

# CHESHIRE EAST COUNCIL

## Audit and Governance Committee

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**Date of meeting:** 30 September 2010  
**Report of:** Head of Internal Audit and Compliance  
**Title:** Work Plan

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### **1.0 Report Summary**

- 1.1 To present to the Committee a Work Plan for consideration.

### **2.0 Recommendation**

- 2.1 That the Committee:
- (1) consider the Work Plan and determine any required amendments;
  - (2) note that this will be periodically brought back to the Committee for development and approval.

### **3.0 Reasons for Recommendation**

- 3.1 Good corporate governance requires independent, effective assurance about both the adequacy of financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. Good practice from the wider public sector indicates that these functions are best delivered by an independent audit committee. As a consequence of the above, the "audit-related" functions and powers of the Governance and Constitution Committee, appropriately modified in line with current thinking, were transferred to the Audit and Governance Committee in May 2010.
- 3.2 The Audit and Governance Committee's general responsibilities can be summarised as follows:
- Considering the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and anti- corruption arrangements.
  - Seeking assurance that action is being taken on risk related issues identified by auditors and inspectors.

- Being satisfied that the Authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- Approving (but not directing) Internal Audit's strategy, plan and monitoring performance.
- Reviewing summary internal audit reports and the main issues arising, and seeking assurance that action has been taken where necessary.
- Receiving the annual report of the Head of Internal Audit
- Considering the findings of the review of effectiveness of the system of internal audit
- Considering the reports of external audit and inspection agencies
- Ensuring that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- Reviewing the financial statements, external auditor's opinion and reports to members, and monitoring management action in response to the issues raised by external audit.

More specific responsibilities include:

- developing a Code of Corporate Governance
- approving the Council's Statement of Accounts
- where necessary, 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
- approving the Annual Governance Statement
- seeking assurance that customer complaint arrangements are robust
- reviewing the Council's whistle blowing arrangements
- overseeing the implementation of the Council's anti fraud and corruption policy and strategy.

3.3 A forward looking programme of meetings and agenda items (Work Plan) has been attached at Appendix A of this report. The Committee is now 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 order to help Members with their deliberations the table below includes areas that, in accordance with the Better Governance Forum, the Audit Committee could include in its work plan in order to gain an understanding of its responsibilities and discharge its duties. The table below indicates where training has already been delivered.

<b>Responsibility</b>	<b>Training/Briefing Sessions to include:</b>
Induction	A briefing session on the Committee's Core Functions with regard to Risk Management, Governance, Internal and External Audit and Inspection and the Financial Statements was held on 16 June 2010.

Responsibility	Training/Briefing Sessions to include:
Audit Activity	It is recommended that the Committee is briefed on the roles of the auditors including an understanding of the difference between the internal and external audit functions, their responsibilities and duties, terms of reference and what the Committee can expect of them.
Regulatory Framework	<p>The Regulatory framework within which the Authority works, including contract procedure rules, financial regulations, codes of conduct and behaviour, the complaints process, Freedom of Information, Data Protection and The Regulation of Investigatory Powers Act, is seen as an essential area of understanding for all Members of the Committee. As is the need to be kept up to date with any changes.</p> <p>Sessions could also be held on the inspection programmes that the Council faces.</p>
Accounts	<p>Some of the more technically complex subjects the Committee will have to address are those relating to the annual accounts.</p> <p>It is essential that Members are able to understand both the structure and content of the accounts to a level that they can question their content and understand the responses. They will need to understand key concepts such as provisions, reserves, bad debts, cash flow and the structure of the balance sheet.</p> <p>It is recommended that Members understand the structure of local government funding and grants and sources of other income.</p> <p>Training was provided on the 16 June 2010 on the Statement of Accounts including:</p> <p>Statutory Background</p> <p>Purpose of the Statement of Recommended Practice (SORP)</p> <p>Purpose of the Statement of Accounts</p> <p>Accounting Statements</p> <ul style="list-style-type: none"> <li>• Income &amp; Expenditure Account</li> <li>• Statement of Movement on the General Fund</li> <li>• Statement of total Recognised Gains &amp; Losses</li> <li>• Balance Sheet</li> <li>• Cash Flow Statement</li> <li>• Collection Fund</li> </ul>

