



Chorley
Council

Working in **Synergy** on shared services

Chorley BC

Internal Audit Annual Report 2019/20

Author & Date

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Interim Head of Shared Assurance
6th June 2020**

1	INTRODUCTION / PURPOSE OF REPORT
1.1	The Public Sector Internal Audit Standards require that the Head of Internal Audit provide an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control, this includes an opinion on the level of assurance provided in the overall control environment.
1.2	The Governance Committee are responsible for providing assurance in regard to the adequacy of the risk management framework and internal control environment of the council, and oversight of the financial reporting process. It provides an independent and high level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. The purpose of the Governance Committee is to provide independent review of South Ribble Borough Council's governance, risk management and control frameworks.
1.3	A key element in the Governance Committee being able to provide that assurance is the overall assurance opinion from the Head of Internal Audit. The role of Head of Internal Audit at South Ribble is currently provided by the role of Interim Head of Shared Assurance.
1.4	This report sets out the Head of Internal Audit's opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control, the report includes the Head of Internal Audit's opinion on the level of assurance provided by the overall control environment

2	Role of Internal Audit
2.1	<p>The Accounts and Audit (England) Regulations 2015 state that a relevant body must:-</p> <p><i>“Undertake an effective internal audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards as guidance”</i></p> <p>The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2016 (the standards).</p>
2.2	<p>The role of internal audit is summarised in the following definition from the standards:-</p> <p><i>“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”</i></p>
2.3	The Governance Committee has approved Internal Audit's Charter which sets out the team's roles and responsibilities in order to ensure effective internal control, good financial systems and management of risk. The Charter is included in the Constitution of the Council.
2.4	The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.
2.5	The Council's response to internal audit activity should lead to the strengthening of the control environment, and, therefore, contribute to the achievement of the Council's objectives.

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Internal Audit Opinion

- 3.1 The Interim Head of Shared Assurance is responsible for providing an annual audit opinion and report that can be used by the Council to inform its Annual Governance Statement. The annual opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 3.2 In giving this opinion it should be noted that an assurance opinion cannot be absolute as it is based on only those elements of governance and controls reviewed, the opinion is based on:-
- Internal audit planned work completed during the course of the year (assurance, consultancy & other);
 - Results of any follow up reviews undertaken in respect of previous years' work and / or limited opinion reviews;
 - Outcomes from work undertaken in respect of issues arising from the governance issues raised as part of the investigations relating to Senior officers of the Council;
 - The proportion of SRBC's audit plan that has been completed in the year.
- 3.3 As the Interim Head of Shared Assurance I am satisfied that, based on the areas reviewed during the financial year 2019/20 that sufficient work has been carried out to form a reasonable conclusion on the adequacy and effectiveness of Chorley Borough Council's internal control environment.
- 3.4 Chorley Borough Council has a sound governance framework in that, in general, appropriate policies, rules, regulation and procedures are in place the operation of that framework. The review of governance arrangements and compliance with those governance arrangements in regard to systems / areas / services that have been audited as resulted in the Head of Internal Audit determining that the governance arrangements and controls in place provide **Adequate Assurance**. The Head of Internal Audit's opinion is that the Council can place sufficient reliance on the controls in place in the areas reviewed and that only a limited number of control weaknesses exist.
- 3.5 The following provides a breakdown of the Assurance opinions determined from individual Audit reviews:-

Chorley Borough Council		
Opinion	Number	
Limited	1	
Adequate	6	
Substantial	2	
Full	1	

There is one area where an opinion of **Limited Assurance** has been determined, this is in relation to controls in place in regard to the Syrian Resettlement Programme, the findings, which are outlined below at paragraph 5.6, have been discussed and agreed with the Service Lead and appropriate Management Actions agreed, this review will be followed up as part of the 2020/21 Audit Plan and reported back to Governance Committee.

- 3.6 The following provides a breakdown by Assurance opinion of the reviews undertaken in the Shared Services areas:-

Shared Services (relating to Chorley operations)		
Opinion	Number	
Limited	2	
Adequate	1	
Substantial	3	
Full		

	<p>There are 2 areas where the Assurance opinion has been determined to be Limited, in regard to the service areas that sit within Shared Services, this is in relation to Creditors and Payroll, the details of findings are outlined below at paragraph 5.7 - 5.9, the review of Payroll was a review carried forward into 2019/20 and was reported in the 2018/19 Audit Plan, however, the follow up will be undertaken as part of the 202/21 Audit Plan relating to Shared Services. The Creditors review, has been issued without Management Actions as further work is required to determine the extent of the failures and the potential impacts of the lack of control in those areas reviewed.</p> <p>All Management Actions were discussed, agreed and implemented, a follow up will be undertaken as part of the 2020/21 Audit Plan to confirm all management actions have been implemented and risks are now mitigated.</p>
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4.	Resources
4.1	It is the Council's responsibility to ensure an adequate and effectively resourced Internal Audit Services, it is the Governance Committee's responsibility to approve the risk based audit plan, including internal audit's resource requirements and to approve significant interim changes to the risk based audit plan and resource requirements and determine if there are any resource limitations. It is the Head of Internal Audit's responsibility to determine the resources, expertise, qualifications and systems for the internal audit service that are required to carry out a satisfactory level of internal audit. To this end the Interim Head of Shared Assurance has reported resource requirements / impacts during the 2019/20 financial year in order to ensure the delivery of the Audit Plan.
4.1	The Internal Audit Plan for 2019/20 was based on an overall resource of 340 days for Chorley Borough Council, 340 for Chorley Borough Council and 120 days for Shared Services; this was based on the resource in place in March 2019. The resource at that time was 1 FTE – Interim Head of Shared Assurance, 2.6 FTE Auditors.
4.2	<p>Issues regarding the investigations / governance work arose at South Ribble BC in May 2019 and the Interim Head of Shared Assurance, undertook several pieces of work relating to these areas, this resulted in changes in resources, that were agreed by Governance Committee's at both Council's. The following arrangements were put in place:-</p> <ul style="list-style-type: none"> • 0.8 Auditor temporarily appointed to Principal Auditor role (11/06/19 – 31/03/20) • Temporary Auditor (LH) appointed (agency) 7/07/19 – 03/04/20; • Temporary Auditor (BW) appointed (agency) 21/10/19 – 24/04/20.
4.3	This increased the resource to enable the plan to be practically completed, the % of the plan had been completed is not necessarily reflective of the work undertaken due to the changes within the plan identified in the next paragraph and due to the impact of the investigations and governance issues arising greater emphasis has been placed on South Ribble Audit Plan. There was a number of pieces of work which was ongoing and was due to be completed by the end of March, and then any outstanding that would be carried forward would be completed by end April / mid-May. However, due to the impact of COVID-19, 1 of the Agency Auditors and 2.6 FTE's were seconded into the Community Hub to support the Council's response to COVID-19. This meant that the Internal Audit Service was stood down with the exception of the Interim Head of Shared Assurance.
4.4	<p>The changes in the plan were as follows:-</p> <ul style="list-style-type: none"> • 2 Audit reviews deleted, agreed with Governance Committee – Elections and Time Credits • 2 Audit's deferred, agreed with Management due to risks not deemed to be being significant, these will be included in the 2020/21 Audit Plan – Performance Management & Housing Standards; • 2 Audit reviews agreed to be undertaken as Gap Analysis reviews as services has had significant staffing issues previously – Asset Management & Commercial Properties.
4.5	<p>The reviews started in February / March that were unable to be completed due to impact of COVID-19 on service are:-</p> <ul style="list-style-type: none"> • Whistleblowing Policy & Review; • Housing Benefits; • Sundry Debtors; • Outdoor Leisure Contract.

	<p>It should be noted that 3 audit reviews have been carried forward to 2020/21 Audit Plan, they are:-</p> <ul style="list-style-type: none">• Income Collection and Receipt;• Performance Management;• Housing Standards. <p>The ICT Audit review is awaiting agreement with Merseyside Internal Agency in respect of timing and areas to be reviewed.</p>
4.6	<p>Going into 2020/21, it should be noted that the Auditor who was Temporarily filling the Principal Auditor role has left the organisation on 8th May 2020; the 2 Agency temporary auditors finished on the 3rd and 24th April respectively. The remaining 1.8 FTE are currently supporting the Community Hub, this was agreed at Leadership Team for a further period to end of June.</p>
4.7	<p>It should also be noted that the Interim Head of Shared Assurance's contract finishes on the 30th June 2020. Members should note the remaining service will be 1.8 FTE Auditors. A service review is due to be undertaken in line with the agreement from Shared Services Joint Committee 9th September 2019.</p>

5	Internal Audit Work
	Audit Plan 2019/20
5.1	The Internal Audit Plan for 2019/20 was initially agreed by Governance Committee at its meeting in March 2019. The 2019/20 plan was prepared informed by Internal Audit's own assessment of risks at that time and consultation with Chorley Senior Management Team to ensure it aligned to key risks facing the Council for the coming year (2019/20).
5.2	The original Audit Plan contained 248 days for Planned Work, 2 reviews were deleted which equated to 15 days, further days are deleted where the audits have been completed and not used the full allocation of planned days and those deferred to next year's Annual Plan (as outlined above) this equates to 44 days, therefore the Annual Planned days equate to 189 days.
5.3	<p>The summary of work undertaken against the Audit Plan is attached at Appendix 2, this outlines the status of the reports as at end May 2020, the opinion of those reports that are completed and actual days spend against planned days. The report shows:-</p> <p>Page ii) - planned audit work, Days planned 189, actual (planned and unplanned) days 132.35 days This equates to 81.29% of the Audit Planned Work and Unplanned Work completed.</p> <p>Page iii) relates to ongoing work completed throughout the year, work carried forward from 2018/19, general areas and Contingency / Irregularity work.</p> <p>Overall Totals Original Planned Days - 325, Actual Days 214; this equates to 65% of plan completed Planned further to Changes (Days deleted where work not required, review deleted or work completed in less days than planned) Planned Days (further to adjustments) 281. Actual Days 214 ; this equates to 76.15% of overall plan completed</p>
5.4	All significant findings from the audit work undertaken has been reported to Governance Committee throughout the year, the findings related to those audit reviews where a Limited Assurance opinion has been determined have been outlined in paragraphs 3.7 – 3.9 of this report. No further significant issues have required reporting, however where it is felt findings require outlining to Governance Committee these are highlighted below.
5.5	<p>Asset Management – Repairs & Maintenance and Commercial Properties</p> <p>Commercial Properties and Asset Management Services have seen significant changes over the last 2 years, resulting in a lack of continuity, resilience and capacity, which has undoubtedly affected the delivery of the service. The Chief Executive and Director of Business Development & Growth, requested that a Gap Analysis be undertaken by Internal Audit to identify areas of governance and control weakness with a view to agreeing a Service Improvement Plan to address areas of governance and control weaknesses. The Gap Analysis has completed and found a number of governance failings and control weaknesses, these have been developed into an Improvement Plan with responsible officers and dates agreed. The dates have recently been amended as the service has been impacted by COVID-19, in that they have been supporting change of delivery in services at Chorley BC. A meeting is to be called with all relevant officers to address the way forward in regard to these areas, this will be agreed with the Chief Executive and Director of the Service.</p> <p>Limited Assurance Opinion – Audit Findings</p>
5.6	<p>Chorley Borough Council – Internal Audit Reviews</p> <p>In regard to the Syrian Resettlement Programme it was identified that whilst there are some areas of good practice, there are significant weaknesses in the governance arrangements and the application of controls which put at risk the achievement of the system objectives. The weaknesses in control were particularly evident in regard to the following controls:-</p> <ul style="list-style-type: none"> • Ineffective recording and retention of evidence to support funding claimed, particularly for exceptional costs, thereby contravening the funding agreement; • Lack of continuity for leading the SR Programme which has impacted on the management of programme delivery; • Intermittent attendance of the Steering and Operational Group meetings, leading to an un co-ordinated approach to the delivery of the SR Programme; and • Late submission of re-imburement claims and inaccurate claims for VAT.

A robust management action plan has been agreed with all Management Actions due to be implemented by the 31/07/2020. This may need reviewing in light of the impact of COVID-19, this will be discussed with Management and revised dates reported back to Governance Committee as appropriate, further a follow up will be undertaken as part of the 2020/21 Audit Plan and the findings and opinion reported back to Governance Committee.

5.7 Shared Services – Internal Audit Reviews

Payroll

This review focused on the Payroll contract, the management of that contract and the performance issues relating to payroll processes, such as starters / leavers, amendments and payments actioned accurately and in a timely manner. The following was identified:-

- Current contract with Blackpool payroll has been rolled over for a number of years since 2010. No waivers or Executive decisions are in place to support the continuous rolling forward of the Payroll contract. This breaches Contract Procedure Rules;
- Local Performance indicators are not being reported nor are performance review being held every six months. This contravenes the original Service Level Agreement requirements and identifies that performance is not being adequately measured and monitored;
- Reconciliation of the budgeted establishment with the HR system is not being regularly undertaken, thereby increasing the risk of error or misreporting.

All Management Actions were discussed, agreed and implemented, a follow up will be undertaken as part of the 2020/21 Audit Plan to confirm all management actions have been implemented and risks are now mitigated.

5.8 Creditors

The review of Creditors focused on the key risks and operation of controls within the Creditors system – Civica, i.e., the computer related controls that exist for all payments. Computer controls are established within systems, generally, at implementation with improvements / changes made in response to process change and / or legislation changes. The adequacy and effectiveness of the established controls within the Creditors systems have not been reviewed as part of previous audit reviews.

The Creditors system is part of the Shared Services arrangements between Chorley BC and South Ribble BC. Whilst both Councils have their own respective Financial Procedure Rules / Financial Regulations relating to the payment of invoices, the system operates the same across both Councils albeit with their own respective purchasing limits / delegations and levels of authorisation required.

The review identified that whilst the both Councils have adequate and effective governance frameworks in respect of the ordering, receipting and payment for goods and services those processes / rules are not being complied with in the operation of the Creditors system.

5.9 The review identified the following control failings:-

- Allowing the receipt of goods and payment of invoices, without referral to another authoriser for values greater than Purchase Order values, which could result in officers acting beyond their delegated authority, could leave the Council open to the risk of fraud / error and result in overspend of budgets or exceeding budget limits;
- Officers potentially not reviewing the amounts invoiced, received and / or ordered to ensure only those goods / services ordered and receipted are being paid for;
- Override of budgetary controls, which allow Purchase orders to be raised whether there is sufficient budget or not against that budget line / cost code;
- Orders raised after goods / services partly / fully received;
- Orders being raised inaccurately, that do not cover all goods / service received;
- Goods / services received not always recorded upon receipt for the correct value;
- Occasionally orders are cancelled (in error), the invoice is subsequently received and paid without an official order being in place;
- Inaccurate recording of invoice data on the Creditors system;
- Lack of supervisory review of the Administrative Users Log.

As outlined above there is further work required in regard to this review in respect of where goods are received and invoices paid that are in excess of the Purchase Order value, Internal Audit need to determine the extent and value arising from this control failure as it leaves the Council open to the risk of fraud and / or error and potential material misstatement in the accounts, this work will be undertaken as part of the Audit Plan for 2020/21. There is also a link to the review of Budget management / monitoring as there may be compensatory controls within the budget monitoring / management process that mitigate some of the risks identified above.

6	Internal Audit Performance
6.1	<p>As can be seen in Appendix 2, the Annual Plan work is 70% completed, there are some areas of work that have more time booked against them than originally planned, this is largely due to the extension of scope once it the area of review is discussed with the Service lead. The % plan completed based on Planned and the Unplanned Work (as explained above) is 81.37%, this figure is based on the adjustments made outlined at paragraphs 5.1 to 5.3 above and the adjustments outlined at 4.4. The overall Total % of plan completed based on 281 Planned Days is 76.15%. The deletions and deferrals have been either requested by or agreed by relevant Directors / Head of Paid Service, a number of pieces of work were completed in less days than actually planned, these reviews were based on the risks identified and agreed with the relevant Officers. For a number of pieces of ongoing work, e.g., Project work, no requests were made in that area, so no work was required. It should be noted that due to the issues arising at South Ribble a significant proportion of audit resource has been focused on South Ribble Governance Issues.</p>
6.2	<p>The Shared Services arrangement generally mean that the service costs are split 50/50 between 2 Council's, the S151 Officers have agreed a more appropriate split due to the focus on South Ribble Audit work during 2019/20, including the focus of the Interim Head of Shared Assurance. The split of service costs in regard to the rest of the Internal Audit Service may require reviewing as part of the recharge work that is undertaken.</p>
6.3	<p>The Internal Audit Service has achieved 100% of all management actions agreed based on those finalised reports.</p>

