Chorley Council

Report of	Meeting	Date
Assistant Chief Executive (Business Transformation)	Audit Committee	26/06/08

INTERNAL AUDIT ANNUAL REPORT 2007/8

PURPOSES OF REPORT

1. To summarise the **work undertaken** by the Internal Audit Service during the 2007/8 financial year;

2. To give an **opinion on the adequacy and effectiveness of the control environment** in the Council as a whole and in individual service areas;

3. To give an appraisal of the Internal Audit Service's **performance,** including an evaluation of the effectiveness of the Council's **"system of internal audit".**

RECOMMENDATIONS

4. That the Internal Audit Annual Report for 2007/8 be noted.

EXECUTIVE SUMMARY OF REPORT

5. The report demonstrates the successful delivery of the 2007/8 internal audit programme of work, the results of which provide members with assurance that the Council's governance and control environment continues to be effective.

CORPORATE PRIORITIES

6. This report relates to the following Strategic Objectives:

Put Chorley at the heart of regional economic development in the central Lancashire sub region		Develop local solutions to climate change		
Improving equality of opportunity and life chance		Develop the character and feel of Chorley as a good place to live		
Involving People in their Communities		Ensure Chorley is a performing Organisation	✓	

7.   The Accounts and Audit Regulations 2003 require every local authority to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices". Such practices are laid down as standards in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

8.   The CIPFA Code of Practice defines Internal Audit as "an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources".

9.   The Internal Audit Service therefore seeks to provide assurance that the Council is a **performing organisation**.

BACKGROUND - ANNUAL GOVERNANCE STATEMENT

10.   The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) have recently published guidance entitled "Good Governance in Local Government: A Framework", under which Councils are now required to:

  • develop and maintain an up-to-date local **Code of Corporate Governance** consistent with certain "core principles" set out in the Framework;

  • **review their existing governance arrangements** against the Framework;

  • prepare an **Annual Governance Statement (AGS)** in order to report publicly on the extent to which the Council complies with its own code including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

11.   Publication of the AGS replaces the previous requirement to publish a Statement on Internal Control (SIC).

12.   The Code of Corporate Governance was formally adopted by Council in April and a compliant AGS for 2007/8 is included on this meeting's agenda for members' consideration. **The AGS has been drafted following a self-assessment of the Council's system of governance, which also takes account of any important control issues raised by the Audit Commission and Internal Audit.**

INTERNAL AUDIT OPINION

13.   A schedule of Internal Audit work undertaken during 2007/8 is shown at Appendix 1, which gives individual opinions on the adequacy of control for each of the areas audited during the year. The majority of these reviews have already been reported to the Audit Committee by way of interim / progress reports during the course of 2007/8.

14.   In arriving at an annual judgement on the overall level of control a view has been taken on the relative importance of each area audited and the nature and significance of the weaknesses identified. Taking this into account, **in our overall opinion the Council continues to operate within a sound control environment.**

INTERNAL AUDIT PERFORMANCE

15.   Appendix 2 sets out the **key performance data** for the Internal Audit Service during 2007/8. This gives a breakdown of the key **inputs** and **outputs** for the Service including:

- An analysis of chargeable and non-chargeable **time**;

- An analysis of the percentage of the annual **Audit Plan** completed;

- An analysis of the average **customer satisfaction** score per audit assignment.

16.   2007/8 was again a challenging year due to the maternity leave of a team member. The shortfall in resources was met by extending our partnering arrangement with Lancashire County Council's Internal Audit Service.

17.   During 2007/8 the authority received **620 days** of Internal Audit coverage. The Internal Audit Service produced **17 reports** containing **75 agreed recommendations** relating to controls assurance, improvements in procedure and advice on best practice.

REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

18.   The Accounts & Audit (Amendment) (England) Regulations 2006 state at paragraph 6(3) that (the Council) "shall at least once a year conduct a review of the effectiveness of its system of internal audit". The regulations go on to say that the findings of this review be considered by a committee of the Council as part of the wider consideration of its system of internal control / governance.

19.   The Audit Commission conduct a detailed review of Internal Audit on a triennial basis and the latest CIPFA Code of Internal Audit Practice also contains a self-assessment toolkit / checklist for the same purpose. The Audit Committee has previously agreed that it will rely on the Audit Commission's triennial review plus internal self-assessments in the intervening years.

20.   On this basis we undertook a self-assessment of the system of internal audit for 2006/7 and identified no substantive compliance issues with regard to the CIPFA Code of Practice, with the exception of the need for us to produce a formal Internal Audit Strategy. This was developed and reported to the Audit Committee in September 2007.

21.   We have since updated the self-assessment for 2007/8 and have no non-compliance issues to report to members this year.

IMPLICATIONS OF REPORT

22.   The matters raised in the report are cross cutting and impact upon the authority as a whole rather than specific directorates.
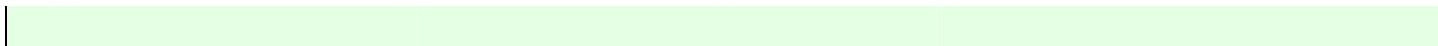

GARY HALL
ASSISTANT CHIEF EXECUTIVE
BUSINESS TRANSFORMATION

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Accounts & Audit Regulations	2003		
CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom	2006	FINANCE	UNION ST. OFFICES
CIPFA and SOLACE - Good Governance in Local Government: A Framework	2006		

Report Author	**Ext**	**Date**	**Doc ID**
Garry Barclay	5468	13/06/08	Annual Report 07-08.doc

