

Report of	Meeting	Date
Head of Shared Assurance	Governance Committee	30 th May 2018

INTERNAL AUDIT ANNUAL REPORT 2017-18

PURPOSE OF REPORT

1. To summarise the work undertaken by the Internal Audit Service during the 2017/18 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;
4. To summarise the results of an independent peer review of the Internal Audit Service undertaken by the Heads of Audit of 2 Lancashire authorities.

RECOMMENDATION

5. That the Internal Audit Annual Report for 2017/18 be noted.

EXECUTIVE SUMMARY OF REPORT

6. The Public Sector Internal Audit Standards require the Head of Shared Assurance to provide an opinion on the overall adequacy and effectiveness of the organisation's framework of control, risk management and governance.
7. **Control** – The Internal Audit Service provides an independent opinion on the adequacy of the internal control system. All recommendations for improvement are agreed with Senior Management and a summary is reported to the Governance Committee. Only one Internal Audit report with a limited controls assurance rating was issued during 2017/18.
8. **Risk Management** – the Council's arrangements were further strengthened during 2017/18 by the continued development of the GRACE risk management system. Extensive training was delivered to Officers and the revised Risk Management Framework was approved by the Governance Committee in March.
9. **Governance** – actions have been taken during 2017/18 to strengthen the Council's governance arrangements. The Annual Governance Statement Action Plan for 2018/19 includes details of actions to further strengthen Council's governance arrangements. The 2018 AGS has been produced following a rigorous assessment process, both internal and external.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

10. 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 homes and communities		An ambitious council that does more to meet the needs of residents and the local area	x

INTERNAL AUDIT PLANS

11. **Appendix 1** to this report provides a detailed account of the individual audits undertaken in respect of Chorley Council and Shared Services during the 2017/18 financial year. A summary of any actions that have been agreed with management to further improve controls within all the areas audited is also included within the appendix.

12. 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

	Planned (Days)	Actual (Days)	Variance (Days)
Audits undertaken	255	231	(24)
Audits not undertaken <ul style="list-style-type: none"> • Commercial Properties 	15	1	(14)
Contingency	90	111	21
TOTALS	360	343	(17)

13. With regard to audits not undertaken, the review of Commercial Properties has been carried forward to 2018-19 to allow time for the new officer structure to embed.

Shared Services

	Planned (Days)	Actual (Days)	Variance (Days)
Audits undertaken	75	76	(1)
Contingency	45	43	2
TOTALS	120	119	(1)

