

Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	21 <sup>st</sup> June 2017

## INTERNAL AUDIT ANNUAL REPORT 2016/17

### PURPOSES OF REPORT

1. To summarise the work undertaken by the Internal Audit Service during the 2016/17 financial year;
2. To give an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control;
3. To give an appraisal of the Internal Audit Service's performance, including a review of the Council's internal control system.

### RECOMMENDATION

4. That the Internal Audit Annual Report for 2016/17 be noted.

### EXECUTIVE SUMMARY OF REPORT

5. The report demonstrates the successful delivery of the 2016/17 Internal Audit programme of work. The results provide members with assurance that the Council's governance and control environment continues to be effective. The introduction of the Governance, Risk and Control Self-Assessment (GRACE) software will strengthen the current risk management arrangements.

<b>Confidential report</b>	Yes	<u>No</u>
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### CORPORATE PRIORITIES

6. This report relates to the following strategic objectives.

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	<b>X</b>

## INTERNAL AUDIT PLANS

7. **Appendix 1** to this report provides a detailed account of the individual audits undertaken in respect of Chorley Council and Shared Services during the 2016/17 financial year. It shows the approach taken, the controls assurance rating that was awarded and a summary of any actions that have been agreed with management to further improve controls within all the areas audited.
8. The following tables also provide an analysis of the planned and actual auditor days used during the year together with an explanation of any variations that have occurred.

### *Chorley Council*

	<b>Planned (Days)</b>	<b>Actual (Days)</b>	<b>Variance (Days)</b>
Audits undertaken	255	245	(10)
Audits not undertaken			
• Payroll Project	10	0	(10)
• Health and Safety	15	0	(15)
Contingency	65	74	9
<b>TOTALS</b>	<b>345</b>	<b>319</b>	<b>(26)</b>

9. With regard to audits not undertaken, the Payroll Project has been cancelled with the continuation of the current arrangements. The review of Health and Safety was deferred due to a revised risk assessment process which is currently being developed and this review will now be undertaken as part of the 2017/18 Internal Audit Plan.

### *Shared Services*

	<b>Planned (Days)</b>	<b>Actual (Days)</b>	<b>Variance (Days)</b>
Audits undertaken	95	88	(7)
Contingency	50	41	(9)
<b>TOTALS</b>	<b>145</b>	<b>129</b>	<b>(16)</b>

10. The (26 + 16) 42 days shortfall in the number of planned days for both Chorley Council and Shared Services is offset by a period of sickness absence by a member of the Internal Audit Team.

