

GOVERNANCE COMMITTEE

WEDNESDAY, 11TH MARCH 2015, 2.30 PM
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

AGENDA

APOLOGIES

1 **MINUTES**

(Pages 3 - 6)

To confirm the minutes of the Governance Committee meeting held on 14 January 2015 (enclosed)

2 **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.

3 **GOVERNANCE COMMITTEE UPDATE - YEAR ENDED 31 MARCH 2015**

(Pages 7 - 20)

Report of the External Auditor (enclosed)

4 **CHORLEY COUNCIL AUDIT PLAN 2014/15**

(Pages 21 - 36)

Report of the External Auditor (enclosed)

5 **INTERNAL AUDIT PLAN 2015-16**

(Pages 37 - 42)

Report of the Head of Shared Assurance Services (enclosed)

6 **MEMBERS CODE OF CONDUCT: MEMBERS DISCHARGING THE ROLE OF A COUNCILLOR**

Consideration of updated information by the Committee.

7 **ANNUAL GOVERNANCE STATEMENT 2104 - UPDATE REPORT**

(Pages 43 - 48)

Report of the Head of Governance (enclosed)

8 **RIPA APPLICATION UPDATE**

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

9 **ANY URGENT BUSINESS PREVIOUSLY AGREED WITH THE CHAIR**

GARY HALL
CHIEF EXECUTIVE

Electronic agendas sent to Members of the Governance Committee Councillor Paul Leadbetter (Chair), Councillor Peter Goldsworthy (Vice-Chair) and Councillors Julia Berry, Margaret France, Anthony Gee, Matthew Lynch, June Molyneaux and Mick Muncaster.

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MINUTES OF GOVERNANCE COMMITTEE

MEETING DATE **Wednesday, 14 January 2015**

MEMBERS PRESENT: Councillor Paul Leadbetter (Chair), Councillor Peter Goldsworthy (Vice-Chair) and Councillors Julia Berry, Anthony Gee, Matthew Lynch, June Molyneaux and Mick Muncaster

OFFICERS: Gary Hall (Chief Executive), Chris Moister (Head of Governance), Garry Barclay (Head of Shared Assurance Services), Dawn Highton (Principal Auditor) and Dianne Scambler (Democratic and Member Services Officer)

APOLOGIES: Councillor Margaret France

OTHER MEMBERS: Peter Ripley (Independent Member), Gareth Winstanley (Grant Thornton Plc)

15.G.42 Minutes

RESOLVED – That the minutes of the Governance Committee meeting held on 19 September be confirmed as a correct record for signing by the Chair.

15.G.43 Declarations of Any Interests

No declarations of any interests were received.

15.G.44 Annual Audit Letter 2013/14

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 2014.

The letter communicated 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 2013/14.

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

15.G.45 Certification Letter 2013/14

A letter of certification from 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 claims and returns submitted by the Council.

One claim for housing benefits had been certified for the financial year 2013/14 relating to expenditure of £26.2 million. There were no issues arising from the certification work that needed to be highlighted for further attention and they were satisfied that the Council had the appropriate arrangements in place to complete accurate and timely claims/returns for audit certification.

The indicative fee for 2013/14 was based upon the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes that no longer required certification such as the national non domestic rates have been removed and the fees for certification of housing benefit subsidy claims had been reduced by 12 percent to reflect the removal of council tax benefit from the scheme.

RESOLVED - That the report be noted.

15.G.46 Governance Committee Update

The Committee received a report that showed the progress made by our External Auditors in delivering their responsibilities. The report also provided a summary of emerging national issues and developments that may be relevant to the Council and included a number of challenge questions in relation to these issues that the Committee may wished to consider.

The 2014/15 Audit Plan was still on track to be issued by the end of March and would be presented at the Committee's next meeting. Interim fieldwork visits included, a review of the authority's control environment, early substantive testing and a proposed Value for Money conclusion.

RESOLVED – That the report be noted.

15.G.47 Treasury Strategy and Prudential Indicators 2014-15 - Mid-Term Review

The Committee received a report of the Chief Executive that reported on the Council's performance and compliance with Prudential Indicators in the 2014/15 financial year to the end of November. The report took into account changes to the revenue and capital budgets reported to Executive Cabinet through the year and the Prudential Indicators had been updated to reflect rephrasing of the capital expenditure and changes to financing.

The Capital Financing Requirement (CFR) had been recalculated to reflect rephrasing of capital expenditure to be financed by borrowing from 2013/14, and from 2014/15 to later years and the Committee were informed that net borrowing to gross borrowing and other long term liabilities less surplus cash invested was expected to be much lower than the CFR in 2014/15.

The average interest earned was 0.64%, to the end of November. However, cash balances had been used as a source of internal borrowing to minimise external borrowing at higher rates of interest, thereby achieving revenue budget savings.

The report also reviewed a number of issues arising in the UK banking sector. Whilst no immediate change to investment counterparties was required, regulatory changes may have an impact on the ratings given to UK banks and the authority's list of counterparties will be reviewed and presented for approval with the Council's Investment Strategy for 2015/16.

Members of the Committee sought clarification on how much debt the Council actually had and the Chief Executive explained that the amount was reflective of how much the authority needed to borrow at a particular time. Assurance was also given that the authority refinanced appropriately when interest rates lowered

RESOLVED - That the report be noted.

15.G.48 Members Code of Conduct: Members discharging the role of a Councillor

The Monitoring Officer submitted a report that sought guidance from the Committee about the point at which Members are deemed to be discharging their role as a Councillor.