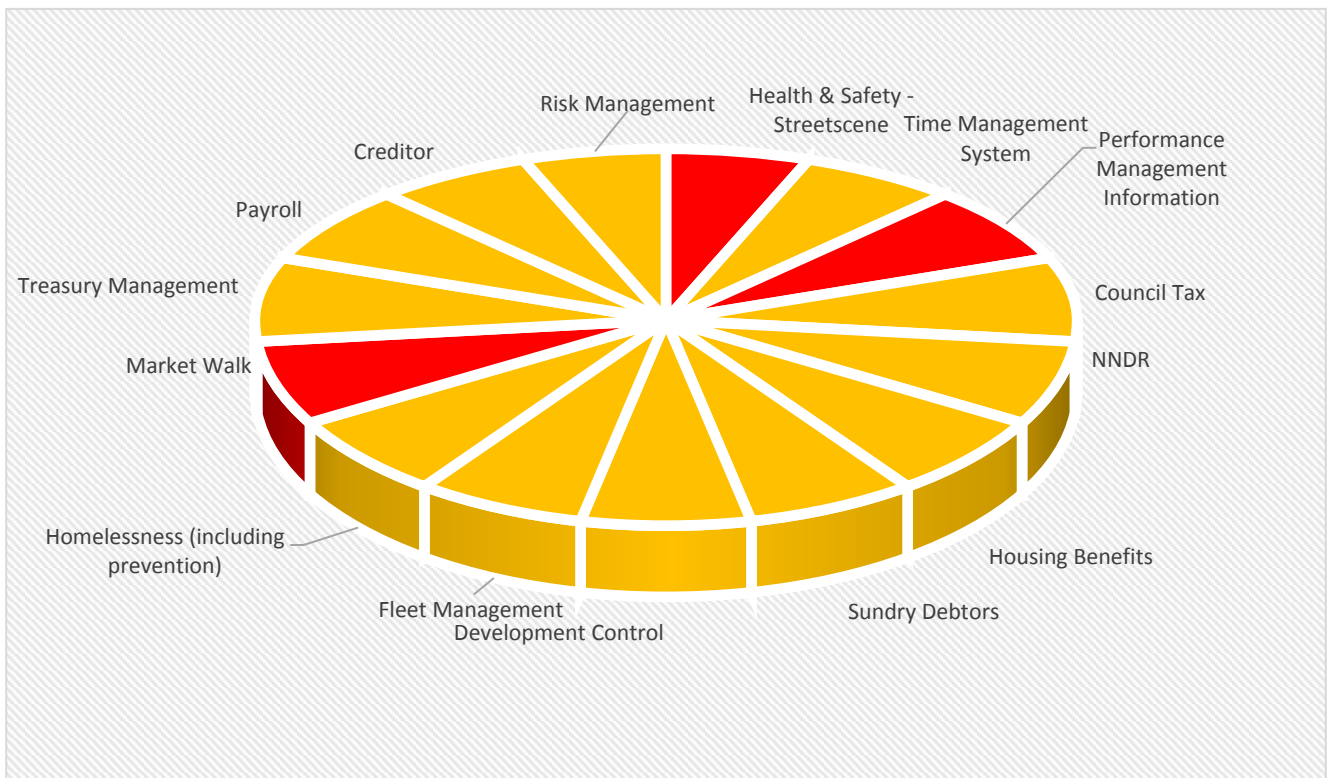
CONTROLS ASSURANCE

14. 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.

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

Risk Rating	Critical	4	8	12	16
	Major	3	6	9	12
	Standard	2	4	6	8
	Minor	1	2	3	4
		Full	Substantial	Adequate	Limited
Control Rating					

16. Risk ratings (minor / major / standard / 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.
17. Control ratings (full / 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.
18. During 2017/18 a total of 15 systems/areas were reviewed, 12 of which were critical and 3 were major systems. The chart below shows the controls assurance ratings that were awarded for the individual audits undertaken during the year:



19. The vast majority were awarded an amber assurance rating. Of the 12 critical systems reviewed during 2017/18, 4 received full assurance and 5 received substantial assurance. Of the red controls assurance ratings awarded only one audit, Health and Safety – Streetscene received a limited assurance rating. **Therefore when the individual ratings are aggregated it is our conclusion that the Council continues to operate within a strong control environment.**

20. 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.
21. In arriving at an opinion on the effectiveness of the system of control it is important to take account of all independent sources of assurance obtained by the Council. Directors have provided examples of a range of these which include: Arts Council accreditation for Astley Hall; Public Services Network approval; Electoral Commission performance standards for electoral registrations and delivery of elections and SFEDI Business Advisors in Economic Development (Small Firms Enterprise Development Initiative), Food Standards Agency audits of inspections and enforcement.

INTERNAL AUDIT PERFORMANCE

Key Performance Indicators

22. The table at **Appendix 2** summarises the key performance data for the Internal Audit Service during 2017/18 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

23. 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.

QUALITY ASSURANCE & IMPROVEMENT PROGRAMME (PEER REVIEW)

24. 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”
25. Members will recall that the Internal Audit Service has to provide confirmation to the Governance Committee on an annual basis that the requirements of the Public Sector Internal Audit Standards (PSIAS) are being complied with. This is usually achieved via the completion of an annual self-assessment but in addition the Council needs to arrange an independent external assessment at least once every 5 years. In Lancashire this is delivered via a programme of reciprocal peer reviews under the auspices of the Lancashire District Councils Audit Group.
26. The peer review of the Shared Internal Audit Service was recently undertaken by the Heads of Audit from Wyre & Lancaster Councils and we are pleased to report that the Service fully conforms with all the requirements of the PSIAS.

