004, Chorley Borough Council's comprehensive performance assessment (CPA) found that on balance performance management weaknesses outweighed strengths. However, key strengths that were identified included frameworks for service planning, effective responses to under-performance in some areas, and published service standards for some services.

3   Over the last 12 months, the Authority has demonstrated a positive response to CPA. The performance management issues identified as needing further development have been incorporated into the corporate improvement plan (CIP) and action is now being taken to address them.

Audit approach

4   Our work was designed to support the Authority as it further develops its performance management arrangements. In carrying out the review, we have probed specific improvement areas identified in the CIP and sought to assess the progress and impact that has been achieved.

5   In carrying out our work, we have reviewed key strategies and plans as well as current performance management guidance, templates and unit business plans for 2004/05 and 2005/06. We have also undertaken a number of 'one-to-one' interviews with lead directors and service managers in Corporate Policy, Housing, Finance and Leisure and Cultural Services and facilitated two staff focus groups in order to:

- identify levers and any potential barriers to the adoption of good practice in performance management using the Performance Management, Measurement and Information good practice (PMMI) self-assessment/ checklists developed by the IDeA and the Audit Commission;

- assess the level of understanding and awareness of performance management amongst a cross section of managers and staff;

- assess whether there is scope to improve action planning at community, corporate and service plan levels, including how effectively audit and inspection recommendations have/are being implemented; and

- look at how services are using performance information to measure, monitor and report performance.

Chorley Borough Council

Overall findings and conclusions

6 The Authority is continuing to take positive steps to strengthen arrangements for effective management, measurement and monitoring of performance. Current initiatives and future plans focus on the right areas in that they are aimed directly at identified weakness. Initiatives are generally supported by detailed action plans setting out clear priorities, target dates for delivery, responsible officers and anticipated outcomes.

7 The need for change has already been recognised in the CIP and resources are being made available to support the delivery of the identified improvements. The 'Performance Plus' software, once fully implemented, should help to improve the way the Authority measures, monitors and reports on its performance against key corporate and service level priorities and objectives.

8 If the Authority is to achieve the change in culture and process that it desires, a number of areas need further development, as outlined below.

- Clear vision. Senior managers and leading members are now focusing more clearly on corporate priorities as the basis for decisions and resource allocation. Significant investment has been diverted into priority areas. However, some staff are unclear about what the Council's vision, key priorities and objectives actually mean in practice and how community aspirations are being met.

- A new community strategy has been developed by the Chorley LSP to act as an overarching framework for corporate, service and theme-specific plans for the Council and its other partner bodies and agencies in the LSP. The Council is now actively engaged in reviewing its existing corporate priorities in order to implement the principal elements of the new strategy so far as they can be addressed by the Council through the exercise of its functions. It is considering which elements of the strategy it will be responsible for delivering (either alone or in partnership) and how delivery of the strategy will be resourced.

- Leadership. Positive progress is being made in this area. Good performance is recognised and celebrated. Senior managers and members are using the community vision to motivate managers and staff, to engage with them in an open and honest way, and to gain commitment to improvement. The 'improve4 u' initiative is in place and has been well-received by staff. However, there is a need to better communicate and publicise to staff the changes being made as a result of the issues identified in staff surveys.

- The Authority has signed up to the North West Employer's Charter for Elected Member Development and a Member Development and Leadership Programme/training is in place. So far, this has not been well-attended and some members have yet to complete their development questionnaires.

Chorley Borough Council

6 Performance Management │ Summary report

- Creating a performance orientated culture. A more identifiable performance orientation is emerging, particularly in the context of the new community strategy. Performance management and improvement are integrated with other Council processes, and whilst the majority of managers see it as an integral part of their job there are still a minority of managers and staff who still see them as an 'add-on'. There is a lack of consensus among staff about what performance management involves and, consequently, what a performance orientated culture should look and feel like. This suggests that a performance orientated culture is not yet fully embedded across the Authority. Further work is needed.

- Customer and citizen focus. A strong customer-focused approach has developed, with service standards increasingly being set following consultation with customers and other service users. Performance monitoring and review includes assessment based on citizen and customer feedback and consultation, and whilst performance is generally very strong, the focus on outcomes is not yet consistent in all service areas.

- People management. Weaknesses identified in the CPA and the Audit Commission people management and capacity reports have been acted on swiftly. An HR strategy and supporting business plan are now in place and, although many initiatives are very recent, good progress is being made with positive feedback from managers and staff on the initiatives already introduced. A comprehensive performance, development and review process is in place supported by a new competency-based framework. Revised guidance has been put in place to support managers in progress and development reviews.

- Planning and service review. Strengthened performance management arrangements are underpinned by corporate service and theme specific plans that seek to integrate corporate service and financial planning processes. Peer challenge is adding value to the process. However, unit business plans do not consistently make clear links between the Council's three corporate priorities, individual service objectives and performance indicators/targets. The resource requirements and/or opportunity costs of specific actions now need to be fully quantified.

- Some key tasks within plans do not follow 'SMART' principles, and the narrative given in Annual Updates does not consistently report the actual progress achieved or explain the reasons for slippage. The use of 'ongoing' or 'to be completed' makes it hard to assess what progress has actually been achieved or when service improvements will be delivered. The Audit Commission will endeavour to provide some good practice examples of how this has been achieved in other authorities.

Chorley Borough Council

- Performance measurement, monitoring and reporting. The Authority has defined the outcomes it needs to deliver in order to realise the community vision, and these outcomes are owned and understood by nearly all the managers and staff we surveyed or interviewed. Nevertheless, existing measures of performance do not fully reflect the Authority's objectives. Managers and staff do not have a clear understanding of how the Authority is performing overall against the three corporate priorities or about which areas are improving or worsening.

9 There is a need to increase the number of local PIs that measure outputs and outcomes for local citizens. The introduction of 'Performance Plus' and the identification of a basket of key indicators should help in this regard, but the Authority needs to address concerns raised in the 2003/04 PI audit around the quality of data. Furthermore, target setting is not yet being used consistently to drive continuous service improvement.

Recommendations

10 We have made a number of recommendations for the Council to consider. These are made in the context that in many cases the Council through its improvement planning process had identified these matters as issues. The recommendations are made to ensure that there is a shared view between ourselves and the Council as to what still needs to be done in order for the Council to achieve its improvement goals.

Recommendations
R1 *The Council should continue to ensure that its vision and objectives drive performance improvement by:*   • *clearly defining what the Council's vision, corporate priorities and objectives mean in practice and disseminating to managers and staff;*   • *reviewing existing corporate, service and theme specific plans to ensure that they fit with the new community strategy; and*   • *developing and monitoring action/implementation plans for all key corporate strategies.*
R2 *Carry out an impact assessment covering the short, medium and longer-term impact on the Council of the capacity, financial and other implications of the assessment of the new community strategy.*
R3 *To help embed a strong performance culture:*   • *consider what actions are required to address the issues raised by managers and staff during the course of this review; and*   • *more clearly communicate performance against the Council's priorities and objectives to managers and staff.*

8 Performance Management │ Summary report

Recommendations
R4   Further strengthen service and financial planning processes by: • *making clearer links between corporate priorities, individual service objectives and PIs/targets within and between unit business plans;* • *ensuring that unit business plans consistently identify the resources required to deliver key tasks; and* • *defining key tasks using 'SMART' principles, including target dates and clear identification of how services will be improved by delivering the identified actions.*
R5   Continue to develop a mix of performance indicators that weight the balance of importance to those PIs that contribute to the delivery of the corporate priorities, and set targets consistently to drive continuous service improvement.
R6   Improve the quality of commentary within quarterly performance updates to cover progress, slippage and reasons for under-performance.
R7   Explore ways to improve take-up of the Member Development and Leadership Programme and remind members of the importance of completing the Member Development Questionnaire.

The way forward

11   The new corporate strategy has six strategic objectives, five of which mirror the community strategy priorities. In moving to a new corporate strategy, the Council has addressed in part some of the recommendations The Council's sixth strategic objective is to ensure it is a performing organisation, and a key project for 2006/07 will be to embed effective performance and risk management. This project will result in a strategy and action plan and the recommendations contained within this report will be integrated by June 2006.

Chorley Borough Council

Detailed report

Detailed findings and areas for improvement

12   PMMI research confirms that the culture of an organisation (the shared beliefs and the written and unwritten policies and procedures that determine the way in which the organisation and its staff behave and solve problems) is crucial to understanding how to make performance management effective and is therefore a key factor in helping improve public services.

13   A self-assessment checklist has been developed by the IDeA and the Audit Commission to help local authorities to define where they are in developing a performance-orientated culture. We asked a cross section of managers and staff to complete the self-assessment in Chorley so that we could assess the progress being made in this area. The main levers and potential barriers for the Authority to address if it is to develop a more performance orientated culture and improve performance management arrangements are set out below. Responses from the two staff focus groups are set out in Appendix 1.

Clear vision

Senior managers and leading members are more clearly focusing on corporate priorities as the basis for decisions and resource allocation, with significant investment being diverted into priority areas. However, there is no consensus amongst managers and staff about what the Council's vision, key priorities and objectives actually mean in practice.

A new community strategy has been developed following extensive consultation with key local strategic stakeholders. The Council recognises that it needs to review its existing priorities to ensure consistency with the revised community strategy. The need to define the actions it will and will not be responsible for delivering (either alone or in partnership) from within the community strategy and agree a funding strategy is accepted and will form part of the planned review later in 2005.

A formal risk assessment of the strategy has not yet been undertaken to help the Authority to assess whether it has the capacity, financial or otherwise, to deliver it.

Levers for the Authority to build upon

14   A new community strategy for 2005 to 2016 has been developed through the LSP, following extensive consultation with key local strategic stakeholders (public, private, faith, community and voluntary sectors).

15   Corporate priorities were agreed by elected members as part of the existing corporate strategy to guide corporate, service and theme-specific plans.

