

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting: 29 March 2011
Report of: Head of Policy & Performance
Title: Work Plan

1.0 Report Summary

1.0 To present an updated Work Plan to the Committee for consideration.

2.0 Decision Requested

2.1 That the Committee:

- consider the Work Plan and determine any required amendments
- note the changes made to the plan since it was last discussed in January 2011
- note that the plan will be periodically brought back to the Committee for development and approval.

3.0 Reasons for Recommendations

3.1 The Audit and Governance Committee has a key role in overseeing and assessing the risk management, control and corporate governance arrangements and advising the Council on the adequacy and effectiveness of these arrangements. A forward looking programme of meetings and agenda items is necessary to ensure that the Committee fulfils its responsibilities.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Borough Treasurer)

7.1 When reviewing the Work Plan, Members will need to consider the resource implications of any reviews they wish to carry out both in terms of direct costs and in terms of the required officer support.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 The Work Plan must take account of the requirements of the Accounts and Audit Regulations 2003 (as amended) whilst acknowledging the changes proposed by the Department for Communities and Local Government (DCLG) in the consultation document 'Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended'.

9.0 Risk Management

9.1 Effective internal control and the establishment of an audit committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, an effective audit committee can:

- raise awareness of the need for robust risk management, control and corporate governance arrangements and the implementation of audit recommendations
- increase public confidence in the objectivity and fairness of financial and other reporting
- reinforce the importance and independence of internal and external audit and any other similar review process
- provide additional assurance through a process of independent and objective review

9.2 A comprehensive Work Plan is necessary to ensure that the Committee fulfils its responsibilities.

10.0 Background and Options

10.1 A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities has been attached at Appendix A of this report. The Committee is asked to consider the contents of the Work Plan and establish any additional agenda items/training/briefing sessions that will enable it to meet its responsibilities. In doing so it should be noted that the following changes have been made to the programme that was discussed in January 2011:

- A report has been included on the March Agenda in order that External Audit can update Members on progress against the 2010/11 Audit Plan and the associated risk assessment which must be updated during the course of the audit.
- Following a verbal update on the implementation of agreed actions relating to the Audit Commission's Final Accounts Memorandum, Members requested a formal update report. Consequently, a report is included on the agenda to provide Members with assurance that issues have been, or are being addressed.
- Revisions to the Risk Management & Business Continuity Strategy were delayed last quarter because the focus had been on developing a comprehensive Corporate Risk Register and integrating and aligning risk management into the Council's business planning process. Review work on the existing Risk Management Strategy has highlighted areas that the Council may wish to strengthen if it is to further develop its existing risk management framework. An example of this is the definition and articulation of the Council's risk appetite or risk tolerance level. Consideration as to how the Council wishes to strengthen the framework needs to be undertaken, and agreed, before the existing Risk Management Strategy is revised. Business Continuity forms part of the Risk Management Strategy and so will be integral to the Strategy update which is now anticipated for the June Committee.
- Given the proposal to revise and consolidate the Accounts and Audit Regulations 2003 (as detailed below) the Annual Governance Statement (AGS) report has been amended to acknowledge the progress made in reviewing the Council's current governance arrangements together with how the proposed changes may impact on the process.
- The results of a review of the Council's anti fraud arrangements against those prescribed in the CIPFA publication 'Managing the Risk of Fraud Actions to Counter Fraud and Corruption' has been carried forward to the June agenda. Work on Fraud Risk has, however, continued throughout the quarter. This includes meeting the requirements of the National Fraud Initiative (NFI), developing a Fraud Risk Assessment using the Audit Commission publication 'Protecting the Public Purse' and the National Fraud Authority annual assessment and initial analysis of the Council's arrangements using the CIPFA Fraud Evaluation Diagnostic Tool (FRED1).
- As previously reported, an updated Whistleblowing Policy has been produced by Internal Audit and is currently nearing the end of the consultation process. The policy has been approved by the Borough Solicitor and HR Strategy Manager and was scheduled to

be reviewed by trade unions w/c 21 March 2011 which was unfortunately too late to allow presentation at this meeting.

- Regulation 6 of the Accounts and Audit Regulations 2003 (as amended) requires the authority to conduct an annual review of the effectiveness of the system of internal audit. As previously agreed the 2010/11 review includes a self-assessment – using the CIPFA document “measuring the effectiveness of the Audit Committee”. A report has been included on the March Agenda in order that Members are satisfied that the self assessment of the Committee’s effectiveness has been completed correctly.
- a presentation on reputational risk management has been included for March 2011 at the Committee’s request.
- a training session on performance management has been included for June 2011 at the Committee’s request.

