

Please ask for: Matt Berry

Your Ref:

Extension No: 4589

My Ref:

E-Mail: mattberry@cannockchasedc.gov.uk

17 June, 2019

Dear Councillor,

**AUDIT & GOVERNANCE COMMITTEE
4:00PM, TUESDAY 25 JUNE, 2019
ESPERANCE ROOM, CIVIC CENTRE, CANNOCK**

**TRAINING FOR COMMITTEE MEMBERS WILL BE TAKING PLACE AT 2PM IN
THE ESPERANCE ROOM, PRIOR TO THE START OF THE MEETING AT 4PM.**

You are invited to attend this meeting for consideration of the matters itemised in the following Agenda.

Yours sincerely,



**T. McGovern
Managing Director**

To: Councillors

Witton, P.T.(Chairman)
Cartwright, Mrs. S.M. (Vice-Chairman)

Crabtree, S.K. Jones, Mrs. V.
Fisher, P.A. Stretton, Mrs. P.Z.
Johnson, J.P.

A G E N D A

PART 1

1. Apologies

2. Declarations of Interests of Members in Contracts and Other Matters and Restriction on Voting by Members

To declare any personal, pecuniary or disclosable pecuniary interests in accordance with the Code of Conduct and any possible contraventions under Section 106 of the Local Government Finance Act 1992.

3. Minutes

To approve the Minutes of the meeting held on 26 March, 2019 (enclosed).

4. Review of the Effectiveness of Internal Audit

Report of the Head of Governance and Corporate Services (Item 4.1 – 4.4) plus appendices.

5. Internal Audit Annual Report 2018/19

Report of the Chief Internal Auditor and Risk Manager (Item 5.1 – 5.3) plus appendices.

6. Strategic Risk Register

Report of the Head of Governance and Corporate Services (Item 6.1 – 6.4) plus appendices.

7. Annual Governance Statement 2018/19

Report of the Head of Governance and Corporate Services (Item 7.1 – 7.4) plus appendices.

CANNOCK CHASE COUNCIL
MINUTES OF THE MEETING OF THE
AUDIT AND GOVERNANCE COMMITTEE
HELD ON TUESDAY 26 MARCH 2019 AT 4:00 P.M.
IN THE CIVIC CENTRE, BEECROFT ROAD, CANNOCK

PART 1

PRESENT:
Councillors

Grice, Mrs. D. (Chairman)
Crabtree, S.K. Stretton, Mrs. P.Z.
Johnson, J.P. Tait, Ms. L.

Also Present:

- Jim McLarnon, Audit Manager, Grant Thornton (External Auditors).

25. Apologies

None received.

26. Declaration of Interests of Members in Contracts and Other Matters and Restriction on Voting by Members

No Declarations of Interests were made in addition to those already confirmed by Members in the Register of Members' Interests.

27. Minutes

RESOLVED:

That the Minutes of the meeting held on 27 November 2018 be approved as a correct record and signed.

28. Internal Audit Quarter 3 Report 2018/19

Consideration was given to the Report of the Chief Internal Auditor & Risk Manager (Item 4.1 – 4.11 of the Official Minutes of the Council).

The Chief Internal Auditor & Risk Manager took Members' through the following aspects of the report and provided updates where necessary:

- Audit Plan progress (Appendix 1);
- Audits Completed in Quarter 3 (Appendix 2);
- Audits in Progress (Appendix 3);
- Audit Follow-ups Completed in Quarter 3 (Appendix 4);

In respect of those audits that were still outstanding, the Chief Internal Auditor advised that a view would be taken as to whether they should be carried over into the planned audit work for 2019/20.

RESOLVED:

That the Internal Audit Report for Quarter 3 of 2018/19 be noted.

29. Internal Audit Plan 2019/20

Consideration was given to the Report of the Chief Internal Auditor & Risk Manager (Item 5.1 – 5.19 of the Official Minutes of the Council).

The Chief Internal Auditor & Risk Manager advised Members that the planned number of audits for 2019/20, as detailed in report paragraph 4.7, was lower than previous years due to there being a staffing vacancy in the team. It was intended however to recruit an apprentice later in the year, whilst still using external support in the meantime. The report also set out the planned number of audit days for year, as well as the number of Cannock Chase specific and Shared Services specific audits that would be carried out (the detail of which was set out in Appendix 1).

The Chief Internal Auditor & Risk Manager further advised that the asset management audit for the Council, which was identified as a high risk area, would not be audited until after the Corporate Assets Manager post had been recruited to and the post-holder had had the opportunity to commence work on refreshing the Asset Management Strategy and Plan. On that basis it would be intended to complete the audit in 2020/21 instead. The Head of Governance and Corporate Services further replied that the Asset Management Plan had been included in the relevant Priority Delivery Plan for completion during 2019/20, thereby allowing the staff within the Corporate Assets Team to focus on the necessary day-to-day work. Following a question from a Member, the External Auditor advised that the Asset Management Plan did not impact upon their auditing of the Financial Statements, but it was recognised that the Plan carried a high operational risk for the Council.

RESOLVED:

That the Audit Plan for 2019/20 be approved.

30. Independent Members on Audit Committees

The Head of Governance and Corporate Services advised that following a query raised at the previous meeting about Independent Members serving on the Committee, comparator information had been collated for a number of other local authorities detailing whether or not each council had such members appointed (Item 6.1 – 6.2 of the Official Minutes of the Council). If the Committee was minded to include an Independent Member in its membership, it was recommended that such an individual should have a finance/audit skill set, preferably with public sector experience.

Members were of the view that the current structure of the Committee worked well, therefore the appointment of an Independent Member was not necessary at this time.

31. Cannock Chase District Council Certification Letter 2017/18

Consideration was given to the Letter of the External Auditors (Item 7.1 – 7.3 of the Official Minutes of the Council).

The External Auditor advised that the letter was the last stage in the certification process for the Housing Benefit subsidy claim for the 2017/18 financial year. The values of extrapolated overpayments identified as part of the certification work (detailed on page 2 of the letter) were insignificant when compared to the total value of the overall subsidy claim. The letter also set out the reasons why the final fee charged for the certification work was £3,676 higher than the original indicative fee for 2017/18.

RESOLVED:

That the Letter of the External Auditors be noted.

32. External Audit Plan 2018/19

Consideration was given to the Report of the External Auditors (Item 8.1 – 8.15 of the Official Minutes of the Council).

The External Auditor advised that the report set out the key areas of audit work for the 2018/19 financial year, these being:

- Significant risks and the responses to those risks (detailed on report pages 5 to 7);
- Materiality – the figure detailed in the report would be reviewed following receipt of the draft accounts for 2018/19. The percentage figure quoted was the same as for 2017/18;
- Value for Money arrangements – one key risk of ‘delivery of financial plans and future sustainability’ had been identified in the report. The Council had a good track record of delivering financial plans, however the risk was still in place due to ongoing uncertainties about future local government funding, and the Council’ reliance on delivery of the Mill Green designer outlet in Cannock;
- Audit logistics – the proposed fee for audit work during 2018/19 was expected to be £40,124, which was approximately £12,000 less than for 2017/18. This was an approximate 23% reduction;
- Independence – the report confirmed that the External Auditors operated independently, and as such, were able to express an objective opinion on the Council’s financial statements.

In response to a query from a Member, the External Auditor advised that the audit fee for the Housing Benefit subsidy claim was separate from the audit fee detailed in the 2018/19 audit plan, as the fee for the subsidy claim was negotiated and agreed directly between the Council and the External Auditors. Page 12 of the report set out the additional work undertaken by the External Auditors that was separate from the areas covered in the audit plan.

RESOLVED:

That the Report of the External Auditors be noted.

33. Audit Progress Report and Sector Update

Report of the External Auditors (Item 9.1 – 9.15 of the Official Minutes of the Council).

The External Auditor advised that the report set out progress as at February 2019 on work undertaken in relation to: the Financial Statements audit; Value for Money; other areas; and the audit deliverables identified for 2018/19 (for which a number of actions had already been completed). The report also set out for Members' information sector updates in respect of: Grant Thornton publications; insights from local government sector specialists; reports of interest; and accounting and regulatory updates.

RESOLVED:

That the Report of the External Auditors be noted.

The meeting closed at 4:38 p.m.

CHAIRMAN

Report of:	Head of Governance
Contact Officer:	Stephen Baddeley
Telephone No:	4411
Portfolio Leader:	
Key Decision:	No
Report Track:	Audit & Governance only

Audit & Governance Committee
25th June 2019
Review of the Effectiveness of Internal Audit

1 Purpose of Report

- 1.1 For members of the Audit & Governance Committee to consider the findings of the annual review of the effectiveness of internal audit.

2 Recommendations

- 2.1 That Members:
- (i) note the findings of the annual review of the effectiveness of internal audit for 2018-19;
 - (ii) note that Internal Audit generally conforms to the Public Sector Internal Audit Standards, is operating effectively and can be relied upon when considering the Annual Governance Statement for 2018-19.

3 Key Issues and Reasons for Recommendation

- 3.1 The Public Sector Internal Audit Standards (PSIAS) require the Council to undertake a periodic review of the effectiveness of its internal audit and demonstrate conformance. The Quality Assurance & Improvement Programme states that this will be an annual review for the Shared Internal Audit function.
- 3.2 The review has comprised:
- i. the Chief Internal Auditor has conducted a self-assessment of the section in relation to compliance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN); and

ii. reference to the External Quality Assessment (EQA) carried out by Cipfa in November 2016. The outcome of this review was presented to the Audit Committee in March 2017.

3.3 The review concluded that Internal Audit is effective and conforms sufficiently with the requirements of PSIAS/LGAN to ensure that the opinion given in this Annual Report can be relied upon for assurance purposes

4 Relationship to Corporate Priorities

4.1 This report supports the Council's Corporate Priorities as follows:

- (i) The system of internal control is a key element of the Council's corporate governance arrangements which cut across all corporate priorities.

5 Report Detail

5.1 The Chief Internal Auditor has prepared a self-assessment against conformance of the Public Sector Internal Audit Standards and Local Government Application Note (PSIAS/LGAN as well as updating the self-assessment against the Role of the Head of Internal Audit document. The assessment this year has been a light touch review as revised versions of the Local Government Application Note and Role of the Head of Internal Audit documents have recently been issued. These will be reviewed later in the year to ensure all changes have been picked up for the 2019-20 year.

5.2 For the areas of partial conformance the effectiveness of the section was not considered to be seriously affected; a small number of the areas partial compliance with PSIAS/LGAN is considered to be acceptable due to local circumstances.

5.3 PSIAS/LGAN require any significant non-conformance with the Standards to be disclosed in the Annual Audit Report. One area of significant non-conformance with the standards was identified and this relates to PSIAS 1110 Organisational Independence. The standards require that the "Chief Audit Executive" reports functionally to the Board and indicate that this includes the Audit Committee Chair and Chief Executive commenting on the PDR and the Audit Committee setting remuneration for the "Chief Audit Executive".

5.4 This is not a common practice in Local Government where Members do not routinely get involved in detailed employment matters. There are sufficient other safeguards to the independence of Internal Audit currently in place within the Council such as allowing the Chief Internal Auditor the unfettered right of access to the Audit Committee Chair and Chief Executive to raise any concerns. It is

therefore considered that this area of non-conformance does not compromise the effectiveness of Internal Audit.

