

Appendix A

# Internal Audit Annual Report and Opinion 2023/2024

Chorley Council  
Date 22<sup>nd</sup> May 2024  
Dawn Highton – Head of Audit and Risk

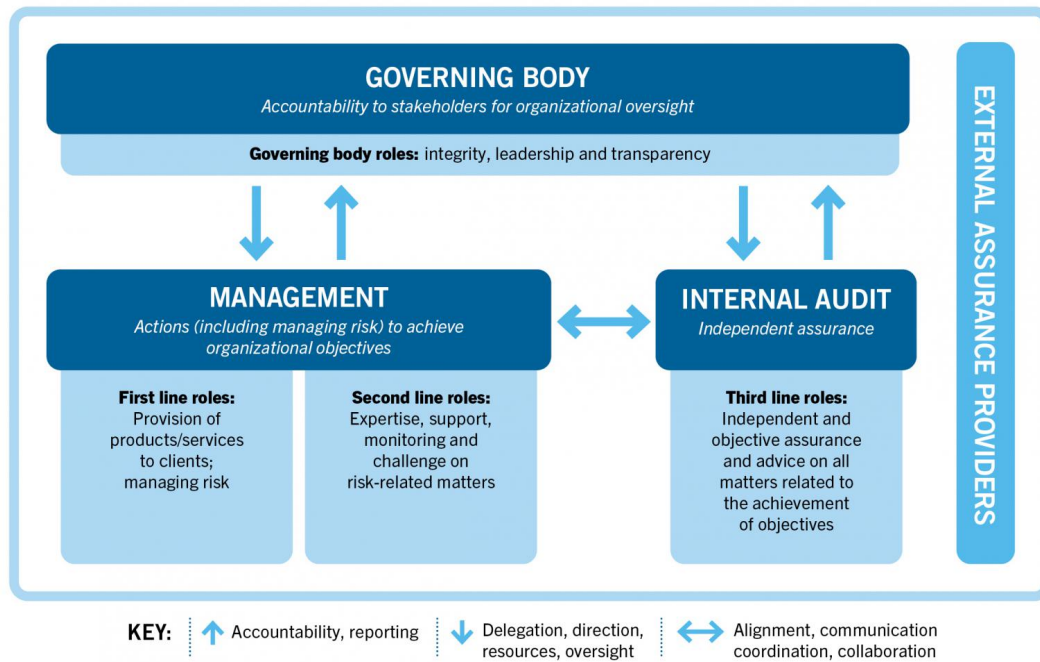


WORKING TOGETHER

<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 <b>governance, risk management and control processes</b>.</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 Head of 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 the Institute of Internal Auditors three lines model (2020) 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 Heads of Service 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>

## The IIA's Three Lines Model (2020)



### Basis of the opinion

6 The Head of 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.

In assessing the level of assurance to be given, the opinion has been given based on:

- Reviews undertaken and reports included within the Internal Audit Annual Plan;
- Advice / consultancy work undertaken by the Internal Audit team;
- The implementation of agreed management actions by Directorates;
- Internal Audit assessment of Risk Management
- Internal Audit assessment of Corporate Governance
- Other sources of assurance where appropriate;
- 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;

7 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.

### Scope and Objectives of Internal Audit

8 The scope and objectives of Internal Audit are set out in the Internal Audit Charter which was last approved by the Governance Committee in March 2022.

