

Report of	Meeting	Date
Head of Shared Assurance Services	Audit Committee	24 th June 2009

INTERNAL AUDIT ANNUAL REPORT 2008/9

PURPOSES OF REPORT

1. To summarise the **work undertaken** by the Internal Audit Service during the 2008/9 financial year;
2. To give an **opinion on the adequacy and effectiveness of the control environment** in the Council as a whole and in individual service areas;
3. To give an appraisal of the Internal Audit Service's **performance**, including an evaluation of the effectiveness of the Council's "**system of internal audit**".

RECOMMENDATIONS

4. That the Internal Audit Annual Report for 2008/9 be noted.

EXECUTIVE SUMMARY OF REPORT

5. The report demonstrates the successful delivery of the 2008/9 internal audit programme of work, the results of which provide members with assurance that the Council's governance and control environment continues to be effective.

CORPORATE PRIORITIES

6. This report relates to the following Strategic Objectives:

Put Chorley at the heart of regional economic development in the central Lancashire sub region		Develop local solutions to climate change	
Improving equality of opportunity and life chance		Develop the character and feel of Chorley as a good place to live	
Involving People in their Communities		Ensure Chorley is a performing Organisation	✓

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

BACKGROUND - ANNUAL GOVERNANCE STATEMENT

10. The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) have recently published guidance entitled "Good Governance in Local Government: A Framework", under which Councils are now required to:
 - develop and maintain an up-to-date local **Code of Corporate Governance** consistent with certain "core principles" set out in the Framework;
 - **review their existing governance arrangements** against the Framework;
 - prepare an **Annual Governance Statement (AGS)** in order to report publicly on the extent to which the Council complies with its own code including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
11. The Code of Corporate Governance was formally adopted by Council in April and a compliant AGS for 2008/9 is included on this meeting's agenda for members' consideration. **The AGS has been drafted following a self-assessment of the Council's system of governance, which also takes account of any important control issues raised by the Audit Commission and Internal Audit.**

INTERNAL AUDIT OPINION

12. A schedule of Internal Audit work undertaken during 2008/9 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 to the Audit Committee by way of interim / progress reports during the course of 2008/9.
13. In arriving at an annual judgement on the overall level of control a view has been taken on the relative importance of each area audited and the nature and significance of the weaknesses identified. Taking this into account, **in our overall opinion the Council continues to operate within a sound control environment.**

INTERNAL AUDIT PERFORMANCE

14. Appendix 2 sets out the **key performance data** for the Internal Audit Service during 2008/9. This gives a breakdown of the key **inputs** and **outputs** for the Service including:

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

17. During 2008/9 the authority received **566 days** of Internal Audit coverage. The Internal Audit Service produced **17 reports** containing **127 agreed recommendations** relating to controls assurance, improvements in procedure and advice on best practice.
18. Appendix 2 and the following table illustrates that the actual number of chargeable days applied in 2008/9 was significantly less than the number originally planned:

Audit Days	Planned	Actual
Non-chargeable	244	347
Chargeable	673	566
Totals	917	913

19. This is explained by the fact that 2008/9 was a challenging year due to the transition to the new shared services partnership with South Ribble Borough Council which commenced formally on 5th January 2009. This diverted some staff resources away from audit work to supporting the shared services project which explains the corresponding increase in non-chargeable time.
20. **Members should note however that we have been able to absorb the time spent on the shared services project / implementation and still achieve the number of audit assignments originally planned for 2008/9.** This is largely because the contingency element of the Audit Plan which is set aside for investigations and in-year requests for audit support was not called upon during the year. Internal Audit has also recently undergone a rigorous review by the Audit Commission (see below) and the Commission are satisfied that the Audit Plan was managed effectively in 2008/9.

REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

21. The Accounts & Audit (Amendment) (England) Regulations 2006 state at paragraph 6(3) that (the Council) "shall at least once a year conduct a review of the effectiveness of its system of internal audit". The regulations go on to say that the findings of this review be considered by a committee of the Council as part of the wider consideration of its system of internal control / governance.
22. The Audit Commission conduct a detailed review of Internal Audit on a triennial basis and the latest CIPFA Code of Internal Audit Practice also contains a self-assessment toolkit / checklist for the same purpose. The Audit Committee has previously agreed that it will rely on the Audit Commission's triennial review plus internal self-assessments in the intervening years.
23. **The Audit Commission have undertaken their triennial review this year and identified no substantive issues with regard to Internal Audit's compliance with the CIPFA Code of Practice.**

IMPLICATIONS OF THE REPORT

24. The matters raised in the report are cross cutting and impact upon the authority as a whole rather than specific directorates.

GARRY BARCLAY
HEAD OF SHARED ASSURANCE SERVICES

Background Papers			
Document	Date	File	Place of Inspection
Accounts & Audit Regulations	2003		
CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom	2006	SHARED ASSURANCE SERVICES	SOUTH RIBBLE BOROUGH COUNCIL
CIPFA and SOLACE - Good Governance in Local Government: A Framework	2006		

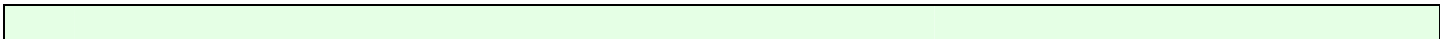
Report Author	Ext	Date	Doc ID
Garry Barclay	(01772) 625272	4 th June 2009	Annual Report 08-09.doc

APPENDIX 1

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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1. Corporate Governance			
Corporate Policies & Procedures	Undertook a full review and update of the Financial Regulations and Financial Procedure Rules in the Council Constitution.	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
	Completed a user-friendly guide to the main Council policies & procedures which officers need to be aware of and comply with	Ditto above	Ditto above
Annual Governance Statement	Co-ordinated a corporate review of the system of governance and drafted the Annual Governance Statement (AGS)	Ditto above	Ditto Above
Use of Resources	Assisted with the corporate self-assessments and compiled the respective reports / submissions to the Audit Commission	Ditto above	Ditto Above
Best Value Performance Indicators (BVPI's)	Supported the ongoing data quality control process, including sample checks of "high risk" indicators	Ditto above	Ditto above

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
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2. Risk Management

Strategic Risk Register	Facilitated the revision of the Register to take account of changes in the Corporate Strategy and actions taken during 2008/9	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.
Health & Safety	Assisted with the transfer of the service from Bolton Council to the Council's new provider Preston City Council	Ditto above	Ditto above
Insurance	Managed the corporate insurance function & arranged the renewal of the Council's insurances	Ditto above	Ditto Above

3. Anti-Fraud & Corruption

National Fraud Initiative (NFI)	Co-ordinated the Council's input to the national exercise	Ditto above	Ditto Above
Fraud Risk Register	Updated the Council's Anti-Fraud & Corruption Risk Register	Limited	The Register was updated following a review of the original action plan to take account of the actions undertaken and those still outstanding

**AUDIT
AREA**

**AUDIT
INPUT**

**CONTROLS
RATING**

**KEY CONTROL
ISSUES**

4. Key Business Systems

Procurement Strategy	Undertook a review of the systems and procedures in place, focussing on procurement within partnerships and waiving of Contract Procedure Rules	Limited	Recommendations were made to improve the documenting of arrangements regarding Contract Procedure Rules by existing key partners and to improve the waiver process and request forms.
Framework for Partnership Working	Undertook a review to monitor the extent to which the "Framework for Partnership Working" guidance has been embedded within the Council's key partnerships	Limited	Recommendations were made relating to the assessment of partners' governance arrangements and the establishment of mature joint risk registers with supporting risk management processes.
Civil Contingencies	Undertook a review to assess the soundness and adequacy of the current Civil Contingency / Emergency Planning arrangements	Limited	Recommendations were made to strengthen and improve the current Local Civil Emergency Plan, how it is updated and how arrangements are tested.
Information Governance	Undertook a review to ensure that there are effective standards of security and control over the use of portable equipment	Limited	A number of recommendations have been made in order to ensure that the Council complies the Government Connect Code of Connection.
ICT Recovery Plan	Undertook a review to ensure that effective disaster recovery plans are in place and are tested	Inadequate	A number of weaknesses were identified in relation to the testing of the Disaster Recovery Plans and the under development of recovery packs. Recommendations have been made to address these weaknesses.

AUDIT AREA

AUDIT INPUT

CONTROLS RATING

KEY CONTROL ISSUES

5. Financial Systems

Key Systems 08/9	Undertook an annual review of the key controls in all the main financial systems	Sound	None
Inventories	Assisted Directorates to ensure that up to date inventories are in place and are maintained.	N/A	Not applicable to this item. Proactive input provided rather than an audit / review.
Stores & Stock Control	Assisted the Neighbourhoods directorate to provide support in dealing with the transitional arrangements for stock control and evaluating the longer-term options.	N/A	Not applicable to this item. Proactive input provided rather than an audit / review.
Budget Setting & Control	Undertook a review In order to establish whether the processes for setting and agreeing the budget and the supporting control arrangements are robust	Limited	Recommendations were made to improve budget guidance, budget consultation and monitoring. The process relating to slippages and virement requests could also be strengthened.
New E-Claims System	Undertook a review to seek assurance that the system is effectively embedded, operating as intended and is subject to appropriate management checks	Limited	Several areas were identified where changes could be made to strengthen and improve the current monitoring arrangements and the leavers' process.

**AUDIT
AREA**

**AUDIT
INPUT**

**CONTROLS
RATING**

**KEY CONTROL
ISSUES**

6. Key Operations

Election Fees

Undertook a review to establish the effectiveness of the arrangements for the payment of election fees

Inadequate

Recommendations were made to improve the overall arrangements regarding payments and the level of evidence required.

Car Parking

Assisted the Neighbourhoods Directorate and the Legal Services and Accountancy Sections to review the current contractual and operational arrangements, and explored possible alternative service solutions that may be more beneficial for the Council.

Not applicable to this item. Proactive input provided rather than an audit / review.

Not applicable to this item. Proactive input provided rather than an audit / review

KEY TO CONTROL RATINGS

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

APPENDIX 2

PERFORMANCE DATA 2008-9

INPUT ANALYSIS USE OF AUDITORS TIME (DAYS)	PLAN 2008/9		ACTUAL 2008/9	
	Days	%	Days	%

<u>NON-CHARGEABLE TIME (In-house)</u>				
Unavailable Days (Leave / Training)	154	17	131	14
Non-Chargeable Management (including shared services project support)	70	8	201	22
Administration	20	2	15	2
SUB-TOTAL	244	27	347	38
<u>CHARGEABLE TIME (In-house & bought-in)</u>				
Corporate Governance	110	12	114	12
Risk Management	80	9	71	8
Anti-Fraud & Corruption	95	10	71	8
Key Business Systems	93	10	81	9
Financial Systems	120	13	117	13
Key Operations	55	6	49	5
Contingency (Investigations & Advice)	120	13	63	7
SUB-TOTAL	673	73	566	62
TOTAL DAYS IN YEAR	917	100	913	100
Number of Auditors (in-house / FTE)	3.2		3.2	
Chargeable Days Provided In-house	585		478	
Bought In Audit Days	88		88	
OUTPUT ANALYSIS	TARGET 2008/9		ACTUAL 2008/9	
% Audit Plan Achieved	89%		89%	
Average Customer Satisfaction Score Per Audit (Max 5)	4.4		4.9	
Unqualified reliance on IA work by the Audit Commission	Yes		Yes	