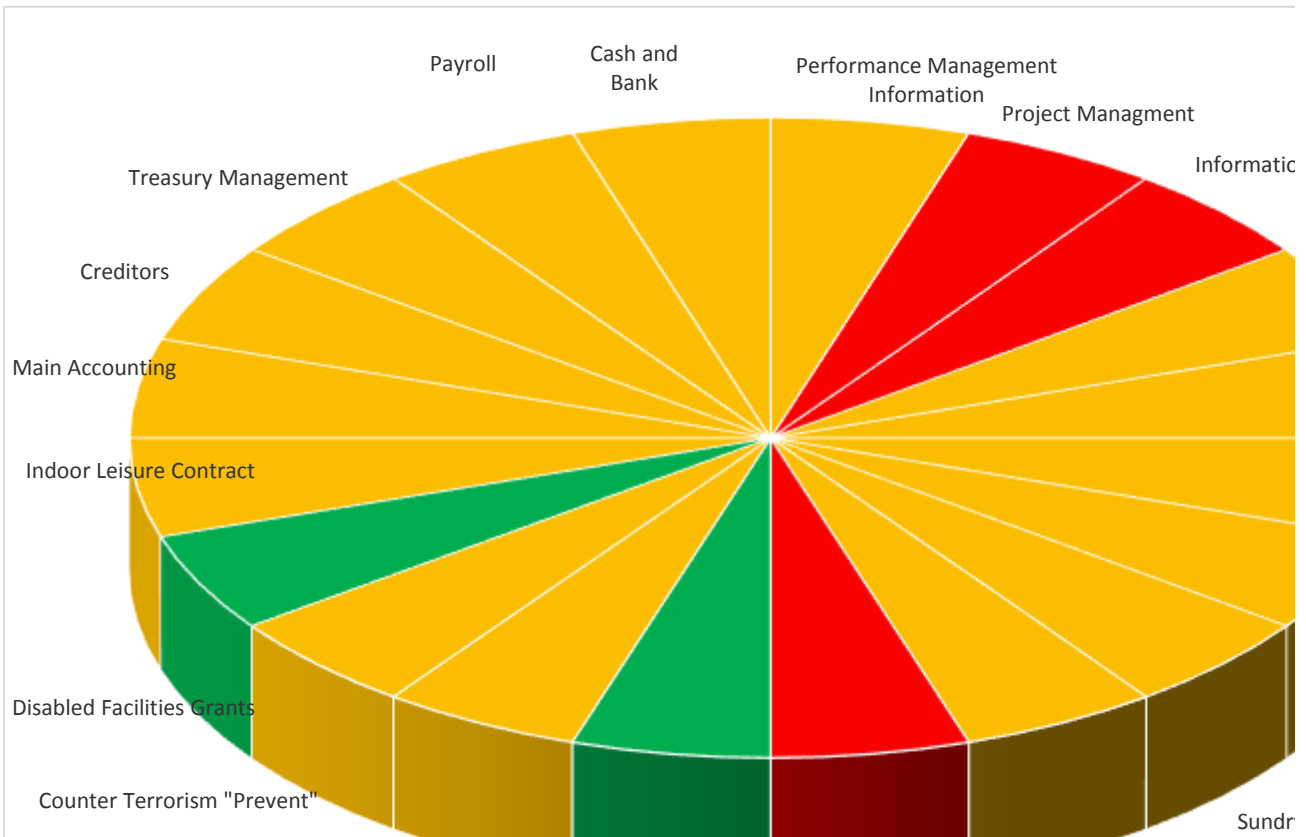
## INTERNAL AUDIT OPINION

11. Public Sector Internal Audit Standards (PSIAS) require the "Head of Internal Audit" to give an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This responsibility falls on the Head of Shared Assurance Services on behalf of Chorley Council.

12. Members will recall that individual audits are awarded a separate controls assurance rating from the following matrix:

Control Rating	Limited	4	7	9
	Adequate	2	5	8
	Substantial	1	3	6
		Minor	Major	Critical
		Risk Rating		

13. Risk ratings (minor / major / critical) are inherent to each system/area audited and they reflect the impact that they would have on the Council in financial and/or reputational terms if they were to fail.
14. Control ratings (substantial / adequate / limited) are awarded after the audit is completed to reflect the level of internal control that is present in each system/area audited.
15. During 2016/17 a total of 20 systems/areas were reviewed, 11 of which were critical and 8 were major systems and 1 minor system. The chart below shows the controls assurance ratings that were awarded for the individual audits undertaken during the year:



16. The vast majority were awarded an amber assurance rating. Of the 11 critical systems reviewed during 2016/17, 10 received a score of 6 (substantial assurance). Furthermore of the red controls assurance ratings awarded only one audit, Information Governance received a score of 9 (limited assurance). **Therefore when the individual ratings are aggregated it is our conclusion that the Council continues to operate within a strong control environment.**

17. Members are also reminded that the control ratings shown relate to the point in time when the respective audit reports were issued during course of the year. They therefore represent a historical rather than a current judgement as managers have been charged with implementing corrective actions to address the control issues raised, which in turn has been supported by a programme of follow-up reviews by the Internal Audit Service.

## **INTERNAL AUDIT PERFORMANCE**

### **Key Performance Indicators**

18. The table at **Appendix 2** summarises the key performance data for the Internal Audit Service during 2016/17 and demonstrates that the majority of performance indicators have either been achieved or exceeded with explanations for any variances provided on the Appendix.

### **ISO 9001:2008**

19. In January Internal Audit retained ISO 9001 accreditation for its Quality Assurance System which is continuously updated to reflect any changes in working practices. Retention of the standard demonstrates that the Audit Team is continuing to seek improved and more efficient working practices to maintain a high quality service.

