

Audit and Governance Committee

Supplementary Agenda

Date: Thursday, 30th May, 2024
Time: 10.00 am
Venue: Capesthorpe Room, Macclesfield Town Hall, SK10 1EA

Dear Councillor

I am now able to enclose the following appendices that were unavailable when the agenda was published.

Nikki Bishop
Democratic Services Officer
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8. **Annual Governance Statement 2022-23 Actions - Progress Update** (Pages 3 - 28)

To receive an update on the progress of actions identified for Significant Governance Issues in the Annual Governance Statement 2022/23.

9. **Internal Audit Update - Progress against Internal Audit Plan Q3/Q4 2023-24**
(Pages 29 - 48)

To consider the report which provides an update on work undertaken by Internal Audit between October 2023 and March 2024.

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Audit and Governance Committee

30 May 2024

Annual Governance Statement 2022/23 Progress Update

Report of: David Brown, Director of Governance and Compliance

Report Reference No: AG/15/24-25

Ward(s) Affected: All Wards

Purpose of Report

- 1 To provide assurance to the Audit and Governance Committee on the implementation of actions identified in the 2022/23 Statement to improve governance arrangements and to respond to emerging issues.
- 2 The report also informs the Audit and Governance Committee of the proposed production process for the 2023/24 AGS.

Executive Summary

- 3 The Council's assessment of its governance arrangements for 2022/23 identified five significant governance issues. The 2022/23 AGS was approved by the Committee at the 7 March 2024 meeting.
- 4 Each significant governance issue has been reviewed and a progress update provided by the relevant responsible officer. They have considered the assurance provided to determine whether the required action has been completed appropriately, whether the issues are being sufficiently and effectively managed and whether there are further issues or concerns arising.
- 5 Progress updates on the five 2022/23 significant governance issues are provided at Appendix A. Out of the five significant governance issues, it is recommended that four remain on the AGS. Significant progress has been made with one of the issues and it is recommended that

consideration is given to this item being removed from future Statements.

- 6 The proposed approach for the production of the 2023/24 AGS is set out in paragraphs 11 to 16 of this report.

RECOMMENDATIONS

The Audit and Governance Committee is recommended to:

1. Review and approve the updates provided on the significant issues reported in the 2022/23 AGS, including the recommendations to the Committee on whether items remain in the Statement.
2. Agree the process for the production of the 2023/24 AGS.

Background

Progress against items reported in the 2022/23 AGS

- 7 The 2022/23 AGS was approved by the Audit and Governance Committee in March 2024. This included updated details of previously reported significant governance issues, as well as an emerging significant issue recognised for 2022/23 along with the proposed actions for implementation.
- 8 The 2022/23 Statement of Accounts is yet to be signed off due to a delay in the external auditors completing their work. As such, a detailed update on progress made since March 2024 in addressing the AGS significant governance issues is included at Appendix A for consideration by Members as a supplement to the 2022/23 AGS.
- 9 Each significant governance issue update has been provided by the relevant responsible officer. In providing the updates, they have considered the assurance provided to determine whether the required action has been completed appropriately, whether the issues are being sufficiently and effectively managed and whether there are further issues or concerns arising.
- 10 These recommendations are summarised in Table 1, with a recommendation to the Committee on whether the issues should be considered as completed/managed and can be monitored via local monitoring arrangements or if they require further monitoring via the AGS.

Table 1 – Summary of 2022/23 AGS Significant Governance Issues

AGS Item	Responsible Officer	Recommendation to the Committee
Council Funding	Director of Finance & Customer Services (Section 151 Officer)	To note progress but remain as a significant issue.
Health & Social Care Integration	Executive Director of Adults, Health & Integration	As there has been significant progress in this area, it is recommended that consideration is given to whether this item can be removed from future Annual Governance Statements. Future monitoring of compliance in this area will be undertaken by the Executive Director of Adults, Health & Integration.
ASDV Governance	Director of Governance & Compliance (Monitoring Officer)	To note progress but remain as a significant issue.
Planning	Executive Director of Place	To note progress but remain as a significant issue.
Executive and Wider Leadership Team Capacity	Chief Executive	To note progress but remain as a significant issue.

Production of the 2023/24 AGS

- 11 The Council is required to prepare and publish an AGS. This requirement was introduced by the revised Chartered Institute of Public Finance (CIPFA)/SOLACE Good Governance Framework (Delivering Good Governance in Local Government) and is necessary to meet the statutory requirement set out in Regulation 6 of the Accounts and Audit England Regulations 2015.
- 12 The purpose of the AGS process is to provide a continuous review of the organisation's governance arrangements to give assurance on the effectiveness of the processes and/or to address identified weaknesses, supporting the continuous improvement of the Council.

- 13 The Audit and Governance Committee has, through its terms of reference, been delegated specific governance responsibilities. These include consideration of the findings from the review of the effectiveness of the Council's governance arrangements and review and approval of the AGS.
- 14 It is considered good practice to agree the process for preparing the AGS, including the framework of assurance that underpins it, with Members in advance.
- 15 The 2023/24 AGS will be prepared in line with the requirements of the CIPFA/SOLACE Good Governance Framework and against the Council's Code of Corporate Governance.
- 16 The review of the effectiveness of the Council's governance framework will be informed by the work of Internal Audit, Senior Managers and comments made by the External Auditors and other review agencies/inspectionates. The sources of assurance include, but are not limited to:
 - (a) Internal Audit through the annual opinion and the interim progress reports.
 - (b) External Audit through its reports to "those charged with governance".
 - (c) Outcomes of agencies and inspectionates' reviews of the organisation
 - (d) Senior management assigned with the ownership of risks and delivery of services through the risk management process, at strategic and operational levels.
 - (e) The views of the Section 151 Officer and Monitoring Officer in meeting statutory responsibilities.
 - (f) Heads of Service, who are required to independently sign off on the adequacy of controls within their service areas via disclosure statements.

Consultation and Engagement

- 17 The 2022/23 AGS significant governance issue updates have been provided by the relevant responsible officers. In providing the updates, they have considered the assurance provided to determine whether the required action has been completed appropriately, whether the issues are being sufficiently and effectively managed and whether there are further issues or concerns arising.

- 18 The proposed draft AGS for 2023/24 will be considered by the Risk and Assurance Board and the Corporate Leadership Team to ensure all issues impacting the Council have been considered. The draft AGS for 2023/24 will be presented to the Audit and Governance Committee for review and approval alongside the Draft Statement of Accounts which is scheduled for the July 2024 meeting of the Committee.