10.2 Furthermore, the Committee is asked to note that the Work Plan acknowledges the current requirements of the Accounts and Audit Regulations 2003 (as amended) together with the changes proposed by the DCLG as detailed in the consultation document 'Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended'. The impact of the most significant changes on the Work Plan can be summarised as follows:

- Following the consultation and any resulting changes, the new regulations (cited as the Accounts and Audit Regulations 2011) will come into force on 31 March 2011. It is, therefore, anticipated that they will apply to the 2010/11 year end accounts.
- In respect of the approval and publication of the annual accounts, Members will not now be required to approve the unaudited accounts by the 30 June. The responsible financial officer (Borough Treasurer and Head of Assets) will still be required to certify that the accounts are a true and fair view by this date and Members will be required to continue to approve the audited accounts by the end of September. This new proposal will bring local authorities in line with the process for approving company accounts in addition to allowing further time to close the accounts, which will be beneficial as this is the first year of financially reporting under International Financial Reporting Standards (IFRS).
- Although not explicit in the consultation document this could have an impact on the approval process for the AGS. This is because the Council has previously been required to include the AGS document in the approval process of the Statement of Accounts, the statutory deadline for which was the end of June from the 2005/6 financial year. (Source: *The CIPFA Finance Advisory Network document THE ANNUAL GOVERNANCE STATEMENT Meeting the*

requirements of the Accounts and Audit Regulations 2003, Incorporating Accounts and Audit (Amendment) (England) Regulations 2006 Rough Guide for Practitioners With effect from 2007/8).

- Furthermore, the Code of Practice for Internal Audit in Local Government in the United Kingdom requires the Head of Internal Audit to provide the Committee with an Annual Report and Presentation of Audit Opinion that is timed to support the Annual Governance Statement.
- The Statement on Internal Control (Annual Governance Statement) is no longer to be published as part of the Statement of Accounts. The statement will accompany the published accounts, to make it clear that it is not part of the accounts.
- The current regulations require the council to annually review the effectiveness of its *system of internal audit*. Clarification has previously been sought on the meaning of the term '*system of internal audit*', as opposed to a review of the effectiveness of the internal audit function. DCLG now recognises the confusion and proposes to clarify the requirement by requiring an annual review of the effectiveness of internal audit.

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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<u>Committee Date/Agenda Item</u>	<u>Notes</u>
<u>25 January 2011</u>	
Annual Audit Letter	The key issues arising from the External Auditors' work on the 2009/10 audit were considered.
Opinion Plan	The Committee considered the work that is planned by the External Auditor to give an opinion on the Council's Financial Statements for the financial year 2010/11.
2010/11 Opinion Audit – Changes You Can Expect to See	The Committee noted changes in the delivery of the Council's 2010/11 financial statements audit following the clarification and changes to the International Standards on Auditing (ISAs).
Update on IFRS	The Committee noted the progress made on the IFRS Action Plan.
Compliance with International Auditing Standards	The Committee considered a report setting out a response to a request from the Council's External Auditors, the Audit Commission, for information regarding management arrangements for identifying and reporting the risk of fraud and complying with relevant laws and regulations.
Risk Management update report	Members received an update on the risk management framework and the key corporate risks.
Freedom of Information and Data Protection	This report provided Members with an update on FOI and DP issues including volumes of requests and trends.
Internal Audit Update	The Committee considered a report which detailed progress against the Internal Audit Plan 2010/11, revisions to the plan and work undertaken during the period September – December 2010.
AGS Action Plan	The Committee noted the progress made in implementing the (AGS) action plan for 2009/10.
Counter Fraud Corruption	The Committee considered a report regarding proposed amendments to the Council's Anti-Fraud and Corruption Strategy, which had been reviewed against best practice.