Although there has been relatively few complaints made against the conduct of members, one of the issues that is frequently the cause for discussion between the Monitoring Officer and the Independent Person is "when a Councillor is acting as a Councillor?" Using guidance from under the previous standards regime, this had a high threshold. Given that the new regime was intended to be light touch, the Monitoring Officer had been following the guidance by the Standards Board for England following the Ken Livingstone case. However, the Independent Person had indicated a view that this approach is too restrictive, a view supported by member of the Governance Committee who have expressed a view that members of Chorley Council should routinely demonstrated higher standards of behaviour than that required of by the local standards regime.

Any change in approach would have to be brought to the attention of all members and although this would not require a constitutional change the guidance note would be amended to reflect any changes for approval of full Council.

The report prompted detailed discussion by the Committee and it was proposed to pursue the matter further with all Councillors through their group meetings.

RESOLVED – That the Members of the Committee would raise this in their group meetings and opinions be brought back to the next meeting of the Committee.

15.G.49 RIPA Application Update

The Monitoring Officer reported that there had been no RIPA applications made.

15.G.50 Exclusion of the Public and Press

RESOLVED – To exclude the press and public for the following items of business on the ground that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A to the Local Government Act 1972.

15.G.51 Internal Audit Interim Report as at 28 November 2014

The Head of Shared Assurance Services presented a report advising the Committee of the work undertaken in respect of the Internal Audit Plans for Chorley Council and Shared Financial Services for the period August to November 2014 and to give an appraisal of the Internal Audit Services' performance to date.

Only one area audited had been rated as Red. The review of Plant and Equipment had identified a lack of internal control which exposed the Council to significant risk of misappropriation and financial loss.

The internal audit team continues to work with Street Scene to ensure that all agreed management actions are implemented in full. Members were informed that this rating would stay in place until the area was audited again to ensure that robust arrangements were still in place.

The report also provided the Committee with a 'snapshot' of the overall progress made in relation to the 2014/15 Internal Audit Plans, indicating which audits had been completed and their control rating, those that are in progress or yet to start and Members noted that both Audit Plans were on course to be achieved.

RESOLVED – That the report be noted.

Chair

Date

Governance Committee Update for Chorley Council

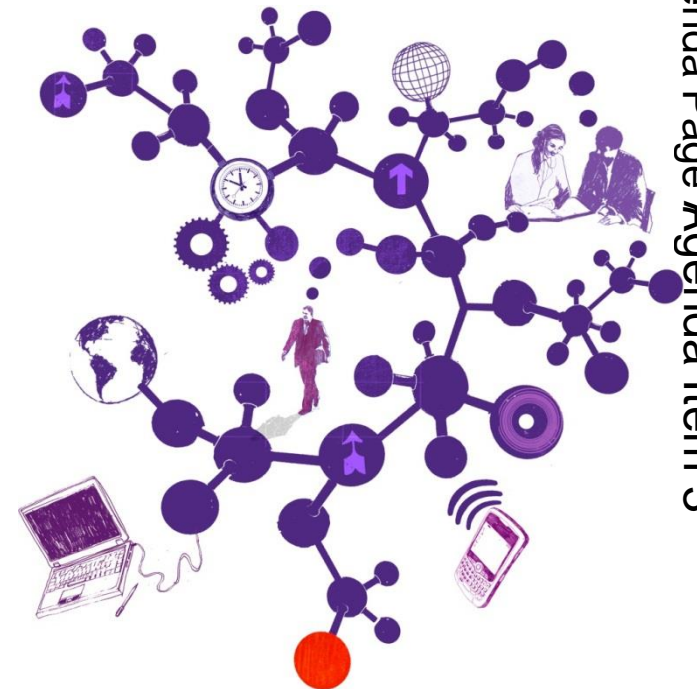
Year ended 31 March 2015

February 2015

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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.

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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; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit 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 (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

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.

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Progress at February 2015

| Work | Planned date | Complete? | Comments |
|---|------------------------|-----------|---|
| <p>2014-15 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 2014-15 financial statements.</p> | March 2015 | Yes | The Audit Plan is to be presented at the March 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. | February to March 2015 | On track | The Audit Plan includes an update on our interim visit. Any significant findings will be included in our Audit Findings Report to be presented to members in September. |
| <p>2014-15 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. | July to September 2015 | On track | We will report the findings from our final accounts audit to the September Governance Committee. |

Progress at February 2015

| Work | Planned date | Complete? | Comments |
|---|---------------------------|-----------|--|
| Value for Money (VfM) conclusion The scope of our work to inform the 2014/15 VfM conclusion will consider the arrangements in place at the Council for securing financial resilience and for challenging how the Council secures economy, efficiency and effectiveness. | January to September 2015 | On Track | We will report the findings from our VfM work audit to the September Governance Committee. |

Rising to the challenge

Grant Thornton

Our national report, Rising to the Challenge, the Evolution of Local Government, was published in December and is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/>

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

2020 Vision

Grant Thornton

Our national report '2020 Vision' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

It highlights that English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Group accounting standards

Accounting and audit issues

The CIPFA Code has adopted a new suite of standards for accounting for subsidiaries, associates and joint arrangements. These changes affect how local authorities account for services delivered through other entities and joint working with partners.

The key changes for 2014/15 are to:

- the definition of control over 'other entities'. The revised definition is set out in IFRS 10 and determines which entities are treated as subsidiaries
- the accounting for joint arrangements. This now follows IFRS 11 and includes changes to the definition of joint ventures and how joint ventures are consolidated in group accounts
- disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities as set out in IFRS 12.