Reasons for Recommendations

- 19 Under the Accounts and Audit Regulations 2015, local authorities are required to prepare an AGS and to report publicly on the effectiveness of governance and control. The Audit and Governance Committee is responsible for reviewing and approving the AGS.
- 20 The process of preparing the AGS should, in itself add value to the effectiveness of the Council's corporate governance and internal control framework. Good governance enables the Council to better meet the challenges of pursuing its vision, delivering objectives against a background of continued financial pressures, by underpinning that vision with mechanisms for control and management of risk.
- 21 In accordance with best practice, the Audit and Governance Committee should undertake a number of activities to discharge its responsibilities in relation to the AGS including:
- (a) Ensuring the AGS is underpinned by a framework of assurance.
 - (b) Monitoring the implementation of action plans/recommendations to improve governance arrangements.
 - (c) Receiving reports and assurances over changes to the governance framework and control environment as they are established.

Other Options Considered

- 22 None applicable

Option	Impact	Risk
Do nothing.	The AGS is not reviewed and approved by Members of a Council meeting or committee.	Failure to comply with the Accounts and Audit Regulations 2015.

Implications and Comments

Monitoring Officer/Legal

- 23 The production of the Annual Governance Statement is required by Regulation 6(1)(b) of the Accounts and Audit Regulations 2015, which sets out the timescales by which it must be published.
- 24 The Accounts and Audit (Amendment) Regulations 2022 set the timescales for the publication of the draft and final statements as follows:
- (a) Publication of draft statements (Accounts and AGS) reverted to 31 May from 30 September.
 - (b) Publication of final statements (Accounts and AGS) remains at 30 November until up to and including 2027.
- 25 The draft Statement of Accounts 2023/24 are due to be presented to the Audit and Governance Committee in July 2024. Therefore, the draft 2023/24 AGS will also be presented for approval at the same meeting.
- 26 The preparation of the proposed draft AGS is carried out in accordance with the guidance produced by CIPFA/SOLACE Good Governance Framework.

Section 151 Officer/Finance

- 27 There are no direct financial implications arising from this assurance report to the Committee. The production of the AGS aligns with the production of the Council's Annual Accounts and is published alongside the audited accounts.

Policy

- 28 There are no direct implications for policy.

Equality, Diversity and Inclusion

- 29 There are no direct implications for equality, diversity and inclusion.

Human Resources

- 30 There are no direct implications for human resources.

Risk Management

- 31 The Council is required to prepare and publish an AGS to meet the statutory requirement set out in Regulation 6 of the Accounts and Audit Regulations 2015. Failure to do so could result in non-compliance with the requirements of the Regulations.

Rural Communities

32 There are no direct implications for rural communities.

Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND)

33 There are no direct implications.

Public Health

34 There are no direct implications for public health.

Climate Change

35 There are no direct implications for climate change.

Access to Information	
Contact Officer:	Josie Griffiths, Head of Audit & Risk Email: josie.griffiths@cheshireeast.gov.uk
Appendices:	Appendix A – Annual Governance Statement 2022/23 - Progress Update May 2024
Background Papers:	N/A

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Annual Governance Statement 2022/23 Progress Update May 2024

Appendix A



OFFICIAL

Progress against issues recognised in the Annual Governance Statement 2022/23

Council Funding	
<i>(Recognised as a continuing governance issue since 2015/16 but revised and restated in 2021/22)</i>	
Description of Issue	<p>The uncertainty of demand for services, particularly during the pandemic, makes forecasting the adequacy of funding requirements more challenging. This was exaggerated through uncertainty of the potential yield from many of the Council's largest funding sources. For example, Council Tax and Business Rate collections and taxbase calculations were impacted by the pandemic and by government intervention. DSG is impacted by academisation and shortfalls in High Needs funding. Grants are subject to ongoing review and therefore often presented as single year allocations.</p> <p>Without certainty the Council can sometimes be required to make short term decisions which could prove inefficient as well as disruptive.</p> <p>Council received and approved a balanced 4-year MTFS 2022 to 2026 in February 2022. This followed consideration at each service Committee and was recommended to Council by the Corporate Policy Committee. This includes the Budget and Council Tax levels for the 2022/23 financial year.</p> <p>Council further received a balanced 4-year MTFS 2023 to 2027 in February 2023. The consultation process to support this budget received more responses than any previous consultation which was an indication of the process and content of the proposals. Decisions were required to alter several services and introduce new charges to support material growth, particularly in Adult Social Care.</p> <p>The Local Government Finance Settlement published in 2021 was presented as a Three Year Settlement, but the local allocation of total funding was only certain for 2022/23. The MTFS aimed to minimise the medium-term risk of reduced funding by assuming lower allocations in later years in line with statements from Ministers.</p> <p>Due to material growth and in-year over-spending the final settlement in 2022 introduced new grants, increased Council Tax referendum levels and delayed Adult Social Care reform. The impact of this caused delays to the MTFS process.</p>

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	<p>Whilst funding from Council Tax and Business Rates has stabilised to a degree there is still uncertainty over any structural changes to these income sources. Material funding issues remain within the High Needs funding block in the DSG, and Cheshire East Council took part in the Delivering Better Value Scheme, although it is clear this will not resolve the material deficits in this area.</p> <p>The legacy impact of the pandemic and other global events continues to cause forecasting issues with the demand for services and the levels of inflation and interest rates.</p>
Responsibility	Director of Finance & Customer Services
Action proposed at the time of inclusion in the AGS	<p>The Council's approach to the continuing financial challenges, linked to austerity, are being addressed through a range of activities and communication channels.</p> <p>Finance staff and senior leaders are engaging with government officials and professional bodies (such as CCN, CIPFA, LGA, SCT, RSN and UTS), in the review of local government finance.</p> <p>Responses have been provided to consultations and regular seminars and meetings have been attended to ensure that issues relevant to Cheshire East Council are being considered.</p> <p>Funding estimates are transparent and reported to the Finance Sub-Committee. Working Groups from the Sub-Committee have also reviewed estimates in detail. This includes estimates within all financial strategies that make up the over-arching Medium Term Financial Strategy.</p> <p>The Council's increasing level of collaboration and integration with public sector partners, such as health services and neighbouring local authorities, is also subject to significant review.</p>
Progress Update for AGS 2022/23	<p>Outturn for 2022/23 showed that expenditure exceeded income levels, by £6m, a level broadly anticipated in the Council's in-year reporting and reflected in the latest MTFs approved in February 2023. Whilst balancing the position did require utilisation of £5.2m from the MTFs Reserve, the required transfer from the General Fund Balance was £0.8m, being some £1.7m less than planned for.</p> <p>This was a helpful position, but the risks to financial management, from exceptional inflation and rising demand for services; and levels of funding from or enabled by Government remain. It is worth noting that achieving that</p>

outturn position did require significant mitigating measures in-year, including some use of other ‘one-off’ reserves and actions.

The budget for 2023/24 and MTFS 2023/24-2026/27 was approved by Council in February 2023, based on the final settlement. It is still considered that grant allocations and ‘flexibilities’ afforded by government fall significantly short of the estimates of spending required (largely due to pay and cost inflation, and effects on demand for services), and long-term solutions continue to be needed, particularly in respect of social care (including the relationship with health services) and the funding of high needs children’s services.

