

Audit Detailed Report

March 2006



Interim Audit Report

Chorley Borough Council

Audit 2004-2005

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; and
- 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 and 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 non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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Summary report

Introduction

- 1 Our Audit and Inspection plan for 2004/05 outlined the work we would be carrying out to meet our Code of Audit Practice responsibilities, which includes a review of financial core processes and aspects of corporate governance. We have also included findings from our review of Internal Audit, carried out as part of the 2005/06 audit.
- 2 Our findings are reported on an exception basis and we have only included the issues where we feel the Council should consider strengthening its arrangements.

Audit approach

Accounts

- 3 We have reviewed the Council's core processes, which include:
 - the main accounting system (MAS);
 - budgetary control procedures; and
 - final accounts closedown procedures.

Financial aspects of corporate governance

- 4 We have assessed whether the Council has adequate arrangements to:
 - ensure financial standing is soundly based;
 - ensure systems of internal financial control are both adequate and effective;
 - maintain proper standards of financial conduct and to prevent and detect fraud and corruption; and
 - ensure the legality of transactions.

Internal Audit

- 5 Our review assessed the Internal Audit section against standards set out in the CIPFA Code of Practice for Internal Audit in Local Government, which represents proper Internal Audit practices.

Main conclusions

- 6 Table 1 sets out the main conclusions from the work we have completed as part of our interim audit.

Table 1 Main conclusions

No significant issues arose in the three interim audit review areas.

Audit area	Conclusion
Accounts	Core processes provide a sound basis for the preparation of financial statements that are free from material misstatement or error.
Financial aspects of corporate governance	The Council has adequate arrangements in place to discharge its responsibilities.
Internal Audit	Internal Audit meet the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government.

- 7 Core processes need to be further improved on certain financial controls and closedown procedures to ensure compliance with the whole of government accounts future requirements. Aspects of corporate governance can be enhanced through:
- promoting awareness of ethical governance issues for officers and members;
 - adopting an approved whistleblowing policy;
 - integrating risk management into financial management and partnership arrangements; and
 - regular statutory compliance monitoring of regulations and policies.

Detailed report

Core process review

- 8 We are required to give an opinion as to whether the accounts present fairly the financial position of the Council and have been prepared in accordance with appropriate regulations and proper professional practices.
- 9 The first stage of this element of the audit has been completed by reviewing the Council's core processes:
 - the main accounting system (MAS);
 - budgetary control procedures; and
 - final accounts closedown procedures.
- 10 Table 2 provides a summary of the findings for each of the core processes.

Table 2 Assessment of core processes

Core processes provide a sound basis for the preparation of financial statements that are free from material misstatement or error.

Core process	Summary of findings	Conclusion
Main accounting system	<p>Whilst the majority of expected controls are in place, there is scope to improve the controls over:</p> <ul style="list-style-type: none"> • system balancing; • control account reconciliations for the main feeder systems; • bank reconciliations; • journals; and • system access levels. 	The main accounting system provides an adequate basis for the preparation of the financial statements.
Budgetary control procedures	The majority of expected controls are in place. However, there is scope to improve the controls over budget monitoring undertaken by budget holders.	Budgetary control procedures provide an adequate basis for the preparation of the financial statements.

Core process	Summary of findings	Conclusion
Closedown procedures	<p>A well planned and structured approach exists to facilitate the accurate completion of the financial statements.</p> <p>However, there is scope to expand the closedown timetable to cover the following key tasks:</p> <ul style="list-style-type: none"> • restriction of ledger access in run up to final update; • review and clearance of suspense accounts; • reconciliation of asset register to general ledger and final adjustments to capital charges; • delivery of accounts to the Director of Finance prior to deadline; • senior officer review of accounts and working papers before audit commences; and • regular progress meetings. 	Closedown procedures provide a sound basis for the preparation of the financial statements. However, there is scope to expand the closedown timetable to cover all the key issues.