Changes to the definition of control over 'other entities'

Control was previously defined in terms of power to govern the financial and operating policies of an entity. IFRS 10 sets out three elements for an investor to be considered as controlling an investee (all of which must be met):

- the investor has the rights to direct the relevant activities of the investee (relevant activities being the ones that determine the return for the investors – the return could be in the form of a service rather than money)
- the investor has exposure, or rights, to variable returns from its involvement with the investee
- the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

In the commercial sector, this is generally thought to have resulted in more entities being treated as subsidiaries. However, the change is in both directions: some subsidiaries have been redefined as associates. Local authorities with investments in 'other entities' will need to consider whether:

- they control any entities using the new definition. Local authorities will need to pay particular attention to special purpose vehicles and any other entities where there was a close judgement call under the old IAS 27
- there is a need for a prior period adjustment.

Group accounting standards (continued)

Accounting and audit issues

Changes to accounting for joint arrangements

Joint arrangements are contractual arrangements between two or more parties where there is joint control. IFRS 11 makes three key changes from IAS 31:

- there are now only two types of joint arrangements: joint operations and joint ventures
- In a joint operation the investing parties have rights and obligations in relation to the arrangement's assets and liabilities, whereas in a joint venture the parties have rights to the arrangement's net assets. IFRS 11 bases its definition of joint ventures on the substance of the arrangement rather than legal status. It is for the entity to assess whether a joint arrangement is a joint operation or joint venture by considering its rights and obligations arising from the arrangement. To do this the entity needs to consider the structure and legal form of the arrangement, the terms agreed by the parties and any other relevant facts and circumstances. Appendix B to IFRS 11 provides further explanation and examples of joint operations and joint ventures.
- local authorities are still required to consolidate joint ventures in their group accounts but must now do so using the equity (single line) method. The option for proportionate (line-by-line) consolidation has been removed.

The key challenge for most local authorities will be determining whether their joint arrangements are joint ventures or joint operations. The difference should be clear from the contract but in some cases judgement may be required. Local authorities that have previously used the proportionate consolidation method will need to account for the move to equity accounting as a prior period adjustment.

Disclosure of interests in other entities

IFRS 12 makes consistent the requirements for disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities. It includes the need for transparency about the risks to which the reporting entity is exposed as a consequence of its investment in such arrangements.

Challenge questions

- Has your Head of Finance assessed the potential impact of these standards for the authority's financial statements?

Earlier closure and audit of accounts

Accounting and audit issues

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Challenge questions

- Has your Head of Finance put in place a plan to address the earlier close date?

Financial sustainability of local government

Local government guidance

In November the National Audit Office published their report on the [Financial Sustainability of Local Government](#).

The report concludes that Local authorities have coped well with reductions in government funding, but some groups of authorities are showing clear signs of financial stress. The Department for Communities and Local Government has a limited understanding of authorities' financial sustainability and the impacts of funding cuts on services, according to the National Audit Office.

The Government reduced its funding to local authorities by an estimated 28% in real terms between 2010-11 and 2014-15. Further planned cuts will bring the total reduction to 37% by 2015-16, excluding the Better Care Fund and public health grant. Although there have been no financial failures in local authorities in this period, a survey of local auditors shows that authorities are showing signs of financial pressure. Over a quarter of single tier and county councils had to make unplanned reductions in service spend to deliver their 2013-14 budgets. Auditors are increasingly concerned about local authorities' capacity to make further savings, with 52% of single tier and county councils not being well-placed to deliver their medium-term financial plans.

There are significant differences in the scale of funding reductions faced by different authorities. Authorities that depend most on government grant are the ones most affected by funding reductions and reforms. This was an outcome of policy decisions to tackle the fiscal deficit by reducing public spending, and for local authority funding to offer incentives for growth.

Local authorities have tried to protect spending on social care services. Other service areas such as housing services and culture and leisure services have seen larger reductions. While local authorities have tried to make savings through efficiencies rather than by reducing services, there is some evidence of reduction in service levels.

According to the NAO, however, the Department does not monitor in a coordinated way the impact of funding reductions on services, and relies on other departments and inspectorates to alert it to individual service failures. In consequence, the Department risks becoming aware of serious problems with the financial sustainability of local authorities only after they have occurred.

The Department's processes for assessing the capacity of authorities to absorb further funding reductions are also not sufficiently robust.

Local government financial reporting remains strong

Local government guidance

The Audit Commission published its report, [Auditing the Accounts 2013/14: Local government bodies](#), on 11th December.

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. This year the Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014, and the body published audited accounts promptly. Although, as only 21 principal bodies have managed to publish their audited accounts by 31 July since 2008/09, a move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30th September deadline.



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The Audit Plan for Chorley Council