Chorley Borough Council

10 Performance Management │ Detailed report

16 Our review of cabinet minutes and reports confirms that elected members are more clearly focusing on corporate priorities as the basis for decisions and resource allocation, with significant investment being diverted into priority areas.

17 Of the managers and staff completing the PMMI self-assessment/good practice checklists:

- two-thirds of staff think that the vision had been developed with all stakeholders including residents, service users and strategic partners (only 8 per cent think they have not been involved); and

- 58 per cent think that the Council/they have a consistently clear vision of the economic, social and environmental conditions the local community wants.

Potential issues/barriers for the Authority to address

18 It is accepted that the Council's three corporate priorities do not yet directly align with the revised community strategy. The Council's plans to review it's corporate, service and financial strategies and plans later in 2005 to define which actions it will, and will not, be responsible for delivering (either alone or in partnership) from within the community strategy, and to agree a funding strategy with partners. A formal risk assessment of the community strategy will need to be undertaken to assess whether there is sufficient capacity, financial or otherwise, to deliver it.

19 Evidence from the staff focus groups and interviews suggests that managers and staff are generally unclear about what the Council's three corporate priorities actually mean in practice.

20 Two-thirds of staff completing the PMMI self-assessment/good practice checklists did not think there is ongoing dialogue between the Authority and the public to ensure priorities continue to focus on the needs of local communities.

Leadership

The Council's response to Audit Commission/inspection recommendations is good and there is strong commitment to improve amongst managers and staff. Good performance is recognised and celebrated. Senior managers and members are seen to be using the community vision to motivate managers and staff, to engage with them in an open and honest way, and to gain commitment to improvement.

Staff surveys covering morale, commitment, attitudes etc are conducted and have been generally well-received with good levels of feedback and coaching from senior managers, although the actions taken as a result of the surveys are not always evident to staff.

The Council has signed up to the North West Employer's Charter for Elected Member Development and a Member Development and Leadership Programme/ training is in place. However, this has not been well-attended and not all members have completed the development questionnaires to help further support the strategic leadership capacity of the Council.

Chorley Borough Council

Levers for the Authority to build upon

21 Of the managers and staff completing the PMMI self-assessment/good practice checklists:

- 92 per cent think that good performance is recognised and celebrated in their service/department;

- nearly 60 per cent think that senior managers and members use the community vision to motivate staff, gain commitment to improvement and engage with staff in an open and honest way. A further 17 per cent think that this happens for some or part of the time; and

- 60 per cent think that staff surveys covering morale, commitment, attitudes etc are conducted, and there are high levels of feedback and coaching from managers in their service/department.

22 Our follow-up review on democratic renewal and housing repairs and maintenance confirmed that good progress has been made by the Authority in responding to Audit Commission/inspection recommendations to strengthen existing arrangements.

23 A Member Development and Leadership Programme is now in place and includes Member Training Needs Analysis. The Authority has signed up to the North West Employer's Charter for Elected Member Development.

24 Core Brief and Team Brief are generally well-received by staff and seen as a key mechanism for understanding what the Authority/service/department is doing and the progress being made.

25 The 'improve4u' initiative is in place and feedback from the staff focus groups suggests that this initiative has generally been welcomed by staff.

Potential issues/barriers for the Authority to address

26 Of the staff completing the PMMI self-assessment/good practice checklists, half said they did not see any changes as a result of staff surveys. A further 25 per cent did not know.

27 In our questionnaire survey of 20 elected members, 42 per cent did not think that chairs and vice chairs are providing the right leadership and direction.

28 The Member Development and Leadership Programme/training is still not well-attended and not all members have returned the Member Development Questionnaire. 'One-to-one' interviews are available for members but, again, take-up is variable.

Chorley Borough Council

12 Performance Management │ Detailed report

Creating a performance orientated culture

A more identifiable performance orientation is emerging in some areas of the Council, particularly in the context of the community strategy. However, not all managers and staff have yet developed a sense of responsibility for the performance of the Authority and accountability for results is not consistently clear.

Performance management and improvement are integrated with other Council processes although some managers and staff still see it as an 'add-on'. A general consensus amongst managers and staff about what performance management is/means and consequently what a performance-orientated culture should look/feel like is not yet embedded.

Levers for the Authority to build upon

29   Of the managers and staff completing the PMMI self-assessment:

- 92 per cent see a direct connection between what they do and how it benefits their service/department and the wider community;

- three-quarters of staff feel that their manager(s) facilitate discussions at meetings on how performance can be improved, invite questions from them and design meetings to encourage two-way communication, problem solving, challenge and support;

- two-thirds think that managers focus a lot of energy and emphasis on setting what is done in the context of the Council's community strategy/corporate priorities. Only 8 per cent of staff did not think that this feature was evident within the Authority;

- two-thirds think that performance management and improvement are integrated with other Council processes and are not treated as an 'add-on'; and

- more than half (59 per cent) think that new ideas are constantly sought, tried and reviewed.

Potential issues/barriers for the Authority to address

30   There is no consensus amongst managers and staff about what performance management is/means and what a performance orientated culture should look/feel like.

Chorley Borough Council

31 Of the managers and staff completing the PMMI self-assessment:

- only 25 per cent of staff think there is a sense of responsibility for the performance of the Authority and that accountability for results is clear;

- only half think that the Authority is consistently open to external challenge and willing to tackle tough decisions and difficult problems; and

- 42 per cent think that the Council's leaders are committed to continual improvement for only some or part of the time.

Customer and citizen focus

There is evidence in some services that the Council is developing a more customer-focused approach, with services and standards set following consultation with service users. However, in some areas, there are few targets and other measures of performance that have been developed with service users and that focus on outcomes and outputs for local people.

A new community strategy has been developed following extensive consultation and involvement with strategic partners and local residents, and an LSP and Citizen's Panel have been in place for a number of years. Performance monitoring and review includes assessment based on citizen and customer feedback and consultation.

Managers and staff have raised concerns around arrangements for public participation and access to services particularly in relation to representations to Planning Committee.

Levers for the Authority to build upon

32 The Authority's performance is set out in the annual best value performance plan and performance information is also available on the Council's website and in other publications, such as 'Tenants News and Views'.

33 A new community strategy has been developed following extensive consultation and involvement with strategic partners, local residents etc. An LSP and Citizens Panel have been in place for a number of years.

34 Performance monitoring and review includes assessment based on citizen and customer feedback and consultation – eg through satisfaction surveys, Tenants Forum, Tenant Participation and relations officers in Housing, and Tenants News and Views.

35 Implementation of the 'one-stop shop', and developments in e-government and electronic service delivery demonstrate a move towards a more customer-orientated focus.

36 Evidence from our follow-up of recommendations made in the Audit Commission inspection report on housing repairs and maintenance shows that good progress has been made in addressing the issues raised, and clear standards have been set out following consultation with residents. Clients know what standards of service they can expect.

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Potential issues/barriers for the Authority to address

37 Despite being considered good practice nationally, members of the public are not able to make representations to meetings of the Planning Committee.

38 In our questionnaire survey of 20 elected members:

- 83 per cent do not think that members of the public and other councillors are able to participate in meetings of the cabinet; and

- half do not think that Overview and Scrutiny is effective in safeguarding the interests of local people.

39 Managers and staff in the two focus groups have raised concerns around:

- communication and engagement with local residents – existing 'two-page spreads' in the Chorley Guardian are not felt to be useful for local residents because they do not present a clear view of what is improving and what is not improving;

- performance monitoring and review – this tends to focus on quantitative measures rather than qualitative. 'We measure the number of visits made but we don't measure anything to do with quality/enjoyment. We don't monitor repeat visits for instance'; and

- facilities for people with disabilities, for example access to the Council Chamber.

People management

Weaknesses identified in the CPA and the Audit Commission people management and capacity reports have been acted on swiftly. An HR strategy and supporting business plan are now in place. There is a comprehensive PDR process supported by a new competency based framework which includes assessment of learning/training and development needs.

These are relatively recent developments and as such have not yet had time to bed down fully. Our initial assessment is that good progress is being made with positive feedback from managers and staff on the initiatives introduced.

Levers for the Authority to build upon

40 Weaknesses identified in the CPA and the Audit Commission people management and capacity reports have been acted on swiftly. An HR strategy and supporting business plan are now in place and there is monthly review of progress with the Executive Director and Head of HR. A draft learning and development strategy has been developed and is currently being consulted on with trade unions.

41 A comprehensive performance, development and review process is in place and is supported by a new competency-based framework. The framework includes annual 'one-to-one' performance appraisal of all managers and staff, the assessment of learning/training and development needs, and the setting of individual personal objectives linked to team, service and corporate objectives.

42 Revised guidance has been developed for use by managers and staff to support the PDR process. The guidance is easy to read and informative and includes 'how to' examples. Formal systems and processes are in place to identify high-achievers, under-achievers and to flag-up capability issues and monitor/ report on sickness and turnover. Staff feedback in the two focus groups we held was generally extremely positive about the new PDR process and competency based framework.

Potential issues/barriers for the Authority to address

43 In its HR strategy, the Authority recognises its inability to provide 'relevant and valid management information' and a 'lack of technological advances' as potential barriers to improvement.

44 During interview, some managers and staff have raised concerns about the Authority's capacity to deliver as well as the level of resources being made available to support the myriad of strategies and plans currently being developed or implemented.

Planning and service review

Strengthened performance management arrangements are underpinned by corporate, service and theme specific plans that seek to integrate corporate service and financial planning processes. Peer challenge is adding value to the process. However, links between the Council's three corporate priorities, individual service objectives and PIs/targets are not consistently clear in unit business plans. In addition, some of the resource requirements/opportunity costs have not been quantified.