9 The Internal Audit Charter also sets out any impairments or restriction in scope for Internal Audit as:

*“The Head of 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,*

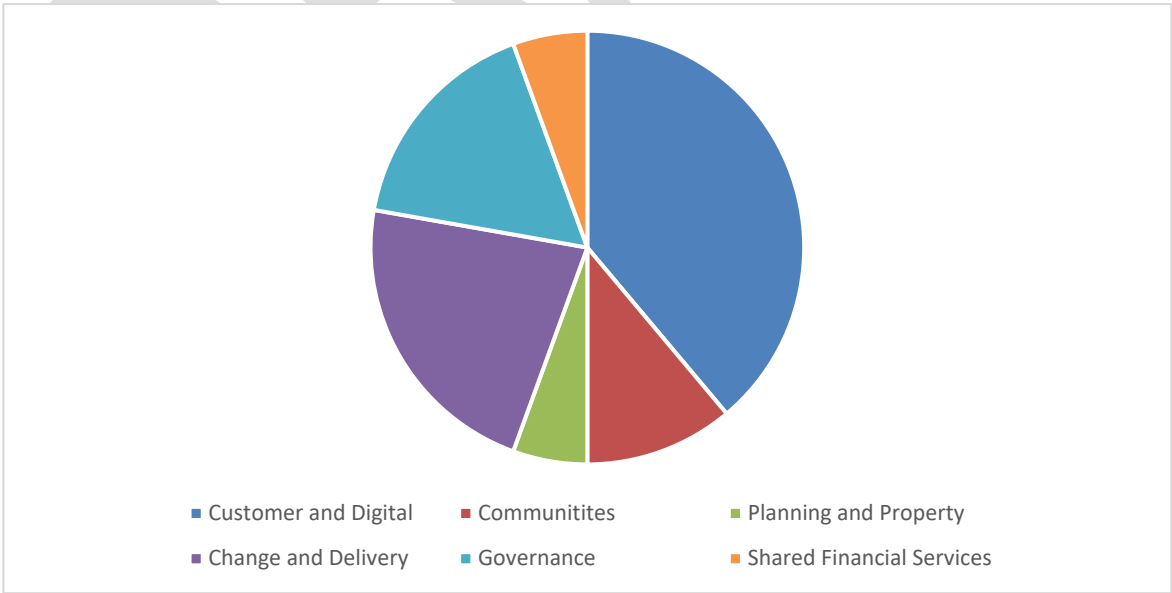
	<i>and reporting on, the Risk Management Strategy. It is considered prudent that any internal audit engagement covering the above operational areas and the risk management framework, especially for the formation of the annual opinion on the effectiveness of the control environment, would be overseen by the Council's Monitoring Officer".</i>
10	A review of the risk management arrangements was undertaken during 2023/24 however due to the operational responsibility detailed above, this was carried out by an independent third party.
11	I can confirm that the Internal Audit Service is independent as no reviews have been undertaken during 23/24 which impact upon the independence of either the Internal Audit Service or the Head of Audit and Risk.
12	I can also confirm that during 23/24, there have been no restrictions in the scope of audit work or in the level of resources which could potentially impact upon the ability to achieve the Internal Audit Plan or reach the annual opinion on governance, risk management and control which is contained within this report.

**Audit Coverage for 2023/24**

13 Over the past few years, it has become apparent that the audit plan needs to be dynamic and responsive to change. In previous years, an annual plan has been developed and approved, however, it has been recognized that alternative arrangements to make the plan more flexible and responsive to relevant issues as they arise, and to take account of changes to the Council's operations, transformation programme and risks would add more value to the organisation. It was, therefore agreed with both the Senior Management Team and the Governance Committee that for 2023/24, the Audit Plan would be developed bi-annually for 6-month periods.

In order to provide an opinion, coverage of the whole authority should be obtained. The 2 combined Plans contained a total of planned 18 audit reviews as detailed below.

14 **Internal Audit Coverage 2023-24**



**Work completed to support the opinion**

15 The opinion is based primarily on the work carried out by the Council’s Internal Audit service during 2023/24, as well as a number of other assurance providers. As the Head of 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.

16 Planned Audit Work  
 Each review undertaken by Internal Audit is awarded an assurance opinion derived from the findings and based upon the following definitions:

<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

Planned reviews completed during 2023-2024 and the assurance rating awarded is included in the table below. Over the course of the year, the Governance Committee has received a copy of all Internal Audit reports.