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

Background Papers

Document	Date	File	Place of Inspection
Internal Audit Plan 2017/18	April 17		K:\audit\SHARED AUDIT SERVICE\AUDIT\Audit Planning\2017 - 2018

Report Author	Ext	Date	Doc ID
Dawn Highton	5468	17 th May 2018	

APPENDIX 1 - SUMMARY OF INTERNAL AUDIT WORK 2017/18

AUDITS UNDERTAKEN	AUDIT APPROACH	CONTROLS RATING	KEY CONTROL ISSUES
CHORLEY COUNCIL			
Annual Governance Statement	<p>The Council is required under 10(1)(b) of the Accounts and Audit Regulations 2015, to publish an Annual Governance Statement (AGS).</p> <p>The role of Internal Audit was to co-ordinate a review of the system of governance and highlight any improvement actions to include in the Annual Governance Statement Action Plan.</p>	Not applicable	Proactive input provided rather than an audit / review
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)	<p>The NFI is a data matching exercise, using sophisticated computer techniques which matches data within and between organisations to help detect fraud, overpayments and error.</p> <p>Internal Audit co-ordinated the Council's input to the 2016/17 main exercise and the 17/18 Council Tax Single Person Discount / Electoral Register exercise.</p>	Not applicable	<p>Investigations undertaken by Customer Services of the 2016/17 exercise are still ongoing and to date have identified overpayments of housing benefit and council tax reduction scheme of £21,100 which is currently being recovered.</p> <p>Data for the Council Tax (Single Person Discount) and the Electoral Register was submitted in December 2017, with matches identified which are now being investigated.</p>
Health & Safety - Streetscene	Under the provision of the Health and Safety at Work Act 1974, the Council has a responsibility to provide a safe place of work for each employee, service user, visitor, contractor and	Red (16) Limited	Whilst this review identified a considerable number of management actions, it should be acknowledged that the Service and approach to managing health & safety is in a transitional period. Steetscene has recently been restructured with a number of new team leaders appointed to take the Service forward.

	<p>member of the public, by taking all reasonable steps as are necessary to eliminate hazards to health and safety and to eliminate the cause of foreseeable accidents.</p> <p>Due to the varied and high risk nature of the activities, it was agreed with the Senior Management Team that this review would focus purely on the operational and management arrangements for Health and Safety within the Streetscene Service</p>		<p>The Council recognized that the approach to the management of health and safety could be improved and in May 2017, Streetscene participated in a pilot scheme which is seeking to transform the approach to health and safety risk assessments in the Council. There are some aspects of health and safety management which are operating effectively and this includes the opportunity for staff and managers to discuss and communicate about health and safety concerns, and collaboratively develop safe ways of working. In addition, the compilation of a comprehensive training matrix including both mandatory and operational training needs demonstrates significant progress. The pilot scheme and our work, however confirmed that other aspects of health and safety management require improvement, as they are not operating as intended and in particular the quality of both risk assessments and supervisor monitoring is inconsistent and that whilst a significant amount of mandatory training has been undertaken, there is no formalised training plan to ensure the outstanding training is delivered.</p> <p>We have worked very closely with both the Health and Safety Advisor and the Waste and Streetscene Manager to compile an action plan with realistic, achievable dates by which the situation can be improved.</p>
<p>Time Management System</p>	<p>The Authority has recently introduced a new electronic time management system which is used to record officers attendance, time adjustments, additional hours worked and annual leave. Therefore it is essential that the data is correctly entered and authorised by line managers.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	<p>Amber (8) Substantial</p>	<p>The controls in place for the management and administration of the new Time Management System provide substantial assurance and only minor control weaknesses identified.</p>