5.5 For the areas of partial conformance the effectiveness of the section was not considered to be seriously affected; a small number of areas of partial conformance with PSIAS/LGAN is considered to be acceptable due to local circumstances.

5.6 Summaries of the reviews of compliance are attached as follows:

- (i) the Public Sector Internal Audit Standards and the Local Government Application Note - attached at Appendix 1; and
- (ii) the Cipfa paper on the Role of the Head of Internal Audit in Public Service Organisations - attached at Appendix 2.

5.7 In addition to the compliance with professional standards the section has also reviewed:

- (i) the performance of the service ie the delivery of the audit plan; and
- (ii) the quality of the service

More information on the performance of the Service is contained in the Annual Internal Audit Report.

5.8 The External Auditors have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.

5.9 The review has also consider the outcome and progress made in implementing the recommendation contained in the External Quality Assessment which was carried out in November 2016 and which was reported to the Committee in March 2017.

5.10 From the review a small number of actions have been identified and these are contained in an Improvement Plan which is attached as Appendix 3.

5.11 Overall, the review of the effectiveness of Internal Audit for 2018-19 has shown that Internal Audit is operating effectively and generally conforms to the PSIAS. Therefore the work of the Internal Audit Section can be relied upon when considering the Annual Governance Statement for 2018-19.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Section 17 (Crime Prevention)

None

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

None

6.8 Equality & Diversity

None

6.9 Best Value**None****7 Appendices to the Report**

Appendix 1 - Summary of Compliance with the Public Sector Internal Audit Standards and the Local Government Application Note

Appendix 2 – Summary of Compliance with Cipfa’s paper on the Role of the Head of Internal Audit.

Appendix 3 – Improvement Plan

Previous Consideration**None****Background Papers**

Files available from the Chief Internal Auditor

**SUMMARY OF CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) AND LOCAL GOVERNMENT
APPLICATION NOTE (LGAN) – 2018-19**

Conformance with the Standard	Y	P	N	Comments
Mission of Internal Audit				
The PSIAS sets out the Mission of Internal Audit as "To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight."	✓			The working practices of the Internal Audit function are in accordance with this mission.
Definition of Internal Auditing				
The PSIAS defines Internal Audit as - "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."	✓			Internal Audit has adopted the PSIAS definition and this is included in the Audit Charter
Core Principles for the Professional Practice of Internal Audit				
<p>The PSIAS sets out the Core Principles as follows.</p> <ul style="list-style-type: none"> • Demonstrates integrity. • Demonstrates competence and due professional care. • Is objective and free from undue influence (independent). • Aligns with the strategies, objectives, and risks of the organisation. • Is appropriately positioned and adequately resourced. • Demonstrates quality and continuous improvement. • Communicates effectively. • Provides risk-based assurance. • Is insightful, proactive, and future-focused. • Promotes organisational improvement. 	✓			The section complies with these principles in general. Documented safeguards have been put in place to protect the independence of Audit as the Chief Internal Auditor took on non-audit responsibilities from 1 st April 2017. These safeguards were approved by Audit Committee in June 2018 and were put into effect for the review of Insurance during the 2018-19 year.

Conformance with the Standard	Y	P	N	Comments
Code of Ethics				
<p>The Code of Ethics contained in PSIAS applies to all Internal Auditors working in the Public Sector in addition to any requirements placed on them by other professional bodies. It is aimed at promoting an ethical culture across the profession of Internal Audit and is seen as essential in ensuring the trust placed in Internal Auditors to provide objective assurance about the organisation's risk management, control and governance arrangements.</p> <p>The Code of Ethics covers the following areas:</p> <ul style="list-style-type: none"> • Integrity • Objectivity • Confidentiality • Competency <p>Public Sector Internal Auditors are also required by PSIAS to have regard to the "Seven Principles of Public Life" as defined by the Committee on Standards in Public Life which cover:</p> <ul style="list-style-type: none"> • Selflessness • Integrity • Objectivity • Accountability • Openness • Honesty • Leadership 	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			<p>Internal Audit complies with the Code of Ethics and a copy of this has been issued to all members of the team.</p>

Conformance with the Standard	Y	P	N	Comments
Attribute Standards				
1000 – Purpose, Authority and Responsibility				
<p>The purpose, authority and responsibility of the internal audit activity must be formally defined in an audit charter. The internal audit charter is a formal document setting out:</p> <ul style="list-style-type: none"> • internal audit's position within the organisation; • its reporting lines; • access to personnel, information and records; • the scope of internal audit activities • define what the term "board" means (It is anticipated that the Audit Committee will generally fulfil the duties assigned to the board for the Council.) <p>The charter must be periodically reviewed and presented to senior management and the board.</p>	✓			The current Charter was approved by the Audit Committee in June 2018 when it was updated to build in safeguards for the audit of areas where the Chief Internal Auditor has operation responsibility outside of audit.

Conformance with the Standard	Y	P	N	Comments
1100 – Independence & Objectivity				
<p>Internal Audit activity must be independent and internal auditors must be objective in performing their work. This comes from the position of Internal Audit in the organisation and ensuring that Internal Audit management has unrestricted access to the Audit Committee and Senior Managers should this be necessary. Internal Auditors should also not be compromised in their work by personal views or having operational responsibility for other areas. Any impairments or potential to independence or objectivity must be reported to appropriate parties.</p> <p>Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:</p> <ul style="list-style-type: none"> • approving the internal audit charter; • approving the risk based internal audit plan; • approving the internal audit budget and resource plan; • receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters; • approving decisions regarding the appointment and removal of the chief audit executive; • approving the remuneration of the chief audit executive; and • making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations. <p>Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.</p>			✓	<p>The Terms of Reference for the Audit Committee reflect their role in approving the Audit Charter.</p> <p>The Chair of the Audit Committee does not have a role in the appointment of the "Chief Audit Executive" or contribute feedback to the PDR. This is outside the scope of normal Council operations and is the only major area of non-conformance with PSIAS. However the Head of Governance who manages the Chief Internal Auditor is directly managed by the Chief Executive and any concerns from the Chief Executive/Managing Director relating to Internal Audit would be raised with her.</p>

Conformance with the Standard	Y	P	N	Comments
1200 – Proficiency & Due Professional Care				
<p>The Internal Audit Team should have the correct knowledge, skills and competencies for the work that it carries out and to ensure they enhance knowledge and skills through Continuing Professional Development. The PSIAS specifically requires the “Chief Audit Executive” to hold a relevant professional qualification. Due professional care must be taken to ensure appropriate work is undertaken to identify risks, support findings and meet the objectives of all work undertaken.</p>	✓			<p>The Chief Internal Auditor and one of the Senior Auditors are Cipfa Qualified and we have 1 ACCA qualified member in the team. The annual PDR process ensures members of the team follow CPD requirements. The Council is currently registered as CPD Accredited body with Cipfa, ACCA and AAT.</p> <p>Where external support is required this is done via the appointment of suitably qualified contractors.</p> <p>Working practices are defined and have been clarified further with the development of the new methodology.</p> <p>A competency framework has been produced and is used to inform the PDR process.</p>

Conformance with the Standard	Y	P	N	Comments
1300 – Quality Assurance and Improvement Programme				
<p>A quality assurance and improvement programme is designed to:</p> <ul style="list-style-type: none"> • allow an assessment of Internal Audit's activity against the PSIAS requirements; • to assess the efficiency and effectiveness of Internal Audit's activity; • identify opportunities for improvement. <p>This requires both internal and external assessments to be performed. The PSIAS requires an independent external assessment to be carried out at least once every five years. Both internal and external assessments have to be carried out by individuals or organisations who have sufficient knowledge of Internal Audit standards and operation.</p> <p>The outcome of the review must be reported to the Board and Senior Management as part of the Internal Audit Annual Report which must disclose any areas of non-conformance with PSIAS. Where these are significant they should be considered for inclusion in the Annual Governance Statement.</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>A QAIP was approved by the Audit Committee in June 2015.</p> <p>The section had its EQA in November 2016 which stated that there were no areas of non-compliance which would affect the scope or operation of the section. The Report and Action Plan was presented to both Audit Committees in March 2017.</p>

Conformance with the Standard	Y	P	N	Comments
Performance Standards				
2000 – Managing the Internal Audit Activity				
<p>The Chief Audit Executive must effectively manage the internal audit activity to ensure it adds value to the organisation.</p> <p>This includes the development of a risk based audit plan to inform the Annual Audit Opinion. The Plan should be presented to Senior Management and the Board for approval. The Chief Audit Executive should ensure the resources available to the team are sufficient, appropriate and effective to deliver the audit plan and that any limitations which may impact on the plan or the annual audit opinion are reported to the Board.</p> <p>Where possible the work of Internal Audit should be coordinated with other providers of assurance to ensure appropriate coverage and minimise duplication.</p> <p>Internal Audit's activity must be reported to Senior Management and the Board. This should include performance in delivering the audit plan, significant risks or control issues identified and any other relevant matters.</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			<p>The team follow a risk based plan which is approved by Leadership Team and the Audit Committee</p> <p>A detailed assurance map has not been developed due to time and resources pressures. An overview of other assurance providers is obtained where possible.</p> <p>Performance is reported quarterly to the Head of Governance and the Audit Committee</p>
2100 – Nature of Work				
<p>Internal Audit's activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.</p>	<p>✓</p>			<p>The Internal Audit team provide recommendations as part of their work which will improve the Council's governance framework. In addition ad hoc advice and consultancy is provided in relation to changes in systems.</p>

Conformance with the Standard	Y	P	N	Comments
2200 – Engagement Planning				
<p>A plan/brief should be prepared for each piece of audit work carried out to include the scope, objectives, timing and resource allocation. The scope should be sufficient to contribute to the annual audit opinion. Sufficient and appropriate resources should be identified for each review to achieve the intended objectives of the review.</p>	✓			<p>Internal Audit has defined procedures which include producing and agreeing a brief for each assignment. The annual audit plan is produced to provide adequate coverage to inform the annual audit opinion</p> <p>The revised working practices have shifted the focus of audit work to further improve testing of key risks for areas under review. However limitations in the Council's Risk Management Process have limited the Sections ability to rely on risk registers. Therefore Internal Audit has to perform its own risk identification process as part of each audit.</p> <p>Supervision of engagements is more continuous throughout the audit rather than all being at the end of the work.</p>
2300 – Performing the Engagement				
<p>Internal Auditors should identify sufficient, reliable, relevant and useful information to achieve the objectives of the review. Conclusions should be based on the results of appropriate analysis and evaluation of the evidence and sufficient information documented to allow the testing to be repeated.</p>	✓			<p>All assignments are completed in line with agreed working practices and are subjected to a file review process to verify that the conclusions and recommendations made are supported by sufficient evidence derived from appropriate audit testing.</p>

Conformance with the Standard	Y	P	N	Comments
2400 – Communicating Results				
Results of audit work should be reported and where the section issues an opinion or conclusion it must be supported by sufficient relevant information. Communications must be accurate, clear, concise and timely and issued to appropriate parties. In the Public Sector an annual audit report containing an audit opinion must be issued so that it can be used by the organisation to inform its Annual Governance Statement.	✓			See 2300 above
2500 – Monitoring Progress				
The results of audit work should be monitored to identify that management actions are being effectively implemented or that management accepts the risks of not taking action.	✓			All action plans are agreed by management or acceptance of risks relating to non-implementation is obtained. Internal Audit follow-up areas which are not deemed to be effective to monitor the progress made in implementing the agreed recommendations. The Audit reports refer to the Council's risk management framework/risk appetite when providing audit opinions and classifying recommendations.
2600 – Communicating the Acceptance of Risks				
When the Chief Audit Executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the Chief Audit Executive must discuss the matter with senior management. If the Chief Audit Executive determines the matter has not been satisfactorily resolved they should communicate the information to the board.	✓			A process is in place where such matters would be discussed initially with the relevant member of Leadership Team. Areas where management are accepting a significant risk without some action would be reported to the Audit Committee for consideration. However it is noted that the need for this rarely occurs.