### **GRACE Risk Management**

20. Training has now been delivered to over 40 officers on the use of the GRACE risk management system and currently risks and controls are in the process of being updated. These will form the basis for our reviews during 2017/18.

### **Follow up of Agreed Management Actions**

21. During 2016/17, MyProjects (the Council's project management software) was utilized to monitor the implementation of agreed management actions. This improvement allows managers to continuously update progress against each action and enables accurate and up to date reporting.

## **INTERNAL CONTROL SYSTEM**

22. The Accounts and Audit Regulations 2015 require the Council to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account Public Sector Internal Audit Standards (PSIAS) or guidance".
23. We have therefore undertaken our annual self-assessment of compliance with the PSIAS and have concluded that the Service meets all aspects of the Standards. Members will recall that the Council needs to arrange an independent external assessment at least once every 5 years and that it was agreed that we would participate with the Lancashire District Councils Audit Group in undertaking reciprocal peer reviews. In the last 12 months we have, in conjunction with Preston City Council, carried out the review of Fylde Council Internal Audit Service with the review of Preston due to be carried out during June / July 2017. It is planned that the above 2 Councils will carry out the review of our compliance with the Standards in March 2018.
24. The regulations also require that "an authority must conduct a review of the effectiveness of the system of internal control". In addition to preparing an annual governance statement, other independent sources of assurance obtained by the Council are also considered.
25. Directors have therefore provided examples of these which include: QUEST accreditation for Sport and Play Service; Museums accreditation for Astley Hall; Public Services Network approval; Electoral Commission performance standards for electoral registrations and

delivery of elections and 3 qualified SFEDI Business Advisors in Economic Development (Small Firms Enterprise Development Initiative), Food Standards Agency audits of inspections and enforcement.

26. **This evidence further supports our overall opinion that the Council continues to operate within a strong control environment.**

#### **IMPLICATIONS OF THE REPORT**

27. This report has no implications for specific services. The matters raised in the report are cross cutting and impact upon the authority as a whole.

GARRY BARCLAY  
HEAD OF SHARED ASSURANCE SERVICES

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
Internal Audit Plan Risk Assessment	2016/17	Shared Assurance Services	Civic Centre Leyland

<b>Report Authors</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
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## APPENDIX 1 - SUMMARY OF INTERNAL AUDIT WORK 2016/17

AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
<b>CHORLEY COUNCIL</b>			
Annual Governance Statement	To co-ordinate a review of the system of governance and highlight any improvement actions to include in the Annual Governance Statement.	Not applicable	Proactive input was provided rather than an audit review. A gap analysis was produced showing areas of improvement which were summarised in Section 5 of the Annual Governance Statement 2017.
Anti-Fraud & Corruption	To provide generic fraud awareness training and issue information bulletins highlighting specific fraud risks.	Not applicable	Proactive input provided rather than an audit / review
National Fraud Initiative (NFI)	To co-ordinate the Council's input to the 2016/17 exercise.	Not applicable	The results from the exercise were released in January 2017 and are currently being reviewed.
Performance Information.	To undertake a review to ensure compliance with the Council's Data Quality Policy by Customer, ICT & Transactional	<b>Amber (6)</b>	No key control issues were identified
Project Management	This review focussed on the application of the Project Management Toolkit and the utilisation of the Council's project management software – MyProjects.	<b>Red (7)</b>	<p>All the projects included within this review are on track to be delivered and there is comprehensive guidance and extensive project documentation for Senior Responsible Officers and Project Managers use. We found however, that neither the Toolkit nor MyProjects are being consistently used across the authority.</p> <p>As there is limited resource to monitor project management centrally, Senior Responsible Officers and Project Managers must ensure that projects are managed in accordance with the Toolkit and that MyProjects is fully utilised. A range of management actions were agreed to achieve this.</p>
Events Management (Internal)	The audit was replaced with the Review of Land and Property Records (see below)		