Key tasks included in plans are not consistently 'SMART' and some target dates are not easily measurable. The narrative given under progress in annual updates does not consistently report the actual progress achieved or explain the reasons for slippage or revised delivery dates. The use of 'ongoing' or 'to be completed' makes it hard to assess what progress has actually been achieved or when service improvements will be delivered.

Levers for the Authority to build upon

45 A strengthened performance management framework has recently been introduced and training provided to all managers and staff. 'How to' guides on performance management have been developed (including templates) to help ensure consistency in coverage and approach. These are available for use by managers/staff. The guides are easy to read and incorporate recognised good practice.

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16 Performance Management │ Detailed report

46 Our review of 2004/05 and 2005/06 unit business plans confirms that the corporate guidance has generally been followed with a high level of internal consistency evident between the plans produced. An internal process of 'peer challenge' has been introduced to raise the quality of unit business plans. Our reviews of a sample of completed review checklists confirms the reviews are 'adding value'.

47 Of the managers and staff completing the PMMI self-assessment/good practice checklists:

- 67 per cent of staff think that there is a corporate plan in place that identifies the tasks and resources necessary to achieve corporate priorities;

- three-quarters think that corporate, service and financial plans are integrated within their service/department with up-to-date unit business plans in place that translate corporate priorities into action plans;

- 42 per cent think that resource allocation in their service/department is based on corporate priorities;

- three-quarters of staff think that service and/or business plans link with/reference improvement reviews and action plans;

- half think that service and/or business plans link with/reference financial and human resource requirements; and

- the vast majority (83 per cent) feel that they are routinely involved in developing service/departmental plans and 93 per cent feel involved in setting targets and PIs for their service.

Potential issues/barriers for the Authority to address

48 Our review of 2004/05 and 2005/06 unit business plans shows that:

- links between the Council's three corporate priorities, individual service objectives and PIs and targets are unclear. This makes it difficult to see how services are contributing to the delivery of corporate (and service level) priorities and objectives;

- not all the resource requirements/opportunity costs reflected in the plans have been quantified and, as such, it is difficult to see how the costs associated with delivering the key tasks have been reflected in the financial planning process;

- key tasks included in some plans are not consistently SMART and can be vague in what they are seeking to achieve. It is difficult therefore to understand how and why services will be improved by delivering the identified task; and

- not all target dates are easily measurable (eg, reference to 'ongoing') and not all target dates have been completed.

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49 Of the staff completing the PMMI self-assessment/good practice checklists:

- one quarter do not think that resource allocation in their service/department is based on corporate priorities, and a further 16 per cent think these links have only been partially achieved; and

- less than half of staff (42 per cent) think that service/business plans link with/reference training and development needs/IT plans.

50 Action plans have been developed to support the delivery of all key Council strategies.

51 As reported earlier in this report, the implications of the Council's vision and priorities are not clearly understood by all managers and staff.

Performance measurement, monitoring and reporting

The Council has defined the outcomes it needs to achieve to realise the community vision, and these are owned and understood by most managers and staff. Nevertheless, existing measures of performance do not fully reflect the Authority's objectives. Managers and staff do not have a clear understanding of how the Authority is performing overall against the three corporate priorities or about which areas are improving or worsening.

There is a need to increase the number of local PIs that measure outputs and outcomes for local citizens. The introduction of 'Performance Plus' and the identification of a basket of key indicators should help in this regard, but the Authority needs to address concerns raised in the 2004/05 PI audit around the quality of data. Furthermore, target setting is not yet being used consistently to drive continuous service improvement.

Levers for the Authority to build upon

52 'Performance Plus' has recently been introduced by the Authority to better measure, monitor and report on its performance. In addition, a basket of key PIs and targets is being identified to enable managers and elected members to focus on what is most important, and to highlight areas of under-performance against key priorities and objectives.

53 There is regular, routine reporting at unit, service, department and corporate levels. Key performance indicators are reported in the monthly management team monitoring report. This includes explanations for identified poor performance.

54 Core and Team Brief, monthly one-to-ones with Executive Directors and with the Executive Member for Effective Service Delivery and quarterly reports to executive cabinet and Overview and Scrutiny Committee are cited as positive developments helping managers and staff to focus on priority areas set out in the CIP and service unit business plans.

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55   In our questionnaire survey of 20 elected members, two-thirds thought that performance reporting had improved, with reports clearer, more succinct and providing the information needed to make decisions.

56   Of the managers and staff completing the PMMI self-assessment/good practice checklists:

- the vast majority (92 per cent) think that the outcomes the Authority needs to achieve to deliver the community vision have been defined, owned and understood by senior/line managers. Two-thirds of staff also think that they also own and understand the outcomes needed;

- 83 per cent think that they/their manager are accountable for performance in their service/department; and

- three-quarters think that poor performance results in action being taken to improve in their service/department.

Potential issues/barriers for the Authority to address

57   None of the managers and staff we surveyed or interviewed had a clear understanding of how the Authority is performing overall (eg against the three corporate priorities) or could say which areas were improving, staying the same or worsening. Understanding was generally better at the service level.

58   Our 2004/05 PI audit found:

- 49 per cent of PIs to be inaccurate, with many errors relating to a failure to comply with standard definitions; and

- weaknesses in data quality arrangements, notably a lack of evidence to support reported levels of performance in some areas and no independent verification of working papers or use of analytical review to help identify potential errors.

59   Our review of 2004/05 and 2005/06 unit business plans found that there is further room to develop and make use of PIs and target setting as means to support continuous service improvement. Most notably:

- there are insufficient local PIs and targets that focus on the outcomes/outputs to be achieved for local people. Most PIs and targets focus on inputs and process. The Authority may not therefore be measuring its performance across all five dimensions (qualitative, quantitative, input, output and process); and

- PIs and targets have not been set for all service areas.

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60 Based on a sample of third quarter updates as at 31 December 2004, we found that:

- the narrative given under 'progress' is not always sufficient in that it does not consistently report the actual progress achieved or explain the reasons for any slippage or revised delivery dates;

- the use of 'progressing well' or 'to be completed' makes it hard to assess what progress has actually been achieved; and

- the use of 'ongoing' in the revised date column gives no indication of expected delivery and hence when service improvements will be achieved.

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Appendix 1 – Feed back from staff focus groups

What is performance management? What do you understand by the term?

- It helps to focus staff – use it as a management tool.

- A long-term tool to keep focused on corporate and service issues.

- It's a mixture of things- what you do in your department and at a higher level corporately.

- It's about improving services to the customer – tied up with customer satisfaction.

- It's an essential part of what we do – a means of engagement with the community.

- It's continuous.

- Measuring against agreed criteria, setting priorities and meeting needs.

- Positive feedback – good and bad.

- Highlighting under-performance.

- It's a way of controlling what everyone does.

- It's about improvement - need to change or improve in some way.

- Is it about BVPIs?

- Is it about customer satisfaction?

- Does it cover training needs?

- I don't really know

Do you know what the corporate priorities are/ what they mean?

1 Most managers and staff could say what the three corporate priorities are (capacity; customer; cleaner, greener, safer) but there was no consensus or shared understanding about what they actually mean in practice or what the Authority is seeking to achieve. Some examples were cited by staff as to what they thought the priorities meant, but not everyone could think of something under each priority heading.

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Capacity

2   The groups thought this was about:

- investing in resources;

- requirements/responsibilities;

- growth items at department level to be met in budget/business planning cycles; and

- delivering the service that the customer wants, providing the best value.

Customer

3   The groups thought this was about:

- improving services to the customer;

- 'hard-to-reach' groups; and

- partnerships.

Cleaner, greener, safer

4   The group thought this was about:

- recycling;

- road servicing;

- litter;

- live work and visit;

- anti-social behaviour; and

- communities

Performance management – strengths/areas for improvement

5   Staff were asked to think about three strengths and three areas for improvement. Not everyone could do this.

6   Strengths identified within the groups:

- performance management driven from the top (officers);

- well set out framework – new PDR process;

- business planning much better - set clearer targets, objectives etc;

- engagement with partners is improving;

- new competencies are quite good;

- Core Brief/Team Brief – used to celebrate success;

- intranet is a good source of data;

22 Performance Management │ Appendix 1 – Feed back from staff focus groups

- performance review – six-weekly one-to-ones are good;

- regular performance appraisals;

- willingness to adopt new checking measures;

- speak to each other more than five years ago; and

- good performance culture.

7   Areas for improvement identified within the groups:

- the Council is trying to change but it is too slow;

- the Authority is too invisible;

- learning culture is about taking chances – this is not in place in Chorley;

- leadership resistance to moving forward stifles real improvement;

- it is difficult for long-term staff to embed new processes/methods of engagement;

- competencies – professional/technical skills. Links are not quite right regarding focus and balance – represents a 'risk';

- Chorley Guardian 'two-page spreads' – not useful to the public;

- we don't measure the effect/impact of what we do;

- we need more qualitative measures of performance/improvement – the number of visits tells you nothing about quality/enjoyment. We don't even measure repeat visits for instance;

- complaints process – we don't make enough of user feedback;

- performance management is not right – individuals, units, groups are 'tubes' in the dark. Units do their own thing. We are at risk as they don't tell people – eg, undertake work in a building but do not check the asbestos register. Risk to professional standards/communication should be addressed;

- impact of job cuts on service delivery/capacity need to be assessed/ communicated. We are always the last to know;

- need to be better at meeting skills deficits;

- need to have more discussion about who the customer is – not enough focus on the internal customer. Each service area needs to think about who they are trying to serve;

- need more effective training on scrutiny/engaging members to develop themselves;

- no real public engagement in the democratic process – eg, can't speak at planning meetings. Many other councils allow this. If we were serious we would;

Chorley Borough Council

- disabilities are not well-catered for – eg Council chamber access for disabled people and hard of hearing not addressed – we are not involving/engaging;
- partnerships – struggling at the moment regarding partner buy-in; and
- not good at completing initiatives/assessing benefits/impacts achieved.