<b>Full</b>	<ul style="list-style-type: none"> <li>• No reviews have been awarded full assurance during 2023/24</li> </ul>
<b>Substantial</b>	<ul style="list-style-type: none"> <li>• Council Tax Policies</li> <li>• Building Control</li> <li>• Business Grants (Appendix B)</li> <li>• Bank Reconciliation and Cash Flow Forecasting (Appendix C)</li> <li>• Risk Management (Reasonable – Wyre Council assurance ratings. Appendix D)</li> </ul>
<b>Adequate</b>	<ul style="list-style-type: none"> <li>• Unrecoverable debt write offs (Appendix E)</li> <li>• Large Commissioning</li> <li>• Data Quality</li> <li>• General Data Protection Regulations – Transparency</li> <li>• Management of Assets – Inventories</li> </ul>
<b>Limited</b>	<ul style="list-style-type: none"> <li>• Sundry Debtors – Aged Debtors</li> <li>• Physical Security and Environmental Controls</li> <li>• Housing Standards (Appendix F)</li> <li>• Driving Licence Checks</li> <li>• Event Management (Appendix G)</li> </ul>

Over the course of the 2023/24, Governance Committee have received copies of all Internal Audit Reports.

17	<p>As the table highlights, during 2023/24, Internal Audit identified several areas of control weakness and work is on-going to strengthen the Council's control environment in relation to the weaknesses identified. These included (but not limited to):</p>
18	<p><b>Sundry Debtors – Aged Debts</b></p> <p>The following weaknesses/issues were identified within the sampled debtors that may impact the ability to recover unpaid sums:</p> <ul style="list-style-type: none"> <li>• A reduced level of proactivity from service areas tasked with contacting customers to seek unpaid invoices after unsuccessful reminders.</li> <li>• Poor/inconsistent communication between the service area and the Debtor Team resulting in a high number of cases not progressing to the next recovery stage;</li> <li>• A fully completed and up to date record of recovery action undertaken was not maintained by a number of service areas reviewed therefore, we are unable to ascertain whether all required recovery actions have been undertaken in good time to help aid successful recovery;</li> <li>• A reduced level of proactivity from the Debtor Team due to a lack of capacity and officers holding additional responsibilities outside of the debtor role.</li> <li>• Issues with the identified recipients of the Aged Debt reports.</li> </ul> <p>All management actions emanating from this review have now been implemented.</p>
19	<p><b>Physical Security and Environmental Controls</b></p> <p>The review of Physical Security and Environmental Controls for the South Ribble data centres and comms room concluded that key risks are not being mitigated to an acceptable level.</p> <p>There were significant concerns regarding several critical areas, including unauthorised physical access, absence of internal CCTV surveillance, deficient fire suppression systems, power protection and water ingress risks, all of which have reflected the lower risk opinion score.</p> <p>In total 13 actions were agreed for implementation by March 2024. There have been some slight delays with contractors and whilst 6 actions have been implemented in full, the remaining 7 actions are due to be completed by the end of May 2024.</p>
20	<p><b>Housing Standards</b></p> <p>Our review identified that whilst the Council is improving housing standards across the borough, it is failing to meet all the requirements of the Housing Act 2004 in several areas. In addition, further improvements were identified, and actions agreed to strengthen the current arrangements.</p> <p>A copy of the report is included at Appendix F.</p>
21	<p><b>Driving Licence Checks</b></p> <p>Our review identified that although it was evident that a level of Driving Licence checks was operational, it could not be confirmed that this was undertaken in a consistent and methodical manner to ensure that all officers that undertake work related driving have been identified; or those that have been identified have their driving licence re-checked at the accepted frequency.</p> <p>Nine actions to improve the control environment were agreed, including actions to ensure checks were undertaken immediately. All actions have been implemented with the exception of the Driving at Work Policy.</p>

