

05 March 2014

Governance Committee

You are invited to attend a meeting of the Governance Committee to be held in Committee Room 1, Town Hall, Chorley on Thursday, 13th March 2014 commencing at 2.30 pm.

AGENDA

1. **Apologies for absence**

2. **Minutes (Pages 3 - 6)**

To confirm the minutes of the Governance Committee meeting held on 16 January 2014 (enclosed)

3. **Declarations of Any Interests**

Members are reminded of their responsibility to declare any pecuniary interest in respect of matters contained in this agenda.

If you have a pecuniary interest you must withdraw from the meeting. Normally you should leave the room before the business starts to be discussed. You do, however, have the same right to speak as a member of the public and may remain in the room to enable you to exercise that right and then leave immediately. In either case you must not seek to improperly influence a decision on the matter.

4. **Governance Committee Update (Pages 7 - 26)**

Report of the External Auditor (enclosed)

5. **New Public Sector Internal Audit Standards (Pages 27 - 34)**

Report of the Shared Assurance Services (enclosed)

6. **Internal Audit Plan 2014-15 (Pages 35 - 40)**

Report of the Head of Shared Assurance Services (enclosed)

7. **Strategic Risk Update Report (Pages 41 - 48)**

Report of the Chief Executive (enclosed)

8. **Standards Cases Review**

The Monitoring Officer will present a verbal report of any standards cases.

9. **RIPA Application Update**

The Monitoring Officer will present a verbal report at the meeting.

10. **Any other item(s) that the Chair decides is/are urgent**

Yours sincerely



Gary Hall
Chief Executive

Dianne Scambler
Democratic and Member Services Officer
E-mail: dianneb.scambler@chorley.gov.uk
Tel: (01257) 515034
Fax: (01257) 515150

Distribution

1. Agenda and reports to all Members of the Governance Committee Paul Leadbetter (Chair), and Julia Berry, Graham Dunn, Anthony Gee, Marie Gray, June Molyneaux and Alan Platt for attendance.
2. Agenda and reports to Gary Hall (Chief Executive), Chris Moister (Head of Governance), Garry Barclay (Head of Shared Assurance Services), Dawn Highton (Principal Auditor), Dianne Scambler (Democratic and Member Services Officer) and Victoria Willett (Policy and Partnerships Officer) for attendance.
3. Agenda and reports to Peter Ripley (Independent Member) and Fiona Blatcher, External Auditor - Grant Thornton for attendance.

If you need this information in a different format, such as larger print or translation, please get in touch on 515151 or chorley.gov.uk

Governance Committee

Thursday, 16 January 2014

Present: Councillor Paul Leadbetter (Chair), and Councillors Anthony Gee, Marie Gray, June Molyneaux and Alan Platt

Also in attendance

Officer: Chris Moister (Head of Governance), Dawn Highton (Principal Auditor), Michael Jackson (Principal Financial Accountant) and Louise Wingfield (Democratic and Member Services Officer)

14.G.1 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Graham Dunn, Julia Berry and Alison Hansford, Gary Hall, and Peter Ripley (Independent Person).

14.G.2 MINUTES

RESOLVED - That subject to the following amendment the minutes of the Governance Committee meeting held on 12 September 2013 be confirmed as a correct record for signing by the Chair.

That the report on the Mobile Phone Review would not taken to the Member Support Working Group for information as indicated in the minutes, but be provided to Cllr Alison Hansford. Dawn Highton confirmed that this was completed.

14.G.3 DECLARATIONS OF ANY INTERESTS

No declarations of any interest were received.

14.G.4 RIPA APPLICATION UPDATE

The Head of Governance provided an update on RIPA. There were no RIPA applications to report, however it was suggested that this would remain as a standing item on this agenda.

RESOLVED: That RIPA would remain as a standing item on this committee agenda.

14.G.5 AUDIT COMMISSION REPORT: PROTECTING THE PUBLIC PURSE 2013

The Head of Governance submitted a report informing Members of a recent report from the Audit Commission addressing issues of fraud against local authorities and making recommendations as to improvements that Councils can make and to confirm to Members the actions Chorley Council take to address fraud.

In November the Audit Commission issued a report Protecting the Public Purse 2013: Fighting fraud against local government. The report seeks to address the issue of fraud against local government and highlights areas of best practice.

Chorley Council is proactive in detecting fraud, and has robust procedures in place; taking part in the National Fraud Initiative since its inception.

It was recommended in order to safeguard the Council that the Chair and Vice chair should look at the procedures and report back to the Governance Committee at its next meeting in March.

RESOLVED:

- 1. That the report be noted**
- 2. That the Chair and Vice chair would meet with the Head of Governance to review the policies and processes and report back to the next Committee.**

14.G.6 ANNUAL GOVERNANCE REPORT 2013 - PROGRESS REPORT

The Head of Governance presented a report updating the Committee on the progress made in implementing the Council's Annual Governance Statement which provides for improvements to the Council's Governance arrangements. The Committee approved the Council's Annual Governance Statement in June 2013, and this report provides a position statement for each project.

There is currently one project that is orange and two that are red, full reasons for this are reported within the report in the agenda.

RESOLVED: That the report be noted.

14.G.7 ANNUAL AUDIT LETTER 2012/13

The Committee received a report of our external auditor that provided a summary of the work carried out by them at Chorley Council for the year ended 31 March 2013.

The letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. The report includes the audit conclusions which were provided in relation to 2012/13.

The work on certification of grant claims is now completed and the detailed findings are reported in the Grant Certification report later on the agenda.

RESOLVED: That the report be noted.

14.G.8 CERTIFICATION REPORT 2012/13

A report of the Council's External Auditors, Grant Thornton was received by the Committee. As part of the work they undertake they are required to certify certain of the claims and returns submitted by Chorley Council.

The report summarises the overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

There were two issues identified but not that affected the Council's ability to claim. The level of supporting working papers was good, and the auditor thanked Council Officers for their assistance and co-operation.

RESOLVED: That the report be noted.

14.G.9 GOVERNANCE COMMITTEE UPDATE 2013/14

The Committee received a report of Grant Thornton that provided progress made in delivering their responsibilities as our external auditors.

The report included a number of challenge questions in respect of any emerging issues which the Committee may wish to consider. The Committee asked if it was possible to have a summary of these questions answered in advance.

RESOLVED – That the report be noted.

14.G.10 INTERNAL AUDIT INTERIM REPORT AS AT 29 NOVEMBER 2013

The Head of Shared Assurance Services submitted a report advising Members of the work that had been undertaken in respect of the Internal Audit Plans for Chorley Council and Shared Financial Services for the period August 2013 to November 2013.