Performance measurement, monitoring and reporting

8 Strengths identified within the groups:

- service level – achieving targets seen as rewarding;
- target setting links to services and key PIs;
- measuring and monitoring targets very good at unit level; and
- continuously reviewing what we do.

9 Weaknesses identified within the groups:

- managers and staff were not sure what is improving, staying the same or declining;
- there was little awareness of how the Authority is performing against its corporate priorities and objectives;
- we're top quartile in most BVPIs aren't we?;
- members are not driving the process - too much detail, need to clarify their role, especially overview and scrutiny;
- reporting performance needs improving;
- grass cutting was cited as a good example of how difficult it can be to keep members focused;
- scrutiny panels need to be innovative. Call in – £2,500, not key importance/top priority;
- we are being driven by political elections in May 2006;
- CPA not embraced by some members;
- not all staff understand the process of improvement and challenge;
- officers scope/manipulate the outcome; and
- need to be more customer-focused – benefits/outcomes.

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audit
commission

Best Value Performance Plan and Indicators Report

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Audit 2005-2006

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 to the Council

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 non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or

- any third party.

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4 Best Value Performance Plan and Indicators Report │ Summary report

Summary report

Introduction

1   Our Audit and Inspection Plan for 2005/06 outlines the work that we propose to undertake in 2005/06, with the new Code of Audit Practice providing a clearer focus of audit effort on overall financial and performance management arrangements. This report sets out the results of our review of arrangements to ensure:

- the best value performance plan (BVPP) has been prepared and published in accordance with statutory guidance, as part of our duty to review arrangements to ensure compliance with the general duty of best value; and

- the data quality of performance information.

Background

2   Best value, along with the comprehensive performance assessment (CPA), forms an integral part of the Government's programme for the modernisation of local government. Both initiatives are inter-linked and provide a framework within which councils can seek to improve local service standards and performance.

3   Accurate performance information is the cornerstone for securing improvements in performance. This can only be achieved through the development of robust systems of information production and reporting.

Audit approach

Best value performance plan

4   Our review of your BVPP includes an assessment of:

- BVPP compliance with statutory requirements in respect of preparation and publication; and

- Inclusion of all specified performance information in the BVPP.

Performance indicator data quality

5   We have reviewed arrangements in place to ensure the data quality of performance information, including work undertaken by Internal Audit, focusing on best value performance indicators (BVPIs). To confirm the adequacy of these arrangements, we have used a risk-based approach to test:

- the accuracy of performance information;

- compliance with standard BVPI definitions; and

- the adequacy of the audit trail and supporting evidence.

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Main conclusions

6   The Council's BVPP complied with statutory guidance. We have not identified any matters to report to the Council and have no recommendations to make on procedures in relation to the plan in our statutory report, which is attached at Appendix 2.

7   The quality assurance arrangements on performance data quality is under developed as reflected in 40 per cent of 2005/06 BVPIs being inaccurate, with reservations placed on 5 out of 48 BVPIs. Guidance is available to staff on intranet, but a more proactive and standardised approach is required given the number of errors identified by external and Internal Audit.

8   Improvements in the quality assurance framework would allow the Audit Commission to reduce its future level of testing and related fee by placing greater reliance on the Council's own arrangements.

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6 Best Value Performance Plan and Indicators Report │ Detailed report

Detailed report

Best value performance plan

9   The BVPP complied with statutory guidance in all significant areas, although we identified several minor areas of non-compliance.

10   Table 1 summarises those areas of non-compliance, together with several other issues.

Table 1   BVPP compliance

The BVPP complied with statutory guidance in all significant areas

Area	Issue
Compliance	
Omission of targets	Targets for 2005/06 to 2007/08 had not been set for BV203.
Other	
Misstatement of 2004/05 outturn	2004/05 outturn for the following BVPIs was either misstated or could not be verified: BVPI 156, 183b, 184a, 185, 203, 76c, 199 and 205.
Misstatement of 2004/05 targets	2004/05 targets did not agree to last year's BVPP for six BVPIs subject to audit. However, with the exception of BV157, notes have been included in the BVPP to explain the reason for the variance.
Inconsistency of information	We identified inconsistencies between BVPI information in sections two and four of the BVPP.

Source: Audit Commission

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Performance indicator data quality

Assessment of BVPI accuracy and compliance with standard definitions

11   We have used a risk-based approach to select a sample of BVPIs to test:

- the accuracy of performance information;
- compliance with standard BVPI definitions; and
- the adequacy of the audit trail and supporting evidence.

12   Table 2 summarises the results of our assessment of BVPI accuracy and compliance with standard definitions.

Table 2   BVPIs

Forty per cent of BVPIs are inaccurate, with reservations placed on five BVPIs

Category	Accurate		Level of inaccuracy			
	Yes	No	1-5%	5-15%	15%+	Q
Corporate health	8	5	3	1	1	-
Housing	6	6	1	-	2	3
Benefits	2	1	-	1	-	-
Environment	4	1	-	-	-	1
Planning	3	3	-	-	2	1
Environmental health	1	-	-	-	-	-
Cultural services	1	-	-	-	-	-
Community safety	3	3	2	1	-	-
Community legal service	1	-	-	-	-	-
Total	**29**	**19**	**6**	**3**	**5**	**5**

Source: Audit Commission

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8 Best Value Performance Plan and Indicators Report │ Detailed report

13 Whilst the number of inaccuracies has fallen when compared to 2003/04, the number of BVPIs that were misstated by 15 per cent or more has not improved. The number of BVPIs on which we have placed a reservation has increased from two to five, including BV199 and BV205, which were identified by the Audit Commission for particular attention. Appendix 1 shows those indicators which were amended or on which reservations were placed following our audit.

Adequacy of audit trail and supporting documentation

14 Appendix 1 provides details of any problems with the adequacy of the audit trail and supporting documentation. Despite Corporate and Policy Services Unit provided guidance on website there remains variation on the quality of supporting documentation for the various performance indicators.

Internal quality assurance arrangements

15 The Corporate and Policy Services Unit plays a key role in ensuring that the information used to monitor performance can be relied upon. Last year, we recommended that the Council should consider how it satisfies itself that BVPIs are accurately calculated in accordance with standard definitions and that sufficient evidence has been retained. More action is needed in this respect as supported by the number of inaccuracies identified.

16 Whilst targets and outturn figures are reviewed centrally by the Corporate and Policy Services Unit, there is no evidence of this process and no centrally co-ordinated approach to service level reviews. This is particularly important since outturn figures are entered directly on the performance management system without authorisation from Heads of Service.

17 ODPM guidance on BVPIs, as well as advice on the retention of adequate supporting documentation, is available to staff via the intranet. In addition, the Audit Commission BVPI newsletter, which has not been posted on the intranet, was circulated to Heads of Service. However, the nature of a number of errors identified by external and Internal Audit suggests that this guidance is not being properly considered and followed. There is also evidence from Internal Audit testing that in some cases the newsletter did not reach staff responsible for calculating BVPIs.

18 Limited guidance on target setting, which is a crucial component of effective performance management arrangements, has been made available to staff. We identified a number of BVPIs where some or all of the targets for 2005/06 to 2007/08:

- do not reflect 2004/05 outturn;

- do not promote continuous improvement; or

- do not fully consider the BVPI definition.

19 Whilst there may be justifiable reasons for this in some cases, developing formal guidance on target setting would help to ensure that SMART targets are set.

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20   Internal Audit acts as the Council's main control mechanism to ensure the accuracy of performance information and the adequacy of supporting systems. However, the risk-based approach used by Internal Audit means that only a proportion of BVPIs are subject to internal scrutiny every year.

21   Furthermore, this is a relatively expensive control, as the failings in the rest of the quality assurance process means that Internal Audit have been unable to cover all indicators, despite the audit taking twice as long as was originally planned. By improving data quality, IA could review more BVPIs or reduce their level of testing.

22   For 2005/06, we understand that the Council intends to use Internal Audit to review the new quality assurance arrangements to ensure that BVPIs have been correctly calculated. It is important that the Corporate and Policy Service Unit retains ownership of the process of BVPI compilation and ensures that there are adequate quality assurance arrangements in place for all BVPIs.

23   Quality assurance arrangements could easily be further improved through the use of analytical review period comparisons of performance and standard proformas Analytical review techniques can be used to identify:

- possible errors in the collation of PIs;

- the 'realism' of targets and the accuracy of reported performance; and

- significant and/or unexpected variances (to be identified and resolved).

24   Improvements in the quality assurance framework would allow us to reduce our level of testing and related fee by placing greater reliance on the Council's own arrangements.

10 Best Value Performance Plan and Indicators Report | Appendix 1 – Performance indicators

Appendix 1 – Performance indicators

1 Table 3 provides details of those BVPIs which were amended or on which a reservation was placed following our audit or where there were problems with supporting documentation.

Table 3   Performance Indicators

Forty per cent of BVPIs are inaccurate, with reservations placed on five BVPIs and two housing performance indicators

BVPI	Description	Value in BVPP	Correct value	Misstatement	Comment
Corporate health					
1b	If a=yes, when will full review be completed? Will it be on time?	Not completed	-	-	Incorrect format used in BVPP.
2b	The duty to promote race equality.	79%	79%	-	Amendment to original figure of 78 per cent made prior to BVPP publication. Error in calculation.
11a	The percentage of top 5 per cent of earners that are women.	20.83	20.83	-	Internal Audit identified that pay rates used were incorrect. However, this has not affected the reported level of performance.
12	The average working days/ shifts lost due to sickness per FTE.	9.67	9.59	-0.83%	Internal Audit identified errors in calculation and problems with system used to calculate performance. No amendment required since error is less than 1 per cent.