SUMMARY OF INTERNAL AUDIT ACTIVITY 2007/8

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
1. Corporate Governance			
Corporate Policies & Procedures	Undertook a full review and update of the Financial Regulations and Financial Procedure Rules in the Council Constitution.	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable to this item. Proactive input provided rather than an audit / review
	Developed a user-friendly guide to the main Council policies & procedures which officers need to be aware of and comply with	Ditto above	Ditto above
Annual Governance Statement	Co-ordinated a corporate review of the system of governance and drafted the Annual Governance Statement (AGS)	Ditto above	Ditto Above
Use of Resources	Assisted with the corporate self-assessments and compiled the respective reports / submissions to the Audit Commission	Ditto above	Ditto Above
Best Value Performance Indicators (BVPI's)	Supported the ongoing data quality control process, including sample checks of "high risk" indicators	Ditto above	Ditto above

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
2. Risk Management			
Strategic Risk Register	Facilitated the revision of the Register to take account of changes in the Corporate Strategy and actions taken during 2007/8	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable to this item. Proactive input provided rather than an audit / review.
Health & Safety	Developed & monitored a new service level agreement with Bolton Council for the supply of the Council's Health & Safety service	Ditto above	Ditto above
Insurance	Managed the corporate insurance function & arranged the renewal of the Council's insurances	Ditto above	Ditto Above
3. Anti-Fraud & Corruption			
Anti-Fraud & Corruption Strategy	Reviewed the Council's Anti Fraud and Corruption Strategy.	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable to this item. Proactive input provided rather than an audit / review.
National Fraud Initiative (NFI)	Co-ordinated the Council's input to the national exercise	Ditto above	Ditto Above
Fraud Risk Register	Completed a risk assessment exercise and compiled an Anti-Fraud & Corruption Risk Register	Limited	Several risks were identified at the corporate and individual directorate levels. An action plan has now been developed to address the weaknesses identified

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
4. Key Business Systems			
Codes of Conduct / Registers of Disclosures	Reviewed the effectiveness of the Employee and Member Codes of Conduct and the associated monitoring activity to ensure compliance	Member Code - Sound Employee Code - Limited	Due to corporate ownership issues the Employees' Code had become in need of update, supported by officer awareness and compliance monitoring programmes
5. Financial Systems			
Key Systems 07/08	Undertook an annual review of the key controls in all the main financial systems	Sound	None
Charging Policies	Undertook a review to identify options for amending discretionary charges in support of the 2008/9 budget setting process	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable to this item. Proactive input provided rather than an audit / review.
Control of Cash	Reviewed the adequacy of procedures in place to control cheques, corporate credit cards, cash floats and petty cash imprests	Limited	Recommendations were made to improve cash collection arrangements and to refresh staff awareness of corporate cash handling controls

AUDIT AREA	AUDIT INPUT	CONTROLS RATING	KEY CONTROL ISSUES
6. Key Operations			
Members Allowances	Undertook a review to verify that members' allowances are paid correctly in accordance with national regulations and are processed efficiently	Sound	None
Licensing	Undertook a review of the systems for the processing of licence applications, receipt of payments and monitoring of licence arrangements	Sound	None
Land Charges	Reviewed the systems for the control and operation of the Land Charges Register, the processing of search applications and the control of payments	Limited	The contract for the supply and maintenance of the Land Charges computer system had lapsed creating a potential risk in the event of a system failure.
Planning System	Reviewed the procedures for processing planning applications, including the development control and building control functions	Sound	None
Improvement Grants	Reviewed the effectiveness of the arrangements established to deliver grants and services through the "Anchor Staying Put" partnership	Sound	None

7.	Contingency			
Post Audit Reviews	Monitored the implementation of recommendations made in earlier Internal Audit Reports	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable to this item. Proactive input provided rather than an audit / review.
Unplanned Review - Neighbourhoods Directorate / Asset Management	Undertook a review of asset management arrangements in support of the Directorate value for money review	Not applicable to this item. Proactive input provided rather than an audit / review.	Not applicable to this item. Proactive input provided rather than an audit / review.

KEY TO CONTROL RATINGS

Inadequate	Cannot place sufficient reliance on the controls in place. Substantive control weaknesses exist.
Limited	Can only place limited reliance on the controls in place. Significant control or compliance issues need to be resolved.
Sound	Can place sufficient reliance on the controls in place. Only minor control weaknesses exist.

NOTE

The above control ratings relate only to the point in time when the final audit report was issued. They represent a historic rather than a current judgement as managers are charged with implementing corrective action plans to address the control issues raised. This is in turn supported by a programme of follow-up reviews by the Internal Audit Service.

PERFORMANCE DATA 2007-8

INPUT ANALYSIS USE OF AUDITORS TIME (DAYS)	PLAN 2007/8		ACTUAL 2007/8	
	Days	%	Days	%
NON-CHARGEABLE TIME (In-house)				
Unavailable Days (Leave / Training)	227	24	225	24
Non-Chargeable Management	70	7	67	7
Administration	20	2	18	2
SUB-TOTAL	317	33	309	33
CHARGEABLE TIME (In-house & bought-in)				
Corporate Governance	100	11	143	16
Risk Management	85	9	77	8
Anti-Fraud& Corruption	90	10	77	8
Key Business Systems	40	5	25	3
Financial Systems	125	13	121	13
Key Operations	85	9	90	10
Contingency (Investigations & Advice)	95	10	83	9
SUB-TOTAL	620	67	616	67
TOTAL DAYS IN YEAR	937	100	925	100
Number of Auditors (in-house / FTE)	3.2		3.2	
Chargeable Days Provided In-house	520		517	
Bought In Audit Days	100		99	
Chargeable time as a % of total time available	66		66	

OUTPUT ANALYSIS	TARGET 2007/8	ACTUAL 2007/8
% Audit Plan Achieved	89%	100%
Average Customer Satisfaction Score Per Audit (Max 5)	4.4	4.0
Unqualified reliance on IA work by the Audit Commission	Yes	Yes