The report indicates that at this stage the Audit Plans are on target to be achieved and all performance indicators are on or exceeding target. Five pieces of work have been completed and management actions have been agreed with Heads of Service.

RESOLVED: That the report be noted.

Chair

This page is intentionally left blank

Governance Committee Update for Chorley Borough Council

Year ended 2013/14

4th March 2014

Fiona Blatcher
Engagement Lead
T 0161 234 6393
E fiona.c.blatcher@uk.gt.com

Gareth Winstanley
Manager
T 0161 234 6343
E gareth.j.winstanley@uk.gt.com

Richard Watkinson
In charge auditor
T 0161 234 6345
E richard.watkinson@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

| Section | Page |
|--|-------------|
| Introduction | 4 |
| Progress at 4 th March 2014 | 5-6 |
| Emerging issues and developments | |
| Local government guidance | 7-9 |
| Grant Thornton | 10-12 |
| Accounting and audit issues | 13-19 |

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a district council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Fiona Blatcher Engagement Lead M 07880 456196 fiona.c.blatcher@uk.gt.com

Gareth Winstanley Audit Manager M 07880 456211 gareth.j.winstanley@uk.gt.com

Progress at 4th March 2014

| Work | Planned date | Complete? | Comments |
|---|-----------------------|-----------|--|
| <p>2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p> | April 2014 | No | We expect to issue our draft audit plan by the end of March and will present it to the next Governance Committee |
| <p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. | January – April 2014 | No | Work is currently on-going. We will report any significant findings to the next Governance Committee. |
| <p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. | July – September 2014 | No | We will report the findings of our final accounts audit within our Audit Findings Report which will be presented to the September Governance Committee |

Progress at 4th March 2014

| Work | Planned date | Complete? | Comments |
|---|-----------------------------|-----------|--|
| <p>Value for Money (VfM) conclusion</p> <p>We are required to give our VfM conclusion based on the two criteria:</p> <ul style="list-style-type: none"> •The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. •The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity | <p>Jan – September 2014</p> | <p>No</p> | <p>The outcome of our work will be included within our Audit Findings Report to be reported at the September Governance Committee.</p> |

Councils must continue to adapt to meet the needs of local people

Local government guidance

Audit Commission research - Tough Times 2013

The Audit Commission's latest research, <http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf> shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

Issues to consider/challenge questions:

How have members satisfied themselves that the Council can deliver a balanced budget, that the medium term strategy/budget has been subject to appropriate challenge and that the Council's finances are resilient over the medium term (3 years) and beyond?

Councils choosing their auditors one step closer

Local government guidance

Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

Key points

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Issues to consider/challenge questions:

- Have members considered the implications of the Local Audit and Accountability Act for the Council's future external audit arrangements?

Councils keep New Homes Bonus

Local government guidance

Help for housing building

In the Autumn statement (5 December 2013) the government announced plans to secure a £1 billion 6 year investment in house building, to simplify the local authority planning process and help to achieve the stated objective of delivering 250,000 new homes.

Key objectives:

- nationally to increase the housing supply in England through a £1 billion 6 year investment programme;
- at a local level helping councils to increase the supply of affordable social housing supply in their area by allowing them to bid for up to £300 million of additional borrowing against their housing revenue account;
- improving labour market mobility by introducing a Right to Move for those needing to move to take up a job or training ;
- Allowing councils outside London to keep all of their New Homes Bonus and have full control over how they use it to support new homes in their area – the New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use, is paid each year for 6 years and is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use

Issues to consider/challenge questions:

- Has your Head of Finance assessed the implications and potential financial impact for the Council of the help for housing building measures announced in the Autumn statement?

79% of Councils anticipate Tipping Point soon

Grant Thornton

2016 tipping point? Challenging the current

This report http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

Challenge questions

- Our report includes a good practice checklist designed to provide senior management and members with an overview of key tipping point risks. Has the Head of Finance completed the checklist and reported it to the Governance Committee?
- The report also includes good practice case studies in strategic financial planning, financial governance and financial control. Has the Head of Finance reviewed these case studies and considered whether there is scope to adopt these?

Alternative Delivery Models – are you making the most of them?

Grant Thornton

Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

Challenge question

- Our report includes a number of case studies summarising how public services are being delivered through alternative service models. Has the Authority reviewed these case studies and assessed whether there are similar opportunities available to it?
- Our report includes three short checklists on supporting innovation in service delivery, setting up a company and questions that members should ask officers when considering the development of a new delivery model. Are the checklists being considered as part of the development of the Authority's commissioning strategy?

Welfare reforms – what you think of it so far?

Grant Thornton

Reaping the benefits: first impressions of the impact of welfare reform.

The potential scope of this topic is broad, so our report, http://www.grant-thornton.co.uk/Global/Publication_pdf/Reaping-the-benefits-LG-Welfare-Reform.pdf focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Challenge questions

- Has the Head of Benefits kept members informed of progress with stakeholder engagement and changes to governance arrangements to implement specific reforms?
- What impact assessment is the Authority carrying out on council tax localisation, the benefit cap and housing benefit, the spare room subsidy and changes to the Social Fund?
- Does the Authority have a plan in place or in development for the introduction of universal credit?

Revaluing your assets – clarification of accounting guidance

Accounting and audit issues

Property, plant and equipment valuations

The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' This means that a local authority will need to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014. This is likely to be a complex analysis which might include consideration of:

- the condition of the authority's property portfolio at 31 March 2014
- the results of recent revaluations and what this might mean for the valuation of property that has not been recently valued
- general information on market prices and building costs
- the consideration of materiality in its widest sense - whether an issue would influence the view of a reader of the accounts.

The Code also follows the wording in IAS 16 more closely in the requirements for valuing classes of assets:

- items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates
- a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

There has been much debate on what is a short period and whether assets that have been defined as classes for valuation purposes should also be disclosed separately in the financial statements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. However, we would expect auditors to report to those charged with governance where, for a material asset class:

- all assets within the class are not all valued in the same year
- the class of asset is not disclosed separately in the property, plant and equipment note.

Challenge question

Has your Head of Finance consulted you on the programme of valuations and the proposals for disclosing information about classes of assets?

Estimating the impact of business rate appeals

Accounting and audit issues

Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
 - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
 - to recognise a provision where a reliable estimate can be made
 - to disclose a contingent liability where a reliable estimate cannot be made
 - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.