<u>Committee Date/Agenda Item</u>	<u>Notes</u>
Work Plan	The Committee noted the changes to the programme of meetings and agenda items.
Customer Complaints	The Committee received a presentation on the new policy (April 2010), role of the Customer Relations Team, Q1 – Q3 performance summary, 'you said, we did', LGO relationship, new system overview and expected benefits from the new system.
<p><u>29 March 2011</u></p> <p>Grants Report to those charged with Governance</p> <p>Progress Report</p> <p>Final Accounts Memorandum – Action Plan</p> <p>Regulation of Investigatory Powers Act (RIPA)</p> <p>Business Continuity Update</p> <p>Risk Management update</p> <p>Internal Audit Plan for 2011/12</p>	<p>External Auditors are required to report annually on the issues, amendments and qualifications arising from certification work of grant claims and returns. This report is important because it gives feedback on how effectively the Authority is managing the grants and subsidies it receives and administers.</p> <p>A report that updates Members on progress against the 2010/11 External Audit Plan and the associated risk assessment which must be updated during the course of the audit.</p> <p>A report to provide Members with assurance that the issues contained within the Audit Commission's Final Accounts Memorandum have been, or are being addressed</p> <p>To provide assurance that Cheshire East Council is complying with the requirements for covert surveillance under the Regulation of Investigatory Powers Act, 2000, (RIPA).</p> <p>The Committee will be made aware of how the authority manages its own contingency and business recovery plans.</p> <p>The Risk Management function will report on whether best practice is being followed in the management of risk and how new risks are identified and existing risks are changing.</p> <p>The Head of Internal Audit must prepare a risk-based audit plan designed to implement the Audit Strategy that is fixed for a period of no longer than one year. The Committee is responsible for approving (but not</p>

<u>Committee Date/Agenda Item</u>	<u>Notes</u>
<p>AGS update</p> <p>Audit Committee self assessment</p> <p>Work Plan</p>	<p>directing) the plan.</p> <p>The report will note the progress made in reviewing the Council's governance arrangements. The results of the review will be reported to the Audit and Governance Committee via the AGS. It will also cover the proposal to revise and consolidate the Accounts and Audit Regulations 2003.</p> <p>Regulation 6 of the Accounts and Audit Regulations 2003 (as amended) requires the authority to conduct an annual review of the effectiveness of its system of internal audit. As agreed the 2010/11 review includes a self-assessment – using the CIPFA document “measuring the effectiveness of the Audit Committee”</p> <p>A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.</p> <p><i>a presentation on reputational risk management has been included at the Committee's request.</i></p>
<p><u>30 June 2011</u></p> <p>Whistleblowing Policy</p> <p>Risk Management Strategy & Business Continuity Strategy</p> <p>Risk Management update</p> <p>Anti Fraud & Corruption</p>	<p>Standing Agenda Items</p> <p>A revised Whistleblowing Policy has been developed in line with the report presented to the November 2010 meeting. This document will be put before the Committee before formal approval and adoption.</p> <p>In considering the effectiveness of the Authority's risk management arrangements the Committee must be aware of the Risk Management Strategy and any proposed changes to it.</p> <p>The Risk Management function will report on whether best practice is being followed in the management of risk and how new risks are identified and existing risks are changing.</p> <p>The results of a review of the Council's anti fraud arrangements against those prescribed in the CIPFA publication 'Managing the Risk of Fraud Actions to Counter Fraud and Corruption' will be reported to the Committee.</p>

<u>Committee</u> <u>Date/Agenda Item</u>	<u>Notes</u>
Anti Fraud & Corruption Policy	A final draft of the Anti Fraud and Corruption Strategy will be presented to the Committee taking into account the findings of the review of the existing policy as presented to this Committee, comments from Members and the outcome of consultation with the unions.
Work Plan	<p>A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.</p> <p><i>Additional agenda items in order to comply with the requirements of the Accounts and Audit Regulations 2003 (as amended).</i></p>
Internal Audit Annual Report	The Internal Audit Annual Report for 10/11 provides an opinion on the overall adequacy and effectiveness of the Council's control environment. This is timed to support the production of the AGS.
Annual Governance Statement (AGS)	The Committee will be asked to approve the AGS the purpose of which is to provide a continuous review of the Council's governance arrangements to give assurance on the effectiveness of the processes and/or to address identified weaknesses.
Draft Statement of Accounts	<p>The Committee will be asked to approve the Draft Statement of Accounts 2010-2011 in order to comply with the Accounts and Audit Regulations and increase public confidence in the objectivity and fairness of the Statements.</p> <p><i>Additional agenda items subject to the Accounts and Audit Regulations 2011 taking effect from 31.03.11.</i></p>
Internal Audit Annual Report	It is anticipated that the Committee will receive the Internal Audit Annual Report for 10/11. Clarification needs to be sought with regard to whether this satisfies CIPFA's recommendation that the report is timed to support the production of the AGS.
Annual Governance Statement (AGS)	The Committee may, subject to sector specific advice, be asked to approve the AGS. Clarification needs to be sought with regard to whether this satisfies CIPFA's recommendation that the AGS document is included in the approval process for the Statement of Accounts.

<u>Committee Date/Agenda Item</u>	<u>Notes</u>
Draft Statement of Accounts	<p>If the changes are adopted it is proposed that a summary presentation focusing on the key information and issues be presented. The Draft Statement of Accounts would be made available to Members who wished to see them following the meeting.</p> <p><i>a training session on performance management has been included for June 2011 at the Committee's request</i></p>
<p><u>29 September 2011</u></p> <p>Annual Governance Report, Auditors' report on Financial Statements and Value for Money conclusion.</p> <p>Statement of Accounts</p> <p>Internal Audit Update</p>	<p>Standing Agenda Items</p> <p>The Committee will receive the 2010/11 Annual Governance Report produced by the External Auditor.</p> <p>The External Auditors will present a report on the findings, conclusions and recommendations of the audit work undertaken on the financial statements and an assessment of how well the Council manages its resources to deliver Value for Money giving an opinion on whether:</p> <ul style="list-style-type: none"> • the accounts presented fairly the financial position of the authority and its expenditure and income for the year in question; and • the accounts have been prepared properly in accordance with relevant legislation and applicable accounting standards. <p>The Committee will be asked to approve the final Statement of Accounts for 2010/11.</p> <p>The purpose of this report is to facilitate compliance with the requirements of the Code of Practice for Internal Audit and, consequently, it provides Members with emerging issues in respect of the whole range of areas to be covered in the formal annual report for 11/12. It enables the Committee to monitor Internal Audit's performance.</p>

<u>Committee Date/Agenda Item</u>	<u>Notes</u>
Risk Management Update	The Risk Management function will report on whether best practice is being followed in the management of risk and how new risks are identified and existing risks are changing.
Annual Governance Statement 2011/12	The Accounts and Audit Regulations require the production of an Annual Governance Statement. It is good practice to agree the process to establish the statement for 11/12 with Members in advance.
Work Plan	<p>A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.</p> <p><i>Additional agenda items in order to comply with the requirements of the Accounts and Audit Regulations 2003 (as amended.)</i></p>
AGS	<p>If the changes to the Accounts and Audit Regulations 2003 (as amended) are not adopted it is proposed that a report is presented to the Committee that looks at whether the Statement is still current in relation to its formal approval (addressing the delay between approval of the AGS in June and publication in September).</p> <p><i>Additional agenda items subject to the Accounts and Audit Regulations 2011 taking effect from 31.03.11</i></p>
Internal Audit Annual Report	The Committee may, subject to sector specific advice, receive the Internal Audit Annual Report for 10/11.
Annual Governance Statement (AGS)	The Committee may, subject to sector specific advice, be asked to approve the AGS.
<p><u>31 January 2012</u></p> <p>Final accounts memorandum</p>	This report provides the Council with the detailed messages from the audit of the 2010/11 main financial statements, with the aim of helping the Council to improve the quality of its financial statements further in future years.

<u>Committee Date/Agenda Item</u>	<u>Notes</u>
Annual Audit Letter	The purpose of preparing and issuing annual audit letters is to communicate to the audited body and external stakeholders, including members of the public, the key issues arising from the External Auditors' work, which they consider should be brought to the attention of the Council. The annual audit letter covers the work carried out since the previous annual audit letter was issued.
Opinion Plan	The Plan identifies the work that is planned by the External Auditor to give an opinion on the Council's Financial Statements for the financial year 2011/12.
AGS Action Plan	The Committee will be asked to note the progress made in implementing the Annual Governance Statement (AGS) action plan for 2010/11. Failure to consider and monitor the AGS action plan could result in agreed improvements to the governance arrangements not being implemented.
Freedom of Information and Data Protection	This report provided Members with an update on FOI and DP issues including volumes of requests and trends
Compliance with International Auditing Standards	<p>In order to comply with a number of International Standards on Auditing, external audit are required to obtain the Audit Committee's understanding of the following:</p> <p>1) Management processes in relation to:</p> <ul style="list-style-type: none"> • undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud • identifying and responding to risks of fraud in the organisation • communication to employees of views on business practice and ethical behavior • communication to those charged with governance the processes for identifying and responding to fraud <p>2) How the Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control</p>