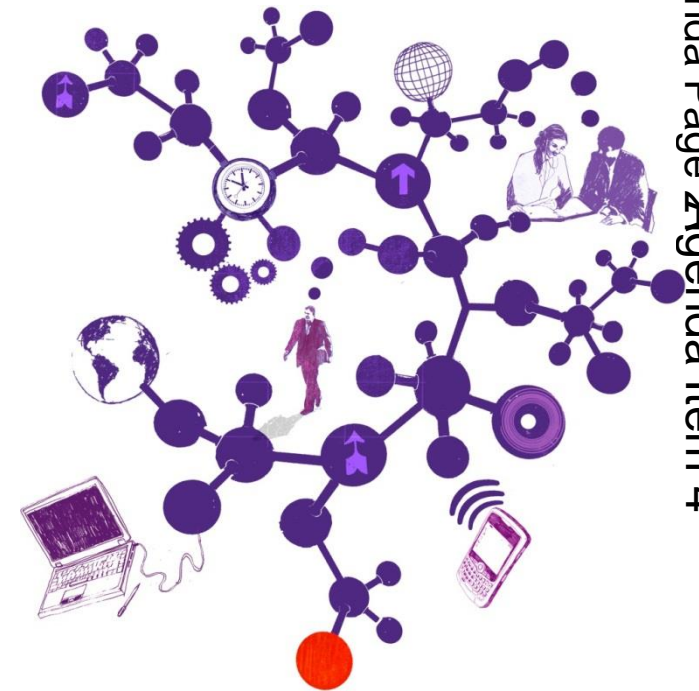
Year ended 31 March 2015

February 2015

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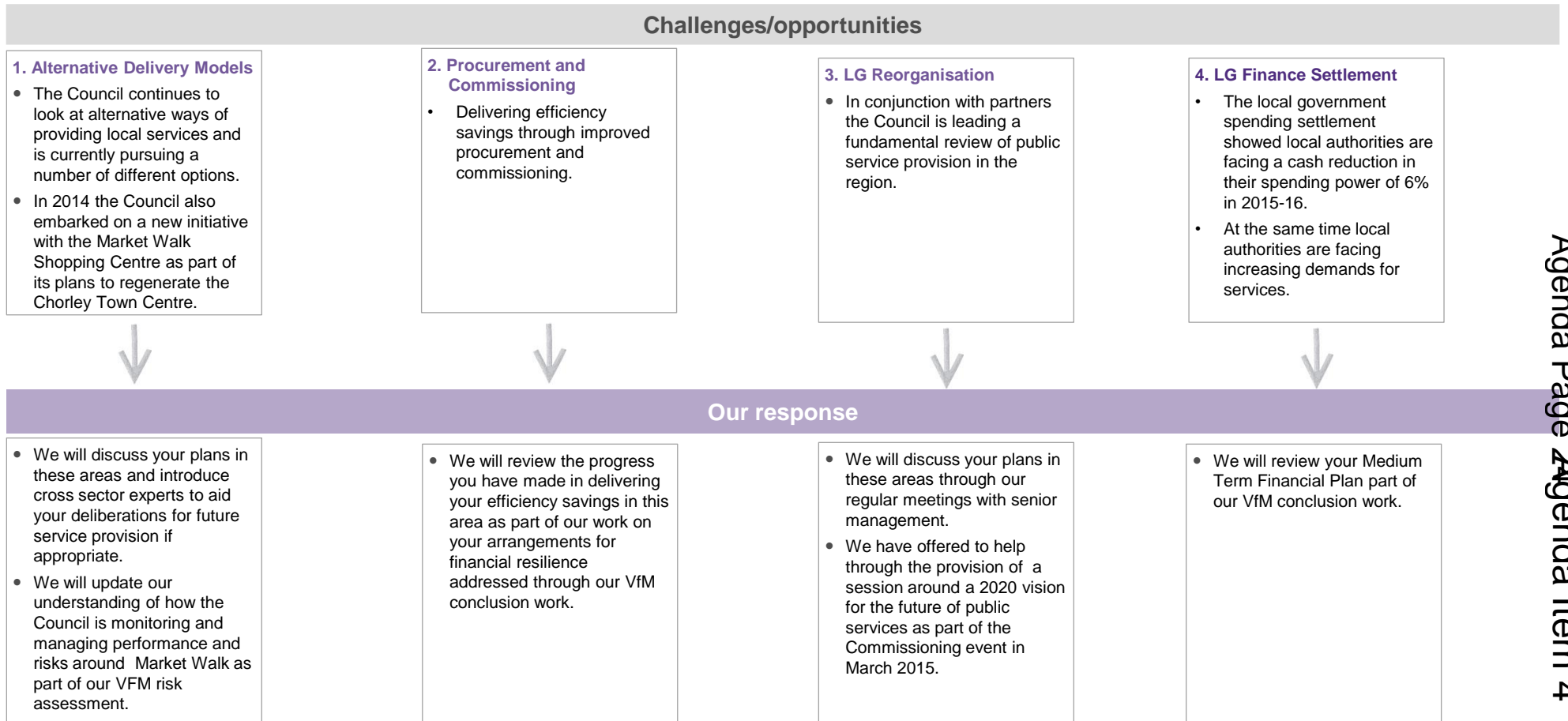
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10. Communication of audit matters with those charged with governance

