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## Chief Executive's Office

Please ask for: Mrs D Scambler  
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Date: 13 June 2006

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**Chief Executive:** Donna Hall

**Chorley**  
Borough Council

Town Hall  
Market Street  
Chorley  
Lancashire  
PR7 1DP

Dear Councillor

## **AUDIT COMMITTEE - THURSDAY, 22ND JUNE 2006**

You are invited to attend a meeting of the Audit Committee to be held in the Committee Room, Town Hall, Chorley on Thursday, 22nd June 2006 commencing at 5.00 pm. **Would Members please note that the meeting start time as changed from the previously stated time of 4.30pm.**

### **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 27 March 2006

4. **Role & Functions of the Audit Committee**

Members will receive a presentation by the Audit and Risk Manager.

5. **Internal Audit Annual Report 2005/6 (Pages 5 - 14)**

Report of the Director of Finance (enclosed).

6. **Statement On Internal Control (Pages 15 - 40)**

Report of the Director of Finance (enclosed).

7. **External Audit & Inspection Plan 2006-7 (Pages 41 - 66)**

Report of the Audit Commission (enclosed).

Continued....

8. **Ethical Governance Review** (Pages 67 - 78)  
Reports of the Audit Commission (enclosed).
9. **Next Meeting / Key Reports**
10. **Any other item(s) that the Chair decides is/are urgent**

Yours sincerely



Chief Executive

**Distribution**

1. Agenda and reports to all Members of the Audit Committee (Councillor John Wilson (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Magda Cullens, Keith Iddon, Geoffrey Russell, Shaun Smith, Mrs Joyce Snape and Mary Wilson) for attendance.
2. Agenda and reports to Gary Hall (Director of Finance), Donna Hall (Chief Executive), Garry Barclay, 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 جاسکتا ہے۔ یہ خدمت استعمال کرنے کیلئے براہ مہربانی اس نمبر پر ٹیلیفون

01257 515823

کیجئے:

**CHORLEY BOROUGH COUNCIL****Audit Committee**

**Present:** Councillor L Lennox (Chair), and Councillors K Ball, Mrs P Case, P Goldsworthy, G Russell and R Snape

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

**06.AU.06 APOLOGIES FOR ABSENCE**

No Apologies for absence were received.

**06.AU.07 DECLARATIONS OF ANY INTEREST**

No declarations of interest were declared.

**06.AU.08 MINUTES**

**RESOLVED – That the minutes of the meeting of the Audit Committee on 9 January 2006 be confirmed as a correct record when Councillor Mrs Case was added to the Apologies of absence for signing by the Chair.**

**06.AU.09 USE OF RESOURCES AUDIT SCORE FEEDBACK**

The Audit Commission submitted a report on the annual use of resources assessment which 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 framework up until 2004. The scope of the assessment has been widened

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:

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

Previously, 'adequate arrangements' were sufficient to score 3, but under the new approach meeting 'adequate performance' will score 2.

For the year 2005/2006 the Authority overall score for use of resources was a 3. Chorley Borough Council is performing well on its use of resources.

This is the first time that the Authority has been assessed against this framework. It was identified that an Ethical Governance Culture needs to be implemented across the Authority This will be an annual test and it is expected that next time the test will be much harder. However some of the recommendations made by the Audit Commission have already been addressed.

**RESOLVED – That the report be noted.**

**06.AU.10 INTERIM AUDIT REPORT**

The Audit Commission submitted an interim report on the work undertaken as part of the Audit and Inspection plan for 2004/05. The work had been carried out to meet the Code of Audit Practice responsibilities, which included a review of financial core processes and aspects of corporate governance and findings from their review of Internal Audit carried out as part of the 2005/06 audit.

Findings were reported on an exception basis and only included the issues where they felt that the Council should consider strengthening its arrangements.

Their approach concentrated on three main aspects of Accounts, Financial aspects of corporate governance and Internal Audit and no significant issues arose from the three interim audit review areas. There were some processes identified that could be done better but no major concerns.

**RESOLVED – That the report be noted.**

#### **06.AU.11 OPINION MEMORANDUM**

The Audit Commission submitted an Opinion Memorandum summarising the matters arising from the audit of the Council's accounts for the year ended 31 March 2005. They gave the Authority an unqualified opinion, this is good news and some of the recommendations to improve have already been implemented.

The Audit Commission, as the Council's external auditors, have a responsibility to form an independent view on the accounts and issue an opinion as to whether they present fairly the financial position of the Council.

**RESOLVED – That the report be noted.**

#### **06.AU.12 PERFORMANCE MANAGEMENT**

The Audit Commission submitted a report of their findings relating to Performance Management within the Authority.

In 2004, the Authority's comprehensive performance assessment (CPA) found that on balance performance management weaknesses outweighed strengths. Over the past 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.

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 weaknesses. Initiatives are generally supported by detailed action plans setting out clear priorities, target dates for deliveries, responsible officers and anticipated outcomes.

A number of recommendations have been made for the Authority to consider. 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 will address 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.

**RESOLVED – That the report be noted.**

#### **06.AU.13 BEST VALUE PERFORMANCE**

The Audit Commission submitted a report on the Audit and Inspection Plan outlining the work that they propose to undertake in 2005/06. The new Code of Audit Practice provides a clearer focus of audit effort on overall financial and performance management arrangements.

The Council's Best Value Performance Plan complied with statutory guidance. The Audit Commission could not identify any matters to report to the Authority and have no recommendations to make on procedures in relation to the plan or statutory report.

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

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.

**RESOLVED – That the report be noted.**

#### **06.AU.14 INTERNAL AUDIT PLAN 2006/07**

The Director of Finance submitted a report on the Annual Internal Audit Plan for 2006/07 and the priority areas to be reviewed during the new financial year.

The Audit Plan is structured into five sections:

- Corporate Governance
- Risk Management
- Business Critical Systems
- Financial Management
- Contingency

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

**RESOLVED – That the 2006/07 Internal Audit Plan is approved and submitted to the Executive Cabinet for adoption.**

#### **06.AU.15 ROLE AND MEMBERSHIP OF THE AUDIT COMMITTEE**

The Director of Finance submitted a report on proposals to address the 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 and to recommend the Council's adoption of the new CIPFA model Terms of Reference for Audit Committees.

The report indicated that the Audit Committee has operated very effectively under its original terms of reference, but 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.

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 Executive and Scrutiny functions”

- RESOLVED – 1. That the new CIPFA model Terms of Reference of the Audit Committees be adopted.**
- 2. That the terms of reference of the Audit Committee and Overview and Scrutiny Committee be aligned to provide greater clarity of remit and avoidance of overlap.**
  - 3. That the actions necessary to ensure compliance with the new CIPFA Guidance on Audit Committees are implemented.**
  - 4. That the Audit Commission be consulted to determine what flexibilities may exist in terms of Audit Committee composition and membership and the Director of Finance be requested to submit a report to the Annual Council meeting for consideration.**

Chair

Report of	Meeting	Date
Director of Finance	Audit Committee	22 June 2006

## INTERNAL AUDIT ANNUAL REPORT 2005/06

### PURPOSE OF REPORT

1. To summarise the **work undertaken** by the Internal Audit Service during the 2005/6 financial year;
2. To give an **opinion on the adequacy and effectiveness of the control environment** in the Council as a whole and in individual service areas;
3. To give an appraisal of the Internal Audit Service's **performance**.

### CORPORATE PRIORITIES

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

### RISK ISSUES

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

### STATEMENT ON INTERNAL CONTROL

8. Under Regulation 4 of the Accounts and Audit Regulations (2003) every Council is now required to conduct an annual, internal review of the effectiveness of its system of internal control and publish a **Statement on Internal Control (SIC)** each year alongside the authority's financial statements. The most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) are required to sign the SIC. They must



therefore be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment.

9. The SIC is about **corporate controls** and is not confined to financial issues (hence the signatories required). The internal review should cover the Council's arrangements for:
- Establishing / monitoring the **achievement of its objectives**;
  - **Policy and decision making**;
  - Ensuring **compliance** with established policies, procedures, laws & regulations;
  - Ensuring the **economic, efficient & effective use of resources**;
  - **Financial, performance & risk management**.
10. The prime responsibility for maintaining and reviewing the system of internal control rests with the Council's senior management. The Corporate Governance Group have therefore carried out a detailed, evidenced-based review of the Council's system of internal control and produced a draft SIC. This has since been challenged and amended by Strategy Group.
11. **When carrying out their review, the Corporate Governance Group took full account of any important control issues raised by the Audit Commission and Internal Audit.**

#### INTERNAL AUDIT OPINION

12. With regard to Internal Audit, a schedule of audit work undertaken during 2005/6 is shown at Appendix 1, which gives individual opinions on the adequacy of control for each of the areas audited during the year. The majority of these reviews have already been reported in some detail by way of interim / progress reports to the Audit Committee during the course of 2005/6. To arrive at an annual judgement on the overall level of control a view needs to be taken on the relative significance of each area audited and the nature and significance of the weaknesses identified. Taking this into account, **in our overall opinion the Council, in general, continues to operate within a sound control environment.**
13. Our overall audit opinion should be seen in the context that Internal Audit's assurance role is still in a transitional stage between one of reviewing largely financial-based systems to that of evaluating the wider business risk / internal control environment, which is now recognised as best auditing practice. Internal Audit work is now being constructed more around reviewing the key business risk, governance and control issues facing the authority and as such will be of significantly greater value as a source of assurance supporting the SIC.
14. This wider role for Internal Audit reflects the wider remit of the Audit Committee itself, which has now adopted new terms of reference to comply with the latest guidance on audit committees published by CIPFA.

#### PERFORMANCE

15. Appendix 2 sets out the **key performance data** for the Internal Audit Service during 2005/6. This gives a breakdown of the key **inputs** and **outputs** for the Service, including:

- An analysis of chargeable and non-chargeable **time**;
- An analysis of the percentage of the annual **Audit Plan** completed, **reports issued** and **recommendations** accepted by management;
- An analysis of the average **customer satisfaction** score per audit assignment.



16. 2005/6 was again a challenging year due to the maternity leave of a team member. The shortfall in resources was met by extending our partnering arrangement with Lancashire County Council's Internal Audit Service.
17. During 2005/6 the authority received **612 days** of Internal Audit coverage. The Internal Audit Service produced **18 reports** containing **174 agreed recommendations** relating to controls assurance, improvements in procedure and advice on best practice.
18. The following **achievements and developments** within the Service are worthy of specific mention:

- Co-ordinating the **Use of Resources / Value for Money** self-assessment exercises on behalf of the Council, which led to an auditor scored judgement of 3, indicating that the authority is performing well in this area.
- Charting all the main financial systems and evaluating the key controls in accordance with new **International Standards in Auditing (ISA)**.
- Overseeing the review of the system of internal control and producing the **Statement on Internal Control**.
- Assisting with the establishment of new **Audit Committee arrangements** to comply with CIPFA guidelines.
- Revising the processes and formats for producing **risk registers** at the strategic and operational / service levels.
- Overseeing the process to renew the **Council's insurances**.

19. We have sought to maintain the standards achieved under **CPA, an Audit Commission scored judgement of 4 (out of a possible 4)**. In the latest **Annual Audit & Inspection Letter** to the Council, the Audit Commission commented:

**“Our assessment of Internal Audit confirms that it continues to provide an effective service. We are happy to report that we can rely on the work undertaken by the section and the work undertaken provides an effective component of the Council's internal control environment and governance arrangements”.**

#### **COMMENTS OF THE DIRECTOR OF HUMAN RESOURCES**

20. Not applicable to this report.

#### **RECOMMENDATION**

21. That the Internal Audit Annual Report for 2005/6 be noted.

#### **REASONS FOR RECOMMENDATION**

22. To appraise the Audit Committee of the work undertaken by Internal Audit during 2005/6 and to reassure members that the Internal Audit Service continues to be an effective component of the Council's internal control environment and governance arrangements.

**ALTERNATIVE OPTIONS CONSIDERED & REJECTED**

23. None.

GARY HALL  
DIRECTOR OF FINANCE

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
Accounts & Audit Regulations	2003	FINANCE UNIT	GILLIBRAND ST. OFFICES

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Garry Barclay	5468	09/06/06	Annual Report 05-06

APPENDIX 1

SUMMARY OF INTERNAL AUDIT ACTIVITY 2005/6

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
<b>1. Corporate Governance</b>			
Statement on Internal Control	Co-ordinated a corporate review of the system of internal control and drafted the SIC	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable To this item. Proactive input Provided rather than an audit / review.
Use of Resources / VFM Assessment	Assisted with the corporate self-assessments and complied the respective reports / submissions to the Audit Commission	Ditto above	Ditto Above
Whistle-Blowing Policy	Assisted the DLS to produce the draft policy document.	Ditto above	Ditto Above
Anti-Money Laundering Procedures	Produced corporate procedures and undertook training & awareness	Ditto above	Ditto Above
National Fraud Initiative 2004	Co-ordinated the Council's input to the exercise	Ditto above	Ditto Above
Audit Commission Reports	Followed up and reported on the implementation of key recommendations	Ditto above	Ditto Above

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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<b>2. Risk Management</b>			
Risk Management Board	Serviced Board meetings. Submitted reports on key risk management developments.	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable To this item. Proactive input Provided rather than an audit / review.
Strategic / Service Risk Registers	Introduced new procedures for compiling risk registers at both levels.	Ditto above	Ditto Above
Insurance	Arranged the renewal / tender for the Council's insurances. Management of the insurance function.	Ditto above	Ditto Above

<b>3. Main Financial Systems</b>			
Review of Key Systems	A high-level annual review of the key controls in all the main financial systems	Adequate	None
Main Accounting System	Detailed review of the system & procedures	Adequate	None
Creditors	Detailed review of the system & procedures	Limited	Several control weaknesses were identified in the new system, relating to access rights, separation of duties, reconciliations and the use of orders.
Debtors	Detailed review of the system & procedures	Limited	Several control weaknesses were identified in the new system, relating to access rights and performance monitoring.
Council Tax	Detailed review of the system & procedures	Adequate	None
Benefits (Resource	Detailed review of the	Adequate	None

Management)	system & procedures
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AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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4. Business Risk Areas			
Local Public Service Agreement	Detailed review of the system & procedures	Adequate	None
Performance Plus	Detailed review of the system & procedures	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable To this item. Proactive input Provided rather than an audit / review.
Validation of Recycling Performance	Detailed review of the system & procedures	Adequate	None
Park Wise	Detailed review of the system & procedures	Inadequate	The new parking enforcement regime was implemented without the completion of legal contracts or the establishment of the management body. Several operational weaknesses were also identified in the new arrangements.

5. Best Value Audit			
Mobile Phones	A Value For Money review of the distribution, usage and cost of mobile phones	Inadequate	Excessive circulation of mobile phones for business use and an inappropriate policy / system for making personal calls
BVPI's	Audit of specific indicators prior to their submission to the Audit Commission	Limited	A high level of errors and anomalies identified as a result of weaknesses in data quality control
Efficiency & Transformation	Advice on the retention of effective controls in new or re-engineered processes	Not applicable to this item. Proactive input provided rather	Not applicable To this item. Proactive input Provided rather

	than an audit / review.	than an audit / review.
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AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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<b>6. Information Technology Audit</b>			
System Administration	Review of the system & procedures	Limited	Weak controls over system access by technical staff / contractors and inadequate logging / monitoring of administration activity
Internet / Intranet Security	Review of the system & procedures	Pending	Pending
Network Operating System	Review of the system & procedures	Pending	Pending

<b>7. Contracts Audit</b>			
Town Hall Improvements	Current contract review through membership of the project team	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable To this item. Proactive input Provided rather than an audit / review.

<b>8. Contingency</b>			
Investigations	Enquiries into a small number of irregularities arising during the year	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable To this item. Proactive input Provided rather than an audit / review.
Unplanned Reviews	Withnell Fold Mill Section 106 Agreements	Adequate	None
Post Audit Reviews	Monitoring the implementation of recommendations	Not applicable to this item. Proactive input	Not applicable To this item. Proactive input

made in earlier Internal Audit Reports	provided rather than an audit / review.	Provided rather than an audit / review.
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**KEY TO CONTROL RATINGS**

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

**NOTE**

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

INPUT ANALYSIS USE OF AUDITORS TIME (DAYS)	PLAN 2005/6		ACTUAL 2005/6		COMMENTS ON VARIANCES ETC
	Days	%	Days	%	
<b>NON-CHARGEABLE TIME (In-house)</b>					
Unavailable Days (Leave / Training)	230	24	228	24	
Non-Chargeable Management Administration	70	7	103	11	Job evaluation pilot
	20	2	17	2	
<b>SUB-TOTAL</b>	<b>320</b>	<b>33</b>	<b>348</b>	<b>36</b>	
<b>CHARGEABLE TIME (In-house &amp; bought-in)</b>					
Corporate Governance	110	11	133	14	Use of resources work
Risk Management	70	7	60	6	
Main Financial Systems	125	13	143	15	IAS systems work
Business Risk Areas	120	13	75	8	AC work on CC Act
Effectiveness / Best Value	60	6	82	9	BVPI work
Information Technology Audit	50	5	54	6	
Contracts Audit	50	5	19	2	Contract mgmt work 2006/7
Contingency (investigations & advice)	55	6	46	5	
<b>SUB-TOTAL</b>	<b>640</b>	<b>67</b>	<b>612</b>	<b>64</b>	
<b>TOTAL DAYS IN YEAR</b>					
	<b>960</b>	<b>100</b>	<b>960</b>	<b>100</b>	
<b>Number of Auditors (in-house / FTE)</b>					
	<b>3.2</b>		<b>3.2</b>		
<b>Chargeable Days Provided In-house</b>					
	<b>512</b>		<b>484</b>		
<b>Bought In Audit Days</b>					
	<b>128</b>		<b>128</b>		
<b>Chargeable time as a % of total time available</b>					
	<b>67%</b>		<b>64%</b>		
<b>OUTPUT ANALYSIS</b>					
	<b>TARGET 2005/6</b>		<b>ACTUAL 2005/6</b>		
<b>% Audit Plan Achieved</b>	89%		90%		
<b>% Audit Reports Issued Within Target Time</b>	78%		78%		
<b>Number of Recommendations Made</b>	No Target		194		
<b>% Recommendations Made Agreed For Implementation</b>	94%		90%		
<b>Average Customer Satisfaction Score Per Audit (on a scale 1-5 where 5 is high)</b>	4.3		4.3		
<b>Retention of Full Managed Audit Status</b>	Retained		Retained		



Report of	Meeting	Date	Item No
Corporate Governance Group	Audit Committee	22/06/06	

**STATEMENT ON INTERNAL CONTROL**

**PURPOSES OF THE REPORT**

- 1 To advise the Audit Committee of the statutory and other regulatory obligations now placed on the Council to continuously review its system of internal control and to formally publish a Statement on Internal Control (SIC) alongside its annual financial statements.
- 2 To explain the structure and processes that have been put in place within the Council to enable the SIC to be produced.
- 3 To invite Members to review and approve the draft SIC (shown at Appendix 1) which has been produced in accordance with CIPFA guidelines.
- 4 Thereafter the approved SIC will need to be formally signed-off by the Leader & Chief Executive and be submitted for external audit as part of the 2005/6 financial statements

**CORPORATE PRIORITIES**

- 5 A sound system of internal control is an essential ingredient of any well managed, high performing organisation. To this extent, internal control has been included as one of the 5 main elements of the Audit Commission's Use of Resources assessment.

**RISK ISSUES**

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

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

- 7 Failure to produce a fully compliant SIC would constitute a regulatory breach. More substantially, any significant internal control issues emanating from the SIC process impact upon the Council's Use of Resources assessment.

**BACKGROUND**

- 8 Regulation 4 of the Accounts and Audit Regulations (2003) requires Councils to conduct an annual review of the effectiveness of its system of internal control and publish a Statement on Internal Control (SIC) each year alongside their financial statements. CIPFA have produced definitive guidance on the format of the SIC and the processes for compiling it.

- 9 The guidance requires the most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) to sign the SIC. They must be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. This emphasises that the document is about **all corporate controls** and is not confined to financial issues.
- 10 The SIC is a corporate document and should involve (in addition to the most senior officer and the most senior member as signatories) a variety of people charged with delivering governance:
- the monitoring officer in meeting his/her statutory responsibilities;
  - the responsible financial officer who is responsible for the accounting control systems and the preparation of the statement of accounts;
  - directors assigned with the ownership of risks and the delivery of services;
  - members (e.g. through audit or scrutiny committees); and
  - others responsible for providing assurance (e.g. Internal & External Audit).
- 11 Thus the SIC, as a corporate document, should be owned by all senior officers and members of the authority. A shared approach should be taken to compiling the SIC because any delegation to a single individual or section will dilute the statement's significance and encourage other people to distance themselves from their proper responsibilities.

## PROCESS

- 12 At the centre of the framework for the SIC should be a management group who are given ultimate responsibility for reviewing the internal control system, evaluating assurances and the supporting evidence and drafting the SIC itself.
- 13 Compiling a SIC should not be done in a vacuum. Comments, evidence and feedback should come from many places including reports from inspectorates, internal and external audit on specific service areas, or corporate reviews on performance and risk management authority wide.
- 14 Implicitly, the management group should identify any key areas of control weakness or non-compliance and ensure that they are recorded in the body of the SIC.
- 15 The CIPFA guidance also states the need for a review body in the process such as the Audit Committee or Scrutiny role, who should be charged with critically reviewing the SIC and its supporting documentation. It is vital that this review body remains independent from the SIC compilation and is given real powers to make recommendations and ultimately changes to the process as it sees fit.

## TIMETABLE

- 16 Many authorities include the SIC document with the approval process of the statement of accounts. The statutory reporting requirement for the SIC, however, is linked to the publication of the authority's financial statements (i.e. its statement of accounts) which is generally 3 months after the deadline for approval.
- 17 The SIC should be approved at a meeting of the authority or delegated committee, but there is no statutory timetable for approval. Where an authority publishes the statement with its financial statements, therefore, it should be satisfied that the SIC is still current in relation to its formal approval. The greater the delay between approval of the SIC and publication with the statement of accounts, the greater the need for the authority to challenge its adequacy at that point in time.

**STEPS TAKEN TO COMPILE THE SIC**

- 18 In 2004/5 the Chief Executive agreed to the establishment of a management group to oversee the SIC process, consisting of:
  - Director of Legal Services (Monitoring Officer)
  - Director of Finance (S151 Officer)
  - Head of Corporate & Policy Services
  - Audit & Risk Manager
  
- 19 The management group (Corporate Governance Group) undertook a detailed controls self-assessment following the CIPFA guidance. This has now been updated to reflect the current situation (Appendix 2).
  
- 20 The information contained in this self-assessment document underpins the draft SIC itself, and has been derived from the Corporate Governance Group’s cumulative knowledge of the internal control system, but wherever possible reference has been made to independent assurance sources, such as key Audit Commission reports.
  
- 21 Strategy Group have already reviewed and challenged the first draft of the SIC and have endorsed the version now shown at Appendix 1.

**RECOMMENDATIONS**

- 22 That Members review and approve the draft SIC (Appendix 1) which has been produced in accordance with CIPFA guidelines.
  
- 23 That the approved SIC be formally signed off by the Leader and Chief Executive before being submitted for external audit as part of the 2005/6 financial statements.

GARY HALL  
DIRECTOR OF FINANCE

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
Accounts & Audit Regulations	2003	FINANCE UNIT	GILLIBRAND ST OFFICES

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Garry Barclay	5468	09/05/2006	Aud Comm SIC

## APPENDIX 1

## CHORLEY BOROUGH COUNCIL

## STATEMENT ON INTERNAL CONTROL

**1. Scope of Responsibility**

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

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

**2. The Purpose of the Internal Control System**

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

The system of internal control has been in place at Chorley Borough Council for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts.

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

- The Council's priorities are derived from consultation on the Borough's Community Strategy and the approved Corporate Strategy clearly sets out the Council's priorities and strategic objectives.
- Long term outcomes and interim performance targets have been established for each strategic objective. These are in turn transferred into individual service business plans and business plan monitoring reports are produced on a quarterly basis. This is supported by a system of individual staff performance and development reviews.

*Policy & Decision Making*

- The Council has adopted a constitution, which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.
- Policy and decision-making is facilitated through the Executive Cabinet supported by a framework of Statutory and Overview & Scrutiny Committees.

- Meetings are open to the public except where personal or confidential matters are being disclosed. In addition, senior officers of the Council can make decisions under delegated authority.
- The Council publishes a Forward Plan which contains details of key decisions to be made by the Council, its committees and chief officers under their delegated powers (and has specified what is significant expenditure in terms of the definition of a key decision).

#### *Compliance*

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

#### *Risk Management*

- The Council has introduced a robust structure and system for identifying and evaluating all significant business risks at both the strategic and operational / service levels. The key elements of which are:
  - A member approved Risk Management Policy Statement;
  - A Strategic Risk Register;
  - Service level risk assessments built into the business planning process.

#### *Economy, Efficiency & Effectiveness*

- The Council has constantly sought ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised. These now include:
  - Efficiency & Transformation Board;
  - Corporate Procurement Working Group;
  - Overview & Scrutiny Committees;
  - External Audit;
  - Internal Audit.
- The Council recently obtained a score of 3 for the value for money element of the Use of Resources assessment, indicating that the Council is performing well in this area, consistently achieving above minimum requirements.

- The Efficiency & Transformation Board has a particularly important role to play in securing the delivery of value for money services and been established to:
  - Act as the co-ordinating body for the efficiency programme in support of the Council's corporate plans and priorities;
  - Champion efficiency both within the Council and externally with partners, suppliers and customers;
  - Meet government & Council reporting requirements regarding Annual Efficiency Statements;
  - Monitor & review the efficiency programme on an ongoing basis to ensure that it is meeting objectives;
  - Fully integrate efficiency into the 3-year business planning and budgeting cycle.

#### *Financial Management*

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

#### *Performance Management*

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

#### 4. Review of Effectiveness

- Chorley Borough Council has responsibility for conducting, at least annually, a review of the system of internal control. A variety of review mechanisms are in place to facilitate this.

##### *Corporate Governance Group*

- To oversee the production of the SIC itself, the Council has established a Corporate Governance Group with the following membership.

Director of Finance (S.151 Officer);  
Director of Legal Services (Monitoring Officer);  
Head of Corporate & Policy Services;  
Audit & Risk Manager.

- Using the detailed guidance provided by CIPFA as the basis, the Group have produced a Schedule of Controls Assurance & Evidence; a process which also aims to identify any significant internal control or compliance issues within the authority. Although the cumulative knowledge and experience of the Group is the prime source of information, reference is made to independent sources of controls assurance wherever possible; including:
  - Comprehensive Performance Assessment (CPA);
  - CPA Progress Assessment Report (Direction of Travel);
  - Audit Commission Use of Resources Assessment;
  - Internal strategic risk assessment ;
  - The Annual Report of Internal Audit.
- The Schedule of Controls Assurance & Evidence is reviewed and challenged by the Council's Strategy Group who agree the form and content of the draft SIC itself, including the significant control issues to be disclosed. The draft SIC and supporting evidence is subsequently submitted to the Audit Committee for approval prior to formal sign-off and publication.
- The Corporate Governance Group's remit has now been extended to include wider governance responsibilities, incorporating the terms of reference of the former Risk Management Board. The aim of the Corporate Governance Group is to monitor developments in the governance and risk management arena and to ensure that the Council's in-house arrangements continue to represent best practice.

##### *Monitoring Officer*

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

##### *Scrutiny Committee*

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

*Audit Committee*

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

*Internal Audit*

- Internal Audit is responsible for monitoring the quality and effectiveness of the systems of internal control. A risk-based Internal Audit Plan is produced each financial year. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant head of service. The report includes recommendations for improvements that are included within a Management Action Plan and require agreement or rejection by service managers. The process includes follow-up reviews of agreed recommendations to ensure that they are acted upon.
- A significant element of the necessary controls assurance is therefore taken from the work of Internal Audit. Internal Audit provides independent and objective assurance across a wide range of the authority's activities and Internal Audit plans are now constructed around the key business risk issues facing the authority.
- The Internal Audit Annual Report contains a statement / judgement on overall levels of internal control (a view based on the relative significance of the systems reviewed during the year, in the context of the totality of the control environment).
- The Internal Audit Section is subject to regular inspection by the Council's external auditors, who place reliance on the work carried out by them.

*External Audit*

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

**5. Significant Internal Control Issues**

- 5.1 The following significant internal control issues published last year have now been addressed.

<b><i>Establishing &amp; Monitoring the Achievement of Objectives</i></b>
Further improving the engagement of communities and other stakeholders and working as a key partner in the LSP to develop a new Community Strategy.
Clarifying the Council's vision and ambition in terms of a new Corporate Strategy, which articulates clear priorities, strategic objectives and specific, measurable and sustainable outcomes.
<b><i>Policy &amp; Decision Making</i></b>
Introducing a structured member development programme to enable members to more effectively fulfil their roles.
<b><i>Compliance</i></b>
Clarifying member and officer responsibilities for governance, including the adoption of new terms of reference for the Audit Committee.
Further developing project management disciplines across the Council, including its application to business planning.



5.2 However further action is required in other areas, including new action resulting from the recent Audit Commission Use of Resources assessment which has "raised the bar" in terms of control expectations. The following significant internal control issues have been identified for 2005/6:

No.	Issue	Action Planned
<b>Compliance</b>		
1	Introducing formalised procedures to identify and comply with legislative change.	<ul style="list-style-type: none"> <li>▪ Introduce a centralised capture and monitoring mechanism in Legal Services.</li> </ul>
2	Introducing, updating and disseminating key constitutional / governance policies and procedures where omissions or weaknesses currently persist.	<ul style="list-style-type: none"> <li>▪ Introduce arrangements for the perpetual update of key documents on the intranet, incorporating version control and the timely notification of changes to members &amp; officers.</li> </ul>
<b>Risk Management</b>		
3	Further developing members and senior officers awareness of governance and risk management issues	<ul style="list-style-type: none"> <li>▪ Include governance and risk management in new officer &amp; member induction programmes.</li> <li>▪ Provide training &amp; support in the application of project based risk assessments in service units.</li> </ul>
4	Effectively managing the risks associated with partnerships and partnering arrangements.	<ul style="list-style-type: none"> <li>▪ Identify the Council's key partners and partnering arrangements and ensure that proportionate, structured governance and risk management arrangements are in place.</li> </ul>
<b>Economy, Efficiency &amp; Effectiveness</b>		
5	Fully embedding a VFM culture within the Council.	<ul style="list-style-type: none"> <li>▪ Develop detailed programmes to implement corporate objectives for efficiency and transformation and procurement.</li> <li>▪ Develop a benchmarking strategy to systematically compare the Council's costs and outputs against higher performing and more efficient organisations.</li> </ul>
<b>Performance Management</b>		
6	Embedding the new Corporate Strategy and improving the monitoring of targets & outcomes.	<ul style="list-style-type: none"> <li>▪ Establish more robust, systematic monitoring through the Performance Plus information system.</li> </ul>
7	Improving the accuracy and reliability of performance information.	<ul style="list-style-type: none"> <li>▪ Introduce a more effective quality control mechanism for BVPI and other performance information.</li> </ul>

Cllr. P Goldsworthy  
Leader of the Council

D Hall  
Chief Executive

G Hall  
Director of Finance (Section 151 Officer)

C Hallwood  
Acting Director of Legal Services (Monitoring Officer)

**APPENDIX 2  
STATEMENT ON INTERNAL CONTROL (SIC)  
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**Objective 1: Establishing principal statutory obligations and organisational objectives**

<b>Step 1: In support of objective 1 – mechanism established to identify principal statutory obligations</b>			
<b>Examples of assurance:</b>	<b>Actual evidence</b>	<b>Control / compliance issues identified</b>	<b>Key Source of evidence / assurance</b>
1. Responsibilities for statutory obligations are formally established	<ul style="list-style-type: none"> <li>▪ Constitution (inc. Scheme of Delegation)</li> <li>▪ Committees terms of reference</li> <li>▪ Job descriptions</li> <li>▪ Structure charts in business plans</li> </ul>		CG Group
2. Record held of statutory obligations	<ul style="list-style-type: none"> <li>▪ Recorded in Legal Services library</li> </ul>		CG Group
3. Effective procedures to identify, evaluate, communicate, implement, comply with, and monitor legislative change, exist and are used	<ul style="list-style-type: none"> <li>▪ Professional networking / CPD</li> <li>▪ Examples of projects to deliver statutory change (HRA, RIPA, FOIA, DPA, ASB, Licensing Act, etc)</li> <li>▪ Committee reports</li> <li>▪ Trialed “Emplaw” – employment legislation website</li> </ul>	<ul style="list-style-type: none"> <li>▪ A centralised capture / tracking mechanism is required for new legislation impacting upon the Council.</li> <li>▪ Need to consider how best to scan for legislative &amp; regulatory changes (e.g. external lawyer briefings)</li> </ul>	CG Group
4. Effective action is taken where areas of non-compliance are found in either mechanism or legislation	<ul style="list-style-type: none"> <li>▪ Specific internal / external audit reports / recommendations</li> <li>▪ Monitoring reports via business planning process</li> <li>▪ Corporate complaints procedure</li> <li>▪ CRM will also improve logging of / response to complaints</li> </ul>	<ul style="list-style-type: none"> <li>▪ The centralised capture / tracking mechanism for new legislation should also log and address known compliance issues in existing legislation.</li> </ul>	CG Group

**APPENDIX 2  
STATEMENT ON INTERNAL CONTROL (SIC)  
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<b>Step 2: In support of objective 1 – mechanism in place to establish corporate objectives</b>			
<b>Examples of assurance:</b>	<b>Actual evidence</b>	<b>Control / compliance issues identified</b>	<b>Key Source of evidence / assurance</b>
1. Consultation with stakeholders on priorities and objectives	<ul style="list-style-type: none"> <li>▪ The Council's priorities and strategic objectives are derived from the new Community Strategy.</li> <li>▪ The Community Strategy was produced following extensive consultation with all key stakeholders.</li> </ul>		CG Group
2. The authority's priorities and organisational objectives have been agreed (taking into account feedback from consultation).	<ul style="list-style-type: none"> <li>▪ The Council's vision, priorities and strategic objectives form the basis of its new Corporate Strategy, which has been formally approved.</li> <li>▪ The new Corporate Strategy states outcomes, measures and targets for each strategic objective.</li> </ul>		CG Group
3. Priorities and objectives are aligned to principal statutory obligations and relate to available funding	<ul style="list-style-type: none"> <li>▪ The new Corporate Strategy takes account of annual budgets &amp; the medium term financial strategy</li> </ul>		CG Group
4. Objectives are reflected in departmental plans and are clearly matched with associated budgets	<ul style="list-style-type: none"> <li>▪ Clear guidance has been set for the preparation of service unit business plans</li> <li>▪ Annual unit business plans are now based on the delivery of key projects, which require links to be shown with corporate priorities and strategic objectives</li> <li>▪ Unit business plans are set to match available funding and are supported by individual staff performance &amp; development reviews</li> </ul>		CG Group
5. The authority's objectives are clearly communicated to staff and to all stakeholders.	<ul style="list-style-type: none"> <li>▪ The new Community and Corporate Strategies have been published on the Council's web site and intranet</li> <li>▪ Further supported by staff corporate briefings</li> </ul>		CG Group

**APPENDIX 2  
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<b>Step 3: In support of objective 1 – effective corporate governance arrangements are embedded within the authority</b>				
<b>Examples of assurance:</b>	<b>Actual evidence</b>	<b>Control / compliance issues identified</b>	<b>Key Source of evidence / assurance</b>	
1. Code of corporate governance established	<ul style="list-style-type: none"> <li>▪ CIPFA / SOLACE workshop facilitated by Audit Commission – actions contained in Corporate Improvement Plan</li> </ul>	<ul style="list-style-type: none"> <li>▪ Local CG Code specifies member and officer responsibilities</li> <li>▪ Key role for the Audit Committee / new Terms of Reference</li> </ul>	Use of Resources	
2. Review and monitoring arrangements in place	<ul style="list-style-type: none"> <li>▪ Ditto above</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ditto above</li> </ul>	CG Group	
3. Committee charged with governance responsibilities	<ul style="list-style-type: none"> <li>▪ Ditto above</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ditto above</li> </ul>	Use of Resources	
4. Governance training provided to key officers and all members	<ul style="list-style-type: none"> <li>▪ New members given induction in standards &amp; some aspects of probity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Incorporate CG training in the member and senior officer development programmes</li> <li>▪ More targeted training for the Audit Committee and Chair</li> </ul>	Use of Resources	
5. Staff, public and other stakeholder awareness of corporate governance		<ul style="list-style-type: none"> <li>▪ Work in tandem with the Audit Commission to raise awareness of CG amongst staff, public &amp; other stakeholders</li> </ul>	Use of Resources	

**APPENDIX 2  
STATEMENT ON INTERNAL CONTROL (SIC)  
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<b>Step 4: In support of objective 1 – performance management arrangements are in place</b>				
<b>Examples of assurance:</b>	<b>Actual evidence</b>	<b>Control / compliance issues identified</b>	<b>Key Source of evidence / assurance</b>	
1. Comprehensive and effective performance management systems operate routinely	<ul style="list-style-type: none"> <li>▪ There is a clearly defined PMF built around the Community / Corporate Strategies, Service Unit Business Plans and Individual performance / development reviews.</li> </ul>		CG Group	
2. Key performance indicators are established and monitored	<ul style="list-style-type: none"> <li>▪ In addition to BVPI's, performance measures and targets in respect of each strategic objective are clearly set out in the Corporate Strategy.</li> <li>▪ These are routinely monitored by Strategy Group, O&amp;S Committee and Executive Cabinet</li> </ul>		CG Group	
3. The authority knows how well it is performing against its planned outcomes	<ul style="list-style-type: none"> <li>▪ The new Corporate Strategy and associated monitoring systems will enable this to happen</li> </ul>		CG Group	
4. Knowledge of absolute and relative performances achieved is used to support decisions that drive improvements in outcomes		<ul style="list-style-type: none"> <li>▪ The Council does not routinely benchmark against higher performing organisations</li> </ul>	Use of Resources	
5. The authority continuously improves its performance management	<ul style="list-style-type: none"> <li>▪ Simplified, more visible Corporate Strategy &amp; Service Business Plans</li> </ul>	<ul style="list-style-type: none"> <li>▪ Embedding the new corporate strategy</li> <li>▪ Improved monitoring of targets &amp; outcomes by Strategy Group &amp; O&amp;S</li> <li>▪ Improved QA on BVPI's required</li> </ul>	Use of Resources	

**APPENDIX 2  
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**Objective 2: Identify principal risks to achievement of objectives**

<b>Step 1: In support of objective 2 – the authority has robust systems and processes in place for the identification and management of strategic and operational risk</b>		<b>Control / compliance issues identified</b>	<b>Key Source of evidence / assurance</b>
<p><b>Examples of assurance:</b></p> <p>1. There is a written strategy and policy in place or managing risk which:</p> <ul style="list-style-type: none"> <li>• Has been formally approved at political and risk management board (or equivalent) level</li> <li>• Is reviewed on a regular basis</li> <li>• Has been communicated to all relevant staff</li> </ul>	<p><b>Actual evidence</b></p> <ul style="list-style-type: none"> <li>▪ Risk Management Policy Statement (RMPS) &amp; Risk Management Board (RMB) Terms of Reference approved by Executive Cabinet</li> <li>▪ RMPS &amp; RMB Terms of Reference recently revised to address the developing risk agenda.</li> <li>▪ Published on intranet.</li> <li>▪ Included in officer training &amp; awareness sessions.</li> </ul>	<p><b>Control / compliance issues identified</b></p>	<p><b>Key Source of evidence / assurance</b></p> <p>CG Group</p>
<p>2. The authority has implemented clear structures and processes for risk management which are successfully implemented and:</p> <ul style="list-style-type: none"> <li>• Management board and elected members see risk management as a priority and support it by personal interest and input</li> <li>• Decision making considers risk</li> <li>• A senior manager has been appointed to “champion” risk management</li> </ul>	<p><b>Actual evidence</b></p> <ul style="list-style-type: none"> <li>▪ Management Team have received RMB minutes.</li> <li>▪ Member Champion for RM appointed to RMB.</li> <li>▪ Strategic director chairs RMB.</li> <li>▪ Audit &amp; Risk Manager has key co-ordinating role for RM (shown in job description).</li> <li>▪ Overall roles &amp; responsibilities for RM defined in RMPS.</li> <li>▪ RM section included in all committee reports.</li> <li>▪ RM systems subject to external audit.</li> <li>▪ RM now built into service unit business planning process / procedures.</li> </ul>	<p><b>Control / compliance issues identified</b></p> <ul style="list-style-type: none"> <li>▪ Member and Officer responsibilities for governance and risk management to be reviewed.</li> <li>▪ New Audit Committee Terms of Reference</li> <li>▪ Need to review role &amp; purpose of RMB in context of new responsibilities and reporting arrangements for governance generally</li> </ul>	<p><b>Key Source of evidence / assurance</b></p> <p>CG Group</p>

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<ul style="list-style-type: none"> <li>• Roles and responsibilities for risk management have been defined</li> <li>• Risk management systems are subject to independent assessment</li> <li>• Risk management is considered in the annual business planning process</li> </ul>			
<p>3. The authority has developed a corporate approach to the identification and evaluation of risk which is understood by all staff</p>	<ul style="list-style-type: none"> <li>▪ Strategic Risk Register based on AUS/NZ standard</li> <li>▪ Strategic Risk Register recently re-produced in response to the new Corporate Strategy</li> <li>▪ Project based approach to unit service planning based on PRINCE2, incorporating risk assessment</li> </ul>		CG Group
<p>4. The authority has well defined procedures for recording and reporting risk</p>	<ul style="list-style-type: none"> <li>▪ Strategic &amp; service level risk registers used to record and manage key business risks</li> </ul>		CG Group
<p>5. The authority has well-established and clear arrangements for financing risk</p>	<ul style="list-style-type: none"> <li>▪ A fundamental review of risk financing options, including self-insurance has recently been undertaken.</li> </ul>		CG Group
<p>6. The authority has developed a programme of risk management training for relevant staff</p>	<ul style="list-style-type: none"> <li>▪ SMG Presentations</li> <li>▪ Awareness training given to all senior officers.</li> <li>▪ Executive Cabinet away day on RM.</li> <li>▪ Service unit business planning procedures &amp; training.</li> <li>▪ Risk responsibilities incorporated into some job descriptions &amp; appraisals (e.g. Audit &amp; Risk Manager).</li> </ul>	<ul style="list-style-type: none"> <li>▪ RM to be included in new officer &amp; member induction programmes</li> <li>▪ Training &amp; support required in the application of project based risk assessments in service units</li> </ul>	CG Group

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<p>7. The corporate risk management board adds value to the RM process by:</p> <ul style="list-style-type: none"> <li>• Advising &amp; supporting Mgmt Team on risk strategies</li> <li>• Identifying areas of overlapping risk</li> <li>• Driving new risk management initiatives</li> <li>• Communicating risk management and sharing good practice</li> <li>• Providing and reviewing risk management training</li> <li>• Regularly reviewing the risk register(s) Coordinating the results for risk reporting</li> </ul>	<ul style="list-style-type: none"> <li>▪ RMB Terms of Reference.</li> <li>▪ RMB minutes to Management Team.</li> <li>▪ RMB project plan covering: development of corporate policies &amp; procedures, risk registers, communication &amp; training, ongoing review.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Need to review role &amp; purpose of RMB in context of new responsibilities and reporting arrangements for governance generally</li> </ul>	<p>CG Group</p>
<p>8. A corporate risk officer has been appointed with the necessary skills to analyse issues and offer options and advice and:</p> <ul style="list-style-type: none"> <li>• Support decision making and policy formulation</li> <li>• Provides support in the risk identification and analysis process</li> <li>• Provides support in prioritising risk mitigation action</li> <li>• Provides advice and support in determining risk treatments</li> <li>• Inspires confidence in managers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Audit &amp; Risk Manager.</li> <li>▪ RM responsibilities in Job Description.</li> <li>▪ Member of ALARM / regular attendance at meetings.</li> <li>▪ Key role on RMB.</li> <li>▪ Member &amp; officer presentations &amp; training.</li> <li>▪ Facilitation of risk workshops within business planning.</li> <li>▪ Bought-in specialist consultancy support on an "as needs" basis.</li> </ul>		<p>CG Group</p>



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<p>9. Managers are accountable for managing their risks</p>	<ul style="list-style-type: none"> <li>▪ Risk ownership now integrated within strategic /service planning and project management.</li> </ul>	<ul style="list-style-type: none"> <li>▪</li> </ul>	
<p>10. Risk management is embedded throughout the authority</p>	<ul style="list-style-type: none"> <li>▪ Now acknowledged by the Audit Commission in key reports</li> </ul>		CG Group
<p>11. Risks in partnership working are fully considered</p>		<ul style="list-style-type: none"> <li>▪ Corporate approach to partnership RM needs to be developed.</li> <li>▪ HM Treasury guidance to be used as the basis of the approach.</li> </ul>	Use of Resources
<p>12. Where employed, risk management information systems meet users' needs</p>	<ul style="list-style-type: none"> <li>▪ No risk management MIS in place due to integration with business planning.</li> </ul>		CG Group

**APPENDIX 2  
STATEMENT ON INTERNAL CONTROL (SIC)  
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**Objective 3: Identify key controls to manage principal risks**

<b>Step 1: In support of objective 3 – the authority has robust system of internal control which includes systems and procedures to mitigate principal risks</b>			
<b>Examples of assurance:</b>	<b>Actual evidence</b>	<b>Control / compliance issues identified</b>	<b>Key Source of evidence / assurance</b>
<p>1. There are written financial regulations in place which have been formally approved, regularly reviewed and widely communicated to all relevant staff:</p> <ul style="list-style-type: none"> <li>• Authority has adopted CIPFA code on Treasury Management (note: recent legislative requirement by virtue of the prudential code)</li> <li>• Compliance with the Prudential Code</li> </ul>	<ul style="list-style-type: none"> <li>▪ FPR's revised in 2004 (new CIPFA model)</li> <li>▪ Approved by Council</li> <li>▪ On intranet &amp; supported by "Good Practice Guides" by Internal Audit</li> <li>▪ Compliance reviewed by Internal Audit on ongoing basis (financial systems audit) &amp; reported to Audit Committee</li> <li>▪ Reported to Executive Cabinet</li> <li>▪ Reported to Exec Cabinet</li> <li>▪ Internal Audit review 2005 – minor recommendations made</li> </ul>	<ul style="list-style-type: none"> <li>▪ Need to introduce a formal procedure for the annual review of basic regulatory documentation</li> </ul>	<p>Use of Resources</p>
<p>2. There are written contract standing orders in place which have been formally approved, regularly reviewed and widely communicated to all relevant staff</p>	<ul style="list-style-type: none"> <li>▪ Contract Standing Orders in situ</li> </ul>	<ul style="list-style-type: none"> <li>▪ Need to introduce a formal procedure for the annual review of basic regulatory documentation</li> </ul>	<p>Use of Resources</p>
<p>3. There is a whistleblowing policy in place which has been formally approved, regularly reviewed and widely communicated to all relevant staff</p>	<ul style="list-style-type: none"> <li>▪ Anti Fraud &amp; Corruption Strategy in situ</li> </ul>	<ul style="list-style-type: none"> <li>▪ Produce a Whistle blowing Policy which is issued to members &amp; staff and made available to third parties on the Council's web-site</li> </ul>	<p>Use of Resources</p>

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<p>4. There is a counter fraud and corruption policy in place which has been formally approved, regularly reviewed and widely communicated to all relevant staff</p>	<ul style="list-style-type: none"> <li>▪ Anti-Fraud &amp; Corruption Strategy</li> <li>▪ Member approved</li> <li>▪ Full Strategy to Chief Officers</li> <li>▪ Available on web-site / intranet</li> <li>▪ Audit Commission leaflets to all members of staff</li> <li>▪ Internal Investigations Protocol</li> </ul>	<ul style="list-style-type: none"> <li>▪ Undertake a joint exercise with the Audit Commission to raise member &amp; staff awareness of all the main elements of sound ethical behaviour, including their responsibilities to prevent or report upon suspected cases of fraud or corruption</li> </ul>	<p>Use of Resources</p>
<p>5. There are codes of conduct in place which have been formally approved and widely communicated to all relevant staff</p>	<ul style="list-style-type: none"> <li>▪ Staff code in Constitution</li> <li>▪ Members code in Constitution</li> <li>▪ Constitution formally approved</li> </ul>	<ul style="list-style-type: none"> <li>▪ Need to introduce a mechanism to assess standards of conduct, including how effectively members are complying with the Code of Conduct, the number and type of complaints received, and take action as appropriate</li> </ul>	<p>Use of Resources</p>
<p>6. A register of interests is maintained, regularly updated and reviewed</p>	<ul style="list-style-type: none"> <li>▪ Members registers recently reviewed (report to Standards Sub-Committee)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Need to introduce a register of interests for officers</li> <li>▪ Conduct periodic reviews of registers of gifts, hospitality and pecuniary interests to ensure that appropriate disclosures are being made</li> </ul>	<p>Use of Resources</p>
<p>7. Where a scheme of delegation has been drawn up, it has been formally approved and communicated to all relevant staff</p>	<ul style="list-style-type: none"> <li>▪ Scheme in Constitution</li> <li>▪ Constitution reviewed annually</li> </ul>	<ul style="list-style-type: none"> <li>▪ Need to introduce a formal procedure for the annual review of basic regulatory documentation</li> </ul>	<p>Use of Resources</p>
<p>8. A corporate procurement policy has been drawn up, formally approved and communicated to all relevant staff</p>	<ul style="list-style-type: none"> <li>▪ Corporate Procurement Working Group &amp; Action Plan</li> <li>▪ Corporate Procurement Strategy, formally approved (may 2004)</li> <li>▪ Effectiveness reviewed by Efficiency Working Group in response to Gershon agenda</li> </ul>	<ul style="list-style-type: none"> <li>▪ Need to develop comprehensive and effective procurement practices so that VFM from procurement can be demonstrated at both the strategic and transaction cost levels</li> </ul>	<p>Use of Resources</p>

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<p>9. Business/service continuity plans have been drawn up for all critical service areas and the plans:</p> <ul style="list-style-type: none"> <li>• Are subject to regular testing</li> <li>• Are subject to regular review</li> </ul>	<ul style="list-style-type: none"> <li>▪ BCPs in situ</li> </ul>	<ul style="list-style-type: none"> <li>▪ More structured, regular review &amp; testing required (Internal Audit review scheduled for 2006/7)</li> </ul>	<p>CG Group</p>
<p>10. Corporate/departmental risk register(s) includes expected key controls to manage principal risks</p>	<ul style="list-style-type: none"> <li>▪ Strategic &amp; service level risk registers used to record and manage key business risks</li> </ul>		<p>CG Group</p>
<p>11. Key risk indicators have been drawn up to track the movement of key risks and are regularly monitored and reviewed.</p>		<ul style="list-style-type: none"> <li>▪ The respective roles of Strategy Group &amp; Audit Committee regarding risk monitoring need to be clarified</li> </ul>	<p>CG Group</p>
<p>12. The authority's internal control framework is subject to regular independent assessment</p>	<ul style="list-style-type: none"> <li>▪ New process to produce &amp; publish SIC</li> </ul>		<p>CG Group</p>
<p>13. A corporate health and safety policy has been drawn up, formally approved, is subject to regular review and has been communicated to all relevant staff</p>	<ul style="list-style-type: none"> <li>▪ Framework for the Management of Occupational Health &amp; Safety.</li> <li>▪ Roll-out / training in progress</li> <li>▪ Service unit health &amp; safety policies</li> </ul>		<p>CG Group</p>
<p>14. A corporate complaints policy/procedure has been drawn up, formally approved, communicated to all relevant staff, the public and other stakeholders is regularly reviewed</p>	<ul style="list-style-type: none"> <li>▪ Corporate complaints procedure in situ</li> <li>▪ Communicated to all staff &amp; stakeholders</li> </ul>		<p>CG Group</p>

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**Objective 4: Obtain assurance on the effectiveness of key controls**

- Step 1: In support of objective 4 – appropriate assurance statements are received from designated internal and external assurance providers:**
- The authority has identified appropriate sources of assurance
  - Appropriate external assurances are identified and obtained

Examples of assurance:	Actual evidence	Control / compliance issues identified	Key Source of evidence / assurance
1. The authority has determined appropriate internal and external sources of assurance	<ul style="list-style-type: none"> <li>▪ CPA / Direction of Travel</li> <li>▪ Use of Resources / VFM</li> <li>▪ Audit Commission CG review</li> <li>▪ AC Annual Audit Letter</li> <li>▪ CG Group self-assessment</li> <li>▪ Service risk assessments</li> </ul>		CG Group
2. Appropriate key controls on which assurance is to be given have been identified and agreed	<ul style="list-style-type: none"> <li>▪ Plethora of constitutional &amp; non-constitutional guidance</li> </ul>		CG Group
3. Departmental assurances are provided	<ul style="list-style-type: none"> <li>▪ Integrated within the service unit business planning process</li> <li>▪ Detailed procedural guidance issues to Units</li> <li>▪ Corporate support directed to specific Units</li> </ul>	<ul style="list-style-type: none"> <li>▪ Need to include the requirement to monitor compliance with established policies and procedures as a standard objective in senior managers JD's.</li> <li>▪ Need to introduce service level assurance statements in support of the SIC, which identifies service level control / compliance issues</li> </ul>	Use of Resources

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<p>4. External assurance reports are collated centrally</p> <ul style="list-style-type: none"> <li>• Reports are reviewed by relevant senior management team and reported to appropriate committee</li> <li>• Action plans are prepared and approved as appropriate</li> <li>• Follow up reports on recommendations are requested and reviewed by relevant senior management team and progress is regularly reported to relevant committee</li> </ul>	<ul style="list-style-type: none"> <li>▪ Key Audit &amp; Inspection reports received by Executive Cabinet &amp; action plans driven by Management Team (e.g. CPA / CIP)</li> <li>▪ All Audit Commission report recommendations tracked by Internal Audit &amp; results reported to Audit Committee</li> </ul>	<ul style="list-style-type: none"> <li>▪ Performance Plus to be used to capture and tracking all external assurance reports / recommendations</li> <li>▪ Reporting via Strategy Group to the Audit Committee</li> </ul>	<p>Use of Resources</p>
<p>5. Internal Audit Arrangements</p>	<ul style="list-style-type: none"> <li>▪ Reports of Audit &amp; Risk Manager to Audit Committee throughout the year</li> <li>▪ Annual report of Audit &amp; Risk Manager including opinion on internal control framework</li> </ul>	<ul style="list-style-type: none"> <li>▪ Performance Plus to be used to capture and tracking all external assurance reports / recommendations</li> <li>▪ Reporting via Strategy Group to the Audit Committee</li> </ul>	<p>Use of Resources</p>
<p>6. Corporate Governance Arrangements</p>	<ul style="list-style-type: none"> <li>▪ Recent Audit Commission facilitated corporate governance workshop / results fed into CIP</li> </ul>	<ul style="list-style-type: none"> <li>▪ Member and Officer responsibilities for governance and risk management to be reviewed.</li> <li>▪ New Audit Committee Terms of Reference</li> </ul>	<p>Use of Resources</p>
<p>7. Performance monitoring arrangements</p>	<ul style="list-style-type: none"> <li>▪ Built into Audit Committee terms of reference</li> <li>▪ Annual &amp; interim Internal Audit reports to Audit Committee including KPI's &amp; outcomes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Audit Committee remit for monitoring Internal &amp; External Audit performance to be incorporated in new terms of reference</li> </ul>	<p>CG Group</p>

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**Objective 5: Evaluate assurances and identify gaps in control/assurances**

<b>Examples of assurance:</b>	<b>Actual evidence</b>	<b>Control / compliance issues identified</b>	<b>Key Source of evidence / assurance</b>
<p><b>Step 1 : In support of objective 5 – the authority has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify areas of weakness in controls</b></p> <p>1. Responsibilities for the evaluation of assurances are clearly defined throughout the organisation.</p>	<ul style="list-style-type: none"> <li>▪ Various committee terms of reference (Audit Committee, O&amp;S, etc)</li> <li>▪ Various job descriptions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Performance Plus to be used to capture and tracking all external assurance and key internal audit recommendations</li> <li>▪ Regular reporting via Strategy Group to the Audit Committee</li> </ul>	<p>Use of Resources</p>
<p>2. Mechanism established for collecting SIC assurances</p> <ul style="list-style-type: none"> <li>• Overall responsibility allocated to SIC senior officer group</li> <li>• Required assurances are agreed and recorded</li> <li>• Central record of all assurances (either evidence file, or showing clear link to where evidence is held)</li> <li>• Clear guidance as to evaluation procedure including assurance over risks, independence and objectivity of assurances</li> <li>• Defined evaluation mechanism</li> <li>• Timetable for completion by statutory deadline</li> <li>• Gap assessment – performed and challenged</li> </ul>	<ul style="list-style-type: none"> <li>▪ Governance Group established to collate SIC assurances</li> <li>▪ Detailed schedule of assurances &amp; sources compiled</li> <li>▪ CIPFA recommended practice followed re review / challenge / approval</li> </ul>		<p>CG Group</p>

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**Objective 6: Action plan to address weaknesses and ensure continuous improvement of the system of internal control**

<b>Step 1: In support of objective 6 – there is a robust mechanism to ensure that an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored</b>			
<b>Examples of assurance:</b>	<b>Actual evidence</b>	<b>Control / compliance issues identified</b>	<b>Key Source of evidence / assurance</b>
1. An action plan is drawn up and approved		<ul style="list-style-type: none"> <li>▪ Key actions to be fed into business plans.</li> </ul>	CG Group
2. All actions are 'SMART': <ul style="list-style-type: none"> <li>• Specific</li> <li>• Measurable</li> <li>• Achievable</li> <li>• Realistic</li> <li>• Time-bound</li> </ul>		<ul style="list-style-type: none"> <li>▪ Key actions to be fed into business plans.</li> </ul>	CG Group
3. Actions communicated and responsibilities assigned		<ul style="list-style-type: none"> <li>▪ Key actions to be fed into business plans.</li> </ul>	CG Group
4. Implementation timescales agreed		<ul style="list-style-type: none"> <li>▪ Key actions to be fed into business plans.</li> </ul>	CG Group
5. Ongoing review of progress and of continuing appropriateness of action		<ul style="list-style-type: none"> <li>▪ Key actions to be fed into business plans.</li> </ul>	CG Group



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**Objective 7: Statement on Internal Control:**

<b>Step 1: In support of objective 7 – a statement on internal control has been drafted in accordance with the statutory requirements and timetable set out in the Accounts and Audit Regulations 2003 and is in accordance with CIPFA guidance</b>				
<b>Examples of assurance:</b>	<b>Actual evidence</b>	<b>Control / compliance issues identified</b>	<b>Key Source of evidence / assurance</b>	
1. Responsibility for the compilation of the statement on internal control has been assigned	<ul style="list-style-type: none"> <li>▪ Report to Strategy Group &amp; Audit Committee</li> </ul>		CG Group	
2. There is a statement on internal control production timetable that meets the statutory deadline	<ul style="list-style-type: none"> <li>▪ Report to Strategy Group &amp; Audit Committee</li> </ul>		CG Group	
3. The statement on internal control is reviewed, challenged and approved by the authority	<ul style="list-style-type: none"> <li>▪ Report to Strategy Group &amp; Audit Committee</li> </ul>		CG Group	

**Objective 8: Report to cabinet/executive committee**

<b>Step 1: In support of objective 8 – An annual report to the authority (or delegated committee) on the Statement on Internal Control is presented, in accordance with the CIPFA pro forma</b>				
<b>Examples of assurance:</b>	<b>Actual evidence</b>	<b>Control / compliance issues identified</b>	<b>Key Source of evidence / assurance</b>	
1. Responsibility for reporting is clearly defined	<ul style="list-style-type: none"> <li>▪ Report to Strategy Group &amp; Audit Committee</li> </ul>		CG Group	
2. The signatories to the SIC are defined and are appropriate in accordance with statutory requirements (i.e. Most senior officer and most senior member of the organisation)	<ul style="list-style-type: none"> <li>▪ Report to Strategy Group &amp; Audit Committee</li> </ul>		CG Group	
3. The report is likely to be published in a timely fashion with the statutory accounts	<ul style="list-style-type: none"> <li>▪ Report to Strategy Group &amp; Audit Committee</li> </ul>		CG Group	

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Audit and Inspection Plan

May 2006



# **Audit and Inspection Plan**

**Chorley Borough Council**

**Audit 2006/2007**

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.
- 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, 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.

### **Copies of this report**

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

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## Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake in 2006/07. The plan has been drawn up from our risk-based approach to audit planning and reflects:
  - the Code of Audit Practice;
  - Audit and inspection work specified by the Audit Commission for 2006/07;
  - your local risks and improvement priorities; and
  - current national risks relevant to your local circumstances.
- 2 Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

## Our responsibilities

- 3 In carrying out our audit and inspection duties we have to comply with the statutory requirements governing them, and in particular:
  - the Audit Commission Act 1998;
  - the Code of Audit Practice (the Code) with regard to audit; and
  - the Local Government Act 1999 with regard to best value inspection and audit.
- 4 The Code defines auditors' responsibilities in relation to:
  - the financial statements of audited bodies; and
  - audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources. Auditors are now required to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
  - we will give the first such conclusion by September 2006 as part of the 2005/06 audit, which will in part be informed by the recent use of resources work together with an update position.

## The fee

- 5 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 6 Inspection fees are based on the actual number of days included in the plan for each programmed activity.
- 7 The total fee estimate for the audit work planned for 2006/07 is £100,876. The total fee estimate for inspection work planned for 2006/07 is £4,204, which is net of 80 per cent ODPM grant. The total audit and inspection fee for 2006/07 is £105,080. This compares with a total audit and inspection fee of £100,267 in 2005/06 reflecting a rise of 4.8 per cent, which is in line with the Audit Commission's expected fee increase.
- 8 In addition, we estimate that we will charge approximately £27,400 for the certification of claims and returns, which reflects a budgeted reduction of £5,600 from 2005/06. Further details are provided in paragraph 38 and in Appendix 1.
- 9 The audit and inspection fees include all work identified in this plan unless specifically excluded. Further details are provided in Appendix 1, which includes specific audit risk factors, the assumptions made when determining the audit fee, specific actions Chorley Borough Council could take to reduce its audit fees and the process for agreeing any additional fees.
- 10 Changes to the plan and the fee may be necessary if our audit risk assessment changes during the course of the audit. This is particularly relevant to work related to:
  - the opinion on the 2006/07 accounts, since we have yet to audit the accounts for 2005/06 and detailed financial reporting requirements for 2006/07 are not yet known; and
  - selected performance indicators audit, since we have yet to assess your overall arrangements for securing the quality of this data and then to undertake a formal risk assessment.
- 11 We will formally advise you if any changes to the fee become necessary.

## CPA and inspections

- 12 The CPA framework for district councils from 2006 is currently subject to consultation. It is expected that the proposed methodology published in April 2006 will be available for some councils during 2006/07 as an opportunity for re-categorisation.
- 13 If the new methodology identifies the need or opportunity for a revised corporate assessment for Chorley Borough Council, we will discuss an amendment to this plan and agree an additional fee for completion of the work.
- 14 Following the Council’s classification as a fair in 2004 we have applied the principles of strategic regulation recognising the key strengths and weaknesses in Chorley Borough Council's performance. We have found that:
  - the Council is consistently improving outcomes for local people and is addressing previous weaknesses in leadership and strategic direction. It has set a clearer path for itself and its communities through a revised community strategy and corporate plan. It is strengthening internal systems to support improvement and the performance management framework is improving; and
  - A more focussed and meaningful array of performance measures is needed in order to challenge and monitor outcomes. Business unit plans, service objectives and personal objectives for individual staff need to be integrated and more clearly linked to corporate priorities. There remains scope for members to become more involved in performance management.
- 15 As a consequence our inspection activity will focus on those areas highlighted below.

**Table 1 Summary of inspection activity**

Inspection activity	Reason/impact
Relationship Manager role	To act as the Commission’s primary point with the Council and the interface at the local level between the Commission and the other inspectorates, Government Offices and other key stakeholders.
Direction of Travel review	To provide focus for continuous improvement. Likely to be included in a future CPA scorecard.



## Summary of key audit approach and risks

- 16 This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to:
- provide an opinion on your financial statements;
  - provide a conclusion on your use of resources;
  - provide a scored judgment on the use of resources to feed into the CPA process;
  - undertake audit work in relation to specified performance indicators to support the service assessment element of CPA; and
  - provide a report on the Council's best value performance plan (BVPP).
- 17 In assessing risk our approach to audit planning requires us to identify audit work that is relevant to your significant business risks that are not adequately controlled. The start point for this is the audited body's business risks. Business risks are defined by the Code of Audit Practice as 'risks to the achievement of the audited bodies statutory functions and objectives'.
- 18 To consider the significance of the risk we need to consider what the impact would be if the risk came to fruition both in terms of qualitative and quantitative measures.
- 19 If in our judgement risks are not likely to have a significant (or material) impact on the audited body then there is no further work required for us to do.
- 20 In order to identify such risks we have carried out the following:
- reviewed your risk register;
  - reviewed your corporate plan;
  - reviewed budget documents - to identify new projects or risks, or general financial management risks;
  - reviewed agenda papers/minutes of meetings - board/council/committees and officer groups;
  - held discussions with key officers at the Council;
  - considered the issues raised within the Audit Commission's Auditor Briefing which highlights a number of national risks which may be relevant at Chorley Borough Council; and
  - reviewed the results of the prior year audit work.
- 21 Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including Internal Audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.

## Value for money conclusion

- 22 The Code of Audit Practice requires us to issue a value for money conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources. The Audit Commission has developed relevant criteria for auditors to apply in reaching our value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 2. In meeting this responsibility, we will review evidence that is relevant to the Council’s corporate performance management and financial management arrangements. We will give the first such conclusion by the end of September 2006 as part our audit of the 2005/06 accounts. This may influence our risk assessment for similar work to be carried out as part of the 2006/07 and we will keep you informed of any changes to this plan that may become necessary.

## Use of resources judgement

- 23 Over and above the Code requirements described above, the Audit Commission requires auditors to make more qualitative assessments of the effectiveness of those arrangements in the form of a series of use of resources judgements. The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year’s experiences of applying the KLOEs, following a post implementation review of the assessment. Our fee estimate 2006/07 assumes that the KLOEs will be broadly similar to those used in 2005/06. If this changes we will discuss with you the implications, including any impact on the fee.
- 24 These judgements may also be used by the Commission as the basis for its overall use of resources judgement.
- 25 Using our cumulative knowledge and experience, including the results of previous work and other regulators’ work, we have identified the following areas of audit risk to be addressed.

**Table 2 Summary use of resources audit risks**

Audit risk	Response
Financial Reporting - the following key improvements were identified. <ul style="list-style-type: none"> <li>• Complete and cross reference the working paper checklist to electronic working papers along with a predictive analytical review.</li> <li>• Introduce a robust QA of the accounts prior to audit to ensure compliance with the SoRP.</li> </ul>	As part of our annual use of resources assessment and opinion audit we will follow up on what progress has been made in strengthening financial reporting arrangements.