22	<p><b>Event Management</b></p> <p>Whilst events are successfully delivered, our work established that the Council would struggle to demonstrate that it has adequate arrangements in place to ensure the robust management and safe delivery of its events programme. This review identified that weaknesses exist within event management including:</p> <ul style="list-style-type: none"> <li>• A lack of established policy for both CBC and SRBC.</li> <li>• The Service are unable to provide evidence that comprehensive documented processes are in place for ensuring internal events are formally approved, appropriately planned and risk assessed throughout the life cycle of the event.</li> <li>• Insufficient evidence of due diligence checks retained by the Service.</li> <li>• Inadequate budget monitoring / management arrangements exist.</li> <li>• Lack of supervisory oversight and management planning.</li> </ul> <p>A full copy of the report is attached at Appendix G.</p>
23	<p>The remaining reviews all received either an adequate or substantial assurance rating. Senior Management have accepted all the findings of the reviews and management actions have been agreed to further improve the overall control environment.</p>
24	<p>In addition to the work carried out above, 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>• National Fraud Initiative review of matches from the 2022/23 exercise.</li> </ul>
25	<p>The Internal Audit Team and the Head of Service 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 Directorate major projects (as and when required);</li> <li>• Commercial Directorate Development Group.</li> </ul> <p>Internal Audit also disseminate fraud alerts to relevant officers and manage accessibility to the National Anti-Fraud Network (NAFN). Furthermore, during the past 12 months, the audit team have used IDEA data matching software to reduce the risk of overpayments identify and remove duplicate creditor accounts.</p>
26	<p>As reported to the Governance Committee at the meeting on the 27<sup>th</sup> September, the past year saw a change in the level of audit resource. The request to the Committee was to approve the deferral of two separate reviews, listed below, which were selected based upon the skills of the team and the level of risk within each review.</p> <ul style="list-style-type: none"> <li>• Capita Migration</li> <li>• Cemetery Management</li> </ul> <p>In addition, the 2023/24 Audit Plan contained a further review of ICT Back up and Disaster recovery. This review is currently in progress and being undertaken by Salford Audit Services who provide our specialist ICT audit support. A review of Vulnerability Management is also still outstanding from the 22/23 Audit Plan being undertaken by Salford Audit Services. This report is due to be received</p>

imminently and will be reported to the Governance Committee once all actions have been agreed with the new Head of Service.

27 The table below provides a breakdown of assurance opinions issued by Internal Audit over the past 3 years for planned reviews. The table demonstrates that whilst the number of limited assurance reports is increasing year on year, actions to strengthen the control environment are being implemented in a timely fashion.

**Internal Audit Assurance Levels**

Assurance Level	2021/22	%age	2022/23	%age	2023/24	%age
Full	0	0%	1	8%	0	0%
Substantial	7	43%	3	21%	5	33%
Adequate	7	44%	7	50%	5	33%
Limited	2	13%	3	21%	5	33%
<b>Totals</b>	<b>16</b>		<b>14</b>		<b>15</b>	

**Follow up of Internal Audit Agreed Management Action**

28 A rigorous monitoring system is in place to ensure all agreed management actions are implemented by adding the actions 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 quarterly reports to be issued to Directors. Outstanding audit actions are now a standing item on all Directorate monthly meetings.

The table below sets out the implementation rate over a 3 years period and the direction of travel.

	%age implementation rate 21-22	%age implementation rate 22-23	%age implementation rate 23-24
CBC	70%	63%	85%
Shared Services	90%	81%	79%
Average implementation rate	80%	72%	82%

29 It is difficult to draw conclusions regarding the individual rates between CBC and Shared Services as more actions are now being assigned to Shared Services. However, the table above clearly demonstrates that over the past 12 months, there has been a significant improvement with the implementation of agreed actions. This can be largely attributed to the stability with the Shared Leadership Team who are accountable for the agreement of actions and their implementation.

**Risk Management**

30 Risk Management is the process by which risks are identified and evaluated so that appropriate mitigation can be applied to reduce the likelihood and impact of risks materialising. In the event a risk materialises, this could inhibit the Council to achieve its objectives and fulfil its strategic priorities.