Challenge questions:

- Is your authority confident of obtaining the information it needs from the VOA?
- Has your authority recognised a provision where it is possible to make a reliable estimate? Has a robust methodology been used?
- Has your authority provided a robust rationale where it has decided it cannot make a reliable estimate? Is it planning to disclose a contingent liability?
- Is your authority planning to revisit its provision and contingent liability before the audit opinion is issued?

Reporting the costs of public health

Accounting and audit issues

Changes to SeRCOP – new public health line

SeRCOP for 2013/14 introduces a new cost of service line for 'Public health'. This has been introduced to reflect new responsibilities placed upon local authorities following restructuring in the NHS. We expect this new service line to be presented on the face of the CIES within cost of services. If there were material amounts relating to this service in 2013/14, we would expect comparative figures to be restated.

Challenge question

- Is your Head of Finance confident that she can provide accurate information and a robust audit trail for the public health line within cost of services?

Accounting for pensions

Accounting and audit issues

Accounting for and financing the local government pension scheme costs

Accounting issues

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively.

The main changes we expect to see are:

- a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES)
- more detailed disclosures.

We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

Financing issues

The amount to be charged to the general fund in a financial year is the amount that is payable for that financial year as set out in the actuary's rates and adjustments certificate. Some local authorities are considering paying pension fund contributions early in exchange for a discount but not charging the general fund until later.

Local authorities must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year. Where local authorities are considering making early payments, we would expect them to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. We would expect this to include consideration of:

- the actuary's opinion on the amounts that are payable by the local authority into the pension fund
- the agreement between the actuary and the local authority as to when these payments are to be made
- the wording in the rates and adjustments certificate setting out when amounts are payable for each financial year.

For example, if a local authority agrees to make a payment to the pension fund in a single year and proposes to charge this amount to the general fund over a three-year period, we would expect the rates and adjustments certificate to show, unambiguously, that the amount payable is spread over the three years.

Accounting for pensions

Accounting and audit issues

Challenge questions:

- Is your local authority confident of getting the information from its actuary to meet the changes in the requirements for accounting for the LGPS (including restating the comparatives)?
- If your authority is considering making an early payment to the pension fund, has it set out a reasonable argument for how it proposes to charge this amount to the general fund? Is this supported by legal advice?

Changes to the public services pension scheme

Accounting and audit issues

Changes to the Local Government Pension Scheme

The Public Service Pensions Bill received Royal Assent in April 2013, becoming the Public Service Pensions Act 2013 ('the Act'). The Act makes provision for new public service pension schemes to be established in England, Wales & Scotland. Consequent regulations have been laid to introduce changes to the LGPS in England and Wales from 1st April 2014. (The regulations for the changes in Scotland have not yet been laid and will only impact from 1 April 2015).

These introduce a number of changes including:

- a change from a final salary scheme to a career average scheme
- introduction of a 50/50 option whereby members can choose to reduce their contributions by 50% to receive 50% less benefit
- calculation of contributions based on actual salary which could lead to some staff with irregular patterns of working moving between contribution rate bandings on a regular basis
- changes in employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014 (further regulations are still awaited).

The above changes have implications for all employers involved in the LGPS introducing required changes to their payroll systems to ensure pension contributions are calculated correctly. This has consequent implications for administering authorities to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions going forwards since the calculations are more complex going forwards and less predictable. In addition changes are also required to pension administration/payment systems as well as much more detailed processes around maintaining individual pension accounts for all members to ensure the correct payment of future pensions.

The Act also requires changes to the governance arrangements although regulations for the LGPS have not yet been laid for these and the changes in governance arrangements are not expected to be implemented until 1 April 2015.

(continued overleaf)

Changes to the public services pension scheme

Accounting and audit issues

Changes to Local Government Pension Scheme continued

Challenge questions

- Is the authority aware of the detailed requirements and their impact on its current payroll system and processes?
- Is the authority taking appropriate action to ensure implementation of the required changes to its payroll system and processes by 1 April 2014?
- Has the authority liaised with the administering authority over any changes they may need in the assurances provided over the completeness and accuracy of contributions?



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk



| Report of | Meeting | Date |
|-----------------------------------|----------------------|-----------------------------|
| Head of Shared Assurance Services | Governance Committee | 13 th March 2014 |

NEW PUBLIC SECTOR INTERNAL AUDIT STANDARDS

PURPOSE OF REPORT

1. To appraise members of new requirements for Internal Audit as set out in recently published Public Sector Internal Audit Standards;
2. To present an analysis showing the Council’s existing compliance with the new Standards together with an action plan to address any areas of non-compliance;
3. To present a new Internal Audit Service Charter for approval by members.

RECOMMENDATION

4. That the Committee:
 - (a) notes the report, and
 - (b) approves the adoption of the new Internal Audit Service Charter.

EXECUTIVE SUMMARY OF REPORT

5. The report summarises the results of an internal review which seeks to ensure that the Council’s Internal Audit Service will continue to operate in accordance with the necessary industry standards and proper practices.

| | | |
|--|-----|----|
| Confidential report Please bold as appropriate | Yes | No |
|--|-----|----|

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 | X |

BACKGROUND

7. A professional, independent and objective internal audit function is one of the key elements of good governance in local government and the foundation of an effective internal audit service is compliance with standards and proper practices.
8. In 2013, a common set of Public Sector Internal Audit Standards (PSIAS) was adopted for the first time. The new PSIAS apply to all public sector internal audit providers, whether in-house, shared services or outsourced.
9. Following the adoption of the core PSIAS (which apply to all public sector organisations) has been the publication of a Local Government Application Note (LGAN) which specifies and clarifies how the core standards apply in practice to local authorities. The LGAN has been developed by the Chartered Institute of Public Finance & Accountancy (CIPFA) in collaboration with the Chartered Institute of Internal Auditors (IIA).
10. Taken together the PSIAS and the LGAN constitute proper practices to satisfy the internal audit requirements for larger relevant bodies as set out in the Accounts and Audit Regulations 2011. In so doing they also supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the 2006 Code).

REVIEW OF COMPLIANCE

11. We have studied both the PSIAS and LGAN in detail to identify the specific new requirements impacting on the provision of Internal Audit. The table at **Appendix 2** lists those requirements and shows the extent to which they are already complied with, or otherwise, by the Council's Internal Audit Service. For ease of reference we have inserted titles and other descriptions which apply locally rather than the generic terms used in the source Standards.
12. Members will note that the Internal Audit Service has already adopted some of the practices and requirements set out in the new Standards, however the following changes will be introduced to ensure full compliance:
 - Approval by the Governance Committee of an Internal Audit Service Charter;
 - The Chair of the Governance Committee to provide feedback on the performance of the Head of Shared Assurance Services as part of his annual performance appraisal;
 - Arrange an independent external assessment of the Internal Audit Service's compliance with the new PSIAS at least once every 5 years;
 - Future Annual Audit Reports will contain a statement to verify compliance with PSIAS;
 - Internal Audit reports will confirm that reviews are conducted in conformance with PSIAS.
13. Members will note that one of the key changes required is the adoption of an Internal Audit Service Charter. This has now been drafted based on a prescribed template and is attached to this report at **Appendix 1**.

- 14. The Chief Executive will obtain feedback from the Chair of the Governance Committee on the performance of the Head of Shared Assurance Services and incorporate this within his next performance appraisal.
- 15. The arrangements for and timing of the external assessment of compliance with PSIAS will be agreed in due course and will most likely consist of a peer review by another local Internal Audit provider.
- 16. Commencing in 2014/15 all Internal Audit reports will contain statements to verify compliance with the new PSIAS.

IMPLICATIONS OF REPORT

- 17. This report has implications for all service areas within the Council.

COMMENTS OF THE STATUTORY FINANCE OFFICER

- 18. No comment.

COMMENTS OF THE MONITORING OFFICER

- 19. No comment.

Garry Barclay
Head of Shared Assurance Services

BACKGROUND PAPERS

| Background Papers | | | |
|---|-------------|-------------|------------------------------------|
| Document | Date | File | Place of Inspection |
| Local Government Application Note Public Sector Internal Audit Standards | April 2013 | | Internal Audit Office Town Hall |

| Report Author | Ext | Date | Doc ID |
|-------------------------------|------------------------------|-------------|---------------|
| Garry Barclay Dawn Highton | 01772 625272 01257 515468 | March 2014 | |

Chorley Council – Internal Audit Service Charter

Introduction

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Chorley Council. It assists Chorley Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

Role

The Governance Committee has approved terms of reference which set out the role and functions of the Council's Internal Audit Service.

Professionalism

The Internal Audit Service will govern itself by adherence to the Institute of Internal Auditors' mandatory guidance including the Public Sector Internal Audit Standards (PSIAS), Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Internal Audit Service's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the Internal Audit Service will adhere to Chorley Council's relevant policies and procedures and the Internal Audit Service's standard operating procedures manual.

Authority

The Internal Audit Service, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the Internal Audit Service in fulfilling its roles and responsibilities. The Internal Audit Service will also have free and unrestricted access to the Governance Committee.

Organisation

The Head of Shared Assurance Services will report functionally to the Governance Committee and administratively to the Chief Executive. Any decisions regarding the appointment, remuneration, performance evaluation or removal of the Head of Shared Assurance Services will be made by the Executive Cabinet on the recommendation of the Shared Services Joint Committee. The Head of Shared Services will communicate and interact directly with the Senior Management Team, including in formal meetings and between meetings as appropriate.

Independence and Objectivity

The Internal Audit Service will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Head of Shared Assurance Services will confirm to the Governance Committee, at least annually, the organisational independence of the Internal Audit Service.

Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:

- Consistency of operations or programs with established objectives and goals and effective performance
- Effectiveness and efficiency of operations and employment of resources
- Compliance with significant policies, plans, procedures, laws, and regulations
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets

Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. It also assists the Governance Committee in evaluating the quality of performance of external auditors and maintaining a proper degree of coordination with Internal Audit.

Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Governance Committee or management, as appropriate.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Governance Committee Board and to Senior Management, including fraud risks and governance issues.

Internal Audit Plan

At least annually, the Head of Shared Assurance Services will submit to the Governance Committee an Internal Audit Plan for review and approval, including risk assessment criteria. The Internal Audit Plan will include timing as well as resource requirements for the next financial year. The Head of Shared Assurance Services will communicate the impact of resource limitations and significant interim changes to Senior Management and the Governance Committee.

The Internal Audit Plan will be developed based on a prioritization of the audit universe using a risk based methodology, including input of Senior Management and the Governance Committee. Prior to submission to the Governance Committee for approval, the Plan may be discussed with appropriate Senior Management. Any significant deviation from the approved Internal Audit Plan will be communicated through the periodic activity reporting process.

Reporting and Monitoring

A written report will be prepared and issued by the Head of Shared Assurance Services or Principal Auditor following the conclusion of each Internal Audit engagement and will be distributed as appropriate. Internal Audit results will also be communicated to the Governance Committee. The Internal Audit report may include management’s response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management’s response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The Internal Audit Service will be responsible for appropriate follow-up of findings and recommendations. All significant findings will remain in an open issues file until cleared.

Periodic Assessment

The Head of Shared Assurance Services is responsible also for providing periodically a self-assessment on the Internal Audit Service as regards its consistency with the Audit Charter (purpose, authority and responsibility) and performance relative to its Plan.

In addition, the Head of Shared Assurance Services will communicate to Senior Management and the Governance Committee on the Internal Audit Service’s quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

Internal Audit Service Charter approved this 13th day of March 2014

.....
Head of Shared Assurance Services

.....
Chair of the Governance Committee

| New PSIAS Requirements | Existing Compliance | Action Required |
|---|---|--|
| Internal Audit Service Charter to be produced with specific public sector requirements | | Internal Audit Service Charter to be approved by the Governance Committee |
| The Chief Executive undertakes, countersigns, contributes feedback to or reviews the performance of the Head of Shared Assurance Services and that feedback is also sought from the Chair of the Governance Committee | The Chief Executive undertakes the performance appraisal of the Head of Shared Assurance Services | The Chief Executive will obtain feedback on the performance of the Head of Shared Assurance Services and incorporate this within performance appraisals |
| Approval must be sought from the Governance Committee for any significant consulting services not already included in the Audit Plan prior to accepting the engagement | Any deviations from the Audit Plan are reported to and agreed with the Governance Committee | |
| The Head of Shared Assurance Services should develop a quality assurance and improvement programme that covers all aspects of the Internal Audit Service and enables conformance with all aspects of the PSIAS to be evaluated and include both internal and external assessments. External assessments will be carried out at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. | The Internal Audit Service is ISO 9002 accredited and is externally assessed each year. Also internal assessments are already carried out as part of the annual governance assessment process | The arrangements for and timing of the external assessments of compliance with PSIAS will be agreed in due course and will most likely consist of a peer review by another local Internal Audit provider |
| The Head of Shared Assurance Services must include in the risk based Audit Plan the approach to using other sources of assurance and any work required to place reliance upon those other sources. | Assurance is obtained from external providers on an annual basis where necessary. | |

| | | |
|---|--|---|
| <p>The Annual Audit Report must incorporate a statement on conformance with PSIAS & any instances of non-conformance must be reported to the Governance Committee. More significant deviations must be considered for inclusion in the Annual Governance Statement.</p> | | <p>Commencing with 2013/14 all Annual Audit Reports will contain a statement to verify compliance with PSIAS</p> |
| <p>Internal Audit reports confirm that reviews are conducted in conformance with the PSIAS once the results of the quality assurance support such a statement</p> | | <p>Internal Audit reports will confirm that reviews are conducted in conformance with PSIAS following the initial self-assessment</p> |



| Report of | Meeting | Date |
|-----------------------------------|----------------------|-----------------------------|
| Head of Shared Assurance Services | Governance Committee | 13 th March 2014 |

INTERNAL AUDIT PLAN 2014/15

PURPOSE OF REPORT

1. To remind members of the respective roles of managers and Internal Audit to maintain a sound system of governance and internal control within the Council.
2. To summarise and explain the basis of the Internal Audit Annual Plan for 2014/15 and the revised controls assurance rating system.
3. To seek the Governance Committee’s approval of the 2014/15 Internal Audit Plan.

RECOMMENDATION

4. That the Committee approves the 2014/15 Internal Audit Plan.

EXECUTIVE SUMMARY OF REPORT

5. The 2014/15 Internal Audit Plan has been compiled in consultation with Strategy Group and following a detailed risk assessment of audit needs.

| | | |
|--|-----|----|
| Confidential report Please bold as appropriate | Yes | No |
|--|-----|----|

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 | X |

BACKGROUND - THE ROLE OF MANAGEMENT AND INTERNAL AUDIT

7. The responsibility for implementing a strong system of governance and internal control within the Council lies primarily with management. Directors and Heads of Service need to ensure that they maintain effective control procedures not least because services and business systems are subject to on-going change.
8. Internal Audit is an independent appraisal function whose prime objective is to evaluate and report on the adequacy of the Council's system of governance and internal control. This is largely achieved through an annual programme of reviews, following a detailed assessment of audit need.

AUDIT PLAN

9. The 2014/15 Internal Audit Plan contains the programme of reviews for the next financial year and is shown at **Appendix 1**. The Plan has been constructed following a risk assessment which considers a range of risk factors, such as items in the Corporate Risk Register, significant changes in staffing, systems and procedures and the length of time since an area was last audited. There has also been extensive consultation within each service and by Strategy Group which has taken an overview of audit requirements.
10. The following paragraphs summarise the individual audit areas that will be subject to audit coverage in 2014/15.

11. Corporate

- Undertaking corporate and service level governance reviews in support of the Annual Governance Statement.
- Raising Officers' and Members' awareness of fraud by publishing regular fraud bulletins.
- Co-ordinating the Council's input to the Audit Commission's National Fraud Initiative (NFI), which enables specific data on the Council's computer systems to be collated and "matched" with similar data from other councils/public bodies, in order to identify any potential irregularities.
- Developing a suite of computerised interrogations of the Council's systems to identify any instances of fraud or error.

12. Partnerships, Planning & Housing

Planning:

- Review of cash receipting and income coding for Planning
- Continued involvement in the project team for the Community Infrastructure Levy.

Economic Development:

- Review of the administrative arrangements for awarding town centre grants.

13. Chief Executives / Transformation

Policy:

- Verification of the integrity of performance management data.

Governance:

- Review of the 2014 election arrangements for postal voting and proofing.

ICT:

- Review of the monitoring and management arrangements following the outsourcing of the Council's network.

- Compliance with Data Protection legislation.

Revenues and Benefits / Customer Services / Transactional Services

- Involvement in the project team for the migration of services to Transactional Services.
- Post implementation review of the newly migrated services to Transactional Services.
- A review of the key financial systems within Revenues and Benefits.

Human Resources:

- A review of compliance with the Health and Safety Framework.

Finance:

- Membership on the project team for the proposed new payroll system.

14. **People & Places**

Health, Environment and Neighbourhoods:

- Review of the overall arrangements for Sports Development incorporating compliance with funding conditions and safeguarding.
- Post implementation review of licensing fees including scrap metal dealers .

Streetscene

- Review of the systems in place for the accounting for and recording of plant and equipment.
- Review of the effectiveness of the mobile technology in use within Streetscene.

15. **General Areas**

- Undertaking investigations;
- Following up management actions agreed in earlier audit reports;
- Completing any residual work outstanding from 2013/14;
- Responding to requests from Management for unplanned reviews; and
- Preparing reports for and attending the Governance Committee.

16. **Shared Services**

- A series of reviews to provide assurance that effective controls remain in place within Shared Financial Services.

17. **Controls Assurance Ratings**

Following every audit we allocate a rating to show the degree of assurance that we are able to give management regarding the levels of internal control present in each system reviewed, as follows:

| | |
|-------------|---|
| Limited | The Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist. |
| Adequate | The Authority can place only partial reliance on the controls. Some control issues need to be resolved. |
| Substantial | The Authority can place sufficient reliance on the controls. Only minor control weaknesses exist. |

We have been mindful for some time that this does not put each system into context to show its relative risk to the overall effective governance of the organisation. In other words some systems are more important than others. To rectify this from 2014/15 we will be allocating controls assurance ratings from the following scoring matrix:

AUDIT SCORING MATRIX

| | | | | |
|------------------------|-------------|-----|--------|------|
| Control Ratings | Limited | 4 | 7 | 9 |
| | Adequate | 2 | 5 | 8 |
| | Substantial | 1 | 3 | 6 |
| | | Low | Medium | High |

Risk Ratings

- 18. The relative risk of each system (high/medium/low) is inherently known and reflects the impact that it would have on the organisation in financial and/or reputational terms if it was to fail.
- 19. The inherent risk ratings for all the audits planned in 2014-15 are therefore already shown at **Appendix 1**. These ratings are based on our own assessment but they have also been agreed by Strategy Group.

IMPLICATIONS OF REPORT

- 20. This report has implications for all service areas within the Council.

COMMENTS OF THE STATUTORY FINANCE OFFICER

- 21. No comment.

COMMENTS OF THE MONITORING OFFICER

- 22. No comment

Garry Barclay
Head of Shared Assurance Services

BACKGROUND PAPERS

There are no background papers to this report.

| Report Author | Ext | Date | Doc ID |
|-------------------------------|------------------------------|------------|---------------------------------|
| Garry Barclay Dawn Highton | 01772 625272 01257 515468 | March 2014 | 2014 / 2015 Internal Audit Plan |

APPENDIX - INTERNAL AUDIT PLAN 2014/15

| CHORLEY COUNCIL | RISK | QTR | DAYS | COMMENTS / RATIONALE |
|--|------|-----|------------|---|
| CORPORATE AREAS | | | | |
| Annual Governance Statement | N/A | 1 | 20 | Annual Requirement |
| Anti-Fraud & Corruption | N/A | ALL | 15 | Annual Requirement |
| NFI | N/A | ALL | 30 | Participation in National Exercise |
| System Interrogations | N/A | ALL | 10 | Efficiency / Fraud Detection |
| PARTNERSHIPS, HOUSING AND PLANNING | | | | |
| Planning | | | | |
| Planning Income | MED | 2 | 5 | System Review |
| Community Infrastructure Levy | N/A | ALL | 10 | Continued Project Team Involvement |
| Economic Development | | | | |
| Town Centre Grants | MED | 2 | 15 | Administrative Arrangements |
| TRANSFORMATION | | | | |
| Policy | | | | |
| Performance Management | HIGH | 1 | 10 | Review of the Integrity of Data |
| Governance | | | | |
| Elections | HIGH | 3 | 10 | Review of 2014 Processes |
| ICT | | | | |
| Outsourcing of the Network | HIGH | 4 | 15 | Monitoring and Management Arrangements |
| Data Protection | MED | 1 | 15 | Compliance with Legislation |
| Revenues & Benefits / Customer Services / Transactional | | | | |
| Transactional Services | HIGH | ALL | 10 | Project Team Involvement |
| Transactional Services | HIGH | 4 | 10 | Review of the Newly Migrated Services |
| Council Tax | HIGH | 3 | 30 | Key Financial System |
| Non Domestic Rates | HIGH | 3 | | Key Financial System |
| Housing & Council Tax Benefits | HIGH | 3 | | Key Financial System |
| Debtors | HIGH | 3 | | Key Financial System |
| Human Resources | | | | |
| Health and Safety | HIGH | 1 | 10 | Compliance with the Framework |
| Finance | | | | |
| New Payroll System | HIGH | ALL | 10 | Project Team Involvement |
| PEOPLE & PLACES | | | | |
| Health, Environment and Neighbourhoods | | | | |
| Sports Development | MED | 2 | 10 | Review of the Overall Arrangements |
| Licensing | MED | 3 | 10 | Post Implementation Review |
| Streetscene | | | | |
| Plant and Equipment | MED | 2 | 15 | System Review |
| Mobile Technology | MED | 3 | 15 | Review of Technology in Use |
| GENERAL AREAS | | | | |
| Irregularities (Contingency) | N/A | ALL | 15 | To Respond to Allegations of Fraud and Irregularity |
| Post Audit Reviews | N/A | ALL | 10 | Confirmation of Implementation of Agreed Actions |
| Residual Work from 2013/14 | N/A | 1 | 15 | To be Completed in Quarter 1 |
| Unplanned Reviews | N/A | ALL | 20 | Requests from Management |
| Governance Committee | N/A | ALL | 20 | Quarterly Meetings |
| TOTAL | | | 355 | |

| SHARED FINANCIAL SERVICES | RISK | QTR | DAYS | COMMENTS / RATIONALE |
|------------------------------|------|-----|------------|---|
| Main Accounting System | HIGH | 4 | 95 | Reviews to be Agreed in Conjunction with the External Auditors – Grant Thornton |
| Creditors | HIGH | 4 | | |
| Payroll | HIGH | 4 | | |
| Treasury Management | HIGH | 4 | | |
| Cash & Bank / Cheque Control | HIGH | 4 | | |
| Residual Work from 2013/14 | N/A | 1 | 20 | To be Completed in Quarter 1 |
| Post Audit Reviews | N/A | ALL | 10 | Verification that Management Actions are Implemented |
| Contingency | N/A | ALL | 20 | Requests from Management |
| TOTAL | | | 145 | |



| Report of | Meeting | Date |
|-----------------|----------------------|---------------|
| Chief Executive | Governance Committee | 13 March 2014 |

STRATEGIC RISK UPDATE REPORT

PURPOSE OF REPORT

1. The Strategic Risk Register (SRR) is the vehicle by which the Council aims to identify and address any potential risks to the organisation and the delivery of its functions which therefore need to be managed strategically.
2. This report provides members with an updated SRR which includes 14 strategic risks to the Council, including actions in progress as well as new actions planned to further mitigate identified risks.

RECOMMENDATION(S)

3. That members note the strategic risks, actions in progress and actions planned to further mitigate the strategic risks as set out in Appendix 1.

EXECUTIVE SUMMARY OF REPORT

4. The Council does not exist in a vacuum and the political, economic and financial environment in which it operates is constantly changing. The SRR is therefore a live document and needs to be updated to reflect any new or emerging strategic risks facing the Council.
5. This report therefore contains the latest revision to the SRR for members' information and comment.
6. Most of the risk categories remain at the same level given the current funding situation and impact on resource with six areas identified as 'high risk'. One new risk has been added to the register to reflect the need to manage large investments effectively. The risk related to the ability to resource Council priorities in the light of public sector funding cuts has been increased to reflect the impact on the business.

| | | |
|--|-----|-----------|
| Confidential report Please bold as appropriate | Yes | No |
|--|-----|-----------|

CORPORATE PRIORITIES

7. 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 | X |

BACKGROUND

- 8. Risk management is a cornerstone of good corporate governance and the Council has established a system of risk management which involves the creation of risk registers at a strategic level, service level and individual project levels.

Compiling the Strategic Risk Register requires a collective effort involving chief officers and senior members to identify the key strategic risk issues facing the Council. Heads of Service are responsible for identifying, monitoring and mitigating service list level risk and once key projects have been identified the responsibility for managing these and compiling project risk registers lies with individual services. The process is described in more detail in the Council’s Risk Management Framework.

HOW THE RISKS ARE SCORED

- 9. The risks identified in the register have been scored on a 3 x 3 matrix, reflecting the likelihood of the risk occurring against the impact of it on the organisation if it did happen. The resulting score out of 9 is used to aid in prioritising the risk and the actions that are planned to mitigate them.

| | | | | |
|--------------------------|--------|--------------------|-------------|----------|
| Likelihood of Occurrence | High | 4 | 7 | 9 |
| | Medium | 2 | 5 | 8 |
| | Low | 1 | 3 | 6 |
| | | Noticeable | Significant | Critical |
| | | Impact on Business | | |

- 10. Each entry within the register is scored to provide an assessment of the residual level of risk, that is the score taking into account the ‘controls in place’.
- 11. Whatever level of residual risk remains it is essential that the controls identified are appropriate, working effectively and kept under review.

SUMMARY OF THE RISKS

| Risk No. | Description of Risk | Matrix Score | Change from Mar 2013 |
|----------|--|--------------|----------------------|
| R1 | Budget cuts in key public and third sector partners having a negative impact on local level service delivery | 8 (High) | 0 |
| R2 | Lack of resources to deliver the Council’s priorities due to public sector funding cuts (financial & staff capacity) | 8 (High) | +1 |
| R3 | Reduction in satisfaction with the Council | 7 (High) | 0 |
| R4 | Failure to sustain our performance in light of budget cuts | 7 (High) | 0 |
| R5 | External legislative and policy change affecting service delivery, particularly future changes as a result of Welfare Reform | 7 (High) | 0 |

| Risk No. | Description of Risk | Matrix Score | Change from Mar 2013 |
|----------|---|--------------|----------------------|
| R6 | Failure to react to changing service demand | 7 (High) | 0 |
| R7 | Failure to realise the value of large budget investments and achieve return on investment | 6 (Low) | New |
| R8 | Failure to identify/exploit opportunities for new ways of working and alternative business models including options for income generation | 5 (Medium) | 0 |
| R9 | Reduction in staff satisfaction and morale with the Council including increase in sickness absence | 5 (Medium) | 0 |
| R10 | Failure to achieve desired outcomes through partnership working and deterioration in relationships | 5 (Medium) | 0 |
| R11 | Failure to fully realise the benefits of new technology and related impact on driving organisational change. | 3 (Low) | 0 |
| R12 | Failure to build and maintain strong relationships of trust and confidence between officers and each party to promote good and open relationships between political parties | 3 (Low) | 0 |
| R13 | Failure of Shared Service arrangements | 3 (Low) | 0 |
| R14 | Incidents affecting service delivery/business continuity or even widespread damage, injury or risk to the public. | 2 (Low) | 0 |

12. Further details about each of these risks and their mitigating controls can be found within the register in Appendix one.
13. All of the risks have been re-assessed and the register indicates whether there has been a change since the register was last reviewed in September 2013 along with a narrative to show reasoning for the scoring.
14. One new risk has been added to the register, number R7, failure to realise the value of large budget investments and achieve return on investment. This risk refers to the recent large investments including inward investment, support for the town centre and the purchase of Market Walk. In order to mitigate the risk, the council must ensure that all investments have been subject to appropriate due diligence and scrutiny prior to commitment as well as effective planning, management and monitoring of investments in order to ensure that any issues are highlighted and addressed. A score of six has been allocated to this risk which indicates a critical impact on the business but low likelihood of occurrence given the measures and controls in place. It also takes into account the recent peer review observation of sound financial management practises.
15. The score for risk R2 has increased from 7 to 8 which reflects the future anticipated reduction in resources in 2015/16 and 2016/17 as outlined in the Medium Term Financial Strategy. It also reflects comments received in the recent peer review with regard to the need to manage scale and ambition against available resources through effective prioritisation and careful rationalisation.
16. The highest risk remains as budget cuts in key public and third sector partners given the negative impact this could potentially have on local level service delivery. The risk continues to be managed effectively with a number of actions delivered including a review of core funding in favour of a commissioned approach to ensure that available resources are directed to council priorities with appropriate support for partners to deliver. The current

conditions continue present increasing challenges with further more significant cuts anticipated.

- 17. A number of other risks retain high scores reflecting the pressure to maintain performance and customer satisfaction in challenging conditions. Four risks retain a score of seven which indicates that the likelihood of occurrence remains high although the impact on the business is not currently considered critical given the controls and mitigating actions in place. This includes a number of new actions for 2014/15 such as additional investment in key priorities, roll out of individual performance management and implementation of a new management competency framework.
- 18. Actions to reduce risk continue to be delivered successfully although any reduction is offset to a large extent by increasing pressure on resources; as such, no risk scores are reduced in this update. All medium and low level risks remain at the same level with new actions and monitoring dates in place to ensure continued mitigation of risk.

IMPLICATIONS OF REPORT

- 19. This report has implications in the following areas and the relevant Directors' comments are included:

| | | | |
|--|---|--|---|
| Finance | | Customer Services | |
| Human Resources | X | Equality and Diversity | |
| Legal | | Integrated Impact Assessment required? | N |
| No significant implications in this area | | Policy and Communications | X |

COMMENTS OF THE STATUTORY FINANCE OFFICER

17. There are no financial implications associated with the report.

COMMENTS OF THE MONITORING OFFICER

18. No comments

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

| Report Author | Ext | Date | Doc ID |
|------------------|------|------------|-----------|
| Victoria Willett | 5248 | 21.02.2014 | SRRupdate |

Appendix 1

| Risk No. | Description of Risk | Risk Category | Risk Owner | Controls in Place | Matrix Score | Change from Sep 2013 | Actions Planned | Action Owner | Target Action Date | Comments |
|----------|--|-----------------------|------------|---|--------------|----------------------|---|------------------|--------------------|---|
| R1 | Budget cuts in key public and third sector partners having a negative impact on local level service delivery | Strategic (External) | SG | Existing relationships with key public sector partners. Chorley Partnership. Core funding support. Sustainable community strategy. Additional funding support for third sector groups included in 2014/15 budget. Review of core funding including commissioning of large contracts | 8 | 0 | Officers and Members to lobby and influence key public sector partners through meetings (including the Chorley Partnership), working groups and responding to consultations. Officers and Members to consider how we can use our own resources more effectively to reduce and prevent gaps in service. Review of partnerships | GH | On going | Cuts now starting to take effect evidenced by partner performance. Further cuts anticipated with potentially significant impact e.g. LCC bus route cuts. |
| R2 | Lack of resources to deliver the Council's priorities due to public sector funding cuts (financial & staff capacity) | Financial (Internal) | SG | Refreshed corporate strategy Single organisational plan Strong Medium Term Financial Strategy Budget consultation | 8 | +1 | Additional budget investment in priorities Business planning and refresh of the single organisational plan including rationalisation and prioritisation of activity. Embedding of individual performance management | Policy and Comms | Sept 2014 | Highlighted by the recent peer review, likelihood of occurrence remains high and further reduction in resources anticipated. Impact on business not currently considered critical given controls and mitigating actions. |
| R3 | Reduction in satisfaction with the Council | Reputation (Internal) | SG | Strong customer service culture. Corporate health dashboard. Resident satisfaction survey. Refreshed marketing and engagement strategy. Regular monitoring by strategy group and Executive Cabinet. | 7 | 0 | Corporate project to review and address customer satisfaction and dissatisfaction Additional investment in priority areas Tangible improvement projects in the Corporate Strategy | Policy and Comms | Sept 2014 | Resident satisfaction remains high although level of dissatisfaction with service received is increasing. Likelihood of occurrence remains high, impact on business not currently considered critical given controls and mitigating actions. |

| Risk No. | Description of Risk | Risk Category | Risk Owner | Controls in Place | Matrix Score | Change from Sep 2013 | Actions Planned | Action Owner | Target Action Date | Comments |
|----------|--|-----------------------|------------|--|--------------|----------------------|---|------------------|--------------------|---|
| | | | | | | | Communications, campaigns and events. | | | |
| R4 | Failure to sustain our performance in light of budget cuts | Reputation (Internal) | CS | Performance management framework Regular performance monitoring. Refreshed local performance indicators Leading Edge management competencies | 7 | 0 | Implement individual performance management and update the performance management framework. | RH | Ongoing | No significant drop in performance evidenced to date. Likelihood of occurrence remains high, impact on business not currently considered critical given controls and mitigating actions. |
| R5 | External legislative and policy change affecting service delivery, particularly future changes as a result of Welfare Reform | Strategic (External) | SG | Changes are being monitored and implications for the Council reported to SG for consideration. Health & wellbeing board LDF Additional dedicated resources – Welfare Reforms Manager, Welfare Reforms Officer and Employability Officer. Credit Union | 7 | 0 | Delivery of the Welfare Reforms Action Plan | Policy and Comms | Sept 2014 | To date the impact has been manageable through a proactive approach and mitigating activity however, this continues to be a high risk given recent national policy developments. |
| R6 | Failure to react to changing service demand | Strategic (Internal) | SG | Use of system data and regular monitoring and reporting Volumetric data capture Self service capability via council website. Digital strategy approved GIS strategy refreshed and approved | 7 | 0 | Service intelligence to inform delivery and prioritisation of activity. Channel migration strategy. Strategy group to focus resources where needed. | AK | Sept 2014 | Risk reflects need to manage customer demand and make services more sustainable by driving down cost to access. New self-serve technology now in place including MyAccount feature online. |
| R7 | Failure to realise the value of large budget investments and achieve return on investment | Financial (Internal) | SG | Budget setting process Regular budget monitoring | 6 | New | Project and programme management | RH | Mar 2015 | New risk added to reflect significant level of investment and strategic reliance on successful outcomes. |

| Risk No. | Description of Risk | Risk Category | Risk Owner | Controls in Place | Matrix Score | Change from Sep 2013 | Actions Planned | Action Owner | Target Action Date | Comments |
|----------|---|-----------------------------------|------------|---|--------------|----------------------|--|----------------------------|--------------------|---|
| | | | | | | | | | | Market Walk purchase key part of income generation strategy. Currently low likelihood of occurrence given due diligence and monitoring undertaken. |
| R8 | Failure to identify/exploit opportunities for new ways of working and alternative business models including options for income generation | Operational (Internal) | SG | Transformation programme Strategic partnerships framework Strong Medium Term Financial Strategy Corporate strategy refresh | 5 | 0 | Organisational design work including service migration programme Options and agreement on long term business model | CS | Sept 2014 | Work is ongoing although a firm option is yet to be identified and agreed |
| R9 | Reduction in staff satisfaction and morale with the Council including increase in sickness absence | People (Internal) | COS | OD and health and wellbeing programmes Healthcare cash back scheme New intranet Leading edge management competencies | 5 | 0 | Internal communications strategy Updated OD programme Number of specific interventions including additional management training Staff consultation on restructure proposals Restructure implementation plans included additional staff training. | HR&OD/ Policy and Comms | Sept 2014 | Currently no reported increase in sickness absence although a number of internal restructures may impact on overall staff morale |
| R10 | Failure to achieve desired outcomes through partnership working and deterioration in relationships | Reputation (Internal) | SG | Chorley Partnership and role of the Executive in leveraging priorities Regular meetings with LCC lead. | 5 | 0 | Members and officers to work to manage relationships and ensure effective communication Early Intervention work including implementation of WTWF and involvement with CCG's. Review of partnerships | GH | Ongoing | A review of partnerships is currently being undertaken to ensure efficient partnership working and resources focussed on priorities. |
| R11 | Failure to fully realise the benefits of new technology and related impact on driving | Operational (Internal & External) | AK | Regular internal communication on progress | 3 | 0 | ICT programme review to assess actions delivered | AK | June 2014 | New technology has been implemented so impact on organisation is reduced and |

| Risk No. | Description of Risk | Risk Category | Risk Owner | Controls in Place | Matrix Score | Change from Sep 2013 | Actions Planned | Action Owner | Target Action Date | Comments |
|----------|---|------------------------|------------|---|--------------|----------------------|-----------------|--------------|--------------------|--|
| | organisational change. | | | Project monitoring Appropriate training for staff | | | | | | work is underway to ensure benefits realised. |
| R12 | Failure to build and maintain strong relationships of trust and confidence between officers and each party to promote good and open relationships between political parties | Strategic (Internal) | GH | Weekly meeting with leader. All party leaders meetings New corporate strategy. Attendance at political group meetings to address key issues. | 3 | 0 | | GH | As Required | Relationship is currently strong. |
| R13 | Failure of Shared Service arrangements | Operational (Internal) | SG | Strategic partnerships framework Effective governance arrangements | 3 | 0 | | CS | Ongoing | Risk stays the same due to potential impact of failure on organisation. |
| R14 | Incidents affecting service delivery/business continuity or even widespread damage, injury or risk to the public. | Operational (External) | JC/ JM | Business Continuity Plan Emergency Plan Country wide flu pandemic plan. Multi agency fund plan | 2 | 0 | | | | Business continuity plans tested several times in 2013 and therefore considered more rigorous. |

AK – Asim Khan (Head of Customer, ICT and Transactional Services)
SG – Strategy Group
GH – Gary Hall (Chief Executive)
JM – Jane McDonnell (Interim Head of HR&OD)

JC – Jamie Carson (Director People and Places)
COS – Camilla Oakes Schofield (Head of HR&OD)
RH – Rebecca Huddleston (Performance Improvement Manager)
CS – Chris Sinnott (Head of Policy and Communications)