SUMMARY OF COMPLIANCE WITH THE CIPFA PAPER ON THE ROLE OF HEAD OF INTERNAL AUDIT – 2018-19

Adherence to the Standard	Yes	Partial	No
1. The Head of Internal Audit (HIA) in a Local Authority plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.			
Chief Internal Auditor's (CIA) role in governance and how it fits with other key officers (s151, Head of Paid Service & Monitoring Officer) is defined in the Job Description	✓		
Managers do not always adequately consult with Internal Audit on changes to systems or new projects/initiatives to ensure adequate governance arrangements are in place. However most major changes in processes are consulted on.		✓	
The Council have a number of policies in place relating to conduct of employees and governance arrangements. However a number of these are in need of updating and more work needs to be done to promote compliance with the policies across the Council.		✓	
HIA does promote good governance, behaviour and high standards across the authority.	✓		
There is a corporate requirement to report suspected or confirmed frauds to Internal Audit	✓		
2. The HIA in a Local Authority plays a critical role in delivering the organisation's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.			
Internal Audit is separate to External Audit. IA has defined terms of reference which cover key relationships as well as reporting arrangements. The CIA has arrangements for providing an opinion on the governance arrangements which feeds into the Annual Governance Statement but the HIA is not responsible for writing the AGS. The HIA has operation responsibilities for Insurance, Risk Management and Health Safety (the latter at CCDC only) safeguards have been put in place to ensure that the HIA's conflicts of interest in these areas are managed effectively.	✓		
The Council does not have a clear system to prompt reviews of key policies on a periodic basis. This means that policies which ensure and promote good governance are not always regularly reviewed and updated.		✓	
HIA has responsibility and the remit to review the Council's control environment and governance arrangements including risk management and significant partnerships, the result of audit work is reported and an annual opinion provided. The HIA liaises with External Audit to share knowledge and maximise the use of resources but EA do not direct the work of IA.	✓		
The HIA is able to report in their own name without fear or favour. The HIA works well with other key officers to bring key issues to the attention of the Leadership Team & Audit Committee to ensure significant recommendations are implemented.	✓		

Adherence to the Standard	Yes	Partial	No
3. The HIA in a Local Authority must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.			
HIA functions are generally carried out by the Chief Internal Auditor although some aspects are shared with the Head of Governance. Both these officers are sufficiently senior and independent within the Council's structure to allow the HIA role to be carried out effectively. Internal Audit have unfettered right to documents and to seek explanations.	✓		
The Chief Internal Auditor is managed by the Head of Governance who is part of the Leadership Team. Both officers work to raise the profile of Internal Audit.	✓		
The Council has an audit committee which operates in line with best practice. The terms of reference for the Committee and IA set out the relationships of the Chief Internal Auditor to the committee.	✓		
The Audit Strategy and Audit plan are discussed with the Leadership Team and the Audit Committee prior to being finalised.	✓		
4. The HIA in a Local Authority must lead and direct an internal audit service that is resourced and fit for purpose.			
Internal Audit aims to meet the needs of the council and external stakeholders. IA has established an appropriate quality assurance framework and the team are always looking for ways to develop the effectiveness of the service. The IA team aim to lead by example with high standards including integrity, objectivity, openness, competence and confidentiality.	✓		
Where resources/skills are lacking in-house (eg IT Audit) the section looks to bring in outside expertise. During the Audit Plan process the CIA assesses resources against the need to carry out a satisfactory level of audit work to inform the annual opinion. Adequate recruitment procedures exist to select appropriate employees/suppliers to deliver internal audit work. The skills and needs of the team are assessed and training is sought to maintain/develop appropriate skills.	✓		
5. The HIA in a Local Authority must be professionally qualified and suitably experienced.			
The Chief Internal Auditor is Cipfa qualified and suitably experienced Internal Auditor to effectively perform the role. The CIA adheres to professional and Internal Audit standards.	✓		
The Chief Internal Auditor has sufficient knowledge of the Internal Audit and regulatory environment as well as an awareness of the full range of the Council's activities and processes.	✓		

IMPROVEMENT PLAN FOR INTERNAL AUDIT – 2018-19

Source	Actions	Person Responsible for Implementation	Timescale
LGAN/Role of Head of Audit Document	New editions of the Local Government Application Note and the Cipfa Role of the Head of Internal Audit documents have been issued – these need to be reviewed to ensure all changes can be picked up to ensure compliance for the 2019-20 Review of Audit.	Chief Internal Auditor	December 2019

Report of:	Chief Internal Auditor
Contact Officer:	Stephen Baddeley
Telephone No:	4415
Portfolio Leader:	
Key Decision:	No
Report Track:	Audit & Governance only

Audit & Governance Committee
25th June 2019
Internal Audit Annual Audit Report 2018-19

1 Purpose of Report

- 1.1 To present the Internal Audit Annual Report for 2018-19

2 Recommendations

- 1.2 That the Committee note the Internal Audit Annual Report for 2018-19

3 Key Issues and Reasons for Recommendation

- 3.1 Based on the work undertaken during the year and the implementation by management of the audit recommendations, Internal Audit can provide reasonable assurance that the Council's governance arrangements including systems of internal control were operating adequately.

4 Relationship to Corporate Priorities

- 4.1 The system of internal control is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities.

5 Report Detail

- 5.1 Management are responsible for the control environment and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of the system of internal control.

5.2 The Internal Audit Annual Report (attached as Appendix 2) is the culmination of the work of the Section during the course of the year and seeks to:-

- provide an opinion on the adequacy of the control environment;
- comment on the nature and extent of significant risks; and
- report the incidence of significant control failings or weaknesses.

5.3 The report is a snapshot view of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring to the attention of the committee any relevant areas where significant weaknesses have not been addressed by managers. Most of the significant findings from the audits have been reported to the Committee in the Quarterly Progress Reports, the significant findings from the audits issued in Quarter 4 are the exception to this and are attached as Appendix 1 for information.

5.4 The Internal Audit Annual Report is one of the sources of assurance that is used to support the Council's Annual Governance Statement

6 Implications

6.1 **Financial**

None

6.2 **Legal**

None

6.3 **Human Resources**

None

6.4 **Section 17 (Crime Prevention)**

None

6.5 **Human Rights Act**

None

6.6 **Data Protection**

None

6.7 **Risk Management**

None

6.8 Equality & Diversity

None

6.9 Best Value

None

7 Appendices to the Report

Appendix 1 - Summary of Significant Findings Quarter 4 Audits

Appendix 2 - Internal Audit Annual Report for 2018-19

Previous Consideration

Background Papers

Files held by the Chief Internal Auditor

Appendix 1

Summary of Significant Findings for Audits Issued in Quarter 4

A summary of the findings is provided in the quarterly reports for any audits not given Substantial Assurance. As there is no Quarter 4 progress report work issued in the final quarter is only included in this Annual Report. For consistency, a summary of the Quarter 4 audits is included below.

Audit	Head of Service	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Staff Timekeeping & Leave	HR★/ Technology★	12	Limited !	<ul style="list-style-type: none"> A number of issues in relation to compliance with the relevant policies have been identified which suggest a lack of management review A number of issues have been identified in the operation and set-up of the electronic time recording system being used by the Council.
Fleet Management	Environment & Healthy Lifestyles	4	Limited !	It was found that there is not a consistent approach to fleet management across the Council as responsibility for the majority of the fleet is divided over 3 Service Managers. There is a need to define roles and responsibilities for fleet management and to ensure a corporate approach to fleet management is developed to ensure consistency.
Payroll	HR★	1	Partial ▲	The key issue related to a lack of an up-to-date record of authorised signatories which could be used by Payroll to ensure payroll related forms had been signed by appropriate people.

Audit	Head of Service	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Information Governance	Law & Admin★ / Governance & Corporate Services	9	Partial 	<ul style="list-style-type: none"> • There was a need to formalise the Council's Information Governance Framework and ensure roles and responsibilities were clear. • There was a need to improve record keeping in relation to Freedom of Information responses and Subject Access Requests. • There was a need to review and improve confidential waste storage & disposal processes. • Consideration should be given to the implementation of a Protective Marking Scheme for documents.
IT Project Management	Technology★	6	Partial 	<p>A number of issues were identified in the project management processes in use these include</p> <ul style="list-style-type: none"> • lack of formal business cases for some projects, • lack of clear implementation plans for some projects • lack of a consistent system testing & validation process • limited evidence of contingency planning for missing project delivery dates • project boards not in place or all of the larger projects
Vehicle Workshop	Environment & Healthy Lifestyles	5	Partial 	<ul style="list-style-type: none"> • There is a need to produce comprehensive procedure notes for the workshop. • Spending analysis is required to ensure that appropriate procurement processes have been followed. • There were inconsistencies between the records from job cards and staff timesheets which indicate time is not being recorded effectively against individual jobs.

Audit	Head of Service	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Housing Rents	Housing & Partnerships	6	Partial 	<ul style="list-style-type: none"> • Change management processes need to be improved as changes had not been supported with signed forms. • Processes for confirming rents were correctly calculated need to be improved in relation to the annual increase and more specifically for verifying changes within the year. • Arrears management processes were not automated and required a significant amount of manual intervention. In addition it is not possible to obtain aged debt reports. • Delegation had been given to the Chief Accountant to approve the write-off of debts but this had not been documented.
Grounds Maintenance	Environment & Healthy Lifestyles	9	Partial 	<ul style="list-style-type: none"> • There is a need to review site-specific risk assessments to ensure they remain appropriate and valid. • Stock records for personal protective equipment held at the depot need to be improved. • Stock records for the pesticides held at the depot need to be improved. • Minor repair works to vehicles carried out by Grounds Maintenance employees need to be recorded and agreed with the Vehicle Workshop.
Housing Benefits	Financial Management		Substantial 	
Council Tax	Financial Management		Substantial 	
Creditors	Financial Management		Substantial 	

★ Services led by Stafford Borough Council as part of Shared Services

Appendix 3 - Audits in Progress

The areas below were in progress but not completed by the end of the year. They will be carried over and completed at the start of the 2019-20 year.

Audit	Head of Service	Comments
Northgate IT Application (Housing)	Housing / Technology	The audit was delayed due to scheduling issues between the Audit Contractor and the Client Department
IT Mobile Devices	Technology	The audit was delayed due to scheduling issues between the Audit Contractor and the Client Department
IT Strategy	Technology	The audit was delayed due to scheduling issues between the Audit Contractor and the Client Department

Cannock Chase District Council Internal Audit Annual Report 2018-19

June 2019



working together

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 Appendix		
	Audits Planned and Completed in 2018-19 by Classification:-	
1a	Limited	9
1b	Partial	10
1c	Substantial	12
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1. INTRODUCTION

- 1.1 The Internal Audit Service is a shared service with Stafford Borough Council. This report highlights the work carried out by Internal Audit to deliver the Annual Audit Opinion for Cannock Chase District Council.

The Annual Reporting Process

- 1.2 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its governance arrangements, comprising of risk management and internal control. Internal Audit objectively examines, evaluates and reports on the adequacy of the Council's governance arrangements as a contribution to the proper, economic, efficient and effective use of resources. Responsibility for governance rests fully with Managers, who should establish and maintain an adequate system of internal control to enable them to discharge their responsibilities and to ensure that the Council's resources are properly applied in the manner and on the activities intended.
- 1.3 This report is the culmination of the work of the Internal Audit Section during the course of the year and seeks to:
- provide an opinion on the adequacy of the control environment;
 - comment on the nature and extent of significant risks; and
 - report the incidence of significant control failings or weaknesses.
- 1.4 It provides a summary of the work of the Section throughout 2018-19. As such it presents a snapshot picture of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by Managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring any relevant areas where significant weaknesses have not been addressed by managers to the attention of the Audit & Governance Committee if and when it is deemed appropriate.
- 1.5 Internal Audit has adopted an exception based reporting methodology, as such only those areas where weaknesses have been identified are reported on.

Requirement for Internal Audit

- 1.6 The requirement for an Internal Audit function derives from local government legislation, including section 151 of the Local Government Act 1972 which requires authorities to “make arrangements for the proper administration of their financial affairs”. Proper administration is interpreted in this legislation to include Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that a relevant body must “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance”.

2. REVIEW OF CONTROL ENVIRONMENT

How the Control Environment is Reviewed

- 2.1 Internal Audit operates to a risk based audit plan. The audit plan is risk assessed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk.
- 2.2 This risk based approach to audit planning results in a comprehensive range of audits being undertaken during the course of the year to support the overall opinion on the control environment.

Internal Audit Opinion for 2018-19 and the Annual Governance Statement (AGS)

- 2.3 Regulation 3 of the Accounts & Audit Regulations 2015 require that the Council:-

“must ensure that it has a sound system of internal control which—

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;*
- (b) ensures that the financial and operational management of the authority is effective; and*
- (c) includes effective arrangements for the management of risk.*

- 2.4 In addition regulation 6 of the Accounts and Audit Regulations 2015 requires that the Council:-

“must, each financial year—

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and*
- (b) prepare an annual governance statement;”*

- 2.5 Internal Audit has a responsibility to provide assurance from the work they undertake during the year in respect of the control environment operating within the Council to feed into this review.

2.6 Based on the work undertaken during the year and the implementation by management of the audit recommendations, Internal Audit can provide **partial assurance** that the Council's governance arrangements including risk management and systems of internal control were operating adequately and there were no instances where any breakdown of control resulted in a material discrepancy.



2.7 Three systems have been given limited assurance; these are Staff Timekeeping and Fleet Management. Although there are gaps and weaknesses in the controls in these areas as no material discrepancies have been found it is considered that are not a significant governance issue at this stage. None the less it is essential that the deficiencies in these systems are addressed in order to prevent future material discrepancies.

2.8 We have continued to see signs of supervisory/management controls not being applied regularly or at all in some areas – this was a factor in the Limited Assurance given for the Staff-timekeeping & Leave audit although not the sole reason for the assurance rating.

2.9 No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks. These risks are reflected in the audit plan and are the subject of separate reports during the course of the year.

3. SIGNIFICANT ISSUES ARISING 2018-19

3.1 Each system/area audited is given a level of assurance based on the presence and effectiveness of the controls in place. Four levels of assurance are currently used and the definitions for each are contained in appendices 1a to 1d.

3.2 A summary of the level of assurance given to each audit is given in the table below.

	Assurance				
	Substantial	Partial	Limited	No Assurance	No Opinion
Number of Audits	6	17	2	0	1
For further information	See Appendix 1d	See Appendix 1c	See Appendix 1b	See Appendix 1a	See paragraph 3.3

3.3 One area was reviewed but the nature of the work meant that it was not appropriate to issue a formal opinion on the level of assurance – this was in relation to Pensions Assurance work carried out for the County Council.

- 3.4 The quarterly Internal Audit reports provide a commentary on audits classified as Partial or Limited Assurance. An annex accompanying this report contains the commentary for the audits issued in Quarter 4 which have not featured in one of the quarterly reports.
- 3.5 The Internal Audit Section did not identify any significant weaknesses in relation to any of the Council's key financial systems and core governance processes which were examined in 2018-19.
- 3.6 In addition to the main audit work the section also followed-up the progress made in relation to Audit Recommendations where the audit was not issued with a Substantial opinion. This usually occurs around 6 months after the report has been finalised.
- 3.7 Follow-ups were completed for 9 areas. After the follow-up had been completed
- 1 area improved from Limited to Partial
 - 4 areas improved from Partial to Substantial
 - 4 areas remained Partial Assurance.
- 3.8 In total 40 recommendations were followed-up in relation to Cannock Chase DC work of which 37 or 92.5% had been implemented or were in progress at the time of the follow-up.
- 3.9 The audits remaining partial were Housing Maintenance, Property Management, Lease Holder Recharges and Homelessness Provisions & Housing Options Team.
- 3.10 More details on the follow-ups can be found in Appendix 2.

4 AUDIT PERFORMANCE

4.1 The table below indicates the Section's performance against the audit plan for 2018-19

	2018-19				2017-18
	Planned	Actual	Actual %	Target %	Actual
Original Plan	32	26	81%	90%	97%

4.2 Twenty Six audits were completed in the year out of the Thirty Two planned for in the original 2018-19 Audit Plan. Three audits had commenced but not been completed by the end of the year. These are Northgate IT Application (Housing), IT Mobile Devices and IT Strategy.

4.3 Included in the completed audits figure above are four audits which were originally part of the 2017-18 audit plan but were not completed in that year. The audits completed this year from the 2017-18 Audit Plan were IT Project Assurance, General Ledger (IT Application), Cyber Security and External Data Transfers.

4.4 In addition to the audit plan the Section has also carried out a number of other pieces of ad hoc work and minor consultancy exercises.

5 FRAUD & IRREGULARITY WORK

Pro-active Fraud work

5.1 The Internal Audit section has taken a proactive approach to the prevention / detection of fraud and corruption. During the year it has:-

- Continued membership of the Midlands Fraud Sub Group;
- Worked to identify best practice contained in the Cipfa Code of Practice on Managing the Risk of Fraud.

Fraud/Irregularity Investigations

5.2 The team has not been involved in any special investigations relating to fraud or irregularities in the year relating to Cannock Chase DC.

5.3 No allegations have been received through the Council's Confidential Reporting or Anti-fraud and Bribery frameworks in the year.

National Fraud Initiative Datamatching

5.4 The Council is a statutory participant in the Cabinet Office's National Fraud Initiative (NFI) exercise which is carried out every 2 years. The 2018-19 matches which were released in January are currently being examined by teams across the Council but limited progress has been made.

6 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

- 6.1 A review of the effectiveness of the system of Internal Audit has been undertaken within the year as part of the Quality Assurance and Improvement Programme as required by PSIAS. A very light touch review was carried out at this time as new guidance material has been issued to inform the way Internal Audit operates for the 2019-20 year in the form of a revised Local Government Application Note and a revised Role of the Head of Internal Audit in Local Government document. It is proposed to carry out an analysis against the new guidance material later in the year to ensure the section complies with best practice.
- 6.2 There were two key elements to the review this year:-
- i. the Chief Internal Auditor has conducted a self-assessment of the section in relation to compliance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN); and
 - ii. reference to the External Quality Assessment carried out by Cipfa in November 2016. The outcome of this review was presented to the Audit Committee in March 2017.
- 6.3 The review concluded that Internal Audit is effective and conforms sufficiently with the requirements of PSIAS/LGAN to ensure that the opinion given in this Annual Report can be relied upon for assurance purposes. The full results of the review are given in a separate report to the Audit and Accounts Committee.
- 6.4 One area of significant non-conformance with the standards was identified and this relates to PSIAS 1110 Organisational Independence. The standards require the “Chief Audit Executive” to report functionally to the Board and indicate that this includes the Audit Committee Chair and Chief Executive commenting on the Performance Development Review and the Audit Committee setting remuneration for the “Chief Audit Executive”.
- 6.5 This is not a common practice in Local Government where Members do not routinely get involved in detailed employment matters. It is felt that sufficient other safeguards to the independence of Internal Audit are currently in place within the Council such as allowing the Chief Internal Auditor the unfettered right of access to the Audit Committee Chair and Chief Executive to raise any concerns. It is therefore felt that this area of non-conformance does not compromise the effectiveness of Internal Audit although PSIAS/LGAN requires it to be disclosed in the Annual Audit Report.
- 6.6 The External Auditors, Grant Thornton, have concluded that “the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council”.

- 6.7 In order to ensure the quality of each audit, one of the Senior Auditors, the Principal Auditor or the Chief Internal Auditor carries out a file review for each audit prior to the reports being issued. The Chief Internal Auditor also reviews each report to sign it off. These processes form part of the internal quality assurance process and helps to provide a consistent approach between the auditors.

Audits Planned and Completed in 2018-19 by Assurance Level

No Assurance

Definition



One or more High (Red) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks.

Immediate action is required by management to address the weaknesses identified in accordance with the agreed action plan

There were no audits which were classified as No Assurance in the year.

Limited**Definition**

One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 9 or higher.

Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.

Audit Area	Service Lead Officer	No of Recommendations
Fleet Management	Environment & Healthy Lifestyles	4
Staff Timekeeping & Leave	HR★ / Technology★	12

★ Services led by Stafford Borough Council as part of Shared Services

Partial**Definition**

One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 6 or below. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.

Audit Area	Service Lead Officer	No of High/Medium Recommendations
Vehicle Workshop	Environment & Healthy Lifestyles	5
Culture and Leisure Services Contract Monitoring (Client Function)	Environment & Healthy Lifestyles	6
Street Cleansing	Environment & Healthy Lifestyles	8
Miscellaneous Engineering Functions (Public Clocks, Bus Stations, Street Furniture & Land Drainage)	Environment & Healthy Lifestyles	4
Grounds Maintenance	Environment & Healthy Lifestyles	9
National Non Domestic Rates	Financial Management	1
General Ledger (Total) IT Application and Management	Financial Management/ Technology★	4
Insurance	Governance & Corporate Services	2
Public Relations & Marketing including Graphic Design	Governance & Corporate Services	4
Information Governance	Governance & Corporate Services	9
Stores Function	Housing & Partnerships	9
Partnerships & CCTV	Housing & Partnerships	7
Housing Rents	Housing & Partnerships	6
Payroll	HR★	1
IT Project Management	Technology★	6
Cyber Security	Technology★	2
External Data Transfers	Technology★	3

★ Services led by Stafford Borough Council as part of Shared Services

Substantial

Definition All High (Red) and Medium (Amber) risks have appropriate controls in place and these controls are operating effectively.
 No action is required by management.



Audit Area	Service Lead Officer
Housing Benefits	Financial Management
Council Tax	Financial Management
Creditors	Financial Management
Banking Arrangements	Financial Management
Customer Services (CRM, Reception, etc.)	Governance & Corporate Services
Sale of Council Houses	Housing & Partnerships

★ Services led by Stafford Borough Council as part of Shared Services

Results of Follow-ups Undertaken in the Year By Assurance Level

Audit	Head of Service	Original Assurance	High/Medium Risk Recommendations				Revised Assurance	Comments & Key Outstanding Recommendations
			Implemented	In Progress	Not Implemented	Total		
Property Management	Economic Prosperity	Limited 	5	7	2	5	Partial 	Some improvements have been made but the systems still remain undocumented and although permission has been given to purchase software to assist in maintaining records this has yet to be implemented. The progress in implementing the recommendations has been affected by capacity issues in the team although this is being addressed via recruitment to the vacant manager post.
Housing Maintenance	Housing & Partnerships	Partial 	0	0	2	0	Partial 	<ul style="list-style-type: none"> The level above which authorisation for variances are required still has not been reviewed and remains excessively high Performance reporting from the system has still to be developed. Both of these areas are due to technical difficulties with the software.

INTERNAL AUDIT – ANNUAL REPORT 2018-19

Audit	Head of Service	Original Assurance	High/Medium Risk Recommendations				Revised Assurance	Comments & Key Outstanding Recommendations
			Implemented	In Progress	Not Implemented	Total		
Lease Holder Recharges	Housing & Partnerships	Partial 	0	5	1	0	Partial 	<ul style="list-style-type: none"> • Work was still needed to document the process used to calculate the recharges. • The Leaseholder records on Northgate are still not complete due to technical issues in relation to the upload of information into Northgate. • Work needs to progress on verifying the Grounds Maintenance costs.
Homelessness Provisions & Housing Options Team	Housing & Partnerships	Partial 	1	2	0	1	Partial 	<ul style="list-style-type: none"> • Work was still ongoing to update the policies & procedures following the implementation of the “duty to refer” • Work was still needed to ensure Value for Money was being achieved in relation to temporary accommodation/Bed& Breakfast costs. • The Housing Advice information on the website was still under review.
Planning - Local Plan/Forward Planning	Economic Prosperity	Partial 	2	0	0	2	Substantial 	
Cemeteries	Environment & Healthy Lifestyles	Partial 	2	0	0	2	Substantial 	
Community Infrastructure Levy	Economic Prosperity	Partial 	10	0	0	10	Substantial 	

INTERNAL AUDIT – ANNUAL REPORT 2018-19

Audit	Head of Service	Original Assurance	High/Medium Risk Recommendations				Revised Assurance	Comments & Key Outstanding Recommendations
			Implemented	In Progress	Not Implemented	Total		
Pest Control & Dog Warden	Economic Prosperity	Partial 	3	0	0	3	Substantial 	

Report of:	Head of Governance
Contact Officer:	Stephen Baddeley
Telephone No:	01543 464546
Portfolio Leader:	Corporate Improvement
Key Decision:	No
Report Track:	Audit & Governance Committee Cabinet 13th June 19

AUDIT & GOVERNANCE COMMITTEE

25TH JUNE 2019

STRATEGIC RISK REGISTER

1 Purpose of Report

- 1.1 To set out details of the Council's Strategic Risk Register as at 1st April 2019 and Risk Management arrangements for managing the Strategic Risks facing the Council.

2 Recommendations

- 2.1 That the Committee note the progress made in the identification and management of the strategic risks.

3 Key Issues and Reasons for Recommendation

- 3.1 All strategic risks and associated action plans have been reviewed and the Council's risk profile is summarised in the table below:

Risk Colour	Number of Risks at 1 Oct 2018	Number of Risks at 1 April 2019
Red	1	1
Amber	4	4
Green	0	0
TOTAL	5	5

4 Relationship to Corporate Priorities

- 4.1 This report supports the Council's Corporate Priorities as follows:
- (i) Risk management is a systematic process by which key business risks / opportunities are identified, prioritised and controlled so as to contribute towards the achievement of the Council's aims and objectives.
 - (ii) The strategic risks set out in the Appendices have been categorised against the Council's priorities.

5 Report Detail

- 5.1 The Accounts & Audit Regulations 2015 state that:
- "A relevant body must ensure that it has a sound system of internal control which:-
- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - (b) ensures that the financial and operational management of the authority is effective; and
 - (c) includes effective arrangements for the management of risk."
- 5.2 Risk can be defined as uncertainty of outcome (whether positive opportunity or negative threat). Risk is ever present and some amount of risk-taking is inevitable if the council is to achieve its objectives. The aim of risk management is to ensure that the council makes cost-effective use of a risk process that has a series of well-defined steps to support better decision making through good understanding of risks and their likely impact.

Management of Strategic Risks / Opportunities

- 5.3 Central to the risk management process is the identification, prioritisation and management of strategic risks / opportunities. Strategic risks / opportunities have been identified and prioritised, action plans are in place for their effective management and delivery of the action plans is monitored. A summary of the Council's strategic risk register as at 1st April 2018 is attached at **Appendix 1**.

The risk summary illustrates the risks / opportunities using the "traffic light" method i.e.

RED	risk score 12 and above (action plan required to reduce risk and/or regular monitoring)
AMBER	risk score 5 to 10 (action plan required to reduce risk)
GREEN	risk score below 5 (risk tolerable, no action plan required)

- 5.4 The number of strategic risks has remained at 5.
- 5.9 A progress update for those actions due up to the end of March 2019 is included in the full strategic risk register attached at **Appendix 2**.
- 5.10 Additional information for red and amber risks can be found in the Strategic Risk Register (**Appendix 2**) in the form of an ‘Overall Progress Summary’ this is accompanied by a symbol to indicate whether progress is on target or otherwise.

The table below outlines the overall progress made in reducing risks since 1st October 2017:

Progress Indicator	Current position
 No progress made in reducing the risk	0 Risks
 Some progress made in managing the risk	3 Risks
 Risk on target to be reduced	2 Risks

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Section 17 (Crime Prevention)

None

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

The Risk Management implications are included within the body of the report and appendices.

6.8 Equality & Diversity

None

6.9 Best Value

None

7 Appendices to the Report

Appendix 1 – Summary of Strategic Risks 2019

Appendix 2 – Strategic Risk Register 2019

Previous Consideration

None

Background Papers

File of papers kept in the Chief Internal Auditor & Risk Manager's office.

Appendix 1

SUMMARY OF STRATEGIC RISKS AS AT 01/04/2019

Risk No	Potential Risks	Risk Owner	Date Added to Register	Score at Sept 18	Score at April 19 2018	Direction of Travel over period reported
Red Risks						
18	Vulnerability of Cannock Chase Council's financial stability as a result of public expenditure reductions and changes to the Government's funding regime	Head of Finance	April 2014	12	12	↔
Amber Risks						
16	Impact of Welfare Benefit Reform	Heads of Finance and Housing & Partnerships	April 2013	9	9	↔
19	The organisation does not have sufficient Management / Officer capacity to deliver its corporate priorities and statutory duties	Managing Director	April 2015	9	9	↔
23	Failure to repel or recover from Cyber-attack including targeted ransomware, malware and Distributed Denial of Service (DDoS) attacks	Head of Technology	April 2017	9	9	↔
25	There is a reduction in investor confidence in the District	Head of Economic Prosperity	April 2018	9	9	↔

Key to Direction of Travel



Risk has decreased



Risk level unchanged



Risk has increased

Deleted Risks

Risk No	Potential Risks	Risk Owner	Date Added to Register	Score at April 2018	Score at Sept 2018	Direction of Travel over period reported
	Nil					

Cannock Chase District Council – Strategic Risk Register

Ref No: 16	Risk: Impact of Welfare Benefit Reform (e.g. Introduction of Universal Credit)		
Risk Owner: Head of Finance / Head of Housing & Partnerships	Portfolio: Health & Wellbeing		
<p>Consequences Of Risk:</p> <ul style="list-style-type: none"> • Increased demand for services (additional workload, pressure on service delivery, additional resourcing etc); • Increase in arrears on Council Tax; • Increase in Rent Arrears; • Negative impact on ability to perform “Compliance” functions and adverse effect on income. 			
Links To Priority Delivery Plan: Community Wellbeing			
Gross Risk Score (ie without controls)	Likelihood: 4	Impact: 3	Total Score: 12 RED
<p>Controls in Place</p> <ul style="list-style-type: none"> • Manage the Council’s housing stock; • Monitoring impact of localisation of Council Tax Support; • Liaison with DWP on implementation timetable for Universal Credits; • Budget support available for affected residents to better manage their budgets set up. • Discretionary Housing Payment policy 			
Residual/Net Risk Score (ie with controls)	Likelihood: 3	Impact: 3	Total Score: 9 AMBER
Provisional Assessment of Risk – does the residual risk score need to be reduced	YES		

Actions Planned	Timescale/Person Responsible	Progress/Comments
Monitor impact of Benefit Reform to identify areas of concern	Quarterly, Local Taxation & Benefits Manager	An on-going monitoring routine is in place.
Identifying number of additional people falling into arrears with Council Tax payments and/or not claiming Council Tax Reduction.	Quarterly, Local Taxation & Benefits Manager	This forms part of the overall monitoring and any considerable difference would generate a review of the local scheme.
Review LCTR Scheme in partnership with Staffordshire authorities with a view to streamlining the application, assessment and award processes	Completion of review by 31 March 2020	Agreement in principle amongst Staffs authorities, to undertake review
A corporate Universal Credit Response Group has been established which includes relevant departments and the DWP	Monthly Meetings Head of Housing & Partnerships/ Head of Finance	Monthly meetings are in progress but it is too early to determine the impact yet. Full Service introduced 23 November 2018.
Introduction of Tenancy Sustainment Service	Completed	Tenancy Sustainment Officer (TSO) service embedded – completed
Discretionary Housing Payment Policy was refresh November 2018.	Completed	Reviewed and on-line application form implemented

<p>Overall Progress Summary: The full impact of benefit reform cannot be determined until the phased introduction of Universal Credits has been completed – at present only a small number of claimants in the District have been moved over to Universal Credit. Full Service was introduced from 23 November 2018 and the effect of this will be closely monitored.</p> <p>The emphasis on housing arrears has been shifted to look more holistically at pursuing rent recovery in line with the roll out of Universal Credit and impact of welfare reforms.</p> <p>The Tenancy sustainment service is now embedded in housing.</p>	Green
	

Ref No: 18	Risk: Vulnerability of Cannock Chase Council's financial stability as a result of public expenditure reductions and changes to the Government's funding regime		
Risk Owner: Head of Finance		Portfolio: The Leader	
Consequences Of Risk: <ul style="list-style-type: none"> • Council size becomes too small to sustain a viable organisation; • Unable to provide desired levels of service 			
Links To Priority Delivery Plan: N/A			
Gross Risk Score (ie without controls)	Likelihood: 4	Impact: 5	Total Score: 20 – RED
Controls in Place <ul style="list-style-type: none"> • Medium term financial plan in place • Annual Financial Plan and Medium Term Financial Strategy in place • The Revenue Budget is balanced for 2019-20 but requires support from balances • Reliance on New Homes Bonus is reduced on an annual basis. • Corporate Budget Monitoring • Evaluation of consultation on changes to government funding regimes 			
Residual/Net Risk Score (ie with controls)	Likelihood: 4	Impact: 3	Total Score: 12 - RED
Provisional Assessment of Risk – does the residual risk score need to be reduced	YES*		

Actions Planned	Timescale/ Person Responsible	Progress/Comments
Responding to Government proposed legislation in relation to key funding regimes	On-going Head of Financial Management	<p>Work streams of MHCLG/LGA and CIPFA in relation to 75% Business Rates Schemes and pilot areas to be monitored</p> <p>Detailed responses submitted in relation to self-sufficient local government, 75% business rates retention and fair funding review as more technical detail becomes available</p> <p>Responses submitted in relation to : Business rates - dealing with the financial risks of appeals (June 2018) Local Government Finance Settlement 2019/20 : Technical Consultation (September 2018) Relative Needs and Resources (February 2019) Business Rates Reform(February 2019)</p>
Review criteria for 2019/20 Business Rates Pilot and subject to approval of partners submit application	Complete	Application to pilot 75% Business Rates Retention in 2019/20 on behalf of the Staffordshire and Stoke on Trent proposed Business Rates Pool/Pilot was successful.
Determine impact of Government proposals for key funding regime	On-going as information becomes available, Head of Financial Management	In Progress
Production and refresh of medium term financial plan	On-going	Completed for 2019-20 MTFP but will future years will need updating as more clarity on the

Actions Planned	Timescale/ Person Responsible	Progress/Comments
		funding regime emerges
Mill Green DOV Development Project Board Established	On-going	In Progress
Refresh Budget Strategy to ensure external funding sources maximised and efficient and effective use of all resources	On-going	Report to Cabinet/Council anticipated November 2018
Council looking to maximise all funding opportunities for economic growth, transport, infrastructure, additional jobs and better skills for residents	Head of Economic Prosperity	Meet the Buyer event attended by 160 local employers/construction firms to source trades for the Mill Green Development. MOU in place between the Council and South Staffordshire College. Partnership working well and training provision gradually being re-established. Working on Engineering Academy establishment and secured funding to aide delivery. Long term sustainability will be important.
Implement a rolling programme of service reviews to ensure that resources are aligned to corporate priorities and are operating as efficiently as they can be	Head of Governance / Q3	A model for service reviews will be developed in Q1 and rolled out across Q2 & 3.
Refresh Budget Strategy to identify alternative scenarios in relation to external funding sources	Head of Financial Management / Q3	Refreshed Financial Plan reported to Cabinet/Council Feb 2019

Overall Progress Summary: The Council continues to progress the areas within its direct control with balanced budgets set for 2019/20 and 2020/21. A potentially balanced budget, based upon the current Local Government Finance Regime exists for 2021/22, however the key risks and uncertainty relate to the fundamental changes to Government Funding that take place in 2020/21 (implementation of 75% Business Rates Retention; Fair Funding and Business Rates Reset) whereas ongoing uncertainty exists in relation to the longevity of the New Homes Bonus grant scheme. There is a forecast balanced budget for 2021-22 , assuming that NHB is replaced and at this stage no grant is received from any new scheme, whereas the deficit could also be increase/reduce based upon the methodology for resetting existing business rates growth

Details are unlikely to become clear before the Autumn of 2019 and hence Budget strategies need to be developed reflecting the various scenarios and efficiency savings implemented as soon as practically possible.

AMBER



Ref No: 19	Risk: The organisation does not have sufficient Management / Officer capacity to deliver its corporate priorities (e.g. Corporate Plan & PDP's) and statutory duties.		
Risk Owner: Managing Director		Portfolio: The Leader	
Consequences Of Risk: <ul style="list-style-type: none"> The Council's priorities are not fully delivered with impact on residents / the public. 			
Links To Priority Delivery Plan: N/A			
Gross Risk Score (ie without controls)	Likelihood: 4	Impact: 3	Total Score: 12 RED
Controls in Place <ul style="list-style-type: none"> Scoping of management capacity for delivery of PDP's by Heads of Service (Assessments of Management Capacity) Management capacity issues are monitored by Leadership Team; Adherence to Sickness Management Policy 			
Residual Risk/Net Score (ie with controls)	Likelihood: 3	Impact: 3	Total Score: 9 AMBER
Provisional Assessment of Risk – does the residual risk score need to be reduced		YES*	

Actions Planned	Timescale/ Person Responsible	Progress/Comments
Ensuring that all priorities in the PDP's are resourced appropriately	Ongoing All Heads of Service	The majority of PDP priorities are on target but there are a number of Amber 'not on target' areas in part due to management capacity.
Where necessary, considering whether resources from other parts of the Council can be transferred for a period.	Ongoing Managing Director / Leadership Team	PDP Priorities not on target are being reviewed by Leadership Team and resource implications are being re-considered.

Actions Planned	Timescale/ Person Responsible	Progress/Comments
Leadership Team maintaining an overview of performance through “managing the business” performance indicators	Ongoing Managing Director / Leadership Team	Quarterly Performance Indicator reports agreed for 2018-19
Requests for additional projects may be refused or deferred until subsequent year(s)	Ongoing Managing Director	A number of requests for new projects in year have had to be refused in order to protect delivery of the Council’s agreed Corporate Priorities.
The Property Services Manager post will be re-established	Managing Director / December 2018	The Corporate Asset Manager post has been recruited to.

<p>Overall Progress Summary:</p> <p>The Councils management capacity will be monitored closely and action has already been taken by not accepting new project requests in year in order to protect capacity to deliver the agreed PDP priorities.</p> <p>A number of decisions have been taken in 2018/19 to strengthen officer capacity in priority areas:</p> <ul style="list-style-type: none"> • Corporate Asset Manager post (see above) • Making Economic Development Manager post full time • Strengthen support in Development Control • A new CIL Officer post in Planning Policy • Restructure of Community Safety Team to strengthen arrangements for CCTV (24 hour service). • Additional officer capacity to take forward the recommendations of the Environmental Services review and to support a programme of service reviews. <p>Leadership Team have recently started to review delivery of the Council's General Fund and S106 Capital Programme and will be considering in further detail the need for additional project and programme management capacity</p>	<p>AMBER</p> 
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Ref No: 23	Risk: Failure to Repel or Recover from Cyber-attack including targeted ransomware, malware and Distributed Denial of Service (DDoS) attacks		
Risk Owner: Head of Technology		Portfolio: Corporate Improvement	
<p>Consequences Of Risk:</p> <ul style="list-style-type: none"> • Data, Systems and Applications inaccessible • Inability to deliver Council services • Cybercrime/ Fraud/ Ransom demands/ Financial harm • Reputational damage locally and nationally • Data Loss & breach of Data Protection Act (DPA) • Financial Loss 			
Links To Priority Delivery Plan - Corporate			
Gross Risk Score (ie without controls)	Likelihood: 4	Impact: 5	Total Score: 20 - RED
<p>Key Controls in Place:</p> <ul style="list-style-type: none"> • Information Risk Management Regime – Assess the risks to our information assets, effective governance structure, LT engagement with cyber risk, produce supporting information management policies. • Secure configuration – Corporate policies and processes to develop secure baseline builds • Network Security – Protection and secured perimeter of external security threats and untrusted networks • Managing user privileges – All users of ICT systems provided with privileges suitable for their role • User education and awareness – Security policies that describe acceptable and secure use of ICT assets • Incident management – Incident response and disaster recovery capabilities that address the full range of incidents that can occur • Malware prevention – Produce policies that directly address the business processes (such as email, web browsing, removable media and personally owned devices) • Monitoring – Established monitoring taking into account previous security incidents and attacks. Annual IT Health Check and penetration testing conducted by a Council of Registered Ethical Security Tester (CREST)/ Communications-Electronics Security Group (CESEG) Listed Advisor Scheme (CLAS) - accredited Government Communication Headquarters (GCHQ) approved consultants. • Removable media controls – Produce removable media policies that control the use of removable media for the import and export of information 			

<ul style="list-style-type: none"> Home and mobile working – Assess the risks to all types of mobile working including remote working and develop appropriate security policies 			
Residual/Net Risk Score (ie with controls in place)	Likelihood: 3	Impact: 3	Total Score 9 -AMBER
Provisional Assessment of Risk - does the residual risk score need to be reduced			YES*

Actions Planned	Timescale/Person Responsible	Progress/Comments
Information Risk Management- Continuous review and work on our information risk management regime	Ongoing/ Head of Technology	Policies under review to improve information risk management
Monitoring – External and Internal checks. Threat and vulnerability assessment and remediation including Annual IT Health Check by CLAS approved consultant with remedial work carried out	Ongoing/ Head of Technology	Annual Healthcheck completed in March 2019.
Application Security Assessment and Remediation action taken	Annually Head of Technology	The healthcheck will produce an action plan to feed into this.
Threat intelligence, Vulnerability management, Operational management, via internal and external monitoring.	December 2018 Head of Technology	Webfilter system is now part of the new firewalls.
Exploring options to improve security for sharing information with external partners	Ongoing Head of Technology	System procured to share data files.
Overall Progress Summary: Work has been completed and actions are in progress. However, the environment means that new risks and challenges are always developing and attacks are becoming more sophisticated.		Green 

Ref No: 25	Risk: There is a reduction in investor confidence in the District		
Risk Owner: Head of Economic Prosperity		Portfolio: Economic Development & Planning	
Consequences Of Risk: <ul style="list-style-type: none"> • Business Growth in the District reduces • Employment Opportunities decline • NNDR / Council Tax Income does not grow • Schemes in the District get abandoned 			
Links To Priority Delivery Plan: Promoting Prosperity			
Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact:5	Total Score: 20
Controls in Place <ul style="list-style-type: none"> • The Local Plan Framework to identify development opportunities • Proactive work with GBSLEP/West Midlands Combined Authority • Business Relationships work/promoting the District via Economic Development function 			
Residual Risk/Net Score (i.e. with controls)	Likelihood: 3	Impact: 3	Total Score: 9
Provisional Assessment of Risk – does the residual risk score need to be reduced		YES	

Actions Planned	Timescale/Person Responsible	Progress/Comments
Economic Prosperity Strategy to be developed	Head of Economic Prosperity / Q3	Work has now commenced on the development/preparation of the Strategy. Consultants have been appointed to undertake 3 'visioning' workshops to present economic analysis and to start scoping economic vision and ambitions for the District over the next 10 years. The workshops will be delivered during May / June 2019.
Continue to dedicate resources to the GBSLEP/Combined Authority	Head of Economic Prosperity/ Ongoing	The Council continues to actively participate in the GBSLEP and Combined Authority. The Government has instigated a LEP review and is proposing the removal of overlapping geographies which could have potential implications for the Council. The outcome of the LEP review is not yet known.
Revised Local Plan to be produced and delivered	Head of Economic Prosperity / Plan to be adopted by September 2021	Local Plan Review underway; outcome of the Issues and Scope consultation to be presented to Cabinet in November. The 2nd stage of the Review The Issues and Options consultation commenced on 13th May and will run for a 8 week period.

Actions Planned	Timescale/Person Responsible	Progress/Comments
Reestablishment of a Further Education offer in the District (Retail Skills Academy/Engineering Academy)	Head of Economic Prosperity/ March 2019	FE re-established in Cannock for the 2018/19 academic year with Construction / Electrical / Health and Social Care & range of evening and part time courses. £1m grant funding from CCDC and SSLEP secured and invested in new equipment to establish the Cannock Chase Engineering Academy with a further bid for £500k from GBSLEP in progress. Over 700 people have used the new Cannock Chase Skills and Innovation Hub in 2018/19 to date. Delivery of courses from the Retail Skills Academy has now commenced with Walsall College the provider.

<p>Overall Progress Summary:</p> <p>The Council continues to work pro-actively with a variety of partners to deliver its economic prosperity agenda. The development of a new Economic Prosperity Strategy will further set out how the Council is working to support the local economy, this will complement the Council's new Corporate Plan and the creation of a District Investment Fund. These priorities and investments will support the attraction of new investment to the District and ensure that the economy can grow and remain resilient. Maximising benefits from new investment made especially linked to the McArthurGlen designer outlet Cannock is of growing importance.</p>	<p style="text-align: center;">Amber</p> 
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In accordance with the Risk Management Strategy, the green risks below are deemed to be tolerable (with existing controls in place) and will be monitored but require no further action at this time.

GREEN RISKS			
<i>Risk No:</i>	<i>Risk Owner</i>	<i>Risk:</i>	<i>Score:</i>
	NONE		

KEY TO PROGRESS SYMBOLS

Progress Indicator	
	No progress made in reducing the risk
	Some progress made in managing the risk
	Risk on target to be reduced

Report of:	Head of Governance & Corporate Services
Contact Officer:	Judith Aupers
Telephone No:	4411
Portfolio Leader:	Corporate Improvement
Key Decision:	No
Report Track:	Audit & Governance Committee

AUDIT & GOVERNANCE COMMITTEE
25 JUNE 2019
ANNUAL GOVERNANCE STATEMENT 2018-19

1 Purpose of Report

- 1.1 To set out the Council's Annual Governance Statement for the year 2018-19.

2 Recommendation

- 2.1 That the Committee approves of the Annual Governance Statement for 2018-19.

3 Key Issues and Reasons for Recommendation

- 3.1 The Accounts and Audit Regulations 2015 require the Council to review the effectiveness of its system of internal control and to prepare an Annual Governance Statement (AGS).
- 3.2 The Council's draft Annual Governance Statement (AGS) for 2018-19 (which is current up to June 2019) is attached as Appendix 1.
- 3.3 The draft AGS has been compiled by the Leadership Team. The AGS has been drafted using various sources of assurance which together form the review of the Council's governance arrangements. The key sources of assurance are:
- (i) assurances from the Heads of Service;
 - (ii) assurances from the 3 statutory officers;
 - (iii) the risk management reports;
 - (iv) the annual internal audit report / opinion; and
 - (v) external assurance reports.

3.4 The review of the Council's governance arrangements has identified areas for improvement and these are set out in the action plan contained within the AGS at Appendix 1.

3.5 An update on the progress in actioning the issues from the 2017-18 AGS is attached at Appendix 2. In summary, of the 8 items:

- 5 items have been completed or are on target to be completed;
- work is in progress on 2 of the items; and
- work on the remaining 1 item has been deferred until 2019-2020.

The outstanding issues have been included in the AGS for 2018-19 where appropriate.

4 Relationship to Corporate Priorities

4.1 The Council's corporate governance arrangements and internal control framework cuts across all corporate priorities.

5 Report Detail

5.1 The Council's Code of Governance was updated in June 2017 to reflect the latest guidance from CIPFA/SOLACE. A copy of the full Code of Governance can be found on the Council's website. A diagram illustrating the Council's Governance Framework is appended to the AGS.

5.2 The preparation and publication of an annual governance statement is necessary to meet the statutory requirement set out in the Audit and Accounts Regulations 2015 which requires authorities to "conduct a review of the effectiveness of system of internal control" and to "prepare an annual governance statement".

5.3 Following approval of the Annual Governance Statement it will be signed by the Chair of the Audit & Governance Committee, the Leader and the Managing Director.

5.4 The Annual Governance Statement has been prepared using information from the sources of assurance outlined in 3.3. The Leadership Team has been consulted on the draft AGS to ensure that:-

- all of the significant issues have been identified and included, so far as is reasonably possible; and
- all of the issues included are considered to be significant.

- 5.5 It is not possible to give a single definition as to what constitutes a “significant governance issue” and judgement has to be exercised. Cipfa/SOLACE has not provided guidance on this in their new Framework so reference continues to be made to the guidance given in the previous framework. Factors used in making such judgements include:-
- the issue has or could seriously prejudice or prevent achievement of a principal objective;
 - the issue has or could result in a need to seek additional funding to allow it to be resolved, or has/could result in significant diversion of resources from another service area;
 - the issue has or could lead to a material impact on the accounts;
 - the Chief Internal Auditor has reported on it as significant, for this purpose, in the Internal Audit Annual Report;
 - the issue, or its impact, has or could attract significant public interest or seriously damage the reputation of the Council;
 - the issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.
- 5.6 Progress in addressing the significant issues identified in the Annual Governance Statement will be monitored through reports presented to the Audit and Governance Committee.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Section 17 (Crime Prevention)

None

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

None

6.8 Equality & Diversity

None

6.9 Best Value

None

7 Appendices to the Report

Appendix 1 – Annual Governance Statement 2018-19

Appendix 2 – Progress Report for AGS 2017-18

Annex 1 – Summary of Governance Framework

Background Papers –

Annual Internal Audit Report 2018-19

Strategic Risk Register

Heads of Service Assurance Statements for 2018-19

Statutory Officers Assurance Statements for 2018-19

**CANNOCK CHASE DISTRICT COUNCIL
ANNUAL GOVERNANCE STATEMENT FOR 2018-19**

1. Scope of Responsibility

- 1.1 Cannock Chase District Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
- 1.3 The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015, regulation 6(1)(b), which require all relevant authorities to prepare an annual governance statement.

2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at the Council for the year ended 31 March 2019 and up to the date of approval of the Annual Governance Statement.

3. The Governance Framework

3.1 The Council has adopted a local Code of Governance, which can be found on the Council's website. The Code is comprised of 6 key principles:

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining the vision and outcomes for the local area and determining the actions necessary to achieve the intended outcomes.
4. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
5. Managing risks and performance through robust internal control and strong public financial management.
6. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

3.2 The key components of the Governance Framework are summarised in the diagram at Annex 1.

3.3 A key element of the Council's governance arrangements concerns safeguarding. Cannock Chase District Council has both a moral and legal obligation to ensure a duty of care for children and vulnerable adults across its services.

We are committed to ensuring that all children and vulnerable adults are protected and kept safe from harm whilst engaged in services organised and provided by the Council. We do this by:

- Having a Child & Adult Protection Policy and procedure in place endorsed by the Staffordshire Safeguarding Children Board and Staffordshire and Stoke Adult Safeguarding Partnership
- Having child & adult protection processes which give clear, step-by-step guidance if abuse is identified
- Safeguarding training programme in place for staff and members
- Carrying out the appropriate level of DBS checks on staff and volunteers
- Working closely with Staffordshire Safeguarding Children Board & Staffordshire & Stoke-on-Trent Adult Safeguarding Partnership

4. Review of effectiveness

4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

The review of effectiveness is led by the Head of Governance & Corporate Services who has responsibility for the development and maintenance of the Code of Governance. The review is informed by the work of Members, the senior officers within the Council and also by comments made by the External Auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is set out below.

- 4.2 **The Authority** - the Head of Governance and the Monitoring Officer, on behalf of the Council, undertakes reviews of the Council's governance arrangements on an ongoing basis. Work to support this includes a self-assessment review against the Code of Governance, reviews of the Constitution, Financial Regulations, the Scheme of Delegation and policies, processes and practices throughout the year. No new issues have been identified in 2018-19 but there are still 2 issues outstanding from the previous review:
- The need to review the Code of Conduct for Employees; and
 - Development of the Information Governance framework.
- 4.3 **The Executive** - the Cabinet monitors the effectiveness of the governance framework through the consideration of regular performance and financial management reports. Individual Cabinet members receive regular feedback from senior officers on the delivery of services and the achievement of objectives and targets. Issues of strategic and corporate importance are referred to the Cabinet. There is a formal Shadow Cabinet in place, which receives equal information to the Cabinet and provides an opportunity to challenge decisions and how they are made.
- 4.4 **Overview and Scrutiny committees** - the Council has 4 Scrutiny Committees, which are aligned to the Council's priorities. The Scrutiny Committees review decisions made by Cabinet and areas of concern. They can "call-in" a decision that has been made by the Cabinet when they consider the decision is not in accordance with the Council's Constitution. The Scrutiny Committees:
- (i) determine their own work programme at the beginning of each year and this includes the provision of updates, briefings and reviews of services/activities; and
 - (ii) consider regular performance management information from senior management.
- 4.5 **The Audit & Governance Committee** - is responsible for overseeing the Council's governance arrangements.

The Committee monitors the effectiveness of risk management, reviews corporate governance issues, the work of Internal Audit and the anti fraud & corruption arrangements throughout the year. The Audit & Governance Committee receives quarterly reports on:

- the work of internal audit in reviewing the systems and processes to ensure that they are adequate; and
- updates on the management of the Council's strategic risks. A strategic risk register is in place, which identifies and evaluates the risks faced by the Council in delivering its objectives. Work is ongoing to review and address these risks and update the risk register accordingly

4.6 **The Standards Committee** - is responsible for the ethical framework of the Council. The Committee works closely with the Monitoring Officer in dealing with complaints about Members conduct and promoting high standards of conduct.

4.7 **Internal Audit** – is responsible for reviewing the effectiveness of the Council's governance arrangements, including the system of internal control, and reporting on its adequacy. Internal Audit is a key source of assurance for the Annual Governance Statement and operates in accordance with the Public Sector Internal Audit Standards.

Internal Audit reviews the internal control system following an audit plan based on an assessment of the potential risks for the various systems and procedures. The work undertaken on the annual audit plan for 2017-18 has been used to provide an independent view on the adequacy of the governance framework.

In the annual report to the Audit & Governance Committee, the Chief Internal Auditor has independently assessed the Council's internal control environment and given a "**partial assurance**" opinion that the Council's governance arrangements were operating adequately and there were no instances where any breakdown of control resulted in a material discrepancy. The Chief Internal Auditor has not identified any issues for inclusion in the Annual Governance Statement. Where deficiencies in internal control were identified during reviews, assurance was provided that these had been or would be resolved in an appropriate manner. Such cases will continue to be followed-up as part of the routine operation of the Internal Audit function.

4.8 **Risk Management** - during 2018-19 the Audit & Governance Committee received regular progress reports regarding the management of strategic risks. There is currently 1 red risk for inclusion as a significant governance issue:

- Vulnerability of Cannock Chase Council's financial stability as a result of public expenditure reductions and changes to the Government's funding regime.

One amber risk has also been identified for inclusion through other assurance sources and has been attributed accordingly.

4.9 **Statements of Assurance from Heads of Service** - assurances were sought from the Heads of Service as to the effectiveness of a number of aspects of the Governance Framework as it operates in their service areas. The following significant governance issues have been identified:

- Effective management of Corporate Assets and compliance

4.10 **Statements of Assurance from the Statutory Officers** - assurances have been sought from the Head of Paid Service (ie Managing Director), the Monitoring Officer (Head of Law & Administration at SBC) and the s151 Officer (Head of Finance) with regard to their responsibilities for governance.