Recommendations

R1 Run trial balances on a monthly basis.

R2 Where feeder system transactions are posted to the MAS during the year, ensure that:

- *related control accounts are reconciled on a monthly basis;*
- *adequate working papers are maintained to evidence this process;*
- *control account reconciliations are reviewed and authorised by a senior officer; and*
- *unreconciled items are not carried forward.*

R3 Ensure that the monthly bank reconciliation is:

- *signed by the responsible officer; and*
- *independently reviewed and authorised by a senior officer.*

Recommendations
<p><i>R4 To improve control over the use of journals, ensure that:</i></p> <ul style="list-style-type: none">• <i>all journals are independently reviewed and authorised;</i>• <i>there is adequate supporting information; and</i>• <i>guidance notes are prepared for completing journals.</i>
<p><i>R5 Review users of the MAS on a monthly basis.</i></p>
<p><i>R6 For the system of cash limited budget to be effective:</i></p> <ul style="list-style-type: none">• <i>develop procedures for budget monitoring;</i>• <i>review budget monitoring information to ensure that it is fit for purpose; and</i>• <i>ensure that staff involved in budget monitoring are adequately trained.</i>
<p><i>R7 Expand the closedown timetable to include all key issues.</i></p>

Financial aspects of corporate governance

- 11** The Council has a responsibility to put in place arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness. We have a responsibility to review those arrangements.
- 12** Our work is structured around four key elements, as defined in the Code of Audit Practice:
 - financial standing;
 - systems of internal financial controls;
 - standards of financial conduct and the prevention and detection of fraud and corruption; and
 - the legality of transactions.
- 13** Table 3 provides a summary of findings for each area.

Table 3 Assessment of financial aspects of corporate governance

The Council has adequate arrangements in place to discharge its responsibilities.

Area	Summary of findings	Conclusion
Financial standing	<p>The Council has adequate arrangements in terms of:</p> <ul style="list-style-type: none"> • setting a balanced budget and capital programme; • financial monitoring and reporting; • meeting financial targets; and • financial reserves. 	<p>The Council has put in place adequate arrangements to ensure its financial standing is soundly based.</p>
Systems of internal financial control	<p>The Council has adequate arrangements in terms of:</p> <ul style="list-style-type: none"> • monitoring financial systems; • Internal Audit; and • risk identification and management. <p>However, there is scope to further embed risk management into financial management and partnership arrangements.</p>	<p>The Council has put in place adequate arrangements to ensure it has adequate and effective systems of internal financial control.</p>
Standards of financial conduct and the prevention and detection of fraud and corruption	<p>The Council has adequate arrangements in terms of:</p> <ul style="list-style-type: none"> • ethical framework; • governance arrangements; • treasury management arrangements; and • preventing and detecting fraud and corruption. 	<p>The Council has put in place adequate arrangements to maintain proper standards of financial conduct and to prevent and detect fraud and corruption. However, arrangements need to be more proactive as supported by an appropriate whistleblowing policy and awareness training.</p>

Area	Summary of findings	Conclusion
	<p>However, arrangements could be strengthened further in the following areas:</p> <ul style="list-style-type: none"> • promoting awareness of conduct, ethical standards and fraud and corruption issues for officers and members; • reviewing the adequacy of policies and practices to ensure compliance with statutory and other guidance (Audit Committee function); • updating the constitution on the Council website; • developing and adopting an approved whistleblowing policy; and • monitoring and testing of the operation of the CIPFA/SOLACE framework by members. 	
Legality of transactions	<p>The Council has adequate arrangements in terms of:</p> <ul style="list-style-type: none"> • clarity of roles and responsibilities; • consideration of legality within the decision-making process; and • considering the impact of new legislation. 	<p>The Council has put in place adequate arrangements to ensure the legality of transactions that may have a financial consequence.</p>

Recommendations

R8 Integrate risk management into financial management and partnership working arrangements.

R9 Introduce arrangements for the Audit Committee or other forum to review all policies and practices to ensure compliance with statutory guidance.

R10 Review arrangements to ensure that the Council website is updated to include revisions to the constitution.

R11 Develop and adopt an approved whistleblowing policy, which is support by adequate member and officer ethical standards awareness training.

Internal Audit

- 14 Internal Audit is 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.
- 15 Our review has assessed the Council's arrangements against standards for an effective Internal Audit service as outlined in the CIPFA Code of Practice for Internal Audit in Local Government across the following areas:
- scope;
 - independence;
 - audit committee;
 - relationships;
 - staff, training and development;
 - audit strategy;
 - management of audit assignments;
 - due professional care;
 - reporting; and
 - quality assurance.
- 16 The Internal Audit function is effective across all of the CIPFA Code of Practice areas and meets the standard. Only one exception is the Code requires the Head of Internal Audit to make provision to form an opinion where key systems are being operated by other organisations on behalf of the audited body. Arrangements to do this in relation to those elements of the payroll system which are operated by Blackpool Borough Council are inadequate.

Recommendation

R12 Review arrangements for the Audit and Risk Manager to form an opinion on those elements of the payroll system operated by Blackpool Borough Council.

Appendix 1 – Action plan

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Core process review						
7	R1 Run trial balances on a monthly basis.	2	Gary Hall Director of Finance	Yes	None	April 2006
7	R2 Where feeder system transactions are posted to the MAS during the year, ensure that: <ul style="list-style-type: none"> • related control accounts are reconciled on a monthly basis; • adequate working papers are maintained to evidence this process; • control account reconciliations are reviewed and authorised by a senior officer; and • unreconciled items are not carried forward. 	2	Gary Hall Director of Finance	Yes	None	April 2006

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R3 Ensure that the monthly bank reconciliation is: <ul style="list-style-type: none"> signed by the responsible officer; and independently reviewed and authorised by a senior officer. 	3	Gary Hall Director of Finance	Yes	None	April 2006
7	R4 To improve control over the use of journals, ensure that: <ul style="list-style-type: none"> all journals are independently reviewed and authorised; there is adequate supporting information; and guidance notes are prepared for completing journals. 	3	Gary Hall Director of Finance	Partially	Disagree on journals as compensatory controls such as budgetary and reconciliation controls.	April 2006
7	R5 Review users of the MAS on a monthly basis.	2	Gary Hall Director of Finance	Yes	None	April 2006

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R6 For the system of cash limited budget to be effective: <ul style="list-style-type: none"> • develop procedures for budget monitoring; • review budget monitoring information to ensure that it is fit for purpose; and • ensure that staff involved in budget monitoring are adequately trained. 	2	Gary Hall Director of Finance	Yes	None	June 2006
8	R7 Expand the closedown timetable to include all key issues.	2	Gary Hall Director of Finance	Yes	None	June 2006
Financial aspects of corporate governance						
10	R8 Integrate risk management into financial management and partnership working arrangements.	2	Garry Barclay Audit and Risk Manager Gary Hall Director of Finance	Yes	None	September 2006

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R9 Introduce arrangements for the Audit Committee or other forum to review all policies and practices to ensure compliance with statutory guidance.	2	Gary Hall Director of Finance	Partially	The Council will review as part of the re-constitution of the Audit Committee.	Ongoing
10	R10 Review arrangements to ensure that the Council website is updated to include revisions to the constitution.	1	Gary Hall Director of Finance	Yes	None	May 2006 and Ongoing
10	R11 Develop and adopt an approved whistleblowing policy, which is support by adequate member and officer ethical standards awareness training.	3	Gary Hall Director of Finance Rosemary Lyons Director of Legal Services	Yes	None	September 2006
11	R12 Review arrangements for the Audit and Risk Manager to form an opinion on those elements of the payroll system operated by Blackpool Borough Council.	2	Garry Barclay Audit and Risk Manager	Yes		