During the current financial year, 2023/24, these matters have now been reflected in a freshly defined strategic risk: SR06 - Failure to achieve the MTFS.

In-year forecasting for the current 2023/24 year has shown that, as indicated above, the effects of inflation on increasing pay and supplies costs, the growing demand for and complexity of service provision, and the impacts of high interest rates on costs of borrowing, are continuing to place significant financial pressures on the Council.

The Second Financial Review (reported to Finance Sub-Committee on 2 November 2023, and all other Service committees in the November cycle of meetings) showed a financial pressure of £18.7m (5.3% of the current net revenue budget of £353.1m).

In October 2023, the Cheshire East Budget Response Team (CEBERT) was set up to lead on coordinating a wide range of mitigating actions across the organisation. Weekly meetings are chaired by the Chief Executive, with updates relating to several workstreams, each focussed on particular spending control measures.

Local authorities, including Cheshire East Council, are liaising with Government departments over the severity of so many emerging financial issues affecting our sector; the Council is engaging either directly with Government departments, or through professional or political networks. The focus of the lobbying for Cheshire East Council is on the following important local issues:

- The High Needs/ Special Educational Needs deficit, with the Council having now begun conversations on entry to the DfE’s Safety Valve Scheme

- Capital Funding and HS2, including seeking compensation for abortive costs, and developing wider plans to provide additional funding for infrastructure projects in the North of England, following the announcements about HS2
- Children’s Services (see below)
- Local Government Settlement

Analysis of the in-year forecasts for 2023/24 and reflecting on the outturn performance against the 2022/23 budget, indicates that the most significant prevailing financial pressure is within Services that are the responsibility of the Children and Families Committee. This position is in-line with top tier Local Authorities across England where similar issues are being experienced.

The immediate short-term risk to the Council’s financial resilience must lead to a focus on budget setting for the 2024/25 budget only. Assuming no material change in central funding, a report to Finance Sub-Committee on 2 November 2023 proposed an initial reallocation of resources, responding to pressures in the Children and Families services, increasing the revenue budget for the committee by £7m compared to the MTFs presented to Council in February 2023. This transfer of resources results in a savings requirement in other Committee budgets to maintain the balanced budget requirement.

The MTFs on budget setting for 2024/25 was considered at Corporate Policy Committee on 13 February 2024. Regarding the projected outturn for 2023/24, it reiterated the forecast deficit of £13m reported in the Third Financial Review, as reported to committees in the January cycle of meetings.

It also reported the potential for the need to write-off to revenue the capital expenditure of £8.6m relating to HS2; this would be necessary if the support from Government requested (either compensation by way of grant, or capitalisation direction) is not forthcoming.

In addition to the significant use of reserves needed to balance off the 2023/24 revenue account, the report also highlighted growth pressures of £34.3m for 2024/25, as against the availability of additional funding of £22.6m, creating a budget deficit of £11.7m – and this position assumes approval and then delivery of several challenging change/ savings items.

	<p>This would mean further use of reserves and – even subject to successful achievement of those plans – that the General Fund balance on 31 March 2025 would be just £2.1m, and a ring-fenced earmarked reserve of only £1.7m would exist at that point.</p> <p>This is clearly unsustainable; and consequently, the MTFs also includes the S25 report from the Director of Finance and Customer Services (Chief Finance Officer) which sets out the planned response to the 2024/25 budget and reserves position and the transformational activity (which will require the appointment of a transformation partner) that needs to take place during 2024/25 to address the financial crisis the Council is facing.</p> <p>Corporate Policy Committee on 13 February 2024 also considered a report on exceptional financial support, which included recommendations that:</p> <ul style="list-style-type: none"> • The Chief Executive shall continue to seek resolution of financial issues related to the abortive costs of HS2 and the financial deficit in High Needs education budgets • The Chief Executive finalise and submit a request for exceptional financial support in the form of an in-principle capitalisation direction for 2023/24 and 2024/25 to the Secretary of State for Levelling Up for up to £17.6m <p>The latter relates to £8.6m in respect of HS2 (as referred to above), and £9m relating to interest costs on the DSG deficit (£3m in 2023/24; £6m in 2024/25). The impact of Government approving the application for capitalisation direction would be to support revenue reserves levels, and thereby alleviate some financial stress, whilst the Council undertakes a programme of organisational transformation in 2024/25.</p>
<p>Progress update May 2024</p>	<p>At the time of writing, provisional outturn figures for 2023/24 show a slightly smaller overspend than was forecast in the Third Financial Review, overall, with a greater adverse variance in Adult Social Care spending being more than offset by favourable variances across other Services. The outturn position is being analysed, particularly to understand the effects of one-off ‘windfall’ events/savings, as distinct from any further cost pressures (or reductions) which will continue to have an effect in the 2024/25 year, and so vary our forecasts going forward.</p>

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	<p>The smaller overspend, whilst helpful, provides little comfort, as all things being equal the prospects for the future remain very challenging. The Council has received notification from Government of the potential to utilise 'Exceptional Financial Support' – of up to £11.6m relating to 2023/24 items, and up to £6m in respect of 2024/25 – but as expected this is only in the form of capitalisation direction (which will cost us to deploy, in the form of premium interest rates).</p> <p>The Transformation Programme noted as required in the MTF5 is underway, with a transformation partner being appointed recently; work has commenced and in the coming weeks they will help us develop a plan to shape our transformation and improvement journey. This plan must be submitted to DLUHC by 27 August as part of the criteria for final approval of Exceptional Financial Support.</p> <p>Our plan needs to present a version of Cheshire East Council that spends £100m less over the next four years.</p>
Recommendation	To note progress but remain as a significant issue.

Health & Social Care Integration

(Recognised as a continuing governance issue since 2015/16 but revised and restated in 2021/22)