- The Head of Paid Service has overall responsibility for the organisation, appointment and management of staff.
- The Chief Financial Officer (s151 Officer) has overall responsibility for the financial management of the Council. Throughout the year the s151 Officer ensures that the financial position of the Council is monitored, that consideration is given to financial implications when taking decisions and with the support of internal audit that financial processes are complied with.
- The Monitoring Officer has overall responsibility for:
 - reporting on matters he/she believes are, or are likely to be, illegal or amount to maladministration;
 - matters relating to the conduct of Members and officers; and
 - the operation of the Council's constitution.

The Statutory Officers have identified the following as significant governance issues:

- Vulnerability of the Council's financial stability as a result of reductions in public expenditure and changes to the Government's funding regime; and
- Management capacity to deliver the Council's Corporate Priorities and statutory duties.
- Implications arising from EU Exit – there is considerable uncertainty about the effects on legislation as it affects the Council.

4.11 **External Audit / Other Review Agencies** - during the year the Council received the following key reports:

- (i) Audit Findings (dated 26 July 2018 and reported to Audit & Governance Committee 26 July 2018); and
- (ii) Annual Audit Letter (dated August 2018 and reported to Audit & Governance Committee 27 November 2018).

The reports offered an unqualified opinion on the Council's financial statements and its arrangements for value for money and effective use of resources. No significant concerns were identified.

4.12 **Leadership Team** – in addition to the individual Heads of Service and Statutory Officers assurances, the members of Leadership Team have been consulted on the draft annual governance statement and the significant governance issues that should be included within it.

5. Opinion on the Governance Framework

5.1 The review of the effectiveness of the governance framework show that the arrangements continue to be fit for purpose and **reasonable assurance** can be given that the framework is operating adequately in practice.

5.2 No review can provide absolute assurance; this statement is intended to provide reasonable assurance that there is an ongoing process for reviewing the governance framework and it's operation in practice.

5.3 Whilst the governance framework is considered to be adequate a number of issues have been identified that need to be addressed to further enhance the Council's governance arrangements. These are outlined in section 6 together with the actions to be taken.

5.4 The Audit & Governance Committee will have responsibility for ensuring the delivery of the actions needed to improve the Council's governance framework.

6. Significant Governance Issues

6.1 The Council's key governance issues for the past year and the year ahead are summarised in the table below together with the actions planned to address them.

ISSUE & ACTION	OFFICER RESPONSIBLE	TARGET DATE
<p>Employees' Code of Conduct The review of the Employees' Code of Conduct has been completed. The revised Code needs to be approved by Leadership Team and Council. Once approved, all employees will need to be made aware of the new Code of Conduct.</p>	<p>Head of Human Resources, Head of Law & Administration and Head of Governance & Corporate Services</p>	<p>September 2019</p>

APPENDIX 1

ISSUE & ACTION	OFFICER RESPONSIBLE	TARGET DATE
<p>Information Governance</p> <p>An Information Governance Framework needs to be developed to complement the existing policy documents. The revision of the Retention of Documents Schedule needs to be completed and employees made aware of it.</p>	Head of Governance & Corporate Services	January 2020 October 2019
<p>Contracts Register</p> <p>Management of Contracts in particular ensuring adequate timeframe for re-letting of major contracts e.g. housing/leisure.</p> <ul style="list-style-type: none">• develop and maintain departmental contracts registers and procurement plans to support the timely planning for the procurement of contracts in future.	Head of Governance & Corporate Services and Leadership Team	January 2020
<p>Financial Stability</p> <p>The Approved Budget and Plan currently provides an ongoing balanced budget. This is based upon the current Local government Finance Regime, however fundamental changes to Government Funding, details still to be determined, are set to take place in 2020/21 which combined with the ongoing uncertainty in relation to the longevity of the New Homes Bonus grant scheme creates a key strategic risk for the financial stability of this and all other councils. Actions planned include:</p> <ul style="list-style-type: none">• Robust Medium Term financial strategy to continue to take a pro-active approach to mitigate the effects of further financial reductions.• Increase level of reserves to manage potential risks.• Undertake a range of service reviews to identify savings and growth options.• Continue careful management of all Council's budgets and assets to maximise their impact.	Managing Director and Head of Finance	Ongoing

ISSUE & ACTION	OFFICER RESPONSIBLE	TARGET DATE
<p>Management capacity and delivery of the Council's corporate priorities and statutory duties</p> <p>In order to ensure that there is adequate management and officer capacity to deliver the Council's priorities in the period 2019 – 2023, it is planned to:</p> <ul style="list-style-type: none"> • Ensure that all priorities in the Priority Delivery Plans are resourced appropriately. • Ensure that health and safety compliance across all services is maintained as a priority. • Through a programme of service reviews, realign resources with corporate priorities where necessary. • Leadership Team to maintain an overview of the performance of the organisation through 'managing the business' indicators to identify any capacity issues earlier and take appropriate remedial actions. • Additional projects / requests may need to be refused or deferred until following financial year. • Succession planning to anticipate retirements especially at senior manager level. • Identification of additional resources for project management/back filling 	<p>Managing Director</p>	<p>Ongoing</p>
<p>Implications arising from EU Exit</p> <p>There is considerable uncertainty about the effect of Brexit on legislation as it affects the Council.</p> <p>The effects of Brexit on legislation and how it affects the Council will be monitored and appropriate action taken to ensure continuing compliance.</p>	<p>All Heads of Service</p>	<p>Ongoing</p>

APPENDIX 1

ISSUE & ACTION	OFFICER RESPONSIBLE	TARGET DATE
<p>Effective management of Corporate Assets and compliance</p> <ul style="list-style-type: none">• Review of resources and capacity (Recruit Corporate Asset Manager and restructure roles in the Property Services Team)• Ensure robust systems in place to secure compliance across full range of building related risk• Review condition surveys for Council owned assets and identify a phased plan for maintenance / investment (linked to development of Asset Strategy / Plan below)• Development of a new Asset Management Strategy / Plan• Regular briefings of Managing Director on progress against compliance agenda.	Head of Economic Prosperity and Corporate Assets Manager	Subject to appointment of Corporate Assets Manager April 2020
<p>Economic Growth</p> <p>It will be necessary to balance the Council's economic growth aspirations and speculative investment:</p> <ul style="list-style-type: none">• Need to ensure Business Rates and Council Tax compliance;• Consider alternative funding sources;• Procurement of Cannock town centre development partner;• Management of gap funding; and• Development of an Economic Prosperity Strategy	Head of Finance / Head of Economic Prosperity	Ongoing

Signed:

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Chair of the Audit & Governance Committee

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Date

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Leader of the Council

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Date

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Managing Director

.....

Date

on behalf of Cannock Chase District Council

**PROGRESS REPORT AS AT 30 APRIL 2019
ON THE SIGNIFICANT GOVERNANCE ISSUES
FROM THE ANNUAL GOVERNANCE STATEMENT FOR 2017-18**

No.	Issue & Action	Timescale & Lead Officer	Progress/Comments	Status
1	Financial Regulations The Financial Regulations are in need of revision and updating, prior to reporting to Council for approval.	September 2018 Head of Finance	Revised Financial Regulations approved by Council in April 2019.	
2	Employees' Code of Conduct The Employees' Code of Conduct is in need of revision and updating.	September 2018 Heads of Human Resources, Law & Administration and Governance & Corporate Services	A revised Code of Conduct for has been drafted and is due to go to Leadership Team for consideration in July and to Council for approval in September 2019.	
3	Information Governance Following on from the work done to date in implementing the General Data Protection Regulations, there is a need to: (i) provide training for employees and Members; and	September 2018	Training has been provided for employees and Members	

No.	Issue & Action	Timescale & Lead Officer	Progress/Comments	Status
	(ii) revise the Retention of Documents Schedule.	January 2019 Head of Governance & Corporate Services	Work is in progress as part of the departmental GDPR audit process. Once completed the current Retention of Document Schedule will be updated.	
4	<p>Financial Stability</p> <p>The Approved Budget and Plan currently provides an ongoing balanced budget with the use of balances required in 2019/20 pending the opening of Mill Green Designer Outlet Village in 2020/21.</p> <p>The Balanced Budget in 2020/21 is based upon the current Local government Finance Regime, however fundamental changes, to Government Funding, details still to be determined, are set to take place in 2020/21 (implementation of 75% Business Rates Retention; Fair Funding and Business Rates Reset) combined with the ongoing uncertainty in relation to the longevity of the New Homes Bonus grant scheme creates a key strategic risk for the financial stability of this and all other councils. Details are unlikely to become clear before the Autumn of 2019.</p> <p>Budget strategies need to be developed reflecting the various scenarios and efficiency savings implemented as soon as practically possible.</p>	Ongoing Managing Director and Head of Finance	<p>Budget approved by Council in February 2019.</p> <p>Report approved by Cabinet in April 2019 setting out the outcome of the Environmental Services review and proposing a programme of service reviews.</p>	

No.	Issue & Action	Timescale & Lead Officer	Progress/Comments	Status
5	<p>Management capacity and delivery of the Council's corporate priorities and statutory duties - management capacity continues to be an issue. The situation will be managed by:</p> <ul style="list-style-type: none"> • Leadership Team are assessing the need for additional project and programme management capacity to deliver capital and revenue projects; and • Increasing capacity with the Property Services Team to address building compliance issues and support the delivery of regeneration schemes. 	<p>September 2018</p> <p>December 2018</p> <p>Managing Director</p>	<p>Budget of £136k identified from existing S.106 reserves to recruit additional project management capacity. Post in the process of being recruited to.</p> <p>An additional post has been created within the Property Services Team. A candidate has been appointed to the post.</p>	<p></p> <p></p>
6	<p>Cyber Security</p> <p>With the rise in cyber attacks nationally, it is planned to:</p> <ul style="list-style-type: none"> • Update firewall system • Provide cyber awareness training for users (Members and Employees) 	<p>June 2018</p> <p>October 2018</p> <p>Head of Technology</p>	<p>Completed. The new firewall is in place and is now fully operational.</p> <p>Cyber training has been provided along with the data protection training to all Members and employees.</p>	<p></p> <p></p>

No.	Issue & Action	Timescale & Lead Officer	Progress/Comments	Status
7	<p>Corporate Plan and Delivery Plans</p> <p>Following the production of the new Corporate Plan for 2018-23, it is necessary to ensure that there are detailed action plans in place to support the delivery of the Council's priorities and that these are managed.</p>	<p>Plans in place - June 2018</p> <p>Management of plans – ongoing</p> <p>Head of Governance & Corporate Services and Leadership Team</p>	<p>The Priority Delivery Plans (PDPs) to support the new Corporate Plan have been produced and were approved by Council in June.</p> <p>Performance against the PDPs is reported quarterly to Leadership Team, Cabinet and to the Scrutiny Committees.</p>	
8	<p>Contracts Register</p> <p>As a result of the failure to plan adequately for the re-tendering of a number of key contracts before they came to an end, there is a need to develop and maintain departmental contracts registers and procurement plans to support the timely planning for the procurement of contracts in future.</p>	<p>October 2018</p> <p>Head of Governance & Corporate Services and Leadership Team</p>	<p>Due to other work taking priority this has not yet been progressed. The work has been rescheduled for 2019/20.</p>	

KEY TO STATUS INDICATORS:

STATUS	DESCRIPTION
	The action is making significant progress towards completion or has been completed
	The action is making some progress towards being completed
	Work has not commenced on the action

GOVERNANCE FRAMEWORK