Audit risk	Response
<ul style="list-style-type: none"> <li>• Consult with stakeholders on summary accounts and then publish a format in response to that consultation.</li> <li>• Consider the benefits of producing an annual report in a user friendly format.</li> </ul> <p>Failure to address these areas will prevent the Council from improving its engagement with stakeholders and its UoR score for financial reporting.</p>	
<p>Financial Management - a number of areas were identified for improvement including:</p> <ul style="list-style-type: none"> <li>• communication and linkage of the medium term financial strategy to other internal strategies;</li> <li>• the new Community Plan priorities need to be incorporated within the updated MTFS;</li> <li>• linkage between operational activity based cost driver indicators and risk assessments in budget monitoring reports;</li> <li>• financial performance of the Council's partners needs to be regularly reviewed;</li> <li>• regular financial management training for members and non-financial officers is needed;</li> <li>• 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.</li> </ul> <p>Failure to address these areas will prevent the Council from gaining service improvement through better financial management and improving its UoR score.</p>	<p>We will review the Council's progress in strengthening financial management arrangements as part of our annual assessment of Use of Resources.</p> <p>We plan to carry out a specific review of arrangements including workshops to raise awareness of improvement through better financial management.</p>

Audit risk	Response
<p>Financial Standing - the key areas for improvement is for members to monitor key financial health indicators and for the Council to consider the opportunity cost of reserve levels against benefits accrued.</p> <p>Failure to address these areas may prevent the Council from securing sustainable financial health and improve its UoR score for financial standing.</p>	<p>As part of our annual use of resources assessment we will follow up what progress has been made in strengthening financial standing arrangements.</p>
<p>Internal Control - key areas for improvement include:</p> <ul style="list-style-type: none"> <li>• the need for further effective management of Council business risks through explicit consideration of the upside of risks within decision making and embed as part of wider management arrangements;</li> <li>• formalising risk management arrangements for all the Council’s significant partnerships; and</li> <li>• developing a strong counter fraud and wider ethical governance culture which is supported and promoted by members and senior officers.</li> </ul> <p>Failure to address these areas will prevent the Council from demonstrating strong standards of governance and improving its UoR score for internal control.</p>	<p>We will review the Council's progress in strengthening internal control arrangements as part of our annual assessment of Use of Resources.</p> <p>High ethical standards are a cornerstone of good governance. We will work with the Council in trying to promote high ethical standards at Chorley Borough Council.</p> <p>We propose to undertake a piece of work around ethical governance. The work will assess whether the Council has complied with arrangements under part III of the Local Government Act 2000 for authorities to put in place rigorous mechanisms for improving the standards of conduct of public office holders.</p> <p>We can use questionnaires and workshops to assess member and officer level understanding around ethical behaviour and how well the Council promotes ethical standards.</p>
<p>VFM - key areas to strengthen include:</p> <ul style="list-style-type: none"> <li>• information on costs and how these compare to others and to the quality of services achieved needs to be used to review and challenge VFM throughout services and corporately;</li> </ul>	<p>We will review the Council's progress in strengthening VFM arrangements as part of our annual assessment of Use of Resources.</p>

Audit risk	Response
<ul style="list-style-type: none"> <li>• clear VFM targets are needed for senior managers and members to assess VFM and monitor its achievement;</li> <li>• the structures and processes for assessing the wider VFM issues of policy decisions for the whole community need to be formalised;</li> <li>• information bringing together costs and quality of services needs to be regularly reported to members; and</li> <li>• VFM from procurement needs to be more clearly demonstrated at both strategic and transaction cost levels.</li> </ul> <p>Failure to address these areas will prevent the Council from securing further improvements in value for money and maintaining or improving its UoR score for VFM.</p>	

Local Use of resources risks	
Audit risk	Response
<p>Large Scale Voluntary Transfer of housing stock presents significant risks for the Council, its tenants and other stakeholders, in relation to the cost and quality of future services if such a transfer takes place. When local authorities transfer their housing stock their role in the local housing market changes from providers and managers of housing accommodation to a focus on enabling, strategic planning, and facilitating to ensure local people in need can access decent and affordable housing.</p>	<p>We will review the arrangements up to the ballot stage, We will also consider the plans the Council develops to complete any housing stock transfer, and assess the effects this has on the remainder of the organisation as it enters a new arrangement for the provision of housing</p> <p>The approach includes:</p> <ul style="list-style-type: none"> <li>• reviewing arrangements for project management of any transfer process;</li> <li>• reviewing on going arrangements for managing the enabling and retained functions;</li> <li>• examining the arrangements for consultation and participation by key stakeholders; and</li> </ul>

Audit risk	Response
	<ul style="list-style-type: none"> <li>• seeking assurance that the entire transfer process is managed effectively.</li> </ul>
<p>One of the biggest emerging business continuity risks is around IT fraud and abuse.</p>	<p>We intend to use the IT – ‘Your business at risk’ short diagnostic tool to review and raise awareness of IT risks, benchmark and highlight areas for improvement in relation to IT fraud and abuse.</p>
<p>New systems in place surrounding the Local Area Agreement for the Lancashire Area do not mitigate all of the risks arising from partnership working.</p>	<p>We will review the LAA arrangements covering governance and financial issues through using the Audit Commission risk diagnostic tool.</p>

## Performance information

- 26 In 2006/07, auditors are required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA, subject to the basis of the agreed methodology. This work will be risk based and will link at least in part to our review of the Council’s overall arrangements to secure data quality, as required for our value for money conclusion. Our fee estimate includes an element for this work on the basis that we will assess Chorley Borough Council as medium to high risk in relation to its performance indicators.
- 27 Based on discussions with Internal Audit we will continue to rely on the work performed by Internal Audit for the spot checking and completeness checks on a sample of indicators.
- 28 This risk assessment may change depending on our assessment of your overall arrangements. When we have finalised our risk assessment we will update our plan including any impact on the fee.

**Table 3 Summary use of Performance indicators audit risks**

Audit risk	Response
<p>Previous weaknesses in the data quality of performance indicators are not addressed through the proposed changes to quality assurances framework.</p> <p>Overall risk that the management of performance is mis-directed due to inaccurate performance information.</p>	<p>For 2006/07 there are new requirements in respect of our audit of your performance indicators based on a three stage approach. We must:</p> <ul style="list-style-type: none"> <li>• undertake a review of overall management arrangements to secure data quality;</li> <li>• perform a completeness check of reported performance information, including an arithmetic check of calculations for CPA indicators; and</li> <li>• undertake data quality spot checks, comprising a more in-depth review of specified performance indicators.</li> </ul>

### Best value performance plan

- 29 We are required to report on whether or not you have complied with legislation and statutory guidance in respect of the preparation and publication of your Best Value Performance Plan (BVPP).

### Financial statements

- 30 We will carry out our audit of the 2006/07 financial statements and follow the International Standards on Auditing (UK & Ireland).
- 31 We are also required to review whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the statement is misleading or inconsistent with our knowledge of the Council.
- 32 On the basis of our preliminary work to date we have identified the following audit risks.

**Table 4 Summary of Opinion risks**

Opinion risks	Response
<p>The 2006/07 financial statements will be based on the 2006 Statement of Recommended Practice (SORP). The draft SORP currently includes a number of significant amendments to the existing SORP, in particular around the capital financing charge, the consolidated revenue account, and the revaluation reserve.</p>	<p>We will work closely with the Council's Accountancy Section to ensure that it is fully aware of the proposed changes and will review the authority's closedown arrangements to ensure that there is sufficient in the plan to address the necessary changes.</p> <p>We will be holding local final accounts workshops which should focus on any proposed changes.</p>
<p>There are a number of opinion and financial health related risks associated with the potential LSVT.</p>	<p>We will monitor the compliance with the SoRP and the impact on financial health in 2006/07.</p> <p>It is important that the Council considers the advice given by the Audit Commission's Technical Team to ensure full compliance with the Statement of Recommended Practice in terms of accounting entries in 2006/07 accounts and to protect its future financial standing post any potential LSVT.</p>

- 33 Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be prepared and fully supported by working papers by June 2007.
- 34 We have yet to undertake the audit of the 2005/06 financial statements and our 2006/07 financial statements audit planning will continue as the year progresses. This will take account of:
  - the 2005/06 opinion audit;
  - our documentation and initial testing of material information systems;
  - our assessment of the 2006/07 closedown arrangements; and
  - any changes in financial reporting requirements.
- 35 When we have finalised our risk assessment in respect of your financial statements, we will update our plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.



## Whole of government accounts

- 36 The government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required to be audited. The Audit Commission is currently discussing the scope of the likely audit work with the NAO and other stakeholders. The fee for this work is not included in this plan and we will discuss this with the Director of Finance when further details are available.

## Claims and returns certification

- 37 We will continue to certify the Council's claims and returns.
- Claims for £50,000 or below will not be subject to certification.
  - Claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit.
  - Claims over £100,000 have an audit approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.
- 38 Charges for this work is based on skill-related fees scales set out in the Audit Commission's work programme and fee scales 2006/07. The grant claim and certification returns we are expecting to audit for Chorley include housing benefits and subsidy, pooling capital receipts, national non domestic rates, and other regeneration related claims. Based on this, and on the assumption that the level of grant claims will decrease. We estimate that the fees for grant certification work will be around £27,400.

## Voluntary improvement work

- 39 We are not proposing to do any voluntary improvement work at Chorley Borough Council during 2006/07. We encourage the Council through its normal procurement processes to consider using the Audit Commission for any improvement work which is not covered by the risk areas we have identified in this plan.

## Outputs from the audit and inspection plan

- 40 The expected outputs from our planned audit and inspection work are listed in Appendix 3.

## The team

**Table 5**

<b>Name</b>	<b>Title</b>
Mike Thomas	District Auditor and Relationship Manager
Gareth Kelly	Audit Manager
Wanda Rossiter	Area Performance Lead
Allen Graves	Team Leader
Sophia Iqbal	Auditor

- 41 We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.
- 42 We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

## Future audit plans

- 43 As part of our planning process, we have taken the opportunity to look at potential issues for future years' programmes. Key areas identified include:
- arrangements for ongoing delivery of corporate plan objectives;
  - delivery arrangements through the Local Strategic Partnership;
  - strategic housing function post any potential LSVT; and
  - impact of any potential future local government re-organisation.
- 44 We will discuss these in more detail as the audit year progresses.

## Appendix 1 – Audit and inspection fee

**Table 6**

Fee estimate	Plan 2006/07	Plan 2005/06
Audit	20,472	19,374
Accounts	21,064	23,747
Use of resources	59,340	54,116
Total audit fee	100,876	97,237
Inspection	0	*
Relationship management	1,682	*
Service inspection	0	*
Corporate inspection (DoT)	2,522	*
Total inspection fee	4,204	3,030
Total audit and inspection fee	105,080	100,267
Certification of claims and returns	27,400	32,995
Voluntary improvement work	0	0

\* Comparative information is not available for 2005/06 due to the changed fee structure.

The total audit fee compared to the indicative fee banding equates to only 8 per cent above the mid-point.

- 1 The fee (plus VAT) will be charged in 12 equal instalments from April 2006 to March 2007.
- 2 The fee above includes all work contained in this plan except:
  - any work required in relation to the Whole of Government Accounts; and
  - any specific work required for CPA in 2006/07.

### Specific audit risk factors

- 3 In setting the audit fee we have taken account of the following specific risk factors:
  - issues highlighted as part of our Use of Resources assessment;

**20** Audit and Inspection Plan | Appendix 1 – Audit and inspection fee

- embedding integrated financial, performance and risk management arrangements; and
- the need for proactive ethical governance.

## Assumptions

- 4 In setting the audit fee we have assumed:
  - you will inform us of significant developments impacting on our audit;
  - Internal Audit meets the appropriate professional standards;
  - Internal Audit undertakes appropriate work on all material information systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing (ISA);
  - officers will provide good quality working papers and records to support the financial statements;
  - officers will provide requested information within agreed timescales;
  - officers will provide prompt responses to draft reports; and
  - your Performance Indicators will be adequately prepared and reviewed.
- 5 The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment.
- 6 Where these requirements are not met or our assumptions change, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 7 Changes to the plan will be agreed with you. These may be required if:
  - new risks emerge;
  - additional work is required of us by the Audit Commission or other regulators; and
  - there are any changes to financial reporting requirement, professional auditing standards or legislation which results in additional work.

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

- 8 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. In our recent 2004/05 audit and inspection letter we have identified the following actions that Chorley Borough Council could take include:
  - continuing to develop the quality assurance arrangements around BVPIs;

- ensuring a complete quality assurance framework is in place for grant and certification claims;
- responding in a more timely basis on Audit Commission draft reports;
- developing more embedded financial and performance management arrangements; and
- building on the strengths identified from the use of resources assessment and develop action plans to focus on those areas required to be in place to develop financial management arrangements and improve value for money.

## **Process for agreeing any changes in audit fees**

- 9 If we need to amend the audit or inspection fees during the course of this plan we will firstly discuss this with the Director of Resources. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

22 Audit and Inspection Plan | Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

## **Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Arrangements for establishing strategic and operational objectives**

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

### **Arrangements for ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community**

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

### **Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality**

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

### **Arrangements for ensuring compliance with established policies, procedures, laws and regulations**

- 5 The body has put in place arrangements to maintain a sound system of internal control.

### **Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working**

- 6 The body has put in place arrangements to manage its significant business risks.



### **Arrangements for ensuring compliance with the general duty of best value**

- 7 The body has put in place arrangements to manage and improve value for money.

### **Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body**

- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

### **Arrangements for ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption**

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

## Appendix 3 – Planned outputs

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

**Table 7**

<b>Planned output</b>	<b>Start date</b>	<b>Draft due date</b>	<b>Key contact</b>
Audit and Inspection Plan	1 February 2006	31 March 2006	Audit Manager
BVPP opinion and PI audit memorandum	TBA	31 December 2006	Audit Manager
Report on financial statements to those charged with governance (ISA 260)	August 2007	September 2007	Audit Manager
Opinion on financial statements	June 2007	September 2007	Audit Manager
VFM conclusion	July 2007	September 2007	Performance Lead
Final accounts memorandum	July 2007	October 2007	Audit Manager
Ethical Governance	October 2006	February 2007	Performance Lead and Audit Manager
Financial Management	May 2006	August 2006	Audit Manager
Annual audit and inspection letter (including direction of travel assessment)	October 2007	December 2007	Audit Manager and Relationship Manager

## Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISA UKIs when auditing the financial statements. Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff. Standards also place requirements on auditors in relation to integrity, objectivity and independence.
- 2 The standards define ‘those charged with governance’ as ‘those persons entrusted with the supervision, control and direction of an entity’. In your case the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 3 Auditors are required by the Code to:
  - carry out their work with independence and objectivity;
  - exercise their professional judgement and act independently of both the Commission and the audited body;
  - maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
  - resist any improper attempt to influence their judgement in the conduct of the audit.
- 4 In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors’ functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under s 35 of the Audit Commission Act 1998.
- 5 The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows.
  - Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director.
  - Audit staff are expected not to accept appointments as lay school inspectors.

**26** Audit and Inspection Plan | Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- Firms are expected not to risk damaging working relationships by bidding for work within an audited body’s area in direct competition with the body’s own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Commission’s statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors’ conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors’ independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission’s policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements).
- Audit suppliers are required to obtain the Commission’s written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual’s relevant qualifications, skills and experience.

## Setting High Ethical Standards

### Ethical Governance

# Chorley Borough Council

#### INSIDE THIS SPECIFICATION

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**Project Specification**

- Introduction and background
- Scope and objectives
- Desired outcomes
- Audit approach
- Timescale and contact details
- Outputs from the diagnostic
- Project costs
- Status of the work

**PAGES 5 - 6**

**Appendices**

- Appendix 1 - Document request
- Appendix 2 - Interviews and focus groups

<b>Reference:</b>	Setting High Ethical Standards
<b>Date:</b>	

## Introduction and background

In the UK there is a strong emphasis on the need for the highest standards of conduct in public life. The findings of Nolan and Graham Committees, the Local Government Act 2000, the Standards Board for England, and the inclusion of an ethics component in the Comprehensive Performance Assessment 2005 are all factors in the current weight being given to the need for strong ethical governance in local authorities.

High ethical standards are the cornerstone of good governance. They are an integral part of good corporate governance arrangements, can lead to increased confidence in local democracy and help an authority to attain a high CPA rating.

Setting high ethical standards is an important building block for councils in developing their community leadership role and improving services to the community. Councils are also becoming involved in increasingly complex partnerships and a decline in high standards may adversely affect these arrangements.

Local authorities and individual members face a number of risks which may include:

- referral to, and investigation by, The Standards Board for England for alleged breaches of the code of conduct, sometimes leading to the disqualification of members;
- loss of confidence in individual members, councils and local democracy; and
- poor decision making.

Ethical governance is an area of great interest to the national and local press, particularly when things go wrong. On average one councillor a week is removed from office because of breaches of the code of conduct ranging from bullying behaviour, misuse of council resources, bringing the council into disrepute and using their position as a councillor for personal gain. Other sanctions have included formal censure, and suspension from using council facilities. When things go wrong and councillors are found guilty of a breach of the code of conduct, there is a risk to the reputation of individuals and the council. The consequent difficulties of having to implement widespread changes whilst under the spotlight cannot be overestimated.

One of the common aspects of governance failures is not the absence of frameworks, controls and arrangements but the absence of appropriate behaviours and values amongst members and officers. This audit therefore looks at your compliance with statutory requirements but also at behaviour, culture and values.

## Scope and objectives

The aim of this audit is to help you assess whether the council:

- is complying with Part III of the Local Government Act 2000;
- is ensuring that the Standards Committee has access to the right information and support to enable it to do its job properly;
- members and officers have an understanding/awareness of ethical issues;
- members are abiding by the code of conduct; and
- members and officers have training needs in this area.

The work is aimed predominantly at members.

## audit 2006/2007

### Desired outcomes

As a result of this work Chorley Borough Council and its members and officers should:

- be more aware of the ethical agenda;
- have a better understanding of the ethical health of the Council;
- have a better understanding of how well the council is measuring up to the Audit Commission's comprehensive performance assessment requirements; and
- have a better understanding of what further actions are needed to take to meet the desired standards.

### Audit approach

To complete the project we will undertake:

- a document review;
- interviews with key Members and Officers;
- undertake a web enabled survey of members and key officers
- Deliver a facilitated workshop to help members and officers focus on key issues
- to incorporate changing organisational cultures material in the workshop to support the wider reinforcement of conduct and ethical behaviour in the Council.

### Timescale and contact details

The project will be carried out by Warren Park. Warren is a fraud management specialist with 25 years experience of working in or auditing local government. He can be contacted on 0781 587 8170 and his email address is [w-park@audit-commission.gov.uk](mailto:w-park@audit-commission.gov.uk).

The Audit Manager for Chorley Borough Council is Gareth Kelly who will be overseeing this work. Allen Graves the Principal Auditor for the Council will be assisting with the review.

The work will be carried out as follows.

Task	Target date for completion
Set up	June 2006
Fieldwork	June / July 2006
Feedback and workshops	July – September 2006

### Outputs from the audit

Depending on the findings from our work we will provide a summary report and analysis of the survey and workshops to address our findings. The actual nature of the workshops will be agreed in advance with key officers and key members.

### Project costs

This work is included in the Audit Commission's 2006/2007 annual audit and inspection plan.

**Status of our reports to the Council**

*Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.*



## Document request

Copies of the following documents will be needed before we commence the audit.

Please indicate whether we can access any documents via the council's web site or via the council's intranet (with the file paths):

- Council constitution;
- Code of conduct;
- Standards Committee terms of reference;
- Standards Committee papers;
  - agendas, minutes and supporting papers;
- Schedule of proposed activities for the following year;
- appointment of independent members to Standards Committees - details;
  - and any related job descriptions, person specifications etc;
- standards, protocols and procedures for handling investigations;
- member training in this area – details;
  - and any evaluations;
- work undertaken by external bodies with the Standards Committee – details;
- complaints to The Standards Board for England – details;
  - and details of any outcomes;
- resident and staff surveys – full results
- planning guidance, policies and procedures; and
- any other relevant documentation.

## Interviews

Possible interviews
Leader
Chief whip of the majority party
Majority party member on the Standards Committee
Leader of the minority party
Whip of the minority party
Minority party member on the Standards Committee
Chair of Scrutiny
Chair of the Standards Committee
Chair of Licensing and Planning
Chief Executive
Director Of Finance
Monitoring officer

## Setting High Ethical Standards

### Ethical Governance

# Chorley Borough Council

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The aim of this audit is to help you assess whether the council:

- is complying with Part III of the Local Government Act 2000;
- is ensuring that the Standards Committee has access to the right information and support to enable it to do its job properly;
- members and officers have an understanding/awareness of ethical issues;
- members are abiding by the code of conduct; and
- members and officers have training needs in this area.

The work is aimed predominantly at members.

## audit 2006/2007

### Desired outcomes

As a result of this work Chorley Borough Council and its members and officers should:

- be more aware of the ethical agenda;
- have a better understanding of the ethical health of the Council;
- have a better understanding of how well the council is measuring up to the Audit Commission's comprehensive performance assessment requirements; and
- have a better understanding of what further actions are needed to take to meet the desired standards.

### Audit approach

To complete the project we will undertake:

- a document review;
- interviews with key Members and Officers;
- undertake a web enabled survey of members and key officers
- Deliver a facilitated workshop to help members and officers focus on key issues
- to incorporate changing organisational cultures material in the workshop to support the wider reinforcement of conduct and ethical behaviour in the Council.

### Timescale and contact details

The project will be carried out by Warren Park. Warren is a fraud management specialist with 25 years experience of working in or auditing local government. He can be contacted on 0781 587 8170 and his email address is [w-park@audit-commission.gov.uk](mailto:w-park@audit-commission.gov.uk).

The Audit Manager for Chorley Borough Council is Gareth Kelly who will be overseeing this work. Allen Graves the Principal Auditor for the Council will be assisting with the review.

The work will be carried out as follows.

Task	Target date for completion
Set up	June 2006
Fieldwork	June / July 2006
Feedback and workshops	July – September 2006

### Outputs from the audit

Depending on the findings from our work we will provide a summary report and analysis of the survey and workshops to address our findings. The actual nature of the workshops will be agreed in advance with key officers and key members.

### Project costs

This work is included in the Audit Commission's 2006/2007 annual audit and inspection plan.

**Status of our reports to the Council**

*Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.*

## Document request

Copies of the following documents will be needed before we commence the audit.

Please indicate whether we can access any documents via the council's web site or via the council's intranet (with the file paths):

- Council constitution;
- Code of conduct;
- Standards Committee terms of reference;
- Standards Committee papers;
  - agendas, minutes and supporting papers;
- Schedule of proposed activities for the following year;
- appointment of independent members to Standards Committees - details;
  - and any related job descriptions, person specifications etc;
- standards, protocols and procedures for handling investigations;
- member training in this area – details;
  - and any evaluations;
- work undertaken by external bodies with the Standards Committee – details;
- complaints to The Standards Board for England – details;
  - and details of any outcomes;
- resident and staff surveys – full results
- planning guidance, policies and procedures; and
- any other relevant documentation.

## Interviews

Possible interviews
Leader
Chief whip of the majority party
Majority party member on the Standards Committee
Leader of the minority party
Whip of the minority party
Minority party member on the Standards Committee
Chair of Scrutiny
Chair of the Standards Committee
Chair of Licensing and Planning
Chief Executive
Director Of Finance
Monitoring officer