

## **GOVERNANCE COMMITTEE**

WEDNESDAY, 21ST MARCH 2018, 2.30 PM  
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

### **AGENDA**

#### **APOLOGIES**

- |          |   |                        |
|----------|---|------------------------|
| <p>1</p> | <p><b>MINUTES OF MEETING WEDNESDAY, 24 JANUARY 2018 OF GOVERNANCE COMMITTEE</b></p>   | <p>(Pages 3 - 8)</p>   |
| <p>2</p> | <p><b>DECLARATIONS OF ANY INTERESTS</b></p> <p>Members are reminded of their responsibility to declare any pecuniary interest in respect of matters contained in this agenda.</p> <p>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.</p> |                        |
| <p>3</p> | <p><b>EXTERNAL AUDIT PLAN 2017/18</b></p> <p>Report of the External Auditor</p>   | <p>(Pages 9 - 26)</p>  |
| <p>4</p> | <p><b>AUDIT PROGRESS AND SECTOR UPDATE REPORT</b></p> <p>Report of the External Auditor</p>   | <p>(Pages 27 - 38)</p> |
| <p>5</p> | <p><b>INTERNAL AUDIT PLAN 2018-19 &amp; INTERNAL AUDIT CHARTER</b></p> <p>Report of the Head of Assurance Services</p>  | <p>(Pages 39 - 48)</p> |
| <p>6</p> | <p><b>RISK MANAGEMENT FRAMEWORK</b></p> <p>Report of Head of Assurance Services</p>   | <p>(Pages 49 - 58)</p> |
| <p>7</p> | <p><b>RIPA APPLICATION UPDATE</b></p> <p>The Monitoring Officer will present a verbal report at the meeting.</p>  |                        |
| <p>8</p> | <p><b>ANY URGENT BUSINESS PREVIOUSLY AGREED WITH THE CHAIR</b></p>  |                        |

GARY HALL

Meeting contact Dianne Scambler on 01257 515034 or email [dianneb.scambler@chorley.gov.uk](mailto:dianneb.scambler@chorley.gov.uk)

## CHIEF EXECUTIVE

Electronic agendas sent to Members of the Governance Committee Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Jean Cronshaw, Alan Cullens, Gordon France, Danny Gee, Debra Platt and Kim Snape.

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**MINUTES OF GOVERNANCE COMMITTEE**

**MEETING DATE** **Wednesday, 24 January 2018**

**MEMBERS PRESENT:** Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Jean Cronshaw, Alan Cullens, Gordon France, Danny Gee, Debra Platt and Kim Snape

**OFFICERS:** Gary Hall (Chief Executive/Statutory Finance Officer), Rebecca Huddleston (Director (Policy and Governance)), Chris Moister (Head of Legal, Democratic & HR Services/Monitoring Officer), Garry Barclay (Head of Shared Assurance Services), James Thomson (Principal Management Accountant), Michael Jackson (Principal Financial Accountant), Dawn Highton (Principal Auditor) and Dianne Scambler (Democratic and Member Services Officer)

**APOLOGIES:** None.

**OTHER MEMBERS:** Councillor Margaret France, Mark Heap (Grant Thornton UK LLP) and Simon Hardman (Grant Thornton UK LLP)

**18.G.1 Declarations of Any Interests**

There were no declarations of any interests.

**18.G.2 Minutes of meeting Wednesday, 20 September 2017 of Governance Committee**

**RESOLVED – That the minutes of the Governance Committee meeting held on 20 September 2017 be confirmed as a correct record for signing by the Chair.**

**18.G.3 HCA Audit of Cotswold House Project**

The Committee received a report of the Chief Finance Officer that updated on the Homes and Communities Agency (HCA) audit of the Cotswold House project, as well as lessons learnt and future actions. This would include any actions for the presumed audit of the Primrose Gardens project.

Chorley Council had received £658k allocation from the HCA towards the £858k refurbishment and extension of Cotswold House, with work beginning in August 2016. The initial tender for the work came in £200k under budget and in February 2017 the council received telephone confirmation that the project could carry out further works

to the building using the grant allocation. The second phase of work was carried out in June 2017.

The Council had received notification in June 17 that it had been selected from a list of projects in the North West of England to be subject of an audit. Grant Thornton were appointed as the auditors.

The audit findings gave 'No' answers to eight questions that had different severity ratings. Although the Council has the opportunity to respond, the likelihood is that the project is likely to receive a red grade for its audit. It should however be pointed out that red grades are common for a Local Authority undergoing its first audit.

It was noted that there had been no money expended on the project that did not meet the criteria outlined in the grant agreement and that the red grade likely to be received by the council is the result of the timing at which the funds were claimed. Although claimed through the HCA's investment management system on the advice of the HCA's Grant Manager, there appears to be a difference of opinion on what type of work constitutes the actual start time of the development.

The Council will receive confirmation of the audit in May 2018 and it is proposed that it is signed off by this Committee. Although the assumed red rating will result in a guaranteed audit of the Primrose Gardens development in September 2018, there is no indication that the red rating will result in funds being returned to the HCA.

Lessons learnt from the audit were provided within the report that would be improved upon for the audit of Primrose Gardens later in the year and Members were confident that the officers had done everything that they could to meet the audit's requirements.

**RESOLVED – That the report be noted.**

#### **18.G.4 Implications of revised CIPFA Prudential Code and Treasury Management Code**

The Chief Finance Officer submitted a report that updated members on CIPFA's changes to the Treasury Management Code and the proposals from DCLG to change the Prudential Framework of Capital Finance

The increasing trend by councils to invest in assets for the purpose of income generation has resulted in potential risks to a Council's revenue budget that may not currently be picked up in the current Treasury Management Code and reporting requirements. The new Treasury Management Code seeks to address this deficiency and introduces a new Capital Strategy report to be approved by full Council in 2019/20. This report will replace the treasury management and investment strategy report and will include:

- A policy statement with the Council's high level policies for borrowing and investments and include policies where the Council has commercial investments held for financial return;
- A new treasury management practice that will require the Council to set out the investment management practices for non-treasury investments;

- A schedule that will include a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and contingent liabilities and the authority's risk exposure.

The Governance Committee will approve the detail and ongoing monitoring of the Capital Strategy.

Proposed changes to the Local Authorities Investment Code would mean the provision of additional disclosures in the Capital Strategy report which the authority agrees to as long as they do not compromise commercial sensitivity or jeopardise accruing higher returns from the Council's investments. It was noted that the consultation alluded to a restriction on council's investing in assets purely for generating returns which would seemingly inhibit investment in assets outside the Councils' boundaries.

Minimum Revenue Provision guidance changes would align the calculation more closely with the capital financing requirement, a change that Chorley Council fully supports. However, reducing the maximum useful economic life for assets (other than freehold land) to 40 years would affect this authority as it is currently financing some of its capital assets over a 50 year period in consultation with profession valuers and external auditors.