Description of Issue	<p>Since the 1 July 2022, integrated care systems have been formalised as statutory bodies following changes brought about by the 2022 Health and Care Act and has meant the abolishment of the Clinical Commissioning groups.</p> <p>Cheshire East Council sits within the Cheshire & Merseyside ICS footprint, which comprises of 9 Local Authority Areas.</p> <p>The central aim of ICS's is to integrate care across different organisations and settings, joining up hospital and community-based services, physical and mental health, and health and care.</p> <p>The key challenges and risks that this presents are as follows:</p> <ul style="list-style-type: none"> • That the ICS is not a partnership of equals across the broader health, wellbeing and social care system • Risk that central control remains at central level and decision making and delegations are not devolved to place
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	<ul style="list-style-type: none"> • National versus local tensions • Budget deficits
Responsibility	Executive Director of Adults, Health & Integration
Action proposed at the time of inclusion in the AGS	<p>Ensuring representation at a Cheshire and Merseyside level.</p> <p>All Integrated Care Systems (ICS) are made up of two constituent elements, the Integrated Care Partnership (ICP) and the Integrated Care Board (ICB). For Cheshire and Mersey Integrated Care System (C&MICS):</p> <ul style="list-style-type: none"> • The Leader of the Council represents Cheshire East Council on the Integrated Care Partnership, which in Cheshire and Mersey is called the Health and Care Partnership • The C&M ICB constitution makes provision for two local authority chief executives to be members of the Board, one from Cheshire and Warrington and one from the Mersey City Region, to represent the views of local authorities. The role will rotate between local authorities on a 3 year cycle. There is also a Director of Public Health on the board <p>Collaboration with the ICB local representative, Mark Wilkinson - Place Director.</p> <p>In Cheshire East, the Place Director has dotted line accountability to the Chief Executive and routinely attends the Corporate Leadership Team. In addition, joint management arrangements across the local ICB team and the Adults Health and Integration Department are progressing.</p> <p>The Place Director is a permanent and full member of the Cheshire East Health and Wellbeing Board.</p> <p>Ensuring local priorities are understood and communicated.</p> <p>Partners are currently refreshing the Cheshire East Health and Wellbeing Strategy to ensure that aims and ambitions are relevant post-pandemic, and joint outcomes, a joint implementation plan and a shared performance management framework are in development.</p> <p>A shared approach to communicating with residents has yet to be developed.</p>
Progress Update for AGS 2022/23	The governance arrangements set out above have been enacted and are functioning well locally. The joint outcomes framework, strategy implementation plan and performance framework are progressing well and have been developed in co-production with partners.

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	<p>The Cheshire East partnership is flourishing and a recent review of hospital discharge arrangements, carried out in Cheshire and Merseyside by the national discharge team, has commented on the strength of Cheshire East leadership and partnership arrangements.</p> <p>However, concerns about the centralisation of decision making at a regional level remain. Late engagement with local authority partners in areas of legitimate interest to local authorities is common practice.</p> <p>A number of specific interventions have been made, including a letter from the Leader setting out the Council’s concerns.</p> <p>We will continue to use the formal governance arrangements available to scrutinise the ICS whilst continuing to strengthen local partnership arrangements to deliver local priorities.</p> <p>Council approved the Health and Care Partnership Terms of Reference on 18th October 2023.</p>
<p>Progress update May 2024</p>	<p>The governance arrangements set out above have been enacted and are functioning well locally. The joint outcomes framework, strategy implementation plan and performance framework are progressing well and have been developed in co-production with partners.</p> <p>However, concerns about the centralisation of decision making at a regional level remain. Late engagement with local authority partners in areas of legitimate interest to local authorities is common practice.</p> <p>We will continue to use the formal governance arrangements available to scrutinise the ICS whilst continuing to strengthen local partnership arrangements to deliver local priorities.</p>
<p>Recommendation</p>	<p>It is now recommended that consideration is given to this item being removed from future Annual Governance Statements due to significant progress made.</p>

ASDV Governance	
<p>Description of Issue</p>	<p>The governance of wholly owned companies across the local government sector has come under the spotlight following failures which have resulted in the publication of Public Interest Reports.</p> <p>Those reports highlighted that failings in the governance of those companies resulted in “institutional blindness” and a failure to recognise, understand, and so address commercial pressures and conflicts of interest. These</p>

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	<p>governance failings resulted in high profile financial losses and reputational damage to those Councils and in some cases external intervention.</p> <p>In the light of these high-profile company failures, CIPFA have recently published guidance aimed at mitigating the risk to local authorities of company ownership. Whilst framed as guidance, its status is such that it will affect reporting and external assessment of the Council. There is therefore merit in being pro-active and taking action in response to these highlighted risks.</p> <p>A comparison of the Council’s current governance arrangements against the CIPFA guidance has highlighted risks in the current company structures, and with the levels of transparency and assurance. Improvement in the reporting and assurance can be achieved which will mitigate these risks and bring Cheshire East’s arrangements in line with best practice.</p>
Responsibility	Director of Governance & Compliance
Action proposed at the time of inclusion in the AGS	<p>Work has been undertaken to identify proposed changes to the current ASDV governance and reporting arrangements to ensure that they broadly align with the good practice as described in the CIPFA guidance.</p> <p>This has also proposed that a full review of the overall company structures and governance arrangements is undertaken and that a reporting structure is implemented to strengthen insight into the operation of the Council’s ASDVs.</p> <p>The review is proposed to include a review of directors, the process for their appointment, and the training and support provided to them.</p> <p>A working group has been established and stage 1 of the review was completed in December 2022.</p>
Progress Update for AGS 2022/23	<p>Work has continued following the commencement of the ASDV governance review, as considered by the Finance Sub Committee in September 2022. The outcome of the review was brought back to the Sub Committee in September 2023 when the following amendments to structure of the companies were approved to strengthen governance:</p> <ul style="list-style-type: none"> • From 18 October 2023, the Board of Directors of each of the wholly owned companies will be comprised as follows: <ul style="list-style-type: none"> ○ Two elected Members will be appointed by the Finance Sub-Committee following an open expression of interest and a transparent process; and

- Two Council Officers, being 1x Finance Officer (on the recommendation of the Chief Finance Officer) and 1x Service specific officer (on the recommendation of the Chief Executive)
- The Managing Director of the wholly-owned company; and
- At least one Director who may be appointed through external advert, being an independent sector specialist appointed for their expertise by the Finance Sub-Committee, supported by the Council’s HR service
- An Observer will continue to be appointed to attend meetings of the Board of each company as the Shareholder representative by the Finance Sub-Committee from amongst its membership
- All current and future Director appointments will be subject to a Shareholder approved service contract, and all Directors will be required to enter into this contract as part of their new or continuing appointment
- Amended shareholder agreements were adopted from 18 October 2023 which take into account the above changes

Cheshire East Resident First (CERF) no longer forms part of the governance structure of any Council wholly-owned companies and any shares it holds are being transferred to Cheshire East Council.