<b>Responsibility</b>	<b>Training/Briefing Sessions to include:</b>
Corporate Governance & Statement on Internal Control	<p>The Members should be fully aware of the Authority's structure of corporate governance, their place within that structure and changes to it.</p> <p>As part of their duties the Committee approved the Annual Governance Statement (AGS) and as such were briefed (16.06.10) on the Council's processes behind its preparation and how assurances were obtained.</p> <p>The Committee needs to be made aware of updates on the AGS.</p>
Value for Money and Efficiency Issues	The Committee should be made aware of the authority's programme and processes for achieving value for money.
Risk Management	<p>Part of the Committees remit involves taking an overview of risk management arrangements. The Members should therefore be given training in the basic concepts of risk management, including how the risks are identified, measured, mitigated and how the level of residual risk is decided.</p> <p>The Committee will also need to understand the requirements of the Civil Contingencies Act and how the authority manages its own contingency and business recovery plans and how the role of insurance and other risk financing is used in the management of risk.</p>
Fraud Management	The Audit Committee needs to oversee the Management arrangements to counter fraud and corruption including the implementation of the anti fraud and corruption strategy and whistleblowing policies.

- 3.4 The Committee is asked to note that the Work Plan will be periodically brought back to the Committee for consideration to ensure it maintains focus on key issues and priorities.

#### **4.0 Wards Affected**

- 4.1 All wards.

## **5.0 Local Wards Affected**

5.1 Not applicable.

## **6.0 Policy Implications**

6.1 Not applicable.

## **7.0 Financial Implications**

7.1 When reviewing the work programme 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**

8.1 None directly from this report.

## **9.0 Risk Assessment**

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.

### ***For further information:***

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### **Background Documents:**

A Toolkit for Local Authority Audit Committees – The CIPFA Better Governance Forum 2006

CIPFA's Audit Committees – Practical Guidance for Local Authorities.

## Draft Work Plan 2010/11

<b><u>Committee Date/Agenda Item</u></b>	<b><u>Notes</u></b>
<b><u>29 June 2010</u></b>	
Internal Audit Annual Report	The Committee noted the Internal Audit Annual Report for 09/10 the primary purpose of which was to provide an opinion on the overall adequacy and effectiveness of the Council's control environment.
Annual Governance Statement (AGS)	The AGS was approved. The purpose of the AGS was to provide a continuous review of the organisation's governance arrangements to give assurance on the effectiveness of the processes and/or to address identified weaknesses.
Draft Statement of Accounts	The Committee approved the Draft Statement of Accounts 2009-2010 in order to comply with the Accounts and Audit Regulations and increase public confidence in the objectivity and fairness of the Statements.
<b><u>23 September 2010</u></b>	
Audit of Financial Statements	Briefing at the request of the Committee on key messages which have arisen during the audit on financial statements process.
International Financial Reporting Standards (IFRS)	A training session on the key requirements of the International Financial Reporting Standards (IFRS).
<b><u>30 September 2010</u></b>	
Annual Governance Report, Auditors' report on Financial Statements and Value for Money conclusion.	<p>The Committee will receive the 2009/10 Annual Governance Report produced by the external auditor.</p> <p>Following the approval of the draft accounts on 29 June 2010, 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"> <li>the accounts presented fairly the financial position</li> </ul>

## Draft Work Plan 2010/11

<b><u>Committee Date/Agenda Item</u></b>	<b><u>Notes</u></b>
Internal Audit Update	<p>of the authority and its expenditure and income for the year in question; and</p> <ul style="list-style-type: none"> <li>the accounts have been prepared properly in accordance with relevant legislation and applicable accounting standards.</li> </ul> <p>The Committee will be asked to approve the final Statement of Accounts for 2009/10.</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>
Review of Internal Audit	<p>The Committee should evaluate the extent to which the Internal Audit Service complies with the Code of Practice for Internal Audit. It should do this by considering the work performed by external audit in its assessment of the internal audit service.</p>
Work Plan	<p>A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.</p>
<b><u>17 November 2010</u></b>	
Final Account Memorandum	<p>This report provides the Council with the detailed messages from the audit of the 2009/10 main financial statements, with the aim of helping the Council to improve the quality of its financial statements further in future years.</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>
Risk Management update report	<p>The Risk Management function will report on whether best practice is being followed in the Council's</p>