31 The past 12 months has seen risk management becoming more embedded and the following actions have been taken:



	<ul style="list-style-type: none"> <li>• Risk Management Strategy revised and approved in 2024;</li> <li>• Risk Appetite defined and escalation processes identified;</li> <li>• Increased use of a dedicated risk management system;</li> <li>• Individual officer training delivered as and when required;</li> <li>• Risk Management highlighted on a monthly basis to the Senior Leadership Team via the Corporate Dashboard;</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>• 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>
32	<p>As highlighted in paragraph 10, a review of the Council's risk management arrangements was recently carried out by Wyre Council and a copy of the report is included at Appendix D.</p> <p>Wyre Council confirmed that the overall opinion of the auditor is that the controls in place to manage Risk Management are 'Reasonable'. This means that 'There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited'.</p>
33	<p>Over the next 12 months, the Audit and Risk Service will continue to take actions to embed risk management and ensure that the risk appetite approved by the Governance Committee and the subsequent escalation processes are systematically applied.</p>

<b>Corporate Governance</b>	
34	<p>The opinion of Internal Audit on the effectiveness of the Council's corporate governance arrangements is based on CIPFA's Delivering Good Governance in Local Government Framework 2016.</p> <p>In order to support the compilation of the Annual Governance Statement Action Plan, a full review of the six principles contained within the guidance was undertaken. Actions arising from this review were presented and agreed with the Corporate Governance Group and are detailed in the Annual Governance Statement report.</p>

<b>Other Sources of Assurance</b>	
35	<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. Examples of other assurance provides can include (not an exhaustive list):</p> <ul style="list-style-type: none"> <li>▪ Work undertaken by External Audit including Housing Benefit Subsidy Claim;</li> <li>▪ The work of specifically commissioned consultants;</li> <li>▪ Section 11 Safeguarding review.</li> <li>▪ ISO9001 Quality Management System</li> </ul> <p>This year, specific work has been undertaken which can be used as a source of assurance including:</p> <ul style="list-style-type: none"> <li>• Post-election review of Chorley and South Ribble Borough Councils' Electoral Services – May 2023.</li> <li>• Local Government Association Cyber 360 review.</li> <li>• Penetration testing.</li> </ul>
36	<p><b>Chorley Leisure Limited</b></p> <p>The Internal Audit Service has also completed a range of reviews for the Council's wholly owned company – Chorley Leisure Limited. The assurance ratings and reviews have been formally reported to the Board of Directors.</p> <p>It is the intention to work with the Chorley Leisure Limited to ascertain their levels of compliance with the Council's governance framework. A workshop is due to be arranged and the results will be reported to the Board of Directors.</p>
<b>Annual Opinion 2023/2024</b>	
37	<p>Whilst, as this report highlights, there have been 5 Internal Audit reviews awarded limited assurance rating, a large proportion of the agreed actions to strengthen the arrangements have been implemented in year. Taking this into account, alongside the significant increase in the percentage of audit actions implemented, indicates a strengthened control environment.</p> <p>The actions identified in the 2023 Annual Governance Statement are either implemented or are in the process of being implemented with only a small number being carried forward to the 2024 action plan.</p> <p>The Council's risk management arrangements have been externally reviewed and found to be of a sound nature.</p> <p><b>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 adequate for the financial year ended 31<sup>st</sup> March 2024.</b></p>
<b>Public Sector Internal Audit Standards (PSIAS)</b>	
38	<p>In accordance with the PSIAS, the Chief Internal Auditor (Head of 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.</p>

39	<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>
40	<p>An external assessment must be undertaken once every 5 years. This was last undertaken in June / July 2023 and reported to the Governance Committee in September 2023. This established that the Internal Audit Service conformed with the Public Sector Internal Audit Standards.</p>
41	<p>The annual internal annual self-assessment has now also been conducted and the results are included as a separate report on the agenda. This review highlighted that the Service still conforms to the professional standards with the action plan detailing progress against recommendations from the external assessment.</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>	
42	<p>The table at <b>Appendix C</b> summarises the key performance data for the Internal Audit Service during 2023-2024 and demonstrates that the majority of performance indicators have been exceeded with the exception of “percentage of agreed actions implemented by management” which is only slightly below target.</p>

<b>Thanks</b>	
43	<p>Internal Audit would like to take this opportunity to formally thank all staff throughout the Council with whom the Service has had contact with. The Senior Management Team have responded positively to our findings and supported the Internal Audit Service.</p>