<u>Committee Date/Agenda Item</u>	<u>Notes</u>
<p>Internal Audit Update</p> <p>Risk Management Update</p> <p>Work Plan</p>	<p>3) How the Committee is made aware of actual, suspected or alleged frauds</p> <p>4) How it gains assurance that all relevant laws and regulations have been complied with.</p> <p>The purpose of this report is to facilitate compliance with the requirements of the Code of Practice for Internal Audit and, consequently, it provides Members with emerging issues in respect of the whole range of areas to be covered in the formal annual report. It enables the Committee to monitor Internal Audit's performance.</p> <p>The Risk Management function will report on whether best practice is being followed in the management of risk and how new risks are identified and existing risks are changing.</p> <p>A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.</p>
<p><u>27 March 2012</u></p> <p>Grants Report to those charged with Governance</p> <p>Internal Audit Plan for 2012/13</p> <p>Audit Committee self assessment</p> <p>Risk Management Update</p>	<p>External Auditors are required to report annually on the issues, amendments and qualifications arising from certification work of grant claims and returns. This report is important because it gives feedback on how effectively the Authority is managing the grants and subsidies it receives and administers.</p> <p>The Head of Internal Audit must prepare a risk-based audit plan designed to implement the audit strategy that is fixed for a period of no longer than one year. The Committee is responsible for approving (but not directing) the plan.</p> <p>The Committee will be asked to agree the self-assessment – using the CIPFA document “measuring the effectiveness of the Audit Committee”.</p> <p>The Risk Management function will report on whether best practice is being followed in the management of</p>

<u>Committee Date/Agenda Item</u>	<u>Notes</u>
Business Continuity Update	<p>risk and how new risks are identified and existing risks are changing.</p> <p>The Committee will be made aware of how the authority manages its own contingency and business recovery plans.</p>
Regulation of Investigatory Powers Act (RIPA)	<p>To provide assurance that Cheshire East Council is complying with the requirements for covert surveillance under the Regulation of Investigatory Powers Act, 2000, (RIPA).</p>
Anti Fraud & Corruption	<p>The Anti-Fraud and Corruption Strategy includes a series of measures designed to prevent any attempted fraudulent or corrupt act and the steps to be taken if such an act occurs. Periodically Internal Audit should assure the Committee that the measures prescribed by the Strategy are operating effectively.</p>
Governance	<p>The Council's Management is responsible for the governance arrangements (including the system of internal control). Periodically, Management should assure the Committee that the arrangements prescribed by the Code of Corporate Governance and described within the AGS are operating effectively. The Committee must be informed of any major changes made to the arrangements.</p>
Whistleblowing	<p>The Whistleblowing Policy includes a series of measures designed to encourage staff to raise concerns and the steps to be taken to investigate such concerns. Periodically Management should assure the Committee that the policy is operating effectively</p>
Work Plan	<p>A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.</p>
<u>Unallocated</u>	<p>It should be noted that the following items will be presented to the Committee but have not, as yet, been allocated to a specific agenda.</p>
Internal Audit Terms of Reference	<p>The terms of reference for Internal Audit will be amended and put to the Committee for approval following publication of CIPFA's '<i>The Role of the Head of Internal Audit in Local Government</i>'</p>

<u>Committee</u> <u>Date/Agenda Item</u>	<u>Notes</u>
Internal Audit Strategy	<p>A revised Internal Audit Strategy will be put to the Committee for approval, but not direction, following publication of CIPFA's <i>'The Role of the Head of Internal Audit in Local Government'</i></p> <p>It should be noted that the following items may, subject to requirement, be presented to the Committee.</p>
Code of Corporate Governance	<p>The Committee is responsible for developing the Council's Code of Corporate Governance which is used as a basis for self-assessment, continuous improvement and as a contributor to producing the AGS. Hence it needs to approve any proposed changes to it.</p>
Customer Complaints	<p>The Committee is charged with seeking assurance that customer complaint arrangements are robust.</p>
Insurance	<p>The Committee is responsible for, overseeing and agreeing the arrangements for Members to be indemnified for and insured against risks and liabilities arising from the performance of their duties as Members of the Council, and as the Council's representatives on outside bodies.</p>
Anti-Money Laundering	<p>The Council is required to have procedures in place for the detection and disclosure of incidents of suspected money laundering and terrorism financing. This Policy aims to establish prudent and responsible anti-money laundering controls and reporting arrangements designed to detect and avoid involvement in the offences described in Regulations The Policy is considered by the Committee before approval by Cabinet. Hence it needs to be made aware of and endorse any changes to the Policy.</p> <p>Periodically Management could assure the Committee that the measures prescribed by the Policy are operating effectively.</p>
Treasury Management	<p>CIPFA's Code of Practice requires that members are tasked with treasury management responsibilities, including scrutiny of the treasury management function.</p>