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

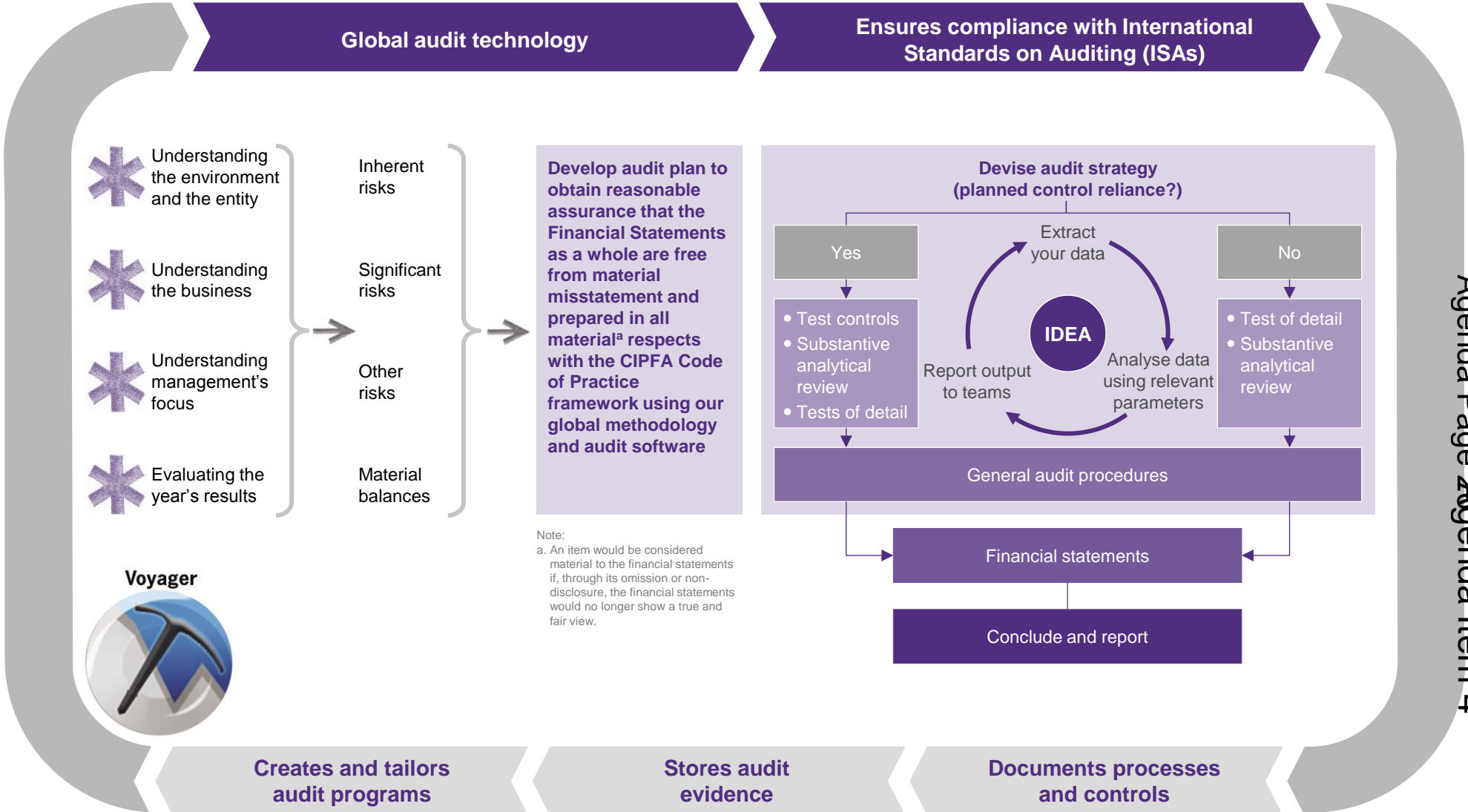


Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

| Developments and other requirements | | | |
|--|--|---|--|
| <p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice. • Adoption of new group accounting standards (IFRS 10,11 and 12). | <p>2. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS). • Explanatory foreword. | <p>3. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource. • Progress against target savings plan of £0.903m for 2014/15. | <p>4. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion. • The Council completes grant claims and returns on which audit certification is required. |
| Our response | | | |
| <p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing • the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly. <p>Regular liaison meeting with the finance team now take place to ensure any potential accounting issues are identified and dealt with as soon as possible.</p> | <ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS. • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge. | <ul style="list-style-type: none"> • We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan. • We will undertake a review of Financial Resilience as part of our VfM conclusion work. | <ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements. • We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015. |

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

| Significant risk | Description | Substantive audit procedures |
|--|---|--|
| The revenue cycle includes fraudulent transactions | <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Chorley Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Chorley Council, mean that all forms of fraud are seen as unacceptable. |
| Management over-ride of controls | Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities. | <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions. |

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

| Other risks | Description | Audit Approach |
|-----------------------|--|---|
| Operating expenses | Operating expenses understated or not recorded in the correct period | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Understanding of the process, identification of controls and a walkthrough test conducted. • Sample testing of non-pay operating expenditure up to month 10. <p>Further work planned:</p> <ul style="list-style-type: none"> • Sample testing of non-pay operating expenditure, including waste management and leisure services, manual accruals and year end creditors including review of invoices paid since the year end and goods received notes prior to year end. • Review of control account reconciliations. |
| Employee remuneration | Employee remuneration understated | <p>Work completed to date:</p> <ul style="list-style-type: none"> • Understanding of the process, identification of controls and a walkthrough test conducted. <p>Further work planned:</p> <ul style="list-style-type: none"> • Sample testing of payroll calculations and contracts of employment, including senior officer remuneration. • Directional analytical review using trend analysis. • Reconciliation of monthly payroll totals to the ledger. |
| Welfare Expenditure | Welfare benefit expenditure improperly computed | <p>Work planned:</p> <ul style="list-style-type: none"> • Understanding of the process, identification of controls and a walkthrough test conducted. • Programme of work as part of the certification of the housing benefits subsidy grant claim. • Sample testing of welfare benefit expenditure. • Reconciliation of expenditure to welfare benefits system. |

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

| VfM criteria | Focus of the criteria |
|--|---|
| The organisation has proper arrangements in place for securing financial resilience. | The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. |
| The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. | The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. |

We are undertaking a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the issues raised within the risk assessment:

- performance against financial targets
- adequacy of medium term financial planning
- engagement with stakeholders
- effectiveness of key services
- adequacy of financial reporting.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

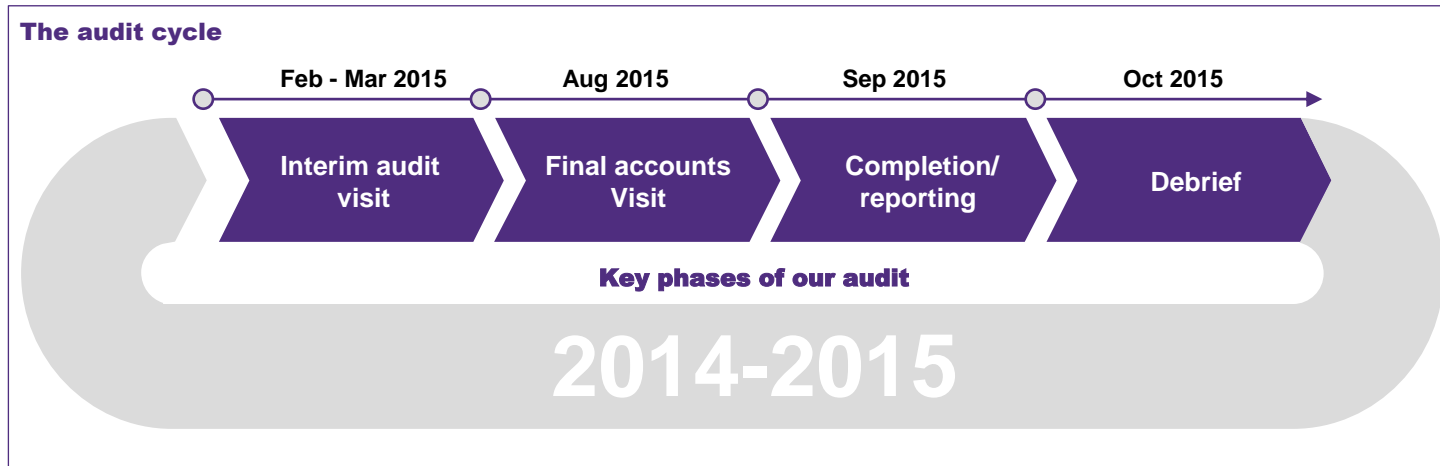
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

| | Work performed and findings | Conclusion |
|------------------------------|--|--|
| Internal audit | We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. | Our work has not identified any weaknesses which we wish to bring to your attention. |
| Entity level controls | We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices. | Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. |

Results of interim audit work cont'd

| | Work performed | Conclusion |
|--|--|---|
| Review of information technology controls | <p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p> | Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. |
| Walkthrough testing | We have completed walkthrough tests of controls in respect of employee remuneration, and operating expenses. | Our work has not identified any weaknesses which impact on our audit approach. From our walkthrough of these systems, to date, the internal controls have been implemented in accordance with our documented understanding. |
| Early substantive testing | We have completed sample testing of non-pay operating expenditure up to month 10. | We have not identified any issues from our early sample testing, to date, but further testing will be undertaken as part of our final accounts audit. |

Key dates



| Date | Activity |
|-----------------------|--|
| December 2014 | Planning |
| Feb – Mar 2015 | Interim site visit |
| March 2015 | Presentation of audit plan to Governance Committee |
| August 2015 | Year end fieldwork |
| September 2015 | Audit findings clearance meeting with Head of Finance |
| September 2015 | Report audit findings to those charged with governance |
| September 2015 | Sign financial statements opinion |

Fees and independence

Fees

| | £ |
|-----------------------------------|---------------|
| Council audit | 59,440 |
| Grant certification | 8,910 |
| Total fees (excluding VAT) | 68,350 |

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

Fees for other services

| Service | Fees £ |
|---------|--------|
| None | Nil |

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit plan | Audit findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. | ✓ | ✓ |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. | | |
| Details of safeguards applied to threats to independence | | |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to the auditor's report, or emphasis of matter | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |



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| Report of | Meeting | Date |
|-----------------------------------|----------------------|-----------------------------|
| Head of Shared Assurance Services | Governance Committee | 11 th March 2015 |

INTERNAL AUDIT PLAN 2015/16

PURPOSE OF REPORT

- 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.
- To seek the Governance Committee’s approval of the 2015/16 Internal Audit Plan.

RECOMMENDATION

- That the Committee approves the 2015/16 Internal Audit Plan.

EXECUTIVE SUMMARY OF REPORT

- The 2015/16 Internal Audit Plan has been compiled in consultation with Directors and Heads of Service following a detailed risk assessment of audit needs.

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

CORPORATE PRIORITIES

- 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

6. 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.
7. 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

8. The 2015/16 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.
9. The following paragraphs summarise the individual audit areas that will be subject to audit coverage in 2015/16.

10. 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.

11. Chief Executive

Policy and Communications:

- Verification of the integrity of performance management data.
- A review of compliance with the Key Partnerships Framework.

Governance:

- Membership of the Market Walk project team.

Finance:

- Membership of the project team for the proposed new payroll arrangements.
- A system review of travel and expenses.
- A review of compliance with Contract Procedure Rules.

12. Customer & Advice Services

ICT:

- A review of information security incorporating the Information Security Framework and penetration testing.
- A review of the new disaster recovery arrangements.

Customer:

- Continued involvement in the project team for the migration of services to the Single Front Office.
- A review of the key financial systems within Revenues and Benefits.

13. Public Protection, Streetscene & Community

Health, Environment and Neighbourhoods:

- Assisting with the new arrangements for empty properties.
- A review of the administration and enforcement of licences.

Leisure and Streetscene:

- Verification that the agreed management actions have been implemented for the recording and management of plant and equipment.
- A review of the tree maintenance and inspection regime.
- A review of compliance with Council policies and procedures for managing external events.

Planning:

- A system review of the Community Infrastructure Levy.

14. General Areas

- Undertaking investigations.
- Following up management actions agreed in earlier audit reports.
- Completing any residual work outstanding from 2014/15.
- Responding to requests from Management for unplanned reviews.
- Preparing reports for and attending the Governance Committee.

15. Shared Services

- We undertake a review of the Key Financial Systems annually however during 2014/15, we have changed our approach to the testing of the key controls within the financial systems. A cyclical approach has been adopted with specific controls targeted for in-depth compliance testing. This will continue for the 2015/16 Internal Audit Plan.
- A review of the arrangements for Insurance.

IMPLICATIONS OF REPORT

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

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 2015 | 2015 / 2016 Internal Audit Plan |

APPENDIX - INTERNAL AUDIT PLAN 2015/16

| 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 | 20 | Participation in National Exercise |
| CHIEF EXECUTIVE | | | | |
| Policy & Communications | | | | |
| Perf. Management / Data Quality | CRITICAL | 1 | 15 | Review of the Integrity of Data |
| Partnerships | CRITICAL | TBC | 15 | Compliance with the Framework |
| Governance | | | | |
| Market Walk | N/A | ALL | 10 | Project Team Involvement |
| Finance | | | | |
| New Payroll System / Arrangements | CRITICAL | ALL | 10 | Project Team Involvement |
| Travel and Expenses | MAJOR | TBC | 15 | System Review |
| Contract Procedure Rules | CRITICAL | TBC | 15 | Compliance with CPRs |
| CUSTOMER & ADVICE SERVICES | | | | |
| ICT | | | | |
| Information Security | CRITICAL | 2/3 | 15 | |
| Disaster Recovery | CRITICAL | 3/4 | 15 | Review of New Arrangements |
| Customer | | | | |
| Transactional Services | CRITICAL | ALL | 15 | Continued Project Team Involvement |
| Council Tax | CRITICAL | 3 | 35 | Key Financial System |
| Non Domestic Rates | CRITICAL | 3 | | Key Financial System |
| Housing & Council Tax Benefits | CRITICAL | 3 | | Key Financial System |
| Debtors | CRITICAL | 3 | | Key Financial System |
| PUBLIC PROTECTION, STREETSCENE & COMMUNITY | | | | |
| Health, Environment and Neighbourhoods | | | | |
| Empty Properties | MAJOR | 1 | 5 | Assisting with New Arrangements |
| Licencing | MAJOR | 1 | 15 | Review of Administration & Enforcement |
| Streetscene & Leisure | | | | |
| Plant and Equipment | CRITICAL | 1 | 5 | Implementation of Agreed Actions |
| Tree Maintenance & Inspection Regime | MAJOR | TBC | 10 | Review of Arrangements |
| Management of External Events | MAJOR | TBC | 15 | Review of External Compliance |
| Planning | | | | |
| Community Infrastructure Levy | CRITICAL | 2/3 | 15 | Post Implementation Review |
| GENERAL AREAS | | | | |
| Irregularities (Contingency) | N/A | ALL | 10 | To Respond to Allegations of Fraud and Irregularity |
| Post Audit Reviews | N/A | ALL | 10 | Confirmation of Implementation of Agreed Actions |
| Residual Work from 2014/15 | N/A | 1 | 15 | To be Completed in Quarter 1 |
| Unplanned Reviews | N/A | ALL | 10 | Requests from Management |
| Governance Committee | N/A | ALL | 20 | Quarterly Meetings |
| TOTAL | | | 345 | |

| SHARED SERVICES | RISK | QTR | DAYS | COMMENTS / RATIONALE |
|----------------------------------|----------|-----|------------|--|
| SHARED FINANCIAL SERVICES | | | | |
| Main Accounting System | CRITICAL | 4 | 95 | Review of the Key Financial Systems |
| Creditors | CRITICAL | 4 | | |
| Payroll | CRITICAL | 4 | | |
| Treasury Management | CRITICAL | 4 | | |
| Cash & Bank / Cheque Control | CRITICAL | 4 | | |
| SHARED ASSURANCE SERVICES | | | | |
| Insurance | CRITICAL | 1 | 20 | Review of the Arrangements |
| GENERAL AREAS | | | | |
| Residual Work from 2014/15 | 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 | | | 165 | |

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| Report of | Meeting | Date |
|--------------------|----------------------|---------------|
| Head of Governance | Governance Committee | 11 March 2015 |

ANNUAL GOVERNANCE STATEMENT 2014 – PROGRESS REPORT

PURPOSE OF REPORT

1. This report updates members on the progress made in implementing the Council's Annual Governance Statement which provides for improvements to the Council's Governance arrangements.

RECOMMENDATION(S)

2. That the report be noted.

EXECUTIVE SUMMARY OF REPORT

3. In June 2014, this Committee approved the Council's Annual Governance Statement. This provided a number of pieces of work which if implemented would enhance the Council's Governance arrangements.
4. Attached to this report is the Statement and a position statement for each project.

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

CORPORATE PRIORITIES

5. 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

6. In accordance with statutory requirements, the Council published our Annual Governance Statement which was prepared and adopted having had reference to a review of the effectiveness of the existing systems of Governance. The Statement made a number of recommendations which would enhance these systems and which were adopted for implementation by this Committee in June 2014.

PROGRESS OF IMPLEMENTATION OF RECOMMENDATIONS

7. The purpose of this report is to provide an overview of progress and rather than go through each project in detail they will be addressed by exemption.

8. There are currently 2 action points which are Red. The first relates to clear document retention guidelines. The action has been postponed pending the updating of the Council's Microsoft software packages in particularly MyShare which is the council's document management system. The software updates are likely to take place during the financial year 2015/16 and this issue will be revisited. There is guidance on the Loop which is fit for purpose.
9. The second action point marked red is to review the consistency and compliance with the council's Equality Scheme. Due to capacity issues this piece of work has slipped. However there continues to be support provided to services to embed the Equality Scheme in particular in relation to addressing when the need of an equality impact assessment is required and assisting in the undertaking of any assessments required.
10. There are 2 action points which are listed as Amber. These relate to updating the Council's Disaster Recovery Plan and the second the updating of the council's Whistleblowing Policy. In both matters the amber allocation is due to slippages from the timetable. In both action points however the work is substantially complete and the risk implications for these delays are low for the council.
11. The remaining action points are completed or green.

IMPLICATIONS OF REPORT

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

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

COMMENTS OF THE STATUTORY FINANCE OFFICER

13. None

COMMENTS OF THE MONITORING OFFICER

14. None

Chris Moister
Head of Governance

There are no background papers to this report.

| Report Author | Ext | Date | Doc ID |
|---------------|------|--------------|--------|
| Chris Moister | 5160 | 3 March 2015 | |

CBC 2014 AGS ACTION PLAN

The annual governance self-assessment has now been undertaken by Internal Audit and the following table captures all the key improvement actions arising from that exercise. These include any important governance related actions identified by the officer corporate governance group.

The agreed improvements will be recorded in the Annual Governance Statement (AGS) which will be published alongside the Council's financial statements, following its approval by the Governance Committee on 25th June 2014.

| Theme | Agreed Improvement | SMART Actions & Milestones | Lead Officer | Start Date | Finish Date | Status RAG | Comment |
|---------------------------------|--|--|-----------------------------------|------------|-------------|------------|--|
| Staff/ Member Development | To develop the current level/programme of financial training packages for Budget Holders (& members) to include use of systems, process improvement and financial management techniques. | <ul style="list-style-type: none"> Identify priority issues for customers and Shared Services Consult customers Produce packages Deliver training Develop self-service continual training via intranets | Susan Guinness | March 2014 | March 2015 | Green | <p>This is a rolling programme that is undertaken annually.</p> <p>The training provided is continually updated to keep it relevant and meet Council needs</p> |
| | To ensure that the Governance Committee comply with the latest CIPFA guidance on Audit Committees. | <ul style="list-style-type: none"> Assess compliance Consult and Report Address any areas for improvement | Garry Barclay | March 2014 | Dec 2014 | Green | Review completed and the results will feed into the 2015 Annual Governance Statement |
| Risk Management | To embed the Risk Management Framework at service level | <ul style="list-style-type: none"> Review & re-issue the Service Risk Register template Oversee completion by services | Garry Barclay / Andy Armstrong | March 2014 | Dec 2014 | Green | Completed |

| | | | | | | | |
|------------------------|--|--|-------------------------------|-------------|----------------|----------|---|
| Information Management | To ensure that there are clear document retention guidelines that are complied with by services | <ul style="list-style-type: none"> Review & re-issue the existing guidance on the Loop Utilise My Share for centralised document management | Garry Barclay Asim Khan | June TBA | Sept TBA | Red | Postponed pending the introduction of My Share and refresh of Microsoft software due to take place in financial year 2015/16 |
| | To update Disaster Recovery plan to reflect new operating arrangements | <ul style="list-style-type: none"> | Asim Khan | | | Amber | This should be completed by the end of march 2015 |
| Probity | To review and update the current Whistleblowing policy to ensure it complies with the national Whistle Blowing Code of Practice. | <ul style="list-style-type: none"> Review Council's policy in light of new national practice document and amend if necessary Publish amended document on loop | Chris Moister | June 2014 | September 2014 | Amber | The policy has been reviewed and there are no substantial amendments to be made. It requires final sign off and publishing but the existing policy document is compliant with the guidance. |
| | To raise awareness of probity policies and guidance amongst staff | <ul style="list-style-type: none"> Internal Audit to plan and deliver training to staff on all probity policies and guidance Probity policies and guidance are to be regularly included within Core brief to help raise awareness. | Chris Moister / Garry Barclay | June 2014 | Dec 2014 | Green | On-line training delivered to 150 officers in October / November 2014 |
| Customer | To review how | | Chris Sinnott | March 2014 | July 2014 | Complete | The corporate strategy project to |

| | | | | | | |
|------------------------|--|--|---------------|----------|----------|---|
| r Care and Engage ment | embedded customer care is within the culture of the Council. | <ul style="list-style-type: none"> • Deliver the corporate strategy project to improve customer dissatisfaction | | | | reduce customer dissatisfaction was completed. There has been a reduction in the level of customer dissatisfaction over the last financial year, and it is now closer to meeting the challenging target. |
| Equality | To review the consistency and compliance with the Equality Scheme. To ensure that the scores given by Service Managers are adequately supported by evidence of compliance. | <ul style="list-style-type: none"> • Undertake review of the implementation of the Equality Scheme across the council | Chris Sinnott | Oct 2014 | Dec 2014 | <p>Red</p> <p>The timescales for the review have slipped because of capacity. However, work continues to support services in undertaking impact assessments and ensuring that they are in place for new policies, changes in service and decisions such as the budget.</p> |

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