## Draft Work Plan 2010/11

<b><u>Committee Date/Agenda Item</u></b>	<b><u>Notes</u></b>
Annual Governance Statement 2010/11	management of its risks and how new risks are identified and existing risks are changing:  The Accounts and Audit Regulations (2003 as amended) require the production of an Annual Governance Statement. It is good practice to agree the process to establish the statement with Members in advance.
Internal Audit Terms of Reference	The purpose, authority and responsibility of Internal audit is formally defined in the terms of reference. The Committee should be advised on the content and approve any subsequent amendment. Terms of reference should be regularly reviewed.
Internal Audit Strategy	This is a statement of how the internal audit service will be delivered and developed in accordance with the terms of reference. The Strategy should be approved, but not directed, by the audit committee.
Counter Fraud and Corruption	The Committee is responsible for overseeing the implementation of the Council's anti fraud and corruption policy and strategy. Hence the Committee needs to be aware of and endorse any changes to the Strategy.
Whistleblowing Policy	The Committee is responsible for reviewing the implementation of the Council's whistleblowing policy. Hence it needs to be aware of and endorse any changes to the Strategy.
Customer Complaints	The Committee is charged with seeking assurance that customer complaint arrangements are robust.
Work Plan	A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.  <i>A training session on risk management is scheduled after the meeting</i>
<b><u>25 January 2011</u></b>	
Internal Audit Update	The purpose of this report is to facilitate compliance with the requirements of the Code of Practice for



## Draft Work Plan 2010/11

<u>Committee</u> <u>Date/Agenda Item</u>	<u>Notes</u>
	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.
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 2010/11.
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.
Grants Report to those charged with Governance	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.
Risk Management Strategy & Business Continuity Strategy	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.
Business Continuity Update	The Committee will be made aware of how the authority manages its own contingency and business recovery plans.
AGS Action Plan	The Committee will be asked to note the progress made in implementing the Annual Governance Statement (AGS) action plan for 2009/10. Failure to consider and monitor the AGS action plan could result in agreed improvements to the governance arrangements not being implemented.

## Draft Work Plan 2010/11

<u>Committee</u> <u>Date/Agenda Item</u>	<u>Notes</u>
<p>Update on IFRS</p> <p>Anti Fraud &amp; Corruption</p>	<p>The Committee will be asked to note the progress made on the IFRS Action Plan.</p> <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"> <li>• undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud</li> <li>• identifying and responding to risks of fraud in the organisation</li> <li>• communication to employees of views on business practice and ethical behavior</li> <li>• communication to those charged with governance the processes for identifying and responding to fraud</li> </ul> <p>2) How the Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control</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>Freedom of Information and Data Protection</p>	<p>The Freedom of Information and Data Protection Acts are seen as essential elements of the regulatory framework within which the Authority works. This report will provide Members with an update with regard to FOI and DP issues.</p>
<p>Work Plan</p>	<p>A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.</p>

## Draft Work Plan 2010/11

<u>Committee Date/Agenda Item</u>	<u>Notes</u>
<b><u>29 March 2011</u></b>	
Internal Audit Plan for 2011/12	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.
Regulation of Investigatory Powers Act (RIPA)	<p>The RIPA annual report that is submitted to the Committee includes:</p> <ul style="list-style-type: none"> <li>• details of the overall number and type of authorisations granted</li> <li>• the outcome of the case, where known</li> <li>• a breakdown of the same information by service or groups of services, as appropriate</li> <li>• the results of the most recent inspection carried out by a representative of the Office of Surveillance Commissioners, where applicable (inspections may not take place annually).</li> </ul>
Risk management update	The Risk Management function will report on whether best practice is being followed in the Council's management of its risks and how new risks are identified and existing risks are changing.
AGS update	The Committee will be asked to note the progress made in implementing the Annual Governance Statement (AGS) action plan for 2009/10. Failure to consider and monitor the AGS action plan could result in agreed improvements to the governance arrangements not being implemented.
Governance	The Council's management is responsible for the governance arrangements (including the system of internal control). Periodically, management should assure the audit 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.
Anti Fraud & Corruption	The anti-fraud and corruption strategy includes a series of measures designed to prevent any

## Draft Work Plan 2010/11

<b><u>Committee Date/Agenda Item</u></b>	<b><u>Notes</u></b>
Whistleblowing	<p>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> <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 audit 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>
<b><u>Unallocated</u></b>	
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. The Committee will receive appropriate training so that members fully understand their roles and responsibilities.</p>