The Shareholder Working Group is continuing to:

- Undertake a full detailed review of the Shareholder Agreements against the CIPFA guidance and other good practice
- Ensure that the wholly-owned companies support the Council’s strategic objectives and decision-making
- Ensure that an appropriate and proportionate mechanism for control and review of risk is developed
- Consider the purpose of Orbitas Bereavement Services and Tatton Park Enterprises
- Consider the creation of a timely mechanism for seeking shareholder permissions between scheduled committee meetings
- Develop a business planning template to be implemented across the wholly-owned companies

	<p>The Shareholder Working Group had an initial meeting in October 2023 to begin to exercise oversight on the progress in achieving the outcomes set by Finance Sub Committee and was presented with a workplan for agreement at their meeting in December 2023.</p> <p>The Terms of Reference for the Group have been refreshed.</p> <p>A revised shareholder agreement has been sent to the Ansa Board for approval and adoption.</p> <p>A form of advert for expressions of interest for Directors positions has been drafted for agreement by Finance Sub Committee and Shareholder Working Group members and an interview process (via Panel) proposed.</p> <p>A broader review of company purpose and revision of governance documents has commenced, and the Finance Sub Committee have been briefed on initial observations upon governance and commercial activity.</p> <p>Company risk registers and strategic decisions made by the companies now form part of the reporting and monitoring mechanisms.</p> <p>The Shareholder Working Group are to receive Board approved business plans and Finance Sub Committee approval is being sought for commercial opportunities.</p> <p>Corporate Policy Committee now have sight of companies’ risks as a separate category on the strategic risk register.</p> <p>The Council’s risk appetite in respect of the companies is ‘Low’ and Finance Sub Committee have indicated that the companies should maintain a low-risk approach to business activity.</p>
<p>Progress update May 2024</p>	<p>An application to voluntary strike off CERF has been submitted to Companies House. Once completed, CERF will be dissolved as it no longer forms part of the ASDV governance structure.</p> <p>The revised Shareholder Agreement remains with Ansa for agreement with the Board.</p> <p>The advert for Directors is approved ready for publication.</p>

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	The revised business plan template is due for development post the finalisation of business statements (mid June 2024) in readiness for the production of plans from 2025/26 onwards.
Recommendation	To note progress but remain as a significant issue.

Planning	
Description of Issue	<p>In November 21, the Chief Executive and Environment and Communities Committee requested an objective review of the planning application backlog in Planning Services be undertaken.</p> <p>The backlog had accumulated over some time as a result of increasing workloads, vacant posts and impacts on delivering the service from the Covid 19 pandemic. The backlog was significant in number and was attracting complaints about the service from both within and beyond the Council, with potential for reputational damage to both the Local Planning Authority and the Council. An objective Deep Dive review was undertaken, led by the Executive Director of Place.</p> <p>The findings, recommendations and next steps for the service were received and noted by the Environment and Communities Committee on 31 October 22. It was also noted that a range of measures had already been implemented, particularly in relation to reducing the backlog of planning applications.</p>
Responsibility	Executive Director of Place
Action proposed at the time of inclusion in the AGS	<p>The review has produced a detailed Modernisation Plan for the service including a significant number of actions and improvements that have been identified through the review.</p> <p>Workstream leads have been identified and many actions are underway, implemented or partially implemented from the review.</p> <p>Work to remove the applications backlog had advanced in recent months although workloads remain significant in the service.</p> <p>Performance scorecards have been developed to report to the new Modernisation Board - when established this introduces a new level of reporting and governance for the Modernisation Plan. Terms of Reference for the Board are now agreed.</p> <p>Performance reports from the service will continue to be reported to the Environment and Communities Committee with additional regular oversight by CLT also being introduced to monitor progress within the service.</p>

**Progress Update
for AGS 2022/23**

Work continues with the implementation of the recommendations in the Modernisation Plan and significant progress has been made to reduce the backlog of planning applications and a number of other actions.

Workloads still remain significantly high across the service – particularly in relation to application caseloads. Work is underway with statutory consultees in other parts of the council (such as greenspace and flood risk) where there are also backlogs which are impacting on planning decision timescales.

Teams are working in collaboration to address these challenges and improve performance in these associated areas.

The Transformation Board is now established to provide support, guidance and new governance to the service moving forwards.

The implementation of new IT system has been delayed and CEC is in legal discussions with the supplier in this regard. This project is absorbing significant resource from the planning service in order to redesign areas of workflow to enable transition to the new system which is now scheduled for November. This is impacting on available resource to deliver service transformation.

Work has started on the restructure of the Planning Service who have been diverted from planning applications to the IT project. A complaints pilot has been completed with a reduction in stage 2 complaints being received in the service. The service is approximately 9 months into an anticipated 18 month period of change required to implement the service review findings.

The Audit and Governance Committee received a report detailing the key findings from Internal Audit's review of arrangements for the management and monitoring of S106 agreements on the 28 September 2023. At this meeting, it was agreed that the Committee would receive an update on progress in implementing the audit actions in March 2024 and a further update in 12 months' time.

In addition to the above, the Committee resolved to write to the Environment and Communities Committee to seek an invitation for the Chair and Vice Chair of the Audit and Governance Committee and the Finance Sub-Committee to attend the first meeting of the Environment and Communities working group to relay the concerns of the Audit and Governance Committee.

	<p>It was also agreed that an urgent confidential meeting be requested to the Chair and Vice Chair of both the Environment and Communities Committee and Finance Sub-Committee to discuss the findings of the S106 Internal Audit Review and agree oversight arrangements for monitoring the implementation of agreed actions.</p> <p>The S106 Working Group is now set up and has met twice before the 6th February 2024, attended by representatives from Environment & Communities Committee, Audit & Governance Committee and Finance Sub Committee.</p>
<p>Progress update May 2024</p>	<p>Progression on the Modernisation Plan has continued under the oversight of the Transformation Board. Focus has remained on four high level elements – the new IT system, staffing restructure, application backlog and customer service improvements. In addition, the recommendations of the S106 Audit have been more recently prioritised.</p> <p>The implementation of the IT system for Planning and Land Charges has continued to be delayed because of supplier difficulties which has resulted in escalation with legal. More recent engagement anticipates a ‘go live’ in July/August but the significance of the impact on the service and resource which has been, and continues to be, dedicated to this project cannot be underestimated.</p> <p>The service restructure has been delayed but is now out to consultation and should be implemented by the summer. The application backlog has slowly reduced over the last 12 months and is now just above normal levels but there remain significant challenges with staff retention and recruitment, impacting on customer service.</p> <p>A Service ‘reset’ will be required once the above matters are implemented to enable other service improvements such as validation checklists to deliver the expected benefits.</p> <p>Progress has taken place on the s106 audit recommendations, tracked by Environment & Communities and Audit & Governance Committees and the Member Working Group. Additional resource is in place, IT systems have been updated and new reporting will be rolled out with other Services and Members following appropriate training in the next month.</p>
<p>Recommendation</p>	<p>To note progress but remain as a significant issue.</p>