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Best Value Performance Plan and Indicators Report | Appendix 1 – Performance indicators **11**

BVPI	Description	Value in BVPP	Correct value	Misstatement	Comment
14	Early retirements as a percentage of total workforce.	1.3	1.3	-	Amendment to original figure of 1.55 per cent made prior to BVPP publication, following work by Internal Audit.
15	Ill-health retirements as a percentage of total workforce.	0.22%	0.22%	-	Errors in calculation identified by Internal Audit, although this has not affected the reported level of performance.
16a	Percentage of LA employees declaring they are disabled per Disability Discrimination Act.	3.52%	3.52%	-	Amendment to original figure of 3.44 per cent made prior to BVPP publication, following work by Internal Audit.
17a	Percentage of LA employees from minority ethnic communities.	1.37%	1.37%	-	Amendment to original figure of 1.45 per cent made prior to BVPP publication, following work by Internal Audit.
156	Authority building open to the public accessible by disabled.	78%	76.47%	-1.96%	Internal Audit identified that a building from which the Council does not provide a service has been included in calculation, although it has not been possible to agree an amendment.

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12 Best Value Performance Plan and Indicators Report | Appendix 1 – Performance indicators

BVPI	Description	Value in BVPP	Correct value	Misstatement	Comment
Housing					
63	Average SAP energy efficiency rating of LA owned dwellings.	69	69	-	A number of dwellings that were demolished during the year were incorrectly included in the original calculation. Amendment to original figure of 70 made prior to BVPP publication.
183b	Average length of stay in hostel accommodation.	13	-	-	We have concerns over the integrity of the database from which performance is calculated and the accuracy of the information held on the database. As a result, a reservation has been placed on BV183b.
184a	Proportion of LA homes that were non-decent at 1 April 2004.	5.69%	11.22%	97.19%	Performance has been based on the non-decent homes at the end of year rather than the beginning of the year.
184b	Percentage change in proportion of non-decent homes 2004 to 2005.	51.53%	51.29	-0.47%	Minor error in calculation due to error in BV184a. No amendment required since error is less than 1 per cent.

Chorley Borough Council

Best Value Performance Plan and Indicators Report | Appendix 1 – Performance indicators **13**

BVPI	Description	Value in BVPP	Correct value	Misstatement	Comment
185	Percentage of appointments made and kept for responsive repairs.	78.56	-	-	There is an assumption that appointments are kept for all jobs where an appointment is made. A reservation has been placed on BV185 due to a lack of evidence to support this assumption.
202	Number of people sleeping rough on a single night within the area of the local authority.	6	6	-	Amendment to original figure of zero made prior to BVPP publication, following work by Internal Audit.
203	Percentage change in average number of families in temporary accommodation.	63.64%	-	-	Prime documentation has not been retained to support the calculation. A reservation has been placed on BV203, following work by Internal Audit.
HIP BPSA section E3	Re-let times.	39.44%	-	-	*Non-compliance with definition. As a result, a reservation has been placed on HIP BPSA section E3.*
HIP HSSA sections A1 and A6	Private sector homes vacant for more than six months.	705	-	-	*System inadequate. As a result, a reservation has been placed on HIP HSSA sections A1 and A6.*

Chorley Borough Council

14 Best Value Performance Plan and Indicators Report | Appendix 1 – Performance indicators

BVPI	Description	Value in BVPP	Correct value	Misstatement	Comment
Housing benefit and council tax benefit					
76c	Number of fraud investigations per 1,000 caseload.	47	41.52	-11.66%	Performance was based on information that was subsequently found to be inaccurate in quarters one and two.
Environment					
199	The proportion of relevant land having combined deposits of litter and detritus.	14%	-	-	The Council has not complied with requirement to survey a minimum of 300 sites and at least 30 sites in across the ten standard land use categories in each of the three seasonal periods. As a result, a reservation has been placed on BV199.
Planning					
106	Percentage of new homes built on previously developed land.	37.2%	37.2%	-	Amendment to original figure of 29.6 per cent made prior to BVPP publication. Initial work was undertaken by Internal Audit.
204	Percentage of appeals against an authorities decision to refuse planning applications.	18%	18%	-	Amendment to original figure of 15 per cent made prior to BVPP publication. Initial work was undertaken by Internal Audit.

Chorley Borough Council

Best Value Performance Plan and Indicators Report | Appendix 1 – Performance indicators **15**

BVPI	Description	Value in BVPP	Correct value	Misstatement	Comment
205	Quality of service checklist	55.55%	-	-	Prime documentation has not been retained to support the calculation. As a result, a reservation has been placed on BV205.
Culture and related services					
170a	Visits to/use of museums per 1,000 population.	268	268	-	Working papers, which were originally requested on the 16 June, were slow to materialise.
170b	Visits that were in person per 1,000 population.	247	247	-	As BV170a.
170c	The number of pupils visiting museums and galleries in organised school groups.	2,311	2,311	-	As BV170a.
Community safety					
126	Domestic burglaries per 1,000 households.	7.68	7.68	-	Amendment to original figure of 8.45 made prior to BVPP publication. Documentation provided did not support the number of burglaries originally reported. Initial work was undertaken by Internal Audit.

Chorley Borough Council

16 Best Value Performance Plan and Indicators Report | Appendix 1 – Performance indicators

BVPI	Description	Value in BVPP	Correct value	Misstatement	Comment
127a	Violent offences by a stranger per 1,000 population.	7.56	7.56	-	Amendment to original figure of 7.85 made prior to BVPP publication. Documentation provided did not support the number of violent offences originally reported.
127b	Violent offences in a public place per 1,000 population.	13.47	13.47	-	Amendment to original figure of 7.85 made prior to BVPP publication. Same reason as for BV127a.
127c	Violent offences in connection with licensed premises per 1,000 population.	2.59	2.59	-	Amendment to original figure of 2.66 made prior to BVPP publication. Same reason as for BV127a.
127d	Violent offences committed under the influence per 1,000 population.	7.74	7.74	-	Amendment to original figure of 7.89 made prior to BVPP publication. Same reason as for BV127a.
128	Vehicle crimes per 1,000 population.	9.46	9.46	-	Amendment to original figure of 9.605 made prior to BVPP publication. Documentation provided did not support the number of vehicle crimes originally reported.

Source: Chorley Borough Council

Chorley Borough Council

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Best Value Performance Plan and Indicators Report │ Appendix 2 – Auditor's
statutory report on the best value performance plan 17

Appendix 2 – Auditor's statutory report on the best value performance plan

Auditor's report to Chorley Borough Council on its best value performance plan

Authority's responsibilities

1   The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements. Under the Local Government Act 1999 (the Act), the Council is required to prepare and publish a best value performance plan summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

2   The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate corporate performance management and financial management arrangements from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

Auditors' responsibilities

3   I am required by section 7 of the Local Government Act 1999 and the Audit Commission's statutory Code of Audit Practice to carry out an audit of the council's best value performance plan, certify that I have done so, and report:

- any matters that prevent me from concluding that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and

- where appropriate, making any recommendations under section 7 of the Local Government Act 1999.

Report and recommendations

4   I certify that we have audited the Council's best value performance plan in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's statutory Code of Audit Practice.

Chorley Borough Council

18 Best Value Performance Plan and Indicators Report │ Appendix 2 – Auditor's statutory report on the best value performance plan

5   In preparing my report I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. My work, therefore, comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

6   I have not identified any matters to report to the Authority.

7   I have no recommendations to make on procedures in relation to the plan.

Mike Thomas
12 December 2005

Audit Commission

Second Floor

Aspinall House

Aspinall Close

Middlebrook

Bolton

BL6 6QQ

Chorley Borough Council

Best Value Performance Plan and Indicators Report | Appendix 3 – Action plan **19**

Appendix 3 – Action plan

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
BV performance indicator quality assurance and target setting					
R1 Introduce standardised proformas and procedures to improve the overall BVPI quality assurance arrangements.	3	Corporate and Policy Services (JR)	Yes	Proformas to be introduced for all BVPIs, KPIs and LAA PIs. Form to record data, collection details, targets, variance analysis and authorisation.	1 April 2006
R2 Introduce analytical review techniques to obtain greater assurance on the accuracy of BVPIs, especially those not tested by Internal Audit.	3	Corporate and Policy Services (JR)	Yes	Proforma to include variance analysis. Performance Plus software to be used independently to identify and verify variances.	1 April 2006
R3 Ensure all BVPIs with reservations are fully investigated and rectified to avoid future qualifications.	3	Corporate and Policy Services (JR)	Yes	Corporate and Policy Services to meet with relevant Service Heads to discuss reservations and identify appropriate action. Internal Audit to provide advice and guidance as needed.	28 February 2006

Chorley Borough Council

20 Best Value Performance Plan and Indicators Report | Appendix 3 – Action plan

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R4 Develop formal guidance on target setting to include: • protocols on target-setting; • details of targets that have been nationally set; • details of targets set in other statutory plans; and • the need for action plans showing how targets are to be met.	3/2	Corporate and Policy Services (JR)	Yes	Guidance to be produced.	31 March 2006

Chorley Borough Council

Chorley
Borough Council

Report of	Meeting	Date
Director of Finance (Introduced by the Executive Leader)	Management Team Audit Committee Executive Cabinet	21/03/06 27/03/06 30/03/06

INTERNAL AUDIT PLAN 2006/07

PURPOSE OF REPORT

1.   To summarise and explain the basis of the **Annual Internal Audit Plan** for 2006/07 and the priority areas to be reviewed during the new financial year.

2.   To seek the Audit Committee's approval of the Plan and its subsequent adoption by the Executive Cabinet.

CORPORATE PRIORITIES

3.   As an independent assurance function, Internal Audit's prime objective is to evaluate and report on the adequacy of the Council's **governance**, **risk management** and **internal control** framework. In so doing, Internal Audit also contributes to the economic, efficient and effective **use of resources**.

4.   The Internal Audit Service therefore makes a vital contribution to ensuring that the Council is **a performing organisation**.

RISK ISSUES

5.   All the issues raised and recommendations made in this report involve risk considerations in the following categories:

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

6.   The provision of an adequate and effective system of Internal Audit is a statutory requirement.

7.   Perhaps more importantly, the Internal Audit Service has a pivotal role to play in ensuring a strong governance, risk management and internal control framework within the Council. This is key to the effective management of the Council as a whole and is now of central importance in CPA terms.

BACKGROUND

8.   The traditional approach to organising audit work involved the production of a rolling **Strategic Audit Plan** covering a 3 to 5 year period, during which time the aim was to review all the Council's **financial systems,** sub-systems and processes. In addition to this core role, Internal Audit also provided specialist input to areas like **computer audit**, **contracts audit**, **value for money** reviews and **investigations**. The amount of time spent on any particular area in any given year was determined by a formal risk assessment.

9.   Although the traditional role has not been discarded altogether, the focus is now on adding maximum value to the organisation by reviewing its **overall governance framework**, including **business-critical corporate systems.** A planning horizon of up to 5 years is also no longer considered appropriate in a dynamic local government environment where extensive organisational, technological and process change has become the norm.

10.   The latest CIPFA Code of Practice for Internal Audit recommends the compilation of an **Annual Audit Plan** each financial year to review the **key business risks** that are pertinent to the Council at the time. The draft Annual Audit Plan for 2006/07 shown at **Appendix A** has been constructed on this basis. **Appendix B** provides an outline of the scope and audit approach for each key review planned. The actual terms of reference will however only be firmed up after consulting with the key stakeholders prior to the start of each assignment.

11.   The Audit Plan is structured into **five sections**, each of which are explained below:

CORPORATE GOVERNANCE

12.   Corporate Governance is the product of the interlocking systems and processes through which an organisation manages and directs itself to determine and deliver its objectives. Whilst as the phrase implies this includes issues of probity and ethics the impact is much wider and CIPFA and SOLACE in their joint publication "Corporate Governance in Local Government – A Framework for Community Governance" point to the following five dimensions:

- Community Focus
- Service Delivery Arrangements
- Structures and Processes
- Risk Management and Internal Control
- Standards of Conduct

13.   Best Internal Audit practice therefore now involves providing assurance on the effectiveness of all the Council's fundamental business processes, including community and corporate planning, performance management, risk management, constitutional compliance and its arrangements for ensuring the economic, efficient and effective use of resources.

14.   The Internal Audit Service is increasingly providing **proactive support** in these areas. During the last financial year, this included taking a prominent role in production of the **Statement on Internal Control (SIC)**. In the second half of the year the Audit & Risk Manager was extensively involved in the **Use of Resources assessment** prior to the Audit Commission's formal inspection.

15.   Other key inputs included the production of (or assistance with) corporate policies & procedures in areas like **Anti-Money Laundering** and **Whistle-Blowing**. Internal Audit also co-ordinated the Council's contribution to the Audit Commission's **National Fraud Initiative 2004/5** exercise.

16.   This is an ongoing and developing area of input and an appropriate allocation of time has been built into the 2006/07 Audit Plan for this purpose.

17.   In addition to this direct, proactive input, the aim is also to conduct **reviews of specific governance processes.** The emphasis in early 2006/07 will be to review some of the areas where issues were raised in the recent Use of Resources assessment.

18.   Several other factors have also been taken into account when arriving at a list of governance audit topics next year. These include how recently they have been audited (either internally or externally) or where it would not be appropriate to carry out an audit next year due to process changes that are in progress.

RISK MANAGEMENT

19.   The Internal Audit Service has an ongoing role in developing the authority's **risk management framework and systems**, largely through the Audit & Risk Manager's work on the corporate **Risk Management Board.**

20.   This involves overseeing the establishment and revision of **strategic and service-level business risk assessments**. More recently, the Audit & Risk Manager also assumed responsibility for arranging and managing the Council's **insurance** requirements.

BUSINESS CRITICAL SYSTEMS

21.   In addition to auditing governance-related processes, we undertake reviews of other **corporate systems or processes** whose effective operation is also critically important to the overall performance of the organisation. Such systems appear under the following broad headings:

- Corporate Planning
- Performance Management
- Risk Management
- Asset Management
- Human Resource Management
- Management of ICT
- Information Management

22.   Again, when arriving at a list of individual systems for review during 2006/07, consideration has been given to how recently they have been audited or where process changes are in progress.

FINANCIAL MANAGEMENT

23.   This section covers our continuing responsibility to provide assurance that **effective financial controls remain in place within the Council**. This is underpinned by an annual evaluation of the key controls in all the main financial systems; together with more detailed reviews of specific systems on a cyclical basis according to audit need. Our work in this area ensures compliance with the Director of Finance's formal obligations regarding audit, under S.151 of the Local Government Act.

CONTINGENCY

24. This aspect of the Audit Plan is to enable us to provide **ongoing advice** to managers, respond to requests for **investigations** and to **follow-up recommendations** made in earlier audit reports.

25. It also contains a provision for preparing reports for **Audit Committee** and to follow up the key issues raised in **Audit Commission reports** on behalf of the Council.

AUDIT RESOURCES

26. The Internal Audit Plan for 2006/07 is based on a resource of **675 audit days**. This is the number of chargeable days available within the existing budget (after deducting for annual leave and other non-productive time) and is comprises of a mix of in-house and bought-in resources from Lancashire Audit Services (LCC). The total chargeable days are to be allocated as follows:

	Days	**%**
Corporate Governance	235	35
Risk Management	90	13
Business Critical Systems	110	16
Financial Management	120	18
Contingency	120	18
Total	**675**	**100**

27. Our partnering arrangement with Lancashire Audit Services continues and is producing a **practical service solution** and a **better overall audit product** in a variety of ways:

   ▪ Access to **specialists** and a wider skills mix (e.g. ICT audit);
   ▪ The retention of **local knowledge**, experience and relationships in-house;
   ▪ Continuous **on-site contact** and ongoing availability for advice;
   ▪ Enabling direct input to corporate policies and procedures on **governance** and **risk management**;
   ▪ Retaining **ownership** of the risk assessment and audit planning processes;
   ▪ Retaining a **responsive** service (e.g. investigations);
   ▪ **Sharing** of ideas, approaches & information.

28. We are also continuing to work closely with the **Audit Commission** in a number of areas and have formalised this arrangement in a **Protocol for Joint Working and Co-operation**, which is periodically reviewed and updated.

THE CHANGING ROLE OF THE AUDIT COMMITTEE

29. Consistent with the changing role of the audit function, the latest guidance on Audit Committees have also "raised the bar" in terms of their expected role and jurisdiction. The latest guidance stresses that they have a key role to play in monitoring the organisation's overall **governance arrangements, including risk management and performance** and holding the executive to account on these matters. CIPFA have produced a new model terms of reference to reflect this.

30.   This was endorsed by the Audit Commission in their recent Use of Resources report. The Commission recommended the Council to "extend the Audit Committee's terms of reference to more clearly specify its risk and governance remit and to support this with more awareness training". The Commission also recommended that the Audit Committee should be "**independent of both the Executive and Scrutiny functions**".

31.   There are therefore important issues to be resolved regarding the Audit Committee's **remit, composition, membership, training and reporting lines**. These issues are explored more fully in a separate report on the Role & Membership of the Audit Committee (also on this agenda).

COMMENTS OF THE HEAD OF HUMAN RESOURCES

32.   Not applicable to this report.

RECOMMENDATIONS

33.   That the Audit Committee approves the 2006/07 Internal Audit Plan and recommends its adoption by the Executive Cabinet.

REASONS FOR RECOMMENDATION
(If the recommendation is accepted)

34.   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.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

35.   None

GARY HALL
DIRECTOR OF FINANCE

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Accounts & Audit Regulations 2003 Code of Practice for Internal Audit in Local Government in the United Kingdom 2003	2003	FINANCE UNIT	Gillibrand St. Offices

Report Author	**Ext**	**Date**	**Doc ID**
Garry Barclay	5468	10/03/06	AnnualPlanReport.doc

Audit Area	Estimated Days
CORPORATE GOVERNANCE (Proactive Work)	
External Assurance (CPA / Use of Resources / SIC)	40
Corporate Governance Policies & Procedures (Production & Raising Awareness)	30
National Fraud Initiative (NFI)	20
Efficiency & Transformation	15
BVPI's	20
Corporate Governance - General	10
	135
CORPORATE GOVERNANCE - (Reviews)	
Corporate Strategies & Policies	25
Management of Partnerships and Partnering Contracts	35
Corporate Anti-Fraud & Corruption Arrangements	20
Compliance Review of Standing Orders, Financial Procedure Rules & Scheme of Delegation	20
	100
RISK MANAGEMENT (Proactive Work)	
Risk Management Board	15
Risk Management Policies & Procedures	15
Strategic Risk Assessment	10
Service Unit Risk Assessment	15
Insurance	25
Risk Management - General	10
	90
BUSINESS CRITICAL SYSTEMS (Reviews)	
IT Security	20
Data Protection	20
Freedom of Information	20
Business Continuity Planning	20
Project Management	20
Business Risk Areas General	10
	110
FINANCIAL MANAGEMENT (Reviews)	
Key Systems / Interrogations	40
Debt Management	15
Benefits - Security	15
Cash Collection & Banking	15
Charging Policies	25
Main Financial Systems - General	10
	120
CONTINGENCY	
Irregularity Investigations	35
Post Audit Reviews	25
Audit Commission Reports	20
Unplanned Reviews	20
Audit Committee Reporting	20
	120
TOTAL CHARGEABLE DAYS	675

APPENDIX B

INTERNAL AUDIT PLAN 2006/07

KEY REVIEWS

AUDIT AREAS	AUDIT SCOPE	AUDIT APPROACH
CORPORATE GOVERNANCE		
Corporate Strategies & Policies *The purpose of the audit is to evaluate the processes in place to produce, promote and monitor the effectiveness of and compliance with key corporate strategies and policies.*	- Definitions (strategy / policy / protocol / procedure, etc) - Relevance / importance / link to corporate objectives / prioritisation - Omissions / duplications - Formal approval - Publicity / awareness / access / intranet - Responsibility / ownership / management / monitoring / update - Version Control - Corporate oversight / co-ordination - Corporate format / approach - Capacity to produce / comply	- High level review - Identify all corporate strategies, policies & protocols - Include Constitutional items - Review for omissions or overlap - Collect key data for every strategy (etc) by questionnaire (title, type, date, version, location, approval, ownership, publicity, link to objectives, etc) - Interview key strategy owners - Produce matrix of strategies & issues - Test for awareness, compliance & effectiveness - Identify generic issues
Management of Partnerships & Partnering Contracts *The purpose of the audit is identify the Council's key partnership agreements and partnering contracts and to evaluate the mechanisms for their ongoing performance management and monitoring. This includes an evaluation of the management of partnership risks.*	- Corporate strategy / framework - Definition / list / hierarchy - Classification (strategic, contractual, accountable body, voluntary, etc) - Whether lined to linked to funding (eg PSA, LAA, etc) - Clarity on roles & responsibilities - Documentation / formalised agreements / objectives - Performance management / evaluation / monitoring / reporting	- High level review - Identify all partnerships, contracts & partnering arrangements (inc. LSP) - Collect key data for every partnership (etc) by questionnaire / interview - Produce matrix of partnerships & issues - Evaluate corporate arrangements for recording & oversight - Refer to existing audit & inspection recommendations

APPENDIX B

INTERNAL AUDIT PLAN 2006/07

KEY REVIEWS

AUDIT AREAS	AUDIT SCOPE	AUDIT APPROACH
	▪ Payment mechanisms / contract Variations ▪ Risk management / financial vetting / due diligence ▪ Link to strategic objectives ▪ Link to Procurement Strategy	
Anti-Fraud & Corruption Arrangements *The purpose of the audit is to work in tandem with the Audit Commission to test the adequacy and effectiveness of the Council's core governance policies and procedures, including those to prevent and deter fraud and corruption.*	▪ Whistle blowing policy ▪ Anti fraud & corruption strategy ▪ Internal investigation procedures ▪ Registers of interests, gifts & hospitality ▪ Codes of conduct ▪ Corporate & devolved responsibilities ▪ Training & awareness ▪ Members & officers ▪ Standards Committee process ▪ Recruitment / vetting	▪ Joint review with Audit Commission using AC auditing tool
Standing Orders, Financial Procedure Rules & Scheme of Delegation *The purpose of the audit is to ascertain levels of awareness of and compliance with the key provisions laid down in the Council's contract and financial procedure rules and the scheme of delegation.*	▪ Process for reviewing / maintaining documents ▪ Publicity & training	▪ Compliance audit ▪ Testing of awareness & understanding of main provisions ▪ Interview and questionnaire / quiz ▪ Possible use of the Loop

APPENDIX B

INTERNAL AUDIT PLAN 2006/07

KEY REVIEWS

AUDIT AREAS	AUDIT SCOPE	AUDIT APPROACH
BUSINESS CRITICAL SYSTEMS		
ICT Security *The purpose of the audit is to ascertain whether there are adequate safeguards in place to protect the Council's ICT resources, including computer hardware, software, data and communications.*	▪ Corporate policy & procedures ▪ Awareness & training ▪ Central & devolved responsibilities ▪ Risk Assessment ▪ Hardware, software, data, communications ▪ Physical, logical & access controls ▪ Internet / intranet ▪ Internet & e-mail usage / monitoring ▪ Officers & members	▪ Standard system based approach ▪ Review of compliance with corporate policy & ensure consequential control routines are established ▪ Selective testing on main elements of policy (e.g. password change controls)
Data Protection *The purpose of the audit is to ascertain whether the Council has procedures in place to ensure full compliance with the Data Protection Act.*	▪ Corporate policy, procedures & responsibilities ▪ Awareness & training ▪ Partnerships / agencies ▪ Registration control / application ▪ Liaison with DP Officer re new systems ▪ Control over disclosure	▪ Standard system-based approach
Freedom of Information *The purpose of the audit is to ascertain whether the Council has procedures in place to ensure full compliance with the Freedom of Information Act.*	▪ Corporate policy, procedures & responsibilities ▪ Awareness & training ▪ Control over disclosure ▪ Data / document retention	▪ Standard system-based approach

APPENDIX B

INTERNAL AUDIT PLAN 2006/07

KEY REVIEWS

AUDIT AREAS	AUDIT SCOPE	AUDIT APPROACH
Business Continuity Planning *The purpose of the audit is 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.*	▪ Corporate management & administration ▪ Devolved responsibilities ▪ Disaster recovery ▪ Communication & training ▪ Testing ▪ Maintenance / updating	▪ Review of documentation (policies, procedures, responsibilities, test plans & results, etc) ▪ Testing awareness / understanding of responsibilities
Project Management *The purpose of the audit is to ensure that there are corporate standards in place for project management which conform with best practice and are consistently applied.*	▪ Corporate framework ▪ Corporate & devolved responsibilities ▪ Project management function / resources ▪ Adequacy of procedures (project planning, monitoring & control) ▪ Communication, awareness & training ▪ Monitoring & compliance ▪ Conformity with other relevant corporate policies procedures	▪ Review of corporate framework, policies & procedures ▪ Testing for awareness of / compliance with corporate standards ▪ Sample test specific project documentation
FINANCIAL MANAGEMENT		
Key Systems / Interrogations *The purpose of the audit is to continuously test and interrogate all the Council's main financial systems to ensure that they remain effective and secure.*	▪ Annual review of the operation of key controls in all the Council's main financial systems	▪ High level system documentation, control evaluation and testing for each area in accordance with new international auditing standards (IAS) ▪ Supplementary computerised interrogation of specific systems

APPENDIX B

INTERNAL AUDIT PLAN 2006/07

KEY REVIEWS

AUDIT AREAS	AUDIT SCOPE	AUDIT APPROACH
Debt Management *The purpose of the audit is to ensure that debt is minimised through the adoption of alternative income collection methods and efficient and effective debt collection.*	▪ Use of alternative income collection methods ▪ Compliance with DM Policy ▪ Internal communication, training & awareness ▪ Efficiency of internal processes ▪ Collection Agency performance ▪ Write-offs	▪ Revisiting previous relevant audit reports ▪ Analytical review on key debt streams
Benefits System (Security) *The purpose of the audit is to ascertain whether the Benefits Section is complying with the Security element of the DWP Standards for benefits administration.*	▪ Review of the security element of the DWP Standards.	▪ Review of the security element of the DWP Standards using the DWP self-assessment tool
Cash Collection & Banking *The purpose of the audit is to ensure that there is effective control of the receipt, banking and reconciliation of cash income.*	▪ Receipts ▪ Deposits ▪ Reconciliation	▪ Standard system-based review ▪ Evaluate key controls ▪ Testing the operation of the key controls ▪ Follow-up of known problem areas

APPENDIX B

INTERNAL AUDIT PLAN 2006/07

KEY REVIEWS

AUDIT AREAS	AUDIT SCOPE	AUDIT APPROACH
Charging Policies *The purpose of the audit is to ascertain whether the Council has identified and evaluated all its income generating powers and opportunities and has corresponding, formally approved charging policies in place.*	▪ Corporate / service level charging policies ▪ Evaluation of income generating powers & opportunities ▪ Management evaluation processes ▪ Optimisation of charges levied ▪ Formal approval ▪ Publication & communication (externally & internally) ▪ Adequacy of audit trails for receipt & deposit	▪ Service by service analysis of income generating powers & opportunities ▪ Review of current tariffs, fees & charges (levied, approved, publicised, etc)

Chorley
Borough Council

Report of	Meeting	Date
Director of Finance	Management Team	21/03/06
	Audit Committee	27/03/06
	Executive Cabinet	30/03/06

THE ROLE & MEMBERSHIP OF THE AUDIT COMMITTEE

PURPOSES OF REPORT

1.	To evaluate the Council's compliance with new CIPFA guidance on the composition and remit of Audit Committees.

2.	To put forward proposals to address recommendations made by the Audit Commission in the Use of Resources assessment, regarding the Audit Committee's remit and relationship with the Executive and Scrutiny functions.

3.	To recommend the Council's adoption of the new CIPFA model Terms of Reference for Audit Committees.

CORPORATE PRIORITIES

4.	The latest guidance on audit committees and the Audit Commission's corresponding recommendations have "raised the bar" in terms of the expected role and jurisdiction of the Council's Audit Committee. The Committee now has a key role to play in monitoring the organisation's overall governance arrangements, including risk management and performance and holding the Executive to account on these matters.

5.	The role of the Audit Committee is therefore of central importance to ensuring that the Council is a performing organisation.

RISK ISSUES

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

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

7.	The establishment of effective monitoring arrangements for governance, performance, risk and internal control matters is key to the effective management of the Council as a whole and is now of central importance in CPA terms.

BACKGROUND

8.   The Council's Audit Committee has been in place since 2002 and has operated in accordance with the terms of reference shown at **Appendix 1.** These terms of reference were formally approved and were aimed to ensure compliance with the Audit Commission guidance "Called to Account" – The Role of Audit Committees in Local Government". The Committee's remit has largely covered the monitoring of audit workload and quality (both internal and external).

9.   Although the Committee has operated very effectively in this regard, the latest CIPFA guidance now directs Audit Committees to monitor councils' arrangements for governance, risk management and performance. The Audit Commission has made it a condition of CPA that authorities are unlikely to be rated good or excellent unless they have an effective audit committee in place.

CORPORATE GOVERNANCE

10.   Corporate Governance is the product of the interlocking systems and processes through which an organisation manages and directs itself to determine and deliver its objectives. Whilst as the phrase implies this includes issues of probity and ethics the impact is much wider and CIPFA and SOLACE in their joint publication "Corporate Governance in Local Government – A Framework for Community Governance" point to the following five dimensions:

- Community Focus

- Service Delivery Arrangements

- Structures and Processes

- Risk Management and Internal Control

- Standards of Conduct

11.   This therefore requires the Audit Committee to provide oversight of the effectiveness of all the Council's fundamental business processes, including community and corporate planning, performance management, financial management, risk management, constitutional compliance and its arrangements for ensuring the economic, efficient and effective use of resources.

12.   Of critical importance is the Audit Committee's role in receiving key external and internal audit reports in these areas, and tracking the implementation of recommendations to secure improvement.

NEW CIPFA GUIDANCE

13.   In recognition of the wider role now expected of Audit Committees, CIPFA have issued new guidance: "Practical Guidance for Local Authorities" including a new model terms of reference (**Appendix 2).** This is far more prescriptive and wide ranging than the Audit Committee's original / current terms of reference and as such the Council automatically finds itself in a largely non-compliant position.

14.   The key elements of the new CIPFA guidance are re-produced below, together with an assessment of the extent to which the Council's Audit Committee arrangements currently comply:

MAIN PRINCIPLES	CURRENT STATUS	ISSUES	ACTION REQUIRED
PURPOSE			
Authorities should formally approve a Statement of Purpose along these lines: "The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process".	Non-compliant.	No Statement of Purpose is currently in situ.	A Statement of Purpose should be formulated along the lines suggested.
CORE FUNCTIONS			
▪ Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.	Partly compliant.	Reports on these issues have been considered, including a recent report on the Statement on Internal Control (SIC). The focus has however been on audit and assurance rather than wider governance and risk matters.	The Committee's remit should be widened to oversee the effectiveness of the Council's Governance, Risk & Control Framework. Specific ways in which this could be executed are noted below.
▪ Seek assurances that action is being taken on all risk-related issues identified by auditors and inspectors.	Non-compliant.	Until recently the Corporate Improvement Plan has been the Council's vehicle for addressing key risks. Progress against Plan has been reported to Executive Cabinet & O&S. A separate Strategic Risk Register is now being compiled to identify the key risks to the achievement of the new strategic objectives and priorities.	The Committee should receive regular monitoring reports showing that action has been taken to: ▪ Address all agreed external audit recommendations, including those relating to governance. ▪ Address the risk issues identified in the new Strategic Risk Register.
▪ Be satisfied that the authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it.	Partly Compliant.	Prior to formally approving the SIC, the Committee received a report explaining the basis on which it had been produced, following a detailed review of the Council's internal control environment.	The Committee should also receive regular reports on progress to address weaknesses in the internal control environment, identified through the SIC process.

▪ Approve (but not direct) internal audit's strategy, plan and monitor performance.	Compliant.		
▪ Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.	Compliant.		
▪ Receive the annual report of the head of internal audit.	Compliant.		
▪ Consider the reports of external audit and inspection agencies.	Partly compliant.	Significant pieces of work have tended to be individually reported, but the Committee has not policed the implementation of associated recommendations.	As stated above, the Committee should receive regular monitoring reports showing that action has been taken to address all agreed external audit recommendations.
▪ Ensure that there are effective relationships between external & internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.	Compliant	The Committee have received a report on external / internal audit liaison and joint working arrangements and frequently questions their operation.	
▪ Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.	Partly compliant.	Relevant reports have been received but the Committee has not policed the implementation of associated recommendations.	As stated above, the Committee should receive regular monitoring reports showing that action has been taken to address all agreed external audit recommendations.
FEATURES			
▪ Unbiased attitudes - treating auditors, the executive & management equally.	Partly compliant	The Committee has operated effectively and with integrity since its creation in 2002. However the new guidelines require it to be completely separate from the executive and have the ability to question it on matters of governance, risk and control.	In addition to adopting wider Terms of Reference, the Committee's membership, composition and overall mode of operation also need to be reviewed.
▪ The ability to question the executive (leader or chief executive) when required.	See above.	See above.	See above.
▪ A membership that is balanced, objective, independent of mind and knowledgeable.	See above.	See above.	See above.
▪ A strong chair – displaying a depth of skills and interest.	See above.	See above.	See above.

STRUCTURE & ADMINISTRATION			
▪ Be independent of the executive & scrutiny functions.	See above.	See above.	See above.
▪ Have clear reporting lines and rights of access to other committees / functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.	Non-compliant.	The Committee's reporting lines and inter-relationships with other committees and boards have not been formalised and are unclear.	The Committee's reporting lines and inter-relationships with other committees and boards need to be clarified, particularly with regard to the Overview & Scrutiny Committee, Risk Management Board and Corporate Governance Group.
▪ Meet regularly – about four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.	Partly compliant.	Regular meetings take place but there is no clear policy on private / public business.	A clear policy on the consideration of private / public business is required.
▪ Meet privately and separately with the external auditor and head of internal audit.	Non-compliant.	This facility is currently not in place.	A facility needs to be established, to enable the Committee to meet separately with the external auditor or head of internal audit, if required.
▪ Include, as regular attendees, the chief finance officer or deputy, head of internal audit and appointed external auditor and relationship manager. Other attendees may include the monitoring officer (for standards issues), chief executive and the head of resources (where such a post exists). These officers should also be able to have access to the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the council as required.	Partly compliant.	Although the required regular attendees do attend, the other suggested attendees have tended not to.

The Committee has tended not to call any other officers or agencies, for example to discuss key agenda items. | Agreement is sought as to which officers should regularly attend the Audit Committee.

The Committee should be advised of its right to ask other officers to attend meetings as and when required. |
| ▪ Be properly trained to fulfil their role. | Partly compliant. | General training was provided when the Committee was established in 2002 but this has not been repeated for new members and does not cover the roles and responsibilities now expected. | The newly constituted Audit Committee should be appraised of the new terms of reference and training provided on the Committee's wider governance, risk and control remit. |

CONCLUSIONS

15.   The Audit Committee has operated very effectively under its original terms of reference. However the new CIPFA Guidance stresses that the Committee now has a key role to play in monitoring the organisation's overall **governance arrangements, including risk management and performance** and holding the Executive to account on these matters. It has a particularly important role in **tracking** the implementation of recommendations made by external and internal audit in these areas.

16.   This was recently endorsed by the Audit Commission in their Use of Resources report, whereby the Commission recommended the Council to "extend the Audit Committee's terms of reference to more clearly specify its risk and governance remit and to support this with more awareness training". The Commission also recommended that the Audit Committee should be "**independent of both the Executive and Scrutiny functions**"

17.   There are therefore important issues to be resolved regarding the Audit Committee's **remit, composition, membership, training and reporting lines.**

RECOMMENDATIONS

18.   That the Audit Committee remit, composition, membership, training and reporting issues identified above be addressed, by:

(a) Adopting the new CIPFA model Terms of Reference for Audit Committees;

(b) Aligning the respective Terms of Reference of the Audit and O&S Committees to provide greater clarity of remit and avoidance of overlap;

(c) Implementing the actions necessary to ensure compliance with the new CIPFA Guidance on Audit Committees;

(d) Consulting the Audit Commission to determine what flexibilities may exist in terms of Audit Committee composition and membership.

GARY HALL
DIRECTOR OF FINANCE

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
"Called to Account" – The Role of Audit Committees in Local Government".	1996	Finance Unit	Gillibrand St.Offices
"Audit Committees – Practical Guidance for Local Authorities".	2005	Finance Unit	Gillibrand St.Offices

Report Author	**Ext**	**Date**	**Doc ID**
Garry Barclay	5468	13/03/06	TofRRepJan06

APPENDIX 1

ORIGINAL / EXISTING AUDIT COMMITTEE TERMS OF REFERENCE

i) to oversee all arrangements for both the internal and external audit of the Council's accounts and financial records;

ii) to consider and make recommendations on:

    (a) the annual audit report and management letter of the external Auditor;

    (b) any other statutory report of the external Auditor;

    (c) any internal audit report that may be referred by the Chief Executive, the Director of Finance, the Director of Legal and Personnel Services (as Monitoring Officer), the Executive Leader or the Chair of the Overview and Scrutiny Committee;

    (d) the effectiveness and adequacy of the response by the Council, the Executive, any Committee or Sub-Committee of the Council or the Executive or of any officer to any internal or external audit report or management letter;

    (e) the systems of control and arrangements for the prevention of fraud and corruption within the Council's organisation; and

    (f) of any other matter relevant to the audit of the Council's accounts and financial records or its systems for the control and safeguarding of all the Council's assets, both financial and otherwise.

iii) If necessary for the purpose of its functions, to consider and examine specific matters that have been the subject of an audit report, with the right to call for production of relevant documents in the possession or control of the Council, the Executive or an officer.

APPENDIX 2

NEW MODEL TERMS OF REFERENCE FOR AUDIT COMMITTEES

AUDIT ACTIVITY

- To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.

- To consider summaries of specific internal audit reports as requested.

- To consider reports dealing with the management and performance of the providers of internal audit services.

- To consider a report from internal audit on agreed recommendations not implemented within a reasonable time scale

- To consider the external auditor's annual audit letter, relevant reports, and the report to those charged with governance.

- To consider specific reports as agreed with the external auditor.

- To comment on the scope and depth of external audit work and to ensure it gives value for money

- To liaise with the Audit Commission over the appointment of the council's external auditor.

- To commission work from internal and external audit.

REGULATORY FRAMEWORK

- To maintain an overview of the council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.

- To review any issue referred to it by the chief executive or a director, or any council body.

- To monitor the effective development and operation of risk management and corporate governance in the council.

- To monitor council policies on "raising concerns at work" and the anti-fraud and corruption strategy and the council's complaints process.

- To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.

- To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

- To consider the council's compliance with it's own and other published standards and controls.

ACCOUNTS

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.