

Appendix A

# Annual Internal Audit Report and Opinion 2021/2022

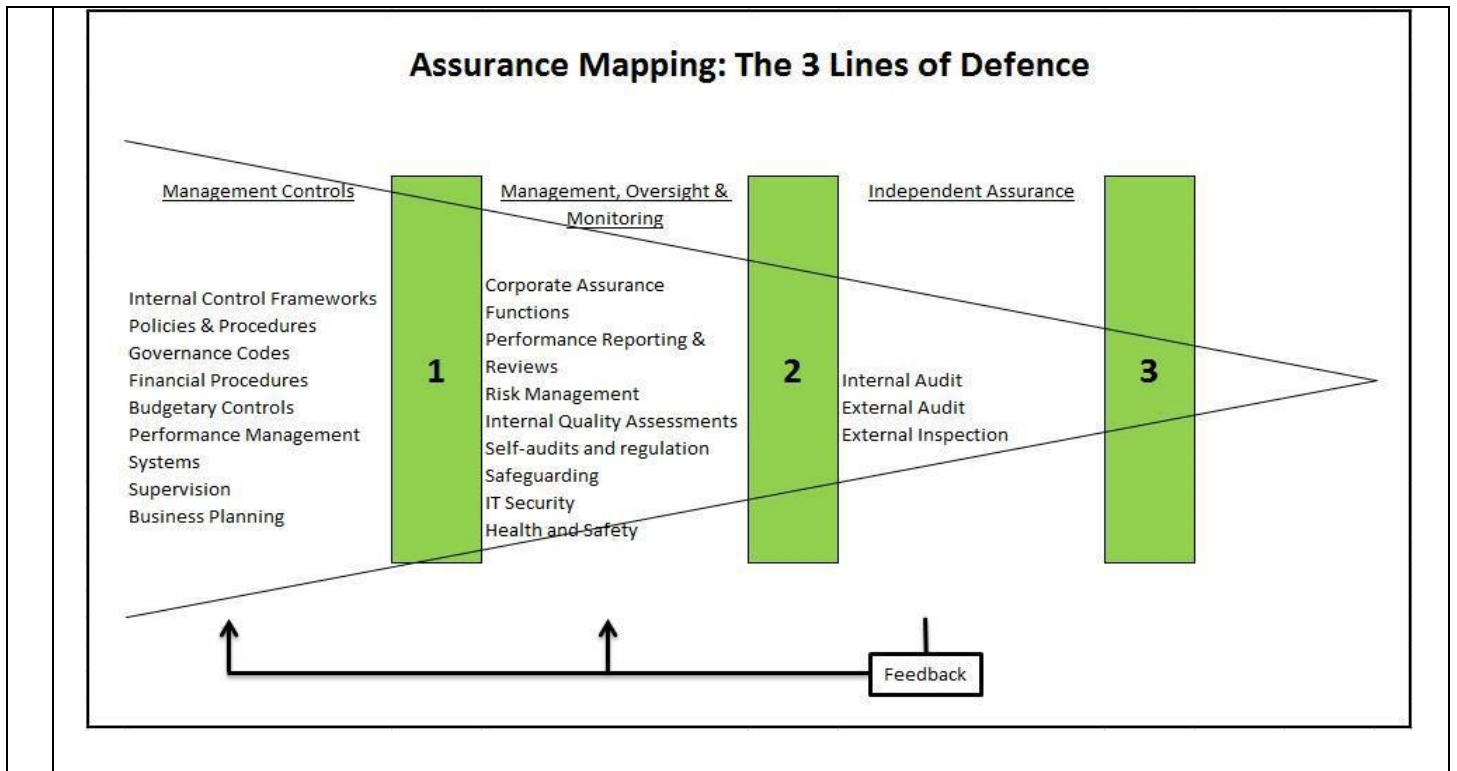
Chorley Council  
Date 1<sup>st</sup> June 2022