Executive and Wider Leadership Team Capacity	
<p>Description of Issue</p>	<p>The Council’s Corporate Leadership Team (CLT) comprises the Chief Executive as Head of Paid Service, with the most senior officers of the organisation; Executive Directors for each of the Council’s 4 Directorates and the Council’s Statutory Officers, (S151 Officer and Monitoring Officer). CLT meetings are also regularly attended by the Cheshire East Place Director (Cheshire and Merseyside Integrated Care Board).</p> <p>During 2022/23, interim arrangements were introduced to manage the absence of the Executive Director, Place, ensuring that there is senior leadership capacity in the Directorate. In October 2023, the Executive Director, Place left the Council, and it was confirmed that the interim arrangements have continued. However, these interim arrangements are not subject to backfill which impacts upon the wider management capacity within the Place directorate.</p> <p>In May 2023, the Executive Director, Corporate Services left the organisation, and interim management arrangements are in place for this Directorate, which ensures direct reporting lines between the Head of Paid Service and the Section 151 and Monitoring Officer roles.</p> <p>In July 2023, the former Chief Executive was announced as the preferred candidate for the Chief Executive role at Bradford Council and was subsequently confirmed in that post. The former Chief Executive left Cheshire East Council on the 13 October 2023.</p> <p>On the 18 October 2023, Council appointed an Interim Chief Executive with immediate effect whilst the ongoing recruitment process for a permanent candidate took place.</p> <p>On 13 December 2023, Council appointed a permanent Chief Executive who took up post on 3 January 2024.</p> <p>In February 2024, it was announced that the Section 151 Officer will be leaving the Council in May 2024 and interim arrangements are being put in place pending a permanent appointment to the role.</p> <p>Ensuring that there are sufficient and stable senior management arrangements for an organisation the size and complexity of Cheshire East Council must always be balanced against ensuring the arrangements are proportionate and offer effective and efficient use of resources.</p>

Cheshire East Council – Annual Governance Statement 2022/23

Responsibility	Chief Executive
Action proposed at the time of inclusion in the AGS	To review the Corporate Leadership Team and wider senior management structure to ensure sufficient capacity to meet statutory responsibilities and deliver the transformation programme required to meet the objectives and address the financial position of the Council.
Progress update May 2024	<p>An Interim Director of Finance and Customer Services & S151 Officer took up post on 29 April 2024.</p> <p>The Local Government Association (LGA) has undertaken a Decision Making Accountability (DMA) review to examine current senior management roles to help ensure a stable senior management structure is in place. This will provide recommendations for a revised organisational structure which is effective at making decisions, with clear accountabilities and roles, and that are efficient in their use of management resources. This will be actioned during Quarter 1 of 2024/25.</p> <p>A series of development sessions for Corporate Leadership Team (CLT) and Wider Leadership Community (WLC) has been developed, with the first of these sessions held on 12th April. Additional sessions for CLT and WLC will continue through the next quarter.</p> <p>Recruitment to a number of key senior interim roles has also begun and includes the Director of Policy and change and the Executive Director Corporate Services.</p>
Recommendation	To note progress but remain as a significant issue.

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OPEN

Audit and Governance Committee

30 May 2024

Internal Audit Update - Progress against Internal Audit Plan 2023-24

**Report of: David Brown, Director of Governance and Compliance
(Monitoring Officer)**

Report Reference No: AG/16/24-25

Ward(s) Affected: All

Purpose of Report

- 1 The purpose of this report is for the Committee to receive an update on work undertaken by Internal Audit between April 2023 and March 2024 and how this, along with work being completed during April 2024 will contribute to the Annual Internal Audit Opinion for 2023/24.

Executive Summary

- 2 The report details work undertaken by Internal Audit 2023/24 along with details of performance against the audit plan and other indicators. It also sets out work underway at the end of the period which will contribute to the Annual Internal Audit Opinion 2023/24, which the Committee will receive in July 2024.

RECOMMENDATIONS

The Audit and Governance Committee is recommended to:

1. Note and consider the contents of the Internal Audit Update Report 2023/24 (Appendix A).

Background

- 3 The Public Sector Internal Audit Standards (PSIAS) Local Government Application Note states that, “in addition to the annual report, the Chief Audit Executive should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report and hence support a ‘no surprises’ approach, as well as assist management in drafting the Annual Governance Statement”.
- 4 The interim report contains the following:
 - (a) a summary of the audit work carried out in 2023/24.
 - (b) A comparison of the work undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets.
 - (c) a summary of work that is currently ongoing along with work planned to be undertaken by the end of the financial year.
- 5 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council, via the Audit and Governance Committee, that these arrangements are in place and operating properly. The annual internal audit opinion informs the Annual Governance Statement. The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council’s objectives.
- 6 A report summarising the work undertaken, the issues identified, and the actions required is produced for each review undertaken. The process of reviewing the report from draft to final ensures that the findings are confirmed to be factually accurate, and that the management actions will result in improvements to the control environment. Draft reports are agreed with the appropriate managers, and the Final reports are shared with the relevant member of the Corporate Leadership Team and the Chief Executive. The implementation of agreed actions is monitored through the follow up process, and performance in this area is reported regularly to the Risk and Assurance Board, the Corporate Leadership Team, and the Committee.
- 7 It should be noted that Internal Audit’s risk-based approach includes focussing on areas where issues are known or expected to exist. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels. Therefore, it is

important that the Internal Audit opinion is also informed by additional sources of assurance.

- 8 As such, it will be necessary to take account of external reports on the operation of the Council, and whilst the final internal opinion cannot be confirmed at this point, this sets a far more challenging context in which to provide an adequate opinion on the Council’s arrangements for governance, risk management and internal control and some form of limitation on the opinion seems likely to be required.

Consultation and Engagement

- 9 In addition to being provided to the relevant service management, individual assurance reports are shared with the relevant member of the Corporate Leadership Team and the Chief Executive. Progress against the internal audit plan, along with individual areas for escalation will be reported regularly to the Risk and Assurance Board.

Reasons for Recommendations

- 10 The Public Sector Internal Audit Standards (PSIAS) require the Council’s Chief Audit Executive (Head of Audit and Risk) to regularly report on emerging issues in respect of the whole range of areas to be covered in the annual report.
- 11 In order to meet this requirement, the Committee receives regular reports on Internal Audit’s performance to support the effectiveness of the internal audit process.

Other Options Considered

- 12 None applicable.

Option	Impact	Risk
Do nothing	Failure to provide Audit and Governance Committee with an update on the performance of Internal Audit.	Failure to comply with the Public Sector Internal Audit Standards.

Implications and Comments

Monitoring Officer/Legal

- 13 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities “must undertake an

effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

- 14 The guidance accompanying the Regulations recognises that with effect from 1st April 2013, the Public Sector Internal Audit Standards (PSIAS) represent “proper internal audit practices”. The PSIAS apply to all internal audit service providers within the UK public sector.

Section 151 Officer/Finance

- 15 In accordance with the PSIAS, the Audit and Governance Committee should ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate and is equipped to perform in accordance with appropriate professional standards for internal auditors.
- 16 The Internal Audit Plan 2023/24 was prepared, based on known resources, to cover the core areas of work required to deliver an annual audit opinion. Resource availability is subject to regular review as part of monitoring progress against the plan.
- 17 If an imbalance between the two arises the Committee will be informed of proposed solutions. Matters that jeopardise the delivery of the audit plan or require significant changes to it will be identified, addressed, and reported to the Committee.

Policy

- 18 There are no direct implications for policy. The delivery of the internal audit plan provides assurance on the Council’s effectiveness in delivering aspects of the Corporate Plan and overall governance.

An open and enabling organisation	A council which empowers and cares about people	A thriving and sustainable place
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Equality, Diversity and Inclusion

- 19 There are no direct implications for equality.

Human Resources

- 20 There are no direct implications for human resources.

Risk Management

- 21 Delivery of an appropriately balanced and focused Internal Audit Plan supports the Council’s ability to effectively and efficiently identify and manage its risks, with the implementation of recommended actions designed to deliver improvements in governance and the control environment.

Rural Communities

- 22 There are no direct implications for rural communities.

Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND)

- 23 There are no direct implications for children and young people.

Public Health

There are no direct implications for public health.

Climate Change

- 24 There are no direct implications for climate change.

Access to Information	
Contact Officer:	Josie Griffiths, Head of Audit and Risk Email: Josie.griffiths@cheshireast.gov.uk
Appendices:	Appendix 1 – Internal Audit Update Report 2023/24
Background Papers:	N/A

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Internal Audit Update Report April 2023 – March 2024

(2023/2024 Internal Audit Plan)

1. Introduction

- 1.1. In accordance with the Public Sector Internal Audit Standards, the Internal Audit Update Report April 2023 – March 2024 contains “emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 1.2. Internal Audit is required to form an annual opinion on the overall adequacy and effectiveness of the organisation’s control environment, which includes consideration of any significant risk or governance issues, and control failures which have been identified.

2. Summary of Audit Work to Date

- 2.1. During this period, audit work was undertaken on the whole of the control environment comprising risk management, key control, and governance processes. This work comprised a mix of risk-based auditing, regularity, investigations, and the provision of advice to officers. The following sections explain the variety of audit work undertaken to support the annual audit opinion.

Assurance Work

- 2.2. A summary of the final reports issued to the end of March 24, by the audit assurance opinion given is included in **Table 1**.
- 2.3. The figures detailed in the table below recognise final reports issued by 31 March 2024. **Table 7** details audits that were being finalised at the end of the financial year with reports issued for inclusion in the Annual Internal Audit Opinion report which will be presented to Audit & Governance Committee in July 2024. The number of final reports will exceed the total number issued in 2022/23

Table 1: Reports to date by assurance level

Assurance Level	2023/24 (to 31/03/2024)	2022/23 Full Year	2021/22 Full Year
Good	4	5	2
Satisfactory	3	4	4
Limited	3	8	8
No Assurance	1	2	1
Total	11	19	15

- 2.4. A summary comparison of coverage of the 2023/24 Audit Plan with actuals for the year is shown in **Table 2**, with comments on variances.

Table 1: Summary Comparison of Audit Plan 2022/23 and Actuals

Area of Plan		Original Plan		Actuals		Comments on coverage
		Days	%	Days	%	
Chargeable Days		1476		1258		Original figure included agency staff not subsequently employed
Less: Corporate Work		177		140		
Available Audit Days:		1299	100%	1118	100%	
Corporate Governance and Risk		130	10%	96	9%	
Anti-Fraud and Corruption	Proactive Work	52	4%	21	2%	
	Reactive Investigations	52	4%	0	0%	
Corporate Services		455	35%	489	43%	Additional coverage of Unit4
Adults, Health & Integration		130	10%	108	10%	
Children's Services		130	10%	82	7%	
Place		104	8%	224	20%	Large amount of work on s106 and land transactions
Providing Assurance to External Organisations		26	2%	20	2%	
Advice & Guidance		90	7%	22	2%	
Other Chargeable Work		130	10%	56	5%	
Total Audit Days		1299	100%	1118	100%	

- 2.5. Details of the reports produced to the end of March 2024 are included in **Table 3**, which includes details of the audit assurance opinion given in each report. Where the opinion given was Limited or No Assurance, a summary of key findings and actions has been provided.

Table 3: Summary of Final Assurance Reports 2022/23 to 31 March 2024

Audit Report	Reason for Review	Audit Assurance Opinion	Comments	Summary of Findings – (Limited /No Assurance Reports Only)
Wilmslow Business Improvement District Billing Reconciliation	Request of management	Good	All controls operating effectively	
Non-Domestic Rates Discounts and Eligibility	Identified via Audit Plan	Good	All controls operating effectively	
Council Tax Billing Reconciliation 24/25	Identified via Audit Plan	Good	Controls operating effectively	
Business Rates Billing Reconciliation 24/25	Identified via Audit Plan	Good	Controls operating effectively	
Unit4 Key Financial Controls (jointly with CWAC)	Identified via Audit Plan	Reasonable	All actions agreed with management of both CEC and CWAC	
Council Tax Eligibility for Discounts	Identified via Audit Plan	Satisfactory	All actions agreed with management	
C&WLEP Local Assurance Framework	Identified via Audit Plan	Satisfactory	Controls operating effectively	
Land Transaction Concern	Concern raised by member of public at Committee	N/A	Concerns not substantiated	
Care at Home	Identified via Audit Plan	Limited	6 recommended actions were agreed. Actions are progressing	The review identified the following issues: <ul style="list-style-type: none"> The use of non-commissioned providers is not

Audit Report	Reason for Review	Audit Assurance Opinion	Comments	Summary of Findings – (Limited /No Assurance Reports Only)
			<p>within the agreed timescales.</p> <p>Previously reported in December 2023</p>	<p>comprehensively reported to senior management on a regular basis</p> <ul style="list-style-type: none"> • The selection and approval for the use of non-commissioned providers is not consistently evidenced • Provider contracts are not consistently monitored in accordance with the arrangements set out in the contract schedules
Section 106	Identified via Audit Plan	None	Reported in detail to the Committee in September 2023	<p>Significant issues were identified during the audit which have been reported to Audit & Governance, Environment and Communities and Finance Sub Committee. Progress in implementing these actions is being closely monitored.</p>
Corporate Travel Management	Identified via Audit Plan	Limited	All actions agreed with management	<p>The review identified the following issues:</p> <ul style="list-style-type: none"> • Inconsistencies in the application and authorisations of system users • Business travel request forms were

Audit Report	Reason for Review	Audit Assurance Opinion	Comments	Summary of Findings – (Limited /No Assurance Reports Only)
				not consistently completed and authorised
Schools Consolidated Report 2022/23	Identified via Audit Plan	Limited	All actions agreed with management	The report identified common issues in relation to errors in completing Unit4 HR forms, errors in the use of the procurement module on Unit 4 leading to payments, and inconsistent application of the purchase card policy

- 2.6. The assurance levels reported include a combination of opinions at a broad level for the Council as a whole (macro-level opinion) and opinions on individual business processes or activities within a single organisation, department or location (micro-level opinion).
- 2.7. Where control weaknesses are identified, recommended actions are agreed with management to ensure that the control environment is improved to an acceptable level. Through the follow up process, Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority.
- 2.8. It should be noted that Internal Audit's risk-based approach includes focussing on areas where issues are known or expected to exist. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels.
- 2.9. Where a final report is issued with a "Limited" or "No Assurance" opinion, improvement recommendations will be made. When implemented these will address the identified weaknesses and improve the control environment.
- 2.10. All actions from these audits have been agreed with management and progress on implementation will be monitored through the follow up process. Draft reports are agreed with the appropriate managers, and final reports are shared with the relevant CLT member and the Chief Executive.
- 2.11. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the Annual Governance Statement process.