Information Governance	This review assessed the arrangements and controls being put in place by management to develop the Council's information governance framework to deliver an effective security culture and ensure ongoing compliance with its information security obligations.	<b>Red (9)</b>	Although it is recognised that there are a number of positive solutions and processes in place and a commitment to address a number of the key issues identified during the audit, we were only able to provide a Red, (9) rating principally due to the current stage of development of the Council's overarching information governance arrangements.
Land Charges	The aim of this review was to seek assurance that the key systems for the control and operation of the Land Charges Register, the administration and processing of land search applications and the receipt and control of payments are adequate and operating effectively.	<b>Amber (5)</b>	Although, there are generally good processes in place for land charges, some areas were identified where improvements could be made to strengthen the current arrangements including: The introduction of random management checks to confirm the accuracy of the register; Implementing a system to remove obligations once the liability ceases; Reviewing the current fees and charges.
Housing Benefit, Council Tax and Non-Domestic Rates (NDR) & Sundry Debtors	To verify that controls in place in respect of the Housing Benefit, Council Tax and NDR systems are adequate and operating effectively.	<b>Amber (6)</b>	No key control issues were identified.
Review of Stores	The purpose of the review was to determine that sound arrangements are in place for the management and control of stores.	<b>Amber (4)</b>	Although the value of stores is relatively low, the stores should operate in accordance with the Council's Financial Procedure Rules. A manual system was in place at the time of our last review, however this system is no longer operational and our work confirmed that all stock could not be accounted for due to the lack of records controlling levels of stock, receipts and issues.
Review of Fuel Consumption	The purpose of the review was to determine that sound arrangements are in place for the management and control of fuel consumption.	<b>Red (7)</b>	Our work established that since our last review a number of controls, which were in place and working as intended have lapsed. These include:  The Chest not being utilised for all fuel procurement; There is no individual driver ID to monitor specific users; Fuel usage is not being monitored or analysed per individual vehicle; Fuel card expenditure is not being reconciled to the total invoiced.
Building Control	This audit was been carried out to provide management with assurance or otherwise that the procedures in place for Building Control are adequate and operating effectively.	<b>Green (3)</b>	Our opinion is principally based on the work undertaken by the Building Control Team to ensure that all applications received for new buildings, alterations and demolitions are effectively recorded, vetted and processed in line with regulations including in respect of fees charged and collected and inspections undertaken. There are areas, however, where improvements can be made to enhance the processes already in place. In particular, the need to review the application and inspection fees charged, and a consideration of lone working arrangements for

			Building Control officers.
Review of Safeguarding	As safeguarding can potentially affect all officers and functions, our work concentrated on the Council's corporate arrangements. The Section 11 Audit Toolkit used by the Lancashire Safeguarding Children Board was used as the basis for our review.	<b>Amber (5)</b>	<p>Our work established that safeguarding policies are in place and that robust mechanisms for reporting and referrals have been established.</p> <p>However, improvements are needed to update the policies with the new designated safeguarding officers (DSOs), and there are training &amp; awareness needs in some service areas.</p>
Counter Terrorism "Prevent Duty"	<p>Section 26 of the Counter-Terrorism and Security Act 2015 (the Act) places a duty on the Council, in the exercise of its functions, to have due regard to the need to prevent people from being drawn into terrorism. The 'Prevent Duty' commenced for local authorities on 1 July 2015. This is a new area of responsibility for the Council which has not previously been audited.</p> <p>The audit was undertaken to provide assurance that the council's arrangements, procedures and processes in relation to delivering the Prevent Duty are robust, efficient and effective</p>	<b>Amber (5)</b>	<p>A significant proportion of staff have been trained and officers actively engage in multi-agency activity. However, as the Prevent Duty is a relatively new requirement, not all arrangements are in place yet and some processes need further development including:</p> <ul style="list-style-type: none"> <li>• Developing Prevent referral procedures for Designated Safeguarding Officers</li> <li>• Extending the use of web filtering to include mobile devices and public WIFI points.</li> <li>• Adopting a corporate standard clause for property (commercial/other) and hire leases/agreements prohibiting the use of Council property for any extremist purposes.</li> <li>• Ensuring that relevant frontline staff, of commissioned services, meet the Prevent Duty training requirements and know who to contact should an issue arise.</li> <li>• Agreeing a Prevent training strategy and programme (for Officers, Members, casual and voluntary staff) that is appropriate to roles and the delivery of a refresher training programme.</li> </ul>
Disabled Facilities Grants & Integrated Home Improvement Service	The purpose of the review was to assess the effectiveness of the arrangements established by the Council to deliver the various services and grants available.	<b>Green (3)</b>	No key control issues were identified.
Indoor Leisure Contract	As the Indoor Leisure Contract is a key partnership for the Council, the Key Partnership's Framework which sets out a range of controls and measures to ensure the success of partnership arrangements and the achievement of the Council's strategic objectives formed the basis of our review.	<b>Amber (5)</b>	Our review found that although the current framework is generally being complied with, there were areas for improvement including data quality, business continuity and reviewing and updating the joint risk register.