WORKING TOGETHER

<b>Introduction</b>	
1	<p>The Public Sector Internal Audit Standards (PSIAS) note that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.</p> <p>The role of the Head of Audit, in accordance with the PSIAS, is to provide an annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control processes.</p> <p>The CIPFA Statement on the role of the Head of Internal Audit in Local Government noted that the Head of Internal Audit in a local authority plays a critical role in delivering the authority's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.</p> <p>The opinion is based upon the work performed and other sources of assurance, achieved through a risk-based plan of work, previously agreed with the Shared Senior Management Team and approved by the Governance Committee.</p>
2	<p>The Service Lead Audit and Risk performs the Head of Audit role for Chorley Council and Shared Services.</p>

<b>The Role of Internal Audit and Management</b>	
3	<p>The statutory basis for Internal Audit in local government is the Accounts and Audit (England) Regulations 2015. Internal Audit work is also governed by the PSIAS whose definition of internal audit is:</p> <p><i>“Internal Audit 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>
4	<p>The Council has adopted a three line of defence model in which the responsibility for implementing a strong system of governance and internal control within the Council lies primarily with the Shared Senior Management Team.</p> <p>Directors and Service Leads provide the first line of defence as they need to ensure that they maintain effective control procedures not least because services and business systems are subject to on-going change. Compliance / support functions provide the second line of defence, with the third line being provided by Internal Audit and other inspection agencies.</p> <p>Internal Audit do not repeat the work of the second line, rather it is considered during reviews to assess the level of reliability which can be placed upon it.</p>
5	.