- 2.12. The Audit Plan is subject to regular review to reflect the current resources available to the team. Having considered the current resources available within Internal Audit, it is concluded that the team has completed sufficient direct assurance work supported by assurances gained through other areas of internal audit work to deliver the Annual Internal Audit Opinion for 2023/24.

Schools

- 2.13. The Department for Education requires the Council's Section 151 Officer to sign off an Annual Assurance Statement. That statement confirms:
- the number of School's Financial Value Standard (SFVS) self-assessment returns received; and
 - that an appropriate audit programme is in place to provide adequate assurance over the standard of financial management, and the regularity and propriety of spending in schools.
- 2.14. The School's Audit Programme for 2023/24 was agreed by both the Director of Finance and Customer Services (Section 151 Officer) and the Head of Service: Education, Participation and Pupil Support and, as with the previous year, will be a thematic review of procurement, including the use of purchase cards, and HR arrangements including payroll. This will include the use of Unit4 but not the controls built into the system as these have been subject to separate audits.
- 2.15. This year's programme ensured that all schools have received an audit review in the previous 5 years.
- 2.16. The work was completed during quarters 3 and 4 of the year and was timed to provide assurance to the Section 151 Officer and facilitate the signing of the Annual Assurance Statement in May 2024.
- 2.17. Individual reports were produced and issued to schools detailing any areas of weakness identified and any actions required to address these weaknesses and improve the control environment. School reports include an assurance opinion on the arrangements, in line with other audit reports.
- 2.18. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin" and the "Director's Report".
- 2.19. Findings from all areas inform a consolidated schools report which provides assurance to the Director of Finance and Customer Services (Section 151 Officer) and the Head of Service: Education, Participation and Pupil Support.

Supporting Corporate Governance

- 2.20. In accordance with Regulation 6 of the Accounts and Audit Regulations 2015 the Council is required, each financial year, to conduct a review of the effectiveness of the system of internal control and publish an Annual Governance Statement (AGS).
- 2.21. During the year, and as previously reported in the 2022/23 Internal Audit Annual Report, Internal Audit has coordinated, on behalf of Management, the production of the Council's AGS for 2022/23.
- 2.22. The Draft AGS 2022/23 was presented to Audit & Governance Committee in July 2023, and the final version was approved in March 2024.

Consultancy and Advice

- 2.23. During the year, Internal Audit has continued to support management with the provision of advice - at the specific request of management. The nature and scope of these engagements are generally aimed at improving governance, risk management and control and contribute to the overall audit opinion as well as building good relationships across the Council.
- 2.24. In the year so far, advice and guidance has been provided on:
- Design and application of controls in new/proposed systems.
 - Interpretation of Finance and Contract Procedure Rules.
- 2.25. By providing this service, internal audit can ensure that processes are supported by appropriate controls to mitigate identified risks associated with the particular activity at the outset of change or development, providing far more valuable input to the service and wider control environment overall.

Grant Certifications

- 2.26. Internal Audit is often required to certify statutory returns and grant claims. This may be related to funding provisos or similar. In most cases the work required is either an audit or an assurance statement on a specific programme/project.
- 2.27. During 2023/24, this included work on the following grants, which were successfully signed off and submitted to the appropriate funding body:

Table 2: Grants Certified during 2023/24 as at 31 March 2024

Grant Certified	Funding Body	Amount
Family Focus (year to date)	MHCLG	£405,600
CWLEP Growth Hub Grant	BEIS	£231,000
CWLEP Peer Network Grant	BEIS	£150,000
CWLEP Skills Bootcamp	BEIS	1,036,653

Bus Service Operators Grant	DfT	£347,865
Local Transport Capital Block Funding	DfT	£9,252,000
Energy Efficiency – Sustainable Warmth	BEIS	£3,288,960
Supplementary Substance Misuse Treatment and Recovery Funding	PHE	£346,706
Changing Places	DLUHC	£12,000
Pothole Challenge	DfT	£5,799,000
Disabled Facilities Grant	DLUHC	2,342,241
Bus Recovery/LTF	DfT	1,165,915
Total		£24,377,940

- 2.28. It should be noted that the level of work required to complete the sign off of grants is not always proportionate to the value of the grant; grant funding conditions are set by the funding body, and it is this which determines the amount of testing and validation required to inform the sign off.
- 2.29. Over recent years, the level of testing required to provide assurance that grants have been used in accordance with the grant conditions has increased. This is taking up an increasingly large amount of Internal Audit resource and to manage this demand, Internal Audit has coordinated a grant register that details the nature of each grant and any reporting and sign off details. Lead officers have been identified for each of the grants and work undertaken to ensure that all returns have been completed within deadlines. Work is continuing in this area to ensure that the Council is aware of all requirements and deadlines associated with the many grants that it receives and administers.

Work for Other Bodies

- 2.30. Since 2013, Cheshire East Council has been the host authority for the PATROL (Parking and Traffic Regulations Outside London) Adjudication Joint Committee and Bus Lane Adjudication Joint Committee, and as part of this, we provide an Internal Audit service.
- 2.31. The outcome of the internal audit work is reported to the PATROL Committees directly and does not inform the annual internal audit opinion for Cheshire East Council.
- 2.32. The work was completed, and a report issued during June 2023.

Implementation of Audit Recommendations

- 2.33. Internal Audit continually carries out a range of follow up exercises to ensure recommendations are implemented. This work is done in a number of different ways:
- Major pieces of audit work, such as the AGS have detailed action plans which are monitored and reported separately to the Committee.

- Investigations – follow up work is usually dependent on both the nature of the investigation and any recommendations made e.g. a follow up audit may be done at the request of management.
 - Formal assurance audits: recommendations are monitored in line with our follow up process.
- 2.34. Audits with 'limited' or 'no' assurance are subject to more detailed review. In addition, key systems (e.g., Payroll, Accounts Payable) are audited on a regular, cyclical basis with recommendations followed up as part of the work.
- 2.35. The Committee have previously been advised of the work undertaken by Internal Audit, supported by senior management to raise the profile of audit recommendations. This has included the agreement of "SMART" recommendations and the inclusion of performance measