

Report of	Meeting	Date
Assistant Chief Executive (Business Transformation)	Audit Committee	25/9/08

## INTERIM REPORT ON INTERNAL AUDIT ACTIVITIES AS AT 12th SEPTEMBER 2008

### PURPOSE OF THE REPORT

- 1 To advise members of the work undertaken in respect of the Annual Internal Audit Plan during the initial five months of 2008/9 and to comment on the results.
- 2 To provide details of further reviews, investigations and other Internal Audit activities during the period.

### RECOMMENDATIONS

- 3 That the Interim Report be noted.

### CORPORATE PRIORITIES

- 4 This report relates to the following Strategic Objectives:

Put Chorley at the heart of regional economic development in the central Lancashire sub region		Improved access to public services	
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	✓

### BACKGROUND

- 5 This is the first Interim Progress Report for the current financial year and covers the period between 1<sup>st</sup> April 2008 and 12<sup>th</sup> September 2008.
- 6 Appendix 1 to this report shows the overall progress made in relation to the 2008/9 Internal Audit Plan. The Audit Plan is firmly on course to be delivered and the remaining paragraphs summarise the main elements of the work undertaken do date.
- 7 The core purpose of Internal Audit continues to be one of independently reviewing the effectiveness of the Council's internal control system and core business processes. However a key feature of our role this year is a continuing shift towards providing more proactive advice and assistance in developing the Council's corporate governance framework.

## **CORPORATE GOVERNANCE**

### **Annual Governance Statement**

- 8 We facilitated the internal review of the Council's system of governance leading to the publication of the Annual Governance Statement within the 2007/8 Financial Statements.

### **Use of Resources**

- 9 We have project managed the actions relating to internal control arising from the Audit Commission's last assessment and have contributed to the reassessment process for 2008.

### **Data Quality**

- 10 We have assisted the Director of Policy and Performance to improve the Council's performance data quality control process as well as conducting year-end checks on specific Best Value Performance Indicators (BVPI's).
- 11 We are continuing to work closely with Policy and Performance to assist in embedding revised arrangements for the replacement of the BVPI's with a new National Indicator Set (NIS). We are also engaged in making preparations to ensure that adequate arrangements are in place for the timely selection and checking of revised data sets.

## **ANTI-FRAUD & CORRUPTION**

### **National Fraud Initiative (NFI)**

- 12 This exercise is organised by the Audit Commission every 2 years or so and is about comparing the information contained within the Council's computer systems with that contained within other organisations' systems. The main aim being to identify potentially fraudulent activity for further investigation.
- 13 The Internal Audit Service co-ordinate matters on behalf of the Authority and we are currently working with Directorates to collate and submit the following data to the Audit Commission:
- Benefits
  - Payroll (members & officers)
  - Creditors
  - Insurance claims
  - Concessionary travel cards
  - Market traders
  - Taxi driver license holders
  - Personal license holders
  - Residents parking permits
- 14 The Commission will later supply the Council with all the results, which are a series of reports showing data matches. (A good example of a data match is where someone appears on a council payroll system and is also a benefit claimant).
- 15 Data matches do not necessarily indicate fraud. Indeed previous experience has shown that only 1% - 2% of data matches result in proven fraud cases. The objective of data match reports however is to highlight potential fraud situations that warrant further enquiry and investigation.

- 16 We will advise the Committee of the outcome of the current exercise later in this financial year.

### **Fraud Risk Register**

- 17 We have been working with Directors to undertake a corporate risk assessment exercise to develop an Anti-Fraud and Corruption Risk Register to identify any specific areas of weakness that may currently exist within the Council's operational activities. This includes a fraud management plan designed to target the areas of exposure identified across the Council. This is reported as a separate item on the agenda.

## **REVIEW OF KEY BUSINESS SYSTEMS**

### **Framework for Partnership Working**

- 18 The purpose of the audit was to conduct a detailed follow up review of the recommendations agreed following the audit in 2006/7 in order to monitor the extent to which the Framework has been embedded within the Council.
- 19 Our work focused on obtaining documentary evidence to validate the actions taken, an assessment of the applicability of the Framework to the Local Strategic Partnership (LSP) and the identification of any new developments in partnership working for potential inclusion in a revised Framework.
- 20 We found that all the agreed actions have now been implemented and appropriate systems and procedures have been established for the control and oversight of corporate partnership activity. However we noted that at individual partnership level work is still in progress to fully embed the assessment of partners' governance arrangements and establish mature joint risk registers and risk management processes.

## **REVIEW OF FINANCIAL SYSTEMS**

### **Key Financial Systems**

- 21 We undertook a high level review of all the Council's key financial systems in accordance with the new International Standards for Auditing (ISA). This work commenced at the end of 2007/8 and involved identifying / testing the key controls. No significant control weaknesses were identified from the review work carried out. Any minor control issues identified have now been addressed.

### **Stores & Stock Control**

- 22 Chorley Community Housing recently announced the closure of the Bengal Street stores facility prompting the Neighbourhoods Directorate to initiate alternative arrangements. We have been working to support and advise Neighbourhoods with the establishment of alternative arrangements, a new stock control procedure and to provide training to relevant staff in their operation.
- 23 Following implementation and an initial period of operation we carried out a review to establish whether the new stores arrangements were operating effectively. We found that the new systems and procedures are working well and that all recommendations have now been successfully implemented. We are providing further support to Neighbourhoods in order to enhance arrangements by converting the current manual control systems to an electronic format with the ability to generate management information.

## Budget Setting & Control

- 24 The purpose of this audit was to review the adequacy and effectiveness of the system for setting and controlling the annual revenue budget. The exercise focused on the 2008/9 budget setting process, arrangements for monitoring and the provision of information to management and members during the financial year.
- 25 We found that there is a clearly established process in place for the setting of the budget although this is not formally timetabled. Testing provided assurance that Corporate Directors and Managers are effectively engaged in budget setting and monitoring, have clear responsibility and accountability for their own budgets and sufficient access to the corporate financial system to enable them to view financial information as required.
- 26 We identified several areas where minor changes could be made to strengthen and improve the current budget setting arrangements and appropriate recommendations were made for these.

## REVIEW OF KEY OPERATIONS

### Parkwise

- 27 The Council participates in the Parkwise Partnership, which enforces all on and off street parking regulations within the County and undertakes the administration and processing of Penalty Charge Notices. The partnership agreement and underlying operational contracts will expire in September 2009 and an opportunity to review the present arrangements and explore alternative future service options has arisen.
- 28 We have been working closely with Neighbourhoods, Legal Services and the Accountancy Section in order to review the current contractual and operational arrangements. This has involved developing and exploring possible alternative service solutions that may be more beneficial for the Councils and continue to protect our interests.
- 29 A risk assessment and financial appraisal exercise of the various proposals and options identified has been completed and we are currently awaiting additional information from LCC regarding their proposals for the future operation of the service. Following this a report containing potential alternatives will be presented to Strategy Group for consideration.

## IMPLICATIONS OF REPORT

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

GARY HALL  
ASSISTANT CHIEF EXECUTIVE  
BUSINESS TRANSFORMATION

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
Accounts & Audit Regulations 2003	2003	TRANSFORMATION DIRECTORATE	Union Street Offices

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Garry Barclay Andy Armstrong	5468 5465	12/09/08	250908.doc

## INTERNAL AUDIT WORK PLAN 2008/9 - SUMMARY PROGRESS REPORT

Audit Area	Qtr	Est	Actual	Balance	Status
	Due	Days	Days	(+/-)	
<b>CORPORATE GOVERNANCE</b>					
Corporate Policies & Procedures	ALL	20	8	12	
Governance Assurance Statements	1&4	20	9	11	
External Inspection (CPA, Use of Resources)	ALL	20	8	12	
Data Quality	ALL	45	37	8	
Governance General	ALL	5	4	1	
		<b>110</b>	<b>66</b>	<b>44</b>	
<b>RISK MANAGEMENT</b>					
Risk Management Policies & Procedures	ALL	10	2	8	
Risk Registers	ALL	15	3	12	
Health & Safety	ALL	25	10	15	
Insurance	ALL	25	10	15	
Risk Management General	ALL	5	1	4	
		<b>80</b>	<b>26</b>	<b>54</b>	
<b>ANTI-FRAUD &amp; CORRUPTION</b>					
National Fraud Initiative (NFI)	ALL	30	28	2	
Fraud & Corruption Risk Register	ALL	20	4	16	
System Interrogations	ALL	25	1	24	
Fraud Bulletins	ALL	15	1	14	
Anti-Fraud & Corruption General	ALL	5	1	4	
		<b>95</b>	<b>35</b>	<b>60</b>	
<b>REVIEW OF KEY BUSINESS SYSTEMS</b>					
Procurement Strategy	3	20	0	20	
Framework for Partnership Working	1	20	18	2	
Civil Contingencies	2	20	3	17	
Information Governance	2&3	18	0	18	
Intranet & E-Mail Policy	3	15	0	15	
		<b>93</b>	<b>21</b>	<b>72</b>	
<b>REVIEW OF FINANCIAL SYSTEMS</b>					
Key Systems Review (ISA)	4	50	0	50	
Inventories	4	20	2	18	
Stores & Stock Control	1	20	24	-4	
Budget Setting & Control	1	15	14	1	
New E-Claims System	3	15	0	15	
		<b>120</b>	<b>40</b>	<b>80</b>	
<b>REVIEW OF KEY OPERATIONS</b>					
Election Fees	2	20	3	17	
S106 Agreements	3	15	0	15	
Car Parking	1	20	25	-5	
		<b>55</b>	<b>28</b>	<b>27</b>	
<b>CONTINGENCY</b>					
Irregularity Investigations	ALL	30	3	27	
Post Audit Reviews	ALL	25	6	19	
Unplanned Reviews	ALL	45	18	27	
Audit Committee Reporting	ALL	20	7	13	
		<b>120</b>	<b>34</b>	<b>86</b>	
<b>TOTAL CHARGEABLE DAYS</b>					
		<b>673</b>	<b>250</b>	<b>423</b>	