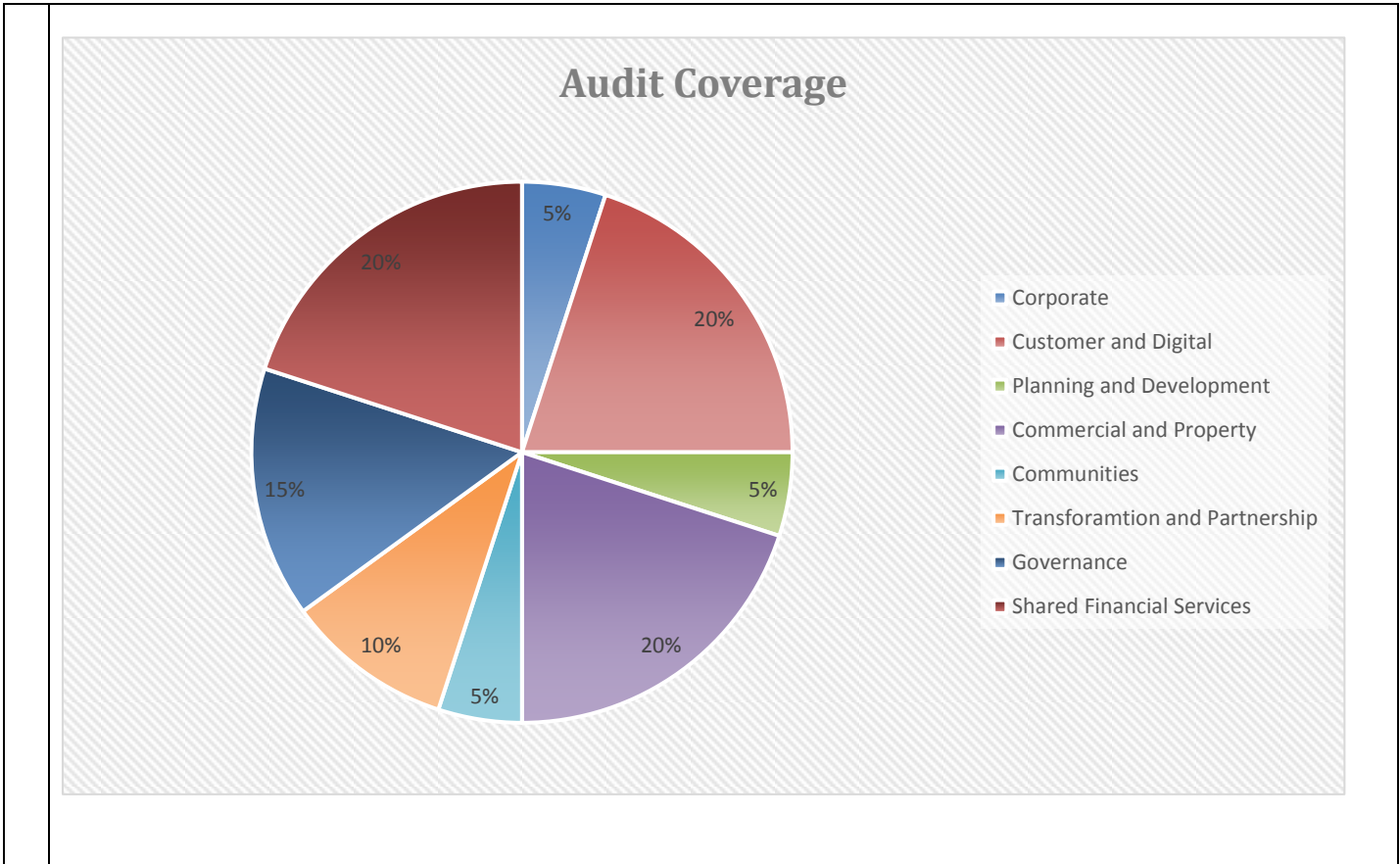


<b>Basis of the opinion</b>	
6	<p>The Service Lead Audit and Risk is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its Annual Governance Statement.</p> <p>In assessing the level of assurance to be given, the opinion has been given based on:</p> <ul style="list-style-type: none"> <li>• Reviews undertaken and reports included within the Internal Audit Annual Plan;</li> <li>• Advice / consultancy work undertaken by the Internal Audit team;</li> <li>• The implementation of agreed management actions by Directorates;</li> <li>• The quality and performance of the Internal Audit service and the extent to which it complies with the Public Sector Internal Audit Standards and ISO 9001 Quality Management System;</li> <li>• Other sources of assurance where appropriate;</li> <li>• Analysis of the annual Service Assurance Statements.</li> </ul>
7	<p>In giving the 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 or taken into account as a result of any of the above activity.</p>

<b>Scope and Objectives of Internal Audit</b>	
8	<p>The scope and objectives of Internal Audit are set out in the Internal Audit Charter which was last approved by the Governance Committee in April 2022.</p>
9	<p>The Internal Audit Charter also sets out any impairments or restriction in scope for Internal Audit as <i>“The Service Lead for Audit and Risk is also operationally responsible for Insurance, Business Continuity, Emergency Planning and Health and Safety functions and for the administration and development of, and reporting on, the Risk Management Strategy. It is considered prudent that any internal audit engagement covering the above operational areas and the risk management framework, especially for the formation of the annual opinion on the effectiveness of the control environment, would be overseen by the Council’s Monitoring Officer”</i></p>
	<p>A review of the risk management arrangements was undertaken during 2021-22, however due to the</p>

	operational responsibility detailed above, this was carried out by an independent third party.
--	--

Audit Coverage for 2021/22	
10	The annual Internal Audit Plan for 2021-2022 was approved by the Shared Senior Management Team and the Governance Committee in April 2021. In order to provide an opinion, coverage of the whole authority should be obtained. This Plan contained a total of 25 audit reviews.
11	In January 2022, the Governance Committee approved the deferral of 4 reviews due to the limitations of resource, meaning that the planned coverage of work, by Directorate for the audit plan was as follows:



Internal Audit Opinion	
12	As the Service Lead Audit and Risk, I am satisfied that sufficient assurance work has been carried out to provide an annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control processes.
13	Based on the work undertaken and evidence available to Internal Audit including other sources of assurance, it is considered that the overall adequacy and effectiveness of the Council's governance, risk management and control processes are <b>adequate</b> .
14	Due to the expansion of shared services, the Council has strengthened its governance and risk management arrangements. The past 12-18 months have seen the introduction or the improvement of a range of corporate processes to provide a robust governance framework. The Council must now work to ensure that the processes are fully embraced across the whole authority so that the governance framework becomes fully embedded in all Council activities.

--	--

<b>Work completed to support the opinion</b>
--

15	<p><u>Planned Audit Work</u></p> <p>Each review undertaken by Internal Audit is awarded an assurance opinion derived from the findings and based upon the following definitions:</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 25%;"><b>Full</b></td> <td>the Authority can place complete reliance on the controls. No control weaknesses exist.</td> </tr> <tr> <td><b>Substantial</b></td> <td>the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.</td> </tr> <tr> <td><b>Adequate</b></td> <td>the Authority can place only partial reliance on the controls. Some control issues need to be resolved.</td> </tr> <tr> <td><b>Limited</b></td> <td>the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist</td> </tr> </table> <p>Reviews completed during 2021-2022 and the assurance rating awarded is included in the table below:</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 25%;"><b>Full</b></td> <td> <ul style="list-style-type: none"> <li>• No reviews have been awarded full assurance during 2021-2022</li> </ul> </td> </tr> <tr> <td><b>Substantial</b></td> <td> <ul style="list-style-type: none"> <li>• Sundry Debtors</li> <li>• Section 106 Agreements</li> <li>• Market Walk</li> <li>• Compliance with Contract Procedure Rules</li> <li>• Budget Monitoring</li> <li>• Creditors</li> <li>• Treasury Management</li> </ul> </td> </tr> <tr> <td><b>Adequate</b></td> <td> <ul style="list-style-type: none"> <li>• Council Tax</li> <li>• Business Rates</li> <li>• Disabled Facilities Grants</li> <li>• Performance Management / Data Quality</li> <li>• Overtime and Expenses</li> <li>• Risk Management</li> <li>• Income Collection</li> </ul> </td> </tr> <tr> <td><b>Limited</b></td> <td> <ul style="list-style-type: none"> <li>• Primrose Gardens</li> <li>• GDPR – Review of Data Sharing Agreements</li> </ul> </td> </tr> </table>	<b>Full</b>	the Authority can place complete reliance on the controls. No control weaknesses exist.	<b>Substantial</b>	the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.	<b>Adequate</b>	the Authority can place only partial reliance on the controls. Some control issues need to be resolved.	<b>Limited</b>	the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist	<b>Full</b>	<ul style="list-style-type: none"> <li>• No reviews have been awarded full assurance during 2021-2022</li> </ul>	<b>Substantial</b>	<ul style="list-style-type: none"> <li>• Sundry Debtors</li> <li>• Section 106 Agreements</li> <li>• Market Walk</li> <li>• Compliance with Contract Procedure Rules</li> <li>• Budget Monitoring</li> <li>• Creditors</li> <li>• Treasury Management</li> </ul>	<b>Adequate</b>	<ul style="list-style-type: none"> <li>• Council Tax</li> <li>• Business Rates</li> <li>• Disabled Facilities Grants</li> <li>• Performance Management / Data Quality</li> <li>• Overtime and Expenses</li> <li>• Risk Management</li> <li>• Income Collection</li> </ul>	<b>Limited</b>	<ul style="list-style-type: none"> <li>• Primrose Gardens</li> <li>• GDPR – Review of Data Sharing Agreements</li> </ul>
<b>Full</b>	the Authority can place complete reliance on the controls. No control weaknesses exist.																
<b>Substantial</b>	the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.																
<b>Adequate</b>	the Authority can place only partial reliance on the controls. Some control issues need to be resolved.																
<b>Limited</b>	the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist																
<b>Full</b>	<ul style="list-style-type: none"> <li>• No reviews have been awarded full assurance during 2021-2022</li> </ul>																
<b>Substantial</b>	<ul style="list-style-type: none"> <li>• Sundry Debtors</li> <li>• Section 106 Agreements</li> <li>• Market Walk</li> <li>• Compliance with Contract Procedure Rules</li> <li>• Budget Monitoring</li> <li>• Creditors</li> <li>• Treasury Management</li> </ul>																
<b>Adequate</b>	<ul style="list-style-type: none"> <li>• Council Tax</li> <li>• Business Rates</li> <li>• Disabled Facilities Grants</li> <li>• Performance Management / Data Quality</li> <li>• Overtime and Expenses</li> <li>• Risk Management</li> <li>• Income Collection</li> </ul>																
<b>Limited</b>	<ul style="list-style-type: none"> <li>• Primrose Gardens</li> <li>• GDPR – Review of Data Sharing Agreements</li> </ul>																

16	<p>Internal Audit have also issued the following reports / provided assurance which do not include a formal assurance rating:</p> <ul style="list-style-type: none"> <li>• Annual Governance Statement review to identify themes for inclusion in the AGS action plan;</li> <li>• COVID grant assurance returns for the Department for Business Energy and Industrial Strategy (BEIS);</li> <li>• National Fraud Initiative review of matches;</li> <li>• ICT Audit Needs Assessment;</li> <li>• Commercial and Asset Follow Up Review.</li> </ul>
----	--

17	<p>The Internal Audit Team and the Service Lead Audit and Risk have also participated in a number of corporate groups and initiatives throughout the year in order to provide support and advice on a variety of risk and control issues. These include:</p> <ul style="list-style-type: none"> <li>• Membership of the Senior Leadership Team</li> <li>• Member of the officer Corporate Governance Group</li> <li>• Customer Services Transformation project;</li> <li>• Commercial and Property projects (as and when required).</li> <li>• Human Resources Transformation project.</li> </ul> <p>Internal Audit also disseminate fraud alerts to relevant officers and manage accessibility to the National Anti-Fraud Network (NAFN). The Service Lead Audit and Risk is an active member of the Officer Corporate Governance Group.</p> <p>Full details of all the work undertaken is included at <b>Appendix B</b> – Summary of Internal Audit Work 2021-2022.</p>																												
18	<p>Whilst the ICT Audit Needs Assessment was completed during 2021-22, the Internal Audit Plan contained a further ICT review however this was unable to be completed due to the implementation of the ICT Digital Strategy and on-going change within the ICT Service.</p>																												
19	<p><u>Follow up of agreed management actions.</u></p> <p>Members will be aware that a significant amount of work has been undertaken during 2021-2022 to establish a robust process to monitor the implementation of agreed management actions from Internal Audit reports.</p> <p>In order to enable a rigorous monitoring system, all agreed management actions are added to the Council's risk management system GRACE. This allows action owners to update the system with progress made in a timely fashion and for monthly reports to be issued to Directors. Outstanding audit actions are now a standing item on all Directorate monthly meetings.</p> <p>The table below sets out the number of agreed internal audit actions and their current status:</p> <table border="1" data-bbox="151 1355 1476 1612"> <thead> <tr> <th></th> <th>No of actions b/f from pre 2021.22</th> <th>No of actions from 21.22 reports</th> <th>Total</th> <th>No due for implementation by March 22.</th> <th>No of actions implemented</th> <th>%age Implementation rate</th> </tr> </thead> <tbody> <tr> <td>CBC</td> <td>46</td> <td>51</td> <td>97</td> <td>78</td> <td>54</td> <td>70%</td> </tr> <tr> <td>Shared Services</td> <td>7</td> <td>29</td> <td>36</td> <td>31</td> <td>28</td> <td>90%</td> </tr> <tr> <td><b>Total</b></td> <td><b>53</b></td> <td><b>80</b></td> <td><b>133</b></td> <td><b>109</b></td> <td><b>82</b></td> <td><b>75%</b></td> </tr> </tbody> </table>		No of actions b/f from pre 2021.22	No of actions from 21.22 reports	Total	No due for implementation by March 22.	No of actions implemented	%age Implementation rate	CBC	46	51	97	78	54	70%	Shared Services	7	29	36	31	28	90%	<b>Total</b>	<b>53</b>	<b>80</b>	<b>133</b>	<b>109</b>	<b>82</b>	<b>75%</b>
	No of actions b/f from pre 2021.22	No of actions from 21.22 reports	Total	No due for implementation by March 22.	No of actions implemented	%age Implementation rate																							
CBC	46	51	97	78	54	70%																							
Shared Services	7	29	36	31	28	90%																							
<b>Total</b>	<b>53</b>	<b>80</b>	<b>133</b>	<b>109</b>	<b>82</b>	<b>75%</b>																							
20	<p>Whilst the target implementation rate of 90% has not been met, the outstanding actions have been reviewed and it has been established that the reasons are largely due to the implementation of phase 2 of shared services and the short term impact on ICT and staffing across the authority.</p> <p>Revised dates have been agreed for any actions still to be implemented and it is anticipated that the implementation rate will rise over the course of the next 6-8 months.</p>																												
21	<p><u>Other sources of assurance</u></p>																												



	Internal Audit has continued to consider other forms of assurance received by the Council. When preparing the audit plan and when undertaking individual reviews, we assess other sources of information available to us and assess them for the level of reliance which can be placed on them.
--	---

<b>Risk Management</b>	
22	<p>Over 2021-2022, a significant amount of work has been undertaken to further embed the Council's risk management arrangements. This includes:</p> <ul style="list-style-type: none"> <li>• Development and approval of the Risk Management Strategy;</li> <li>• Re-launch of the Council's GRACE risk management system;</li> <li>• Individual officer training delivered to over 140 officers within the Council and leisure company for risk management and the use of GRACE;</li> <li>• Dedicated risk management training for members;</li> <li>• Mandatory risk management training for all members of staff through the corporate Learning Hub;</li> <li>• Review of the Corporate Risk Register by the Senior Management Team and Governance Committee;</li> <li>• Development of risk registers to capture risks and mitigations for a range of activities, including corporate strategy projects, business planning, partnerships and operational risks;</li> <li>• Consideration of risk in all committee / Council reports;</li> <li>• Risk management as a standing item on Directorate monthly meetings;</li> <li>• Development of reports for the Officer Corporate Governance Group and Directors.</li> </ul>
23	It is acknowledged that whilst progress has been made over the past 12 months to embed risk management, there is still work to do to further improve and this is recognized by the action contained within the Annual Governance Statement Action Plan.

<b>Public Sector Internal Audit Standards (PSIAS)</b>	
24	In accordance with the PSIAS, the Chief Internal Auditor (Service Lead Audit and Risk) has established a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both internal and external assessments. This is included as a separate item on this agenda.
25	<p>The internal assessments include the following:</p> <ul style="list-style-type: none"> <li>• An annual self-assessment of the effectiveness of the Internal Audit Service audit service using the PSIAS and Local Government Application Note. From this assessment an action plan highlighting areas for improvements will be developed.</li> <li>• Day-to-day monitoring of compliance with the procedures and audit methodology that conform to the PSIAS, which will be regularly reviewed. All documentation used throughout the whole Internal Audit process is required to comply with the standards and this is recorded on final reports.</li> </ul>
26	An external assessment must be undertaken once every 5 years. This was last undertaken in April 2018 and reported to the Governance Committee in May 2018. The assessment provides an external validation of the self-assessment with next assessment planned for 2023.
27	The internal annual self-assessment has now been conducted and the results are included as a separate report on the agenda. This review confirmed that the Service largely conforms to the professional standards. All areas identified for improvement from the review from 2021 have been

	<p>implemented with only one area identified as a partial conformance and is included on the action plan to progress over the coming months.</p> <p>Members will recall that the Internal Audit Service also successfully achieved the ISO9001 Quality Management System this year. This clearly demonstrates the commitment to improvement and ensuring that a high quality service is provided to both Councils.</p>
--	--

<b>Internal Audit Performance</b>	
28	<p>The table at <b>Appendix C</b> summarises the key performance data for the Internal Audit Service during 2021-2022 and demonstrates that the majority of performance indicators have either been achieved or exceeded.</p> <p>There are two indicators which are slightly below target:</p> <ul style="list-style-type: none"> <li>• % of planned time used – this is due to the issues experienced over the course of the year with recruitment and retention of officers;</li> <li>• % of agreed actions implemented by management, which is below target with the explanation provided above.</li> </ul>