**RESOLVED - That the report be noted.**

#### **18.G.5 Update on the Closure of Accounts 2017/18**

The Committee received a report of the Chief Finance Officer that updated on progress of the preparation for the closure of accounts 2017/18 as requested by the Committee in September 2017.

The Accounts and Audit Regulations 2015 set out new deadlines for the publication of the 2017/18 statement of accounts. The draft accounts must be completed and signed by 31 May 2018 with the final audited accounts uploaded by 31 July.

The 2016/17 closedown process made a lot of progress in closing the accounts by 31 May; however the draft accounts were only submitted on 15 June 2017. Building on lessons learnt, preparation of the 2017/18 closure was already underway with some tasks like the reconciling of the debtor system to the financial ledger already underway. A project plan and closure timetable had been created with tasks allocated across the whole of the finance team.

The External Auditors also commented that they are undertaking regular meetings with the Finance Team. Interim work has been started earlier so that it is finished before closedown and tailored requirements will be conveyed in plenty of time with deadline dates for individual pieces of work to be communicated earlier so that everything is in place to start the audit in June. Both the External Auditor and Chorley's Finance team were confident that they would meet the closedown deadlines for 2017/18.

**RESOLVED – That the report be noted.**

#### **18.G.6 Internal Audit Interim Report as at 29 December 2017**

The Head of Shared Assurance Services presented a report that advised members of the work undertaken on the Internal Audit Plans for Chorley Council and Shared Services for the period August to December 2017. The report also made comment on any outcomes and gave an appraisal of the Internal Audit service's performance to date.

All Audit Plans were on target to be achieved, with the majority of performance indicators having either achieved or exceeded.

A snapshot of the overall progress made in relation to the 2017/18 Internal Audit Plans was appended to the report along with an indication on which audits had been completed and their assurance rating, those that were in progress and those yet to start. Details of the planned time and actual time taken were also provided.

The main pieces of work undertaken were highlighted, together with any control issues identified, where applicable. The Committee was pleased to note that all ratings were adequate or above.

The implementation of GRACE had been continuing and over 92 Chorley Council, Shared Services officers and external consultants had now received training with 350 risks at both corporate and system level reports being routinely produced.

Members asked if the comments column on the performance table could be amended to better reflect the actual status at that point in time.

**RESOLVED – That the report be noted.**

#### **18.G.7 Chorley Annual Audit Letter 2016/17**

The External Auditor presented their Annual Audit Letter that summarising the key findings arising from their work carried out at the Council for the year ended 31 March 2017.

The letter provided the Committee with results of their work to the Council and its external stakeholder's and highlighted any issues that the authority. The External Auditors had reported their detailed findings to Committee in September 17 and had given an unqualified opinion on the Council's financial statements.

**RESOLVED – That the report be noted.**

#### **18.G.8 Chorley Certification Letter 2016/17**

The External Auditors were required to certify the Housing Benefit subsidy claim for 2016/17 relating to expenditure of £5.3 million submitted by Chorley Council. Details of the claim certified was appended to the report and confirmed that only minor issues had been highlighted for attention.

Both the External Auditor and the Chief Finance Officer commended the excellent work of the Council's Benefit's team.

**RESOLVED – That the report be noted.**

#### **18.G.9 Chorley Governance Committee Update Report**

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 wish to consider.

Several points were highlighted within the report, that included, the provision of a range of support workshops and network events available for both officers and members to attend and articles relating to 'Meeting the deadlines'; 'Commercial Healthcheck: Commercial investments and governance' and 'Setting up a successful social enterprise'.

Bearing in mind, the fact that local authorities are changing their approach to commercialisation; it was considered appropriate to bring a report to a future meeting of the Committee that would summarise some of the issues raised in this report.

**RESOLVED – That the report be noted.**

#### **18.G.10 Annual Governance Statement - Progress on Management Actions**

The Monitoring Officer presented a report advising members of the progress made against the recommendations in the Annual Governance Statement.

The Annual Governance Statement had identified that overall the Council complied with its governance framework but advised of four thematic areas for improvement along with five management actions, the details of which were contained within the report.

All but one of the management actions had been completed. A review and update of all Health and Safety risks assessments under the Risk Management theme would continue into 2018/19.

As a starting point as an area highlighted to have the potential of most risk, work was undertaken with the team leaders in Streetscene to assess current risk assessments. This review highlighted a number of inconsistencies. Group learning was undertaken to identify areas of best practice and teams were encouraged to develop new risk assessments against a more standardised template.

Training was highlighted as a key factor and there was an apparent need for change in the culture whereby a risk assessment was not just seen as a document that was reviewed every 6 or 12 months. The Health and Safety Advisor has embarked on a new Health and Safety approach where risks are to be assessed every time an activity is undertaken with any learning being recorded on the Risk Assessment. Communication has been encouraged for all staff to speak up if they identify a risk or witness poor practice.

The approach of staff to Health and Safety is now more productive and by ensuring the teams take ownership of the risk assessments personally not only have the documents improved but staff approaches to risk have improved too.

A programme has been set up which will be implemented over the course of the next two years which will realise the same benefits of embedding this approach across all areas of the Council.

Members discussed the importance of health and safety for all staff and asked if information on accidents (including near misses) could be provided for all Members.

**RESOLVED – That the report be noted.**

#### **18.G.11 RIPA Application Update**

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

Chair

Date

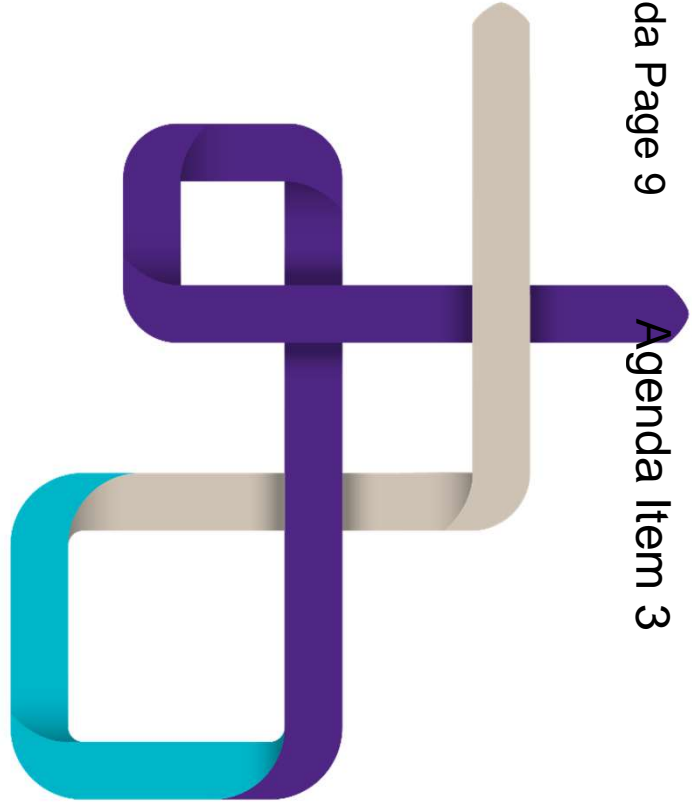


# External Audit Plan

*Year ending 31 March 2018*

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Chorley Borough Council  
March 2018



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## Section

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11. Independence & non-audit services

## Appendices

- A. Revised ISAs

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 planning 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 the Council 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 & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Chorley Borough Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Chorley Borough Council. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Accounts and Governance committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Accounts and Governance Committee of your responsibilities. 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 audit approach is based on a thorough understanding of the Council's business and is risk based.

## Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of pension fund net liability
- Valuation of property, plant and equipment (PPE)

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £1,077,000 (PY £1,065,000), which equates to 2% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £54,000 (PY £53,000).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk:

- financial management and the Council's medium term financial planning arrangements

## Audit logistics

Our interim work is taking place between January to March 2018 and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £45,255. The fee compares to the 2016-17 fee of £45,255.

## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

# Deep business understanding

Changes to service delivery	Changes to financial reporting requirements	Key challenges
<p><b>Commercialisation</b></p> <p>The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. The new version of the Code was published in December 2017.</p> <p><b>Shared services</b></p> <p>The Council is going through the process of looking to extend its shared services arrangements with South Ribble Borough Council. Such arrangements have been relatively common in district councils, where they look to benefit from the economies of scale.</p> <p>Critical success factors include:</p> <ul style="list-style-type: none"> <li>– Maintaining good relationships with the other parties</li> <li>– Having clear roles and responsibilities</li> <li>– Being able to compromise so to meet changing needs</li> </ul> <p>The success of the new arrangements is important for the Council as it looks to ensure long-term financial sustainability</p>	<p><b>Accounts and Audit Regulations 2015 (the Regulations)</b></p> <p>The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.</p> <p>Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.</p>	<p><b>Financial sustainability</b></p> <p>Similar to other local authorities, Chorley Council continues to look at different ways to make savings or generate further income. The Council's Cumulative Budget Strategy highlights that challenges remain .</p> <p>In the budget strategy summary the Council highlights that there is an adjusted cumulative budget deficit by 2020/21 of £2.2m.</p> <p>The Council is planning to close this gap through a combination of:</p> <ul style="list-style-type: none"> <li>• Productivity gains</li> <li>• Renegotiating contracts</li> <li>• Income generation</li> </ul> <p>It is therefore clear that the Council needs to continue to develop robust plans to deliver these savings.</p> <p><b>Delivering the Capital Programme</b></p> <p>The Council is looking to continue to deliver an ambitious capital programme. During 2018/19 the Council currently expects to deliver a capital programme of over £26m and includes three major schemes:</p> <ul style="list-style-type: none"> <li>• Market Walk extension</li> <li>• Primrose retirement village</li> <li>• Digital office park.</li> </ul> <p>The delivery of the programme will provide a challenge to the Council and will offer new sources of income when completed.</p>

## Our response

- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- During our audit we will consider how the Council has responded to the recommendations raised in our 2017/18 Audit Findings Report, which was presented to the Governance Committee in September 2017.

# Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>The revenue cycle includes fraudulent transactions</b></p>	<p>Under ISA (UK) 240 there is a rebuttable 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 the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Chorley Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for Chorley Borough Council.</p>
<p><b>Management over-ride of controls</b></p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li> <li>• obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness</li> <li>• evaluate the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of property, plant and equipment and investment property</b>	<p>The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>give consideration of the competence, expertise and objectivity of any management experts used</li> <li>discuss with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>test revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>
<b>Valuation of pension fund net liability</b>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out</li> <li>undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>check the consistency of the pension fund asset and liability position and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>

# Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Employee remuneration</b></p>	<p>Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness</li> <li>• gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls</li> <li>• obtain year-end payroll reconciliation and ensure the amount in the accounts can be reconciled to the ledger and through to payroll reports. Investigate significant adjusting items</li> <li>• agree any material payroll related accruals to supporting documents and review any estimates for reasonableness</li> </ul>
<p><b>Operating expenses</b></p>	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non-pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness;</li> <li>• gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; and</li> <li>• obtain a listing of non-pay payments made in April, take a sample and ensure that they have been charged to the appropriate year.</li> </ul>

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements. Appendix 1 to the plan contains further information on the changes to the auditing standards linked to going concern.

## Group audit scope and risk assessment

In accordance with ISA (UK) 600, we are required to obtain sufficient appropriate audit evidence regarding the financial information of an entity's components and the consolidation process. As in previous years we do not expect group accounts to be prepared by Chorley, however we will confirm this once we have received and reviewed the Council's consideration of any potential group relationships.



# Materiality

## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

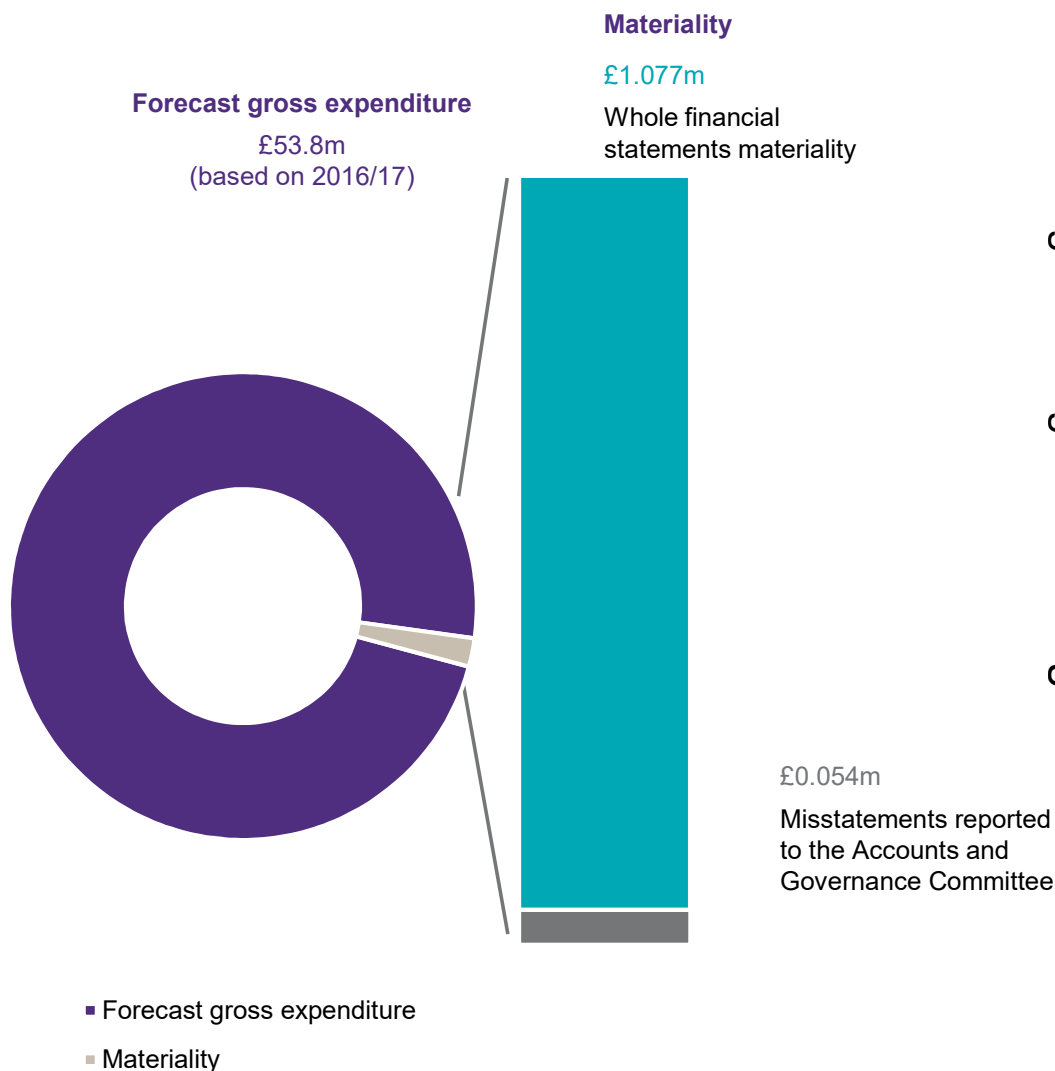
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1.077m (PY £1.065m), which equates to 2% of your forecast gross expenditure for the year, which we have based on last year's accounts. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

## Matters we will report to the Accounts and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Accounts and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.054m (PY £0.053m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Accounts and Governance Committee to assist it in fulfilling its governance responsibilities.



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# Setting Materiality – Materiality for Sensitive Items

## Identifying transactions requiring a separate materiality level

Alongside calculating an overall materiality level to inform our audit of the financial statements, auditing standards require auditors to determine separate lower materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole, could reasonably be expected to influence the economic decisions of users'.

We have determined that a separate materiality level should be adopted in the following areas:

**Related party transactions** - the Council conducts its business using public funds. The Related Party disclosures ensure that the Council discloses in full any transactions that have occurred with related parties. This ensures that the Council is open about who it does business with and counters any allegations or suspicion of nepotism on the part of management or those charged with governance. .

**Disclosures of officers' remuneration and salary bandings in the notes to the financial statements** - due to public interest in these disclosures and the statutory requirement for them to be made.

We will confirm the materiality for these items once the financial statements have been provided.

# Value for Money arrangements

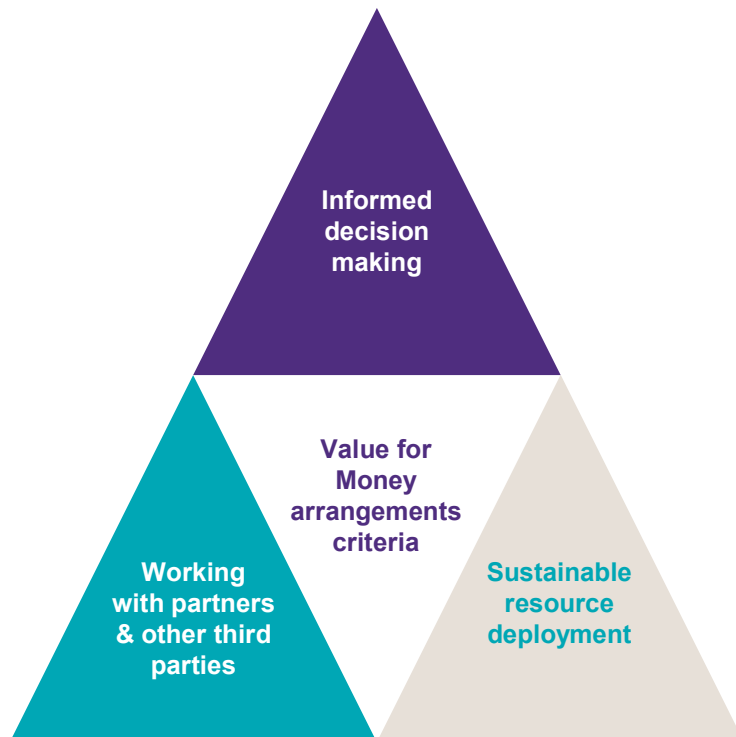
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:



## Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



### Financial Planning and Management

There remain financial challenges over the next few years which the Council needs to meet. There is a risk that financial planning and management will not be adequate to meet those challenges.

We will review the arrangements the Council has in place to manage and plan its finances over the short and medium term. We will do this by considering the Council's arrangements in place to develop financial plans and how it reports its financial position. It includes reviewing how the Council plans to bridge the budget gap over the next three years.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

# Audit logistics, team & audit fees



**Mark Heap, Engagement Lead**



**Simon Hardman, Audit Manager**



**Richard Watkinson, Audit In-charge**

## Audit fees

The planned audit fees are no less than £45,255 for the financial statement audit. The fee compares to the 2016-17 scale and actual fee of £45,255. The scale fee for our grant certification work is £6,798 (PY: £6,683). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

# Early close

## Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 12). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Non-audit services

The following non-audit services were identified

Service	Fees £	Threats	Safeguards
<b>Audit related</b>			
Housing and Communities Agency	5,000	Self-Interest (because this is potentially a recurring fee)	The level of this potentially recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £45,255 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

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# Appendices

**A. Revised ISAs**

# Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
<b>Conclusions relating to going concern</b>	We will be required to conclude and report whether: <ul style="list-style-type: none"><li>• The directors use of the going concern basis of accounting is appropriate</li><li>• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.</li></ul>
<b>Material uncertainty related to going concern</b>	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
<b>Other information</b>	We will be required to include a section on other information which includes: <ul style="list-style-type: none"><li>• Responsibilities of management and auditors regarding other information</li><li>• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation</li><li>• Reporting inconsistencies or misstatements where identified</li></ul>
<b>Additional responsibilities for directors and the auditor</b>	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
<b>Format of the report</b>	The opinion section appears first followed by the basis of opinion section.





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# Audit Progress Report and Sector Update

Chorley Borough Council  
Year ending 31 March 2018

5 March 2018



# Contents

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# Introduction



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This paper provides the Governance 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 local authority; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk).

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 Engagement Manager.

# Progress at 5 March 2018

## Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in January 2018. Our interim fieldwork visit includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We are pleased to report that there are currently no matters that we need to raise with the Governance Committee in relation to our work.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are continuing to discuss our plan and timetable with officers.

The final accounts audit is due to begin on 1 June with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We have completed our initial risk assessment to determine our approach and report this to you in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

## Other areas

### Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

### Meetings

We are meeting with the finance team on a monthly basis to discuss emerging developments and to ensure the audit process is smooth and effective. We also meet regularly with your Chief Executive to discuss the Council's strategic priorities and plans.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2017/18.	April 2017	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	March 2018	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit when required and our initial value for money risk assessment through our audit plan.	March 2018	Work continuing
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Governance Committee.	July 2018	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2018	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

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# Sector Update

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Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Governance Committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website



# Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

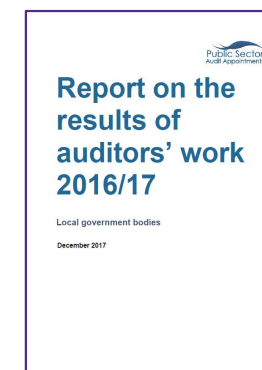
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



# Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

## Statutory Guidance on Local Authority Investments

**Transparency and democratic accountability** – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

**Principle of contribution** – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

**Introduction of a concept of proportionality** – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

**Borrowing in advance of need** – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

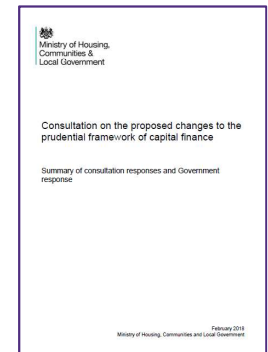
## Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

**Meaning of a charge to the revenue account** – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

**Impact of changing methods of calculating MRP** – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

**Introduction of a maximum economic life of assets** – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



## Changes to capital finance framework

### Challenge question:

Is the Council prepared for the changes to the prudential framework of capital finance?

# CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn

The Code is available in hard copy and online.

## CIPFA Publication

### Challenge question:

Is the Council prepared for the changes to the prudential framework of capital finance?



# Supply Chain Insights tool helps support supply chain assurance in public services

## Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."

### The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
  - organisation and category
  - service provider
  - date at a monthly level
- benchmark your spend against your peers
- identify:
  - organisations buying similar services
  - differences in pricing
  - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

## Supply Chain Insights

Grant Thornton

Challenge question:

Has your Authority considered how our Supply Chain Insight tool can help support your supply chain assurance?



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# Links

## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/>

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

<http://www.cfoinsights.co.uk/>

<http://supplychaininsights.grantthornton.co.uk/>

## PSAA website links

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## MHCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

## CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

## National Audit Office link

<https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/>

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Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	21st March 2018

## INTERNAL AUDIT PLAN 2018/19 & INTERNAL AUDIT CHARTER

### 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 2018/19 Internal Audit Plan.

### RECOMMENDATION

- That the Committee approves the 2018/19 Internal Audit Plan.

### EXECUTIVE SUMMARY OF REPORT

- The 2018/19 Internal Audit Plan has been compiled in consultation with Directors following a detailed risk assessment.

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 homes and communities		An ambitious council that does more to meet the needs of residents and the local area	<b>X</b>

### BACKGROUND - THE ROLE OF MANAGEMENT AND INTERNAL AUDIT

- The responsibility for implementing a strong system of governance and internal control within the Council lies primarily with management. Directors need to ensure that they maintain effective control procedures not least because services and business systems are subject to on-going change.
- 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, risk and internal control. This is largely achieved through an annual programme of reviews.

**AUDIT PLAN**

8. The 2018/19 Internal Audit Plan contains the programme of reviews for the next financial year and is shown at **Appendix 1**. This has been constructed following an assessment of audit need by considering a range of factors, such as significant changes in staffing, systems and procedures, the length of time since an area was last audited and items in the Corporate Strategy and Corporate Risk Register. There has also been extensive consultation within each service which has taken an overview of audit requirements.
9. The following paragraphs summarise the areas that will be subject to audit coverage in 2018/19.
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 and update of Anti-Fraud and Corruption Policies.
  - Co-ordinating the Council's input to the Cabinet Office National Fraud Initiative (NFI) 2018 exercise for in order to identify any potential irregularities.
11. Carrying our risk based reviews in the following areas:
  - Chorley Council**
    - Health and Safety – Early Intervention Service
    - Ethical Culture
    - Astley Hall
    - Enforcement Service
    - Maintenance and Inspection Regime
    - Choice Based Lettings
    - Environmental Permitting Regulations
    - Financial Governance Arrangements for Large Scale Projects
    - Commercial Properties.
    - ICT review (to be determined)
  - Shared Services**
    - Treasury Management
    - Payroll
    - Creditors
    - Main Accounting
    - Cash and Bank
12. Compliance testing will be undertaken on:
  - Council Tax
  - Non Domestic Rates
  - Housing Benefits
  - Sundry Debtors
13. We will be involved with the following key corporate projects:
  - General Data Protection Regulations
  - Waste Contract Procurement
  - Primrose Garden Retirement Living (Operations)
  - Market Walk Extension



14. We will assess compliance with the Data Quality Policy for an identified service area and will carry out a review of the quality of the risks contained within service risk registers held on GRACE.
15. General Areas – Chorley Council & Shared Services.
  - Completing any residual work outstanding from 2017/18.
  - System administrator responsibilities for both risk (GRACE) and Business Continuity (CONNIE).
  - Following up management actions agreed in earlier audit reports.
  - Responding to requests from Management for unplanned reviews / investigations.
  - Preparing reports for and attending the Governance Committee.

### AUDIT DAYS

16. The Internal Audit Plan for 2018/19 is based on a resource of **340 audit days for Chorley Council and 140 days for the Shared Service**. This is the number of chargeable days available within the existing budget (after deducting annual leave and other non-chargeable time). It comprises of a mix of in-house and bought-in resources from Lancashire Audit Services (Lancashire County Council).

### INTERNAL AUDIT CHARTER

17. From 1st April 2013, the CIPFA Code of Practice for Internal Audit in Local Government 2006 was replaced by new UK Public Sector Internal Audit Standards (PSIAS).
18. The Attribute Standard of the PSIAS “*Purpose, Authority and Responsibility*” specifically requires the production of an Internal Audit Charter and for it to be periodically reviewed. The Charter was last formally reviewed and approved by the Governance Committee in March 2014 and as the Internal Audit Service is due for its Peer Review in April 2018, it is appropriate to review the Charter before this time to ensure it is fit for purpose and compliant with the PSIAS.
19. The Internal Audit Charter has been reviewed against the requirements contained within the PSIAS and is included at **Appendix 2**.

### IMPLICATIONS OF REPORT

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

**Garry Barclay**  
**Head of Shared Assurance Services**

### BACKGROUND PAPERS

Internal Audit Risk Assessment  
 Public Sector Internal Audit Standards & Local Government Application Note

Report Author	Ext	Date	Doc ID
Garry Barclay Dawn Highton	01772 625272 01257 515468	March 2018	2018 / 2019 Internal Audit Plan

<b>CHORLEY COUNCIL</b>	<b>RISK RATING</b>	<b>AUDIT DAYS</b>
<b>CORPORATE AREAS</b>		
Annual Governance Statement	N/A	20
Anti-Fraud & Corruption	N/A	10
National Fraud Initiative	N/A	15
<b>POLICY &amp; GOVERNANCE</b>		
<b>Legal Democratic &amp; HR Services</b>		
General Data Protection Regulations	N/A	5
Health & Safety – Early Intervention Service	CRITICAL	10
Ethical Culture	CRITICAL	10
<b>Performance &amp; Partnerships</b>		
Performance Management Information	CRITICAL	15
Service Risk Registers	CRITICAL	10
Astley Hall	MAJOR	15
<b>CUSTOMER &amp; DIGITAL</b>		
<b>Transformation</b>		
Council Tax	CRITICAL	5
Non Domestic Rates	CRITICAL	5
Housing Benefits	CRITICAL	5
Sundry Debtors	CRITICAL	5
<b>ENFORCEMENT</b>		
Enforcement Service	MAJOR	10
<b>Waste &amp; Streetscene</b>		
Maintenance & Inspection Regime	MAJOR	10
Waste Contract Procurement	N/A	5
<b>ICT</b>		
To be determined	CRITICAL	15
<b>EARLY INTERVENTION</b>		
<b>Housing Options &amp; Support</b>		
Choice Based Lettings	MAJOR	10
Primrose Garden Retirement Living (Operations)	N/A	10
<b>Regulatory Services</b>		
Environmental Permitting Regulations	MAJOR	15
<b>BUSINESS DEVELOPMENT &amp; GROWTH</b>		
<b>Market Walk &amp; Town Centre</b>		
Market Walk Extension	N/A	10
Financial Governance Arrangements / large scale projects	CRITICAL	15
<b>Property Services</b>		
Commercial Properties	MAJOR	15
<b>GENERAL AREAS</b>		
Residual Work from 2017/18	N/A	20
Risk & Control Self-Assessment	N/A	15
Business Continuity	N/A	15
Post Audit Reviews	N/A	10
Contingency / Irregularities	N/A	20
Governance Committee	N/A	15
<b>TOTAL</b>		<b>340</b>

SHARED SERVICES	RISK	DAYS
<b>SHARED FINANCIAL SERVICES</b>		
Treasury Management	CRITICAL	20
Payroll	CRITICAL	20
Creditors	CRITICAL	20
Main Accounting	CRITICAL	20
Cash and Bank	CRITICAL	20
<b>GENERAL AREAS</b>		
Residual Work from 2017/8	N/A	15
Risk & Control Self-Assessment	N/A	5
Post Audit Reviews	N/A	10
Contingency / Joint Committee Accounts	N/A	10
<b>TOTAL</b>		<b>140</b>

## **Chorley Council – Internal Audit Service Charter**

### **Introduction / Purpose**

Internal Auditing is an independent and objective assurance and consulting activity that is designed to add value and improve the operations of Chorley Council. It assists 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.

### **Professionalism**

The Internal Audit Service will govern itself by adherence to the mandatory Public Sector Internal Audit Standards (PSIAS). 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.

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.

For the purposes of clarity, the terms "Board" and "Senior Management" as referred to in the PSIAS, relate to the Governance Committee and the Senior Management Team respectively.

### **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**

Internal Audit is organisationally independent in the planning, operation and reporting of its work and in exceptional circumstances and at his or her discretion, the Chief Audit Executive (CAE) has direct access to and freedom to report in his or her name to the Chief Executive and to the Chair of Governance Committee. In addition the CAE has direct access to all members of the Senior Management Team.

The CAE will report to the S151 Officer and if required, will also have direct access to the Chief Executive and beyond that to the Chair of the Governance Committee.

The CAE 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 CAE will confirm to the Governance Committee, at least annually, the organisational independence of the Internal Audit Service.

In any instances where there is any real or perceived impairment to Internal Audit's independence or objectivity, assurance will be sought from a third party external to the organisation.

## 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 Council including governance processes and risk management processes.

Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the Council. 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 and to Senior Management Team, including fraud risks and governance issues.

The Internal Audit Section will undertake special investigations in cases of suspected fraud or irregularity. Financial Procedure Rules and the Council's Anti-Fraud and Corruption Policy require the CAE to be notified immediately of all discovered or suspected cases of fraud, corruption or other financial irregularity.

The CAE provides an annual internal audit opinion to the Governance Committee based on the outcomes of internal work conducted throughout the year, that key risks are being managed effectively and that appropriate controls are in place. This opinion will be an important element of the council's review of the effectiveness of its control environment and will be used by the council to inform its Annual Governance Statement.

### Internal Audit Plan

At least annually, the CAE 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 CAE is responsible for maintaining a suitably resourced, professional audit staff with sufficient knowledge, skills and experience to carry out the audit plan and will communicate the impact of resource limitations and significant interim changes to Senior Management Team 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 Team 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 CAE 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 CAE 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 CAE will communicate to Senior Management Team 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 21<sup>ST</sup> March 2018**

.....

**Chief Audit Executive**

.....

**Chair of the Governance Committee**







Report of	Meeting	Date
Head of Shared Assurance Services	Governance Committee	21 <sup>st</sup> March 2018

**RISK MANAGEMENT FRAMEWORK**

**PURPOSE OF REPORT**

1. The Council introduced its first framework document for risk management at the turn of the millennium. Since then considerable progress has been made in embedding risk management disciplines throughout the Council.
2. This update reflects some further, recent improvements that have been made and demonstrates how the Council is continuing to ensure that the management of risk remains at the centre of its day-to-day work.

**RECOMMENDATION**

3. That members consider, comment on and approve the adoption of the updated Risk Management Framework

<b>Confidential report</b> Please bold as appropriate	Yes	<b>No</b>
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**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 homes and communities		An ambitious council that does more to meet the needs of residents and the local area	<b>X</b>

**BACKGROUND**

4. During 2017/8 the Shared Assurance Service procured and implemented the GRACE (Governance, Risk Assessment & Control Evaluation) system for use within both Chorley and South Ribble Councils. Its main purpose was to facilitate a modern, risk-based approach to internal auditing by engaging service departments in the self-assessment of their own process/system risks via the completion of on-line risk registers prior to the commencement of the audit process.

5. Following extensive officer training, the scope of the GRACE system has since been (and is continuing to be) expanded to enable the completion of risk registers at all levels within each organisation including the Strategic Risk Register, Service Risk Registers and those in relation key projects, procurements and partnerships.
6. This has therefore fundamentally changed the methods of recording, monitoring and reporting on risk within the Council and for that main reason it has become necessary to update the Risk Management Framework document which is appended to this report.
7. The Risk Management Framework will continue to be kept under review to take account of changing legislation, government initiatives, best practice and experience gained within the Council.

### **IMPLICATIONS OF REPORT**

8. The matters raised in the report are cross cutting and impact upon individual services and the Council as a whole.

GARRY BARCLAY  
HEAD OF SHARED ASSURANCE SERVICES

### **Background papers**

Risk Management Framework 2018 (attached)

<b>Report Authors</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Garry Barclay Dawn Highton	01772 625272 01257 515468	March 2018	CBC RMF 2018



# **Risk Management Framework 2018**



**CHORLEY BOROUGH COUNCIL - RISK MANAGEMENT FRAMEWORK****1. RISK MANAGEMENT: OBJECTIVES**

1.1 We are exposed to risk both in terms of threats to service provision and from missed opportunities. It is essential that we can demonstrate to our residents that we are fully considering the implications of risk as we plan and deliver services to the community.

1.2 Like all organisations, the Council exists to achieve its objectives which are set out in our Corporate Strategy. Risk management can help us achieve these goals by fully considering the opportunities and barriers that we may encounter. Our aim is to use strategic risk management as a tool for continuous improvement and to make effective and transparent use of the Council's resources.

1.3 In addition the Council must also ensure operation and delivery of services, the health and safety of its service users, employees and the public at large. This Risk Management Framework supports continuing change including partnership working and alternative methods of service delivery and provides a structured and focused approach to managing them.

**1.4 Risk management is the logical and systematic method of identifying, analysing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process in a way that enables organisations to minimise losses, maximise opportunities and achieve their objectives.**

1.5 The Council is prepared to take judicious risks to achieve its corporate objectives and enhance the value of the services it provides to the community.

1.6 Its aims are to:

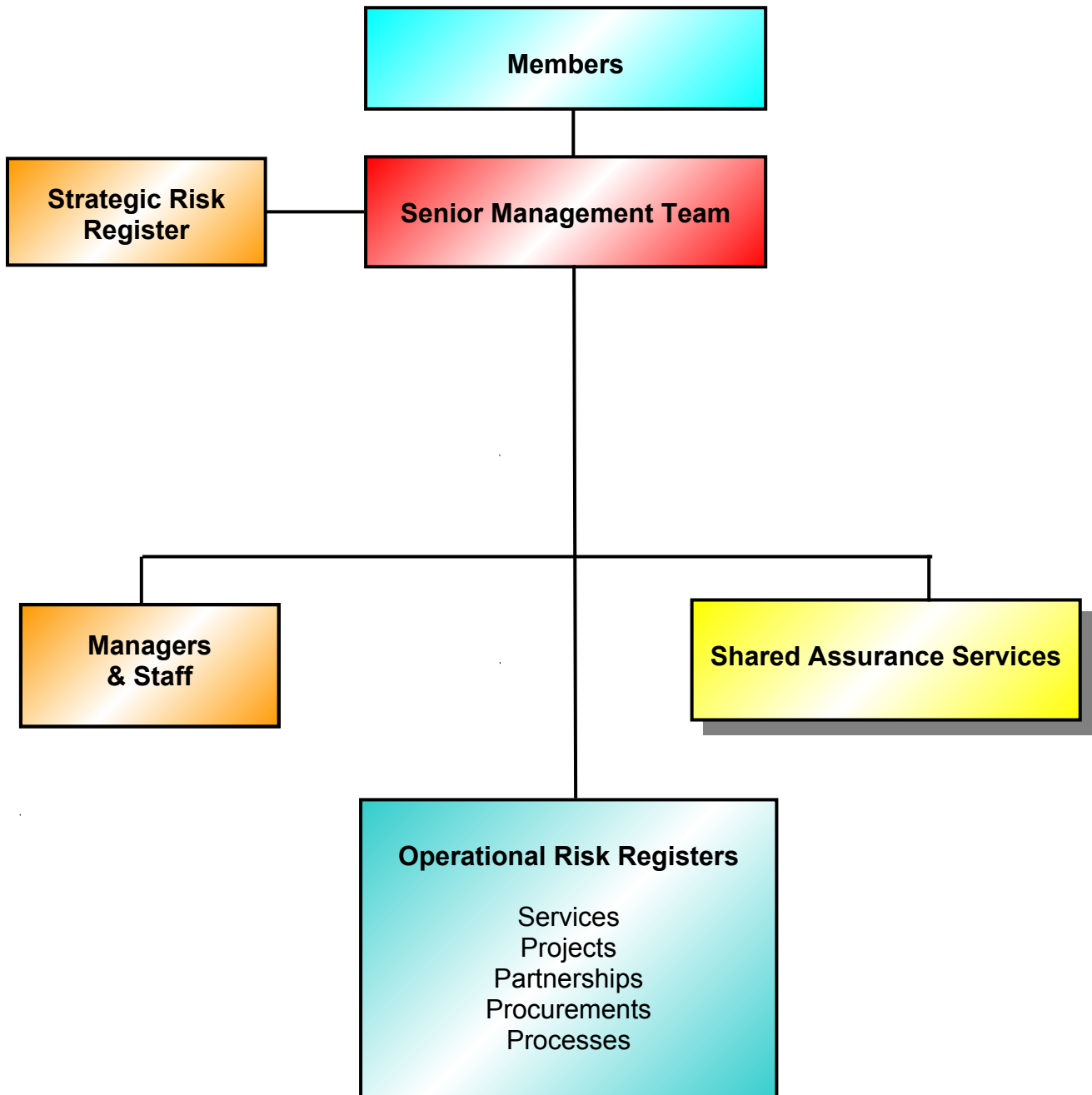
- Ensure risk management is integrated into the culture of the Council.
- Ensure appropriate risk taking is encouraged, particularly to respond to opportunities arising.
- Anticipate and respond to changing social, environmental and legislative needs, pressures or constraints, as well as changes in the internal environment.
- Manage risk in accordance with best practice including integration with performance and financial management including partnership arrangements.
- Improve performance and efficiency and in particular minimise injury, damage and losses and make effective use of resources.
- Protect the Council's assets, reputation and operational capacity.

1.7 These aims will be achieved by:

- Maintaining clear roles, responsibilities and reporting lines for risk management.
- Raising awareness of the need for risk management by all those connected with the Council's delivery of services.
- Gaining commitment from all members and employees, to ensure risk is managed within a consistent framework.
- Ensuring that risk management is explicitly considered in all decision making by, incorporating links to all key decision points e.g. committee reports, delegated decisions, project management and partnership agreements.
- Considering risk in all the Council's key planning processes.
- Providing opportunities for shared learning on risk management across the Council and with our business partners.
- Reinforcing the importance of effective risk management as part of the everyday work of members and employees.
- Providing adequate assurance for the management of risk to support the Annual Governance Statement.

## 2. RISK MANAGEMENT: ORGANISATIONAL STRUCTURE

2.1 The following table outlines the organisational structure for risk management across the Council:



## 3. ROLES & RESPONSIBILITIES FOR RISK MANAGEMENT

3.1 The various roles and responsibilities for risk management within the Council are attached at Appendix 1.

**4. RISK RECORDING & MONITORING**

4.1 The GRACE (Governance, Risk Assessment & Control Evaluation) system has been adopted for use within the Council to enable the completion of risk registers at all levels including the Strategic Risk Register, Service Risk Registers and those in relation key projects (including Corporate Strategy projects), key procurements, partnerships and processes.

4.2 The Strategic Risk Register is owned and maintained by Senior Management Team and is kept under continuous review.

4.3 Operational risk registers are assigned to specific Directors and Senior Managers who will have overall responsibility for their maintenance on the GRACE system. They will in turn allocate individual risks to Risk Owners who must decide upon and monitor appropriate actions.

4.5 The specific information to be recorded within GRACE is as follows:

**Risk Categories** – risks should be assigned to one of the categories listed below:

- **Strategic** – risks impacting upon the achievement of the corporate objectives and priorities;
- **Financial** – risks associated with financial planning and control;
- **Human Resources** – risks associated with recruiting, retaining and motivating staff & developing skills;
- **Environmental** – risks related to pollution, noise or energy efficiency;
- **Information** – risks related to information held;
- **Legal / regulatory** – risk relating to legal / regulatory requirements;
- **Operational** – risks relating to operational activity;
- **Partnership / Contractual** – risk relating to the failure of partners / contractors or the contract itself;
- **Physical** – risk related to fire, security, accident prevention & health and wellbeing;
- **Reputational** – risk relating to the reputational risk to the council;
- **Technological** – risks associated with technology.

**Risk Description** – this requires an understanding of the legal, social, political and cultural environment in which the Council operates as well as a sound understanding of the Council’s corporate and operational objectives i.e. those factors, which are critical to the success of the Council, as well as threats and opportunities.

**Inherent Risk Score** - having identified areas of potential risk they need to be systematically and accurately assessed. The process requires managers to make an assessment of the likelihood and potential impact of a risk event occurring and scored according to the following matrix:

		The Risk Matrix			
Impact	4	8	12	16	
	3	6	9	12	
	2	4	6	8	
	1	2	3	4	
		<b>Likelihood</b>			

<b>Likelihood</b>	<b>4:</b> Almost certain the event will occur
	<b>3:</b> There is a strong possibility the event will occur
	<b>2:</b> Unlikely the event will occur
	<b>1:</b> Rarely
<b>Impact</b>	<b>4:</b> Major impact
	<b>3:</b> Serious impact
	<b>2:</b> Minor impact
	<b>1:</b> Insignificant impact

**Risk Owner** – a nominated person who is responsible for evaluating and responding to any individual risks allocated to them.

**Existing Control Measures** – any controls or measures that reduce the likelihood or impact of a risk.

**Residual Risk Score** – this risk score which takes account of any existing control measures in place (see above matrix).

**Target Risk Score** – in broad terms there are four main options for responding to risks which remain within the organisation.

**Terminate** - this involves the Council in terminating the cause of the risk or, opting not to take a current or proposed activity because it believes it is too risky.

**Tolerate** - this is where the cost of action outweighs the benefit that results from the proposed action. Alternatively no further action can be taken and the risk is accepted with any potential financial loss being highlighted.

**Transfer** - this involves transferring liability for the consequences of an event to another body. This can occur in two forms. Firstly legal liability may be transferred to an alternative provider under contractual arrangements for service delivery. Secondly, transferring some or all of the financial risk to external insurance companies may reduce the costs associated with a damaging event.

**Treat** - this is dependent on implementing projects or procedures that will minimise the likelihood of an event occurring or limit the severity of the consequences should it occur.

The target risk score therefore may be the same or lower than the residual risk score and reflects the level of risk the Risk Owner is willing to accept (see above matrix).

**Risk Actions** – where further treatment of the risk is deemed necessary then the Risk Owner will determine the course of action to be taken. The action to manage risk needs to be appropriate, achievable and affordable. The impact expected if no action is taken should be considered against the cost of action and the reduction of the impact. For opportunities, the benefit gained in relation to the cost of action should be considered.

## **5. RISK REPORTING**

5.1 The Strategic Risk Register is continuously monitored by the Council's Senior Management Team and reported to the Governance Committee at least annually.

5.2 Service Risk Registers and those in relation key projects, procurements, partnerships and processes are monitored by Directorate Management Teams.

5.3 In addition, risks in relation to Corporate Strategy projects are reported to Programme Board on a quarterly basis.

5.4 GRACE has also enabled a modern risk-based approach to internal auditing by engaging service departments in the self-assessment of their own system risks via the completion of on-line risk registers prior to the commencement of audits. System/process risks are reported as part and parcel of ongoing Internal Audit work.

5.5 Finally, all Committee reports, Cabinet decisions taken under delegated powers and corporate projects, including partnership agreements include the consideration and control of the risks associated with the actions proposed.

## **6. RISK MANAGEMENT: REVIEWING PERFORMANCE**

6.1 Individual risks are reviewed in accordance with GRACE parameters depending upon the level of risk:

- Red risks – 3 months
- Amber risks – 6 months
- Green risks – 12 months.

6.2 The overall risk management system is reviewed by Internal Audit as part of their annual audit work plan.

6.3 In accordance with the Public Sector Internal Auditing Standards the Chief Internal Audit Executive's Annual Report is required to provide an opinion based on an objective assessment of the framework of governance, risk management and control.

6.4 Risk management assurance will also be published in the Council's Annual Governance Statement.



**Roles and Responsibilities**

**The Council** will approve the Constitution including the system of corporate governance which incorporates risk management arrangements.

**The Governance Committee** will continuously scrutinise the Risk Management Framework and monitor the effective development and operation of risk management in the Council.

**The Chief Executive** has overall responsibility for risk management at Chorley Council and in conjunction with the Council's insurers, for supporting risk management by supplying advice and data to Directors.

**The Section 151 Officer** will, through the Internal Audit Service, provide assurance to the Council on the whole system of internal control, including risk management.

**Senior Management Team** will function as the corporate risk management group and will consider and evaluate those risks likely to have a significant impact on the Council's objectives. They will ensure that the Council manages risk effectively and monitors delivery by receiving regular reports. In addition they will consider corporate risks and propose the risk appetite of the Council.

**Shared Assurance Services** in line with their responsibilities for the Council's corporate governance arrangements will lead the risk management initiative and 'champion' risk management throughout the Council.

**Directors** will identify and manage risks in their service areas. With their own teams they will identify and evaluate the risks associated with service improvement and also those risks which may prevent them from achieving their service objectives.

**Risk Owners** – will be identified to evaluate controls, establish risk control records, produce and implement action plans to mitigate risks.

**Project Managers** have a responsibility to ensure that the risks associated with their projects are identified, recorded on GRACE and regularly reviewed as part of the project management process and provide assurance about the management of those risks.

**Partnerships** – the key stakeholders have a responsibility to ensure that risks are identified, owned, recorded on GRACE reviewed and shared with all relevant partners and ultimately to provide assurance that those risks are being managed.

**Employees'** responsibility for managing risk is not restricted to any one person or group of specialists. All employees have a responsibility to manage risk effectively in their job and report opportunities, threats and risks to their Directors and undertake their duties within risk management guidelines. Those officers involved in decision-making should also explicitly consider the implications of risk management and document their findings appropriately.

**Internal Audit**, as part of its role in providing assurance to the Section 151 officer, will review the implementation and effectiveness of the system of risk management. An annual report will provide independent opinion on the adequacies of risk control and the Council's corporate governance arrangements.