Performance Management Information	Internal Audit assists the Performance and Partnerships Service in their oversight of performance data quality by undertaking service level checks on an annual basis. The Health and Wellbeing Team were selected for review in 17/18.	Red (12) Adequate	Our work has identified that the methodology for collating and calculating some of the performance indicators requires improvement and performance data needs to be re-calculated for 6 indicators
Council Tax	<p>Council Tax was introduced with effect from 1 April 1993 by the Local Government Finance Act 1992. The tax is payable by residents on all domestic dwellings, with certain exceptions for exempted classes, as a way of contributing to local services.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	Amber (4) Full	No key control issues were identified.
Non Domestic Rates,	<p>The Local Government Act 1988 introduced business rates in England which are a contribution made by businesses towards the cost of local services. The income collected is shared between the Government, Chorley Council and Lancashire County Council.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	Amber (8) Substantial	The controls in place for the management and administration of Non Domestic Rates provide substantial assurance with only minor control weaknesses identified.
Housing Benefit,	Housing Benefit is a means tested social	Amber (4)	No key control issues were identified.

	<p>security benefit in the United Kingdom that is intended to help meet housing costs for rented accommodation. The primary legislation governing Housing Benefit is the Social Security Contributions and Benefits Act 1992. Customer Service objective is to administer Housing Benefit applications and assessments in compliance with the statutory guidance.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	<p>Full</p>	
<p>Sundry Debtors</p>	<p>Day to day responsibility for administering the Council's Sundry Debtor system is performed by the Customer and Digital Service. The Service supports the timely and accurate invoicing and recovery of income due to the Council arising from work done, goods supplied or services rendered.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	<p>Amber (4) Full</p>	<p>No key control issues were identified.</p>

Development Control	<p>The objective of the Development Control service is to carry out planning decisions in accordance with statutory requirements and timescales. The Town and Country Planning (General Permitted Development) (England) Order 2015 is the primary legislation governing permitted developments in England. In accordance with statutory planning legislation, the Council has introduced its own local planning policies which are formally set out in the Chorley Local Plan.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	Amber (9) Adequate	<p>We recognise that there have been significant changes in both personnel and management systems during the current year and whilst we are able to provide assurance that most of the risks associated with Development Control are being effectively managed, the following control issues need to be resolved:</p> <ul style="list-style-type: none"> • The practice and procedure advice notes are out of date and have not been reviewed since 2009; • There are a large proportion of planning applications requiring extensions of time; • The Financial Procedure Rules have not been reviewed since 2012; • There are instances of non-compliance with the Lone Working Policy and protocol for site visits
Waste Contract Procurement	We are a member of the project team to provide advice and guidance on governance, control and risk. In addition we have provided support to enable the production of a robust risk register, which is being continuously reviewed and assessed.	Not applicable	Proactive input provided rather than an audit / review
Fleet Management	Chorley Borough Council operates a fleet of vehicles which is managed by the Waste and Streetscene Service to deliver timely and professional services on a daily basis. The review was undertaken to gain assurance that effective fleet management controls are in place. The review focussed on the fleet elements of vehicle management and maintenance and not plant items as this area gives the greatest exposure to regulatory risk and maintenance issues.	Amber (9) Adequate	<p>There is evidence that the fleet management function is being effectively managed at an operational day to day level. There are a range of improvements to be made in relation to:</p> <ul style="list-style-type: none"> • Updating of the Fleet Strategy to set out the aims and objectives of the service; • Driver licence checks to ensure completeness; • Document retention to ensure compliance with legislation; • Monitoring and recording of performance management information to assist with management decision-making, service planning, accountability and transparency.

<p>General Data Protection Regulations</p>	<p>The General Data Protection Regulation (GDPR) will apply within the UK from 25 May 2018. The main concepts and principles are much the same as those in the current Data Protection Act but there are new elements and significant enhancements that need to be made. The introduction of the GDPR also increases the financial risk to the Council due to the threat of significant fines.</p> <p>Members of the project team to provide advice and guidance on governance, control and risk.</p>	<p>Not applicable</p>	<p>Proactive input provided rather than an audit / review</p>
<p>Homelessness</p>	<p>The Council has a statutory duty under the Homelessness Act 2002 to carry out review of homelessness in the borough and to publish a strategy. Furthermore, the recently introduced "Homelessness Reduction Act 2017" places additional duties on the Council to help prevent the homelessness of all families and single people, regardless of priority need, who are eligible for assistance and threatened with homelessness.</p> <p>The objective of the audit is to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	<p>Amber (9) Adequate</p>	<p>Whilst our work has confirmed that there are good arrangements in place to mitigate the majority of risks facing the service and that they are operating as intended, there are some areas within the service which should be strengthened relating to:</p> <ul style="list-style-type: none"> • the development of health and safety risk assessments; • the review and update of the Homelessness Prevention Strategy and • ensuring that the Council can meet the requirements of the new Homelessness Reduction Act.
<p>Primrose Garden Retirement Village</p>	<p>We are a member of the project team to provide advice and guidance on governance, control and risk. In addition we have provided support to enable the</p>	<p>Not applicable</p>	<p>Proactive input provided rather than an audit / review</p>

	production of a robust risk register, which is being continuously reviewed and assessed.		
Market Walk	<p>The Market Walk shopping centre was purchased by the Council on 29 November 2013. The purchase enables the Council to have greater control and influence over the future development of the town centre and improves opportunities to implement Economic Development Strategies and the Town Centre Masterplan. In addition the purchase provides additional income which can be used to further invest in the town centre. The centre has 35 units with a net income of £1.7m (2016/17).</p> <p>The objective of the audit is to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	Red (12) Adequate	<p>Whilst we are able to provide assurance that the majority of the risks associated with Market Walk are being effectively managed, there are some key controls which have lapsed since our last review in 2015/16 which are summarised below:</p> <ul style="list-style-type: none"> • Rent reviews are not being completed in a timely manner or clearly recorded on the rent schedule; • The procurement of the letting agents has not complied with CPRs; • There is no planned maintenance and inspections programme in place; • Performance figures are not being regularly reported to the Market Walk Steering Group.
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
SHARED SERVICES			
Creditors	<p>The Council's Creditors (accounts payable) function is maintained by Shared Financial Services. The Section is responsible for the processing of purchase orders, invoices and for payment of creditors of the Council using Authority Web.</p> <p>The objective of the audit was to provide</p>	Amber (4) Full	No key control issues were identified

	assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.		
Payroll	<p>Staff costs form a significant proportion of the Council's expenditure. Control of staff costs is a key component to the financial success of the Council. Therefore having a robust and reliable payroll service to make payments to staff promptly and accurately, and to provide information to management on the payments made is essential.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed.</p>	Amber (8) Substantial	The controls in place for the management and administration of Payroll provide substantial assurance with only minor control weaknesses identified.
Treasury Management	<p>The treasury management service fulfils an important role in the overall financial management of the Council's affairs. It deals with 'the management of the authority's investments and cashflows, its banking, money market and capital market transactions; the control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks' (CIPFA).</p> <p>The average daily investment figure for 2017/18 stands at £4m and borrowings stand at £43m</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls</p>	Amber (8) Substantial	The controls in place for the management and administration of Treasury Management provide substantial assurance with only minor control weaknesses identified.

	<p>implemented by management to ensure that the identified risks are being sufficiently managed.</p>		
<p>Risk Management</p>	<p>The Risk Management Framework is a key contributor to the internal assurance processes and the production of the Annual Governance Statement which reports the extent to which the Council has complied with its Governance Code. The GRACE (Governance, Risk Assessment & Control Evaluation) system has been adopted for use within the Council to enable the completion of risk registers at all levels including the Strategic Risk Register and those in relation key projects, procurements, partnerships and processes.</p> <p>The objective of the audit was to provide assurance or otherwise on the adequacy and effectiveness of the key controls implemented by management to ensure that the identified risks are being sufficiently managed</p>	<p>Amber (8) Substantial</p>	<p>The controls in place for the management and administration of Risk Management provide substantial assurance with only minor control weaknesses identified.</p>

INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 30th March 2018

	Indicator	Audit Plan	Target 2017/18	Actual to Date	Comments
1	% of planned time used	SS	90%	99%	Target exceeded
		CBC	90%	95%	Target exceeded
2	% audit plan completed	SS	100%	100%	Target achieved
		CBC	100%	92%	One review at draft report stage
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%	94%	Target exceeded