Section 106 / Community Infrastructure Levy	Following the identification of missed trigger points in 2015/16 an investigation to ascertain the status of the control records relating to S.106 and Community Infrastructure Levy (CIL) was undertaken by Internal Audit. This work identified numerous internal control weaknesses within the Council's S.106 arrangements and a number of management actions were agreed and implemented during 2015/16 to mitigate these weaknesses. This review is to be undertaken in accordance with the Internal Audit Plan 2016/17 to give assurance that the new processes now in place are effective.		The fieldwork for this review is in progress. An update will be provided to the Committee in our first progress report.
Review of Land and Property Records	<p>In conjunction with all the Lancashire local authorities Chorley Council is participating in the One Public Estate programme. Each authority must upload land and property assets data onto the ePIMS Lite system.</p> <p>The purpose of this review was to review the way in which property/land data is retained by the Council and to determine if it is accurate, complete and up to date and available for submission to ePIMS.</p>	Not applicable	Although the data was submitted to ePims, a range of improvements were agreed to strengthen the current arrangements. Internal Audit will continue to be involved with the development of any new processes which are currently explored.
Bank Hall Project	<p>This was an unplanned review undertaken at the request of the CEO. The Council has been asked to be the accountable body by the Heritage Lottery Fund (HLF) for the £2.2m grant awarded by them to the The Heritage Trust for the North West (HTNW) charity for the development at Bank Hall, Bretherton.</p> <p>The purpose of the review was to verify the expenditure incurred since the start of the project in 2009.</p>	Not applicable	All expenditure incurred to date could be verified and the Council is not exposed to any financial risk should the project fail to be delivered.

Post Audit Reviews	To ensure that agreed management actions have taken place to address the control issues identified in Internal Audit reports.	Not applicable	All relevant management actions implemented in a timely manner
<b>SHARED SERVICES</b>			
Main Accounting	To review the adequacy of the controls in a core financial system	<b>Amber (6)</b>	No key control issues were identified
Creditors	To review the adequacy of the controls in a core financial system	<b>Amber (6)</b>	No key control issues were identified
Payroll	To review the adequacy of the controls in a core financial system	<b>Amber (6)</b>	No key control issues were identified
Treasury Management	To review the adequacy of the controls in a core financial system	<b>Amber (6)</b>	No key control issues were identified
Cash & Bank	To review the adequacy of the controls in a core financial system	<b>Amber (6)</b>	No key control issues were identified
Post Audit Reviews	To ensure that agreed management actions have taken place to address the control issues identified in Internal Audit reports.	Not applicable	All relevant management actions implemented in a timely manner

## INTERNAL AUDIT PERFORMANCE INDICATORS 2016-17

	Indicator	Audit Plan	Target 2016/17	Actual	Comments
1	% of planned time used	SS	90%	90%	Target achieved
		CBC	90%	92%	Target exceeded
2	% audit plan completed	SS	100%	100%	Target achieved
		CBC	100%	89%	Audit of Health & Safety deferred to 2017/18. Audit of S106 / CIL in progress
3	% management actions agreed	SS	98%	100%	Target exceeded
		CBC	98%	100%	Target exceeded
4	% overall customer satisfaction rating (assignment level)	SS	90%	100%	Target exceeded
		CBC	90%	97%	Target exceeded

SS = Shared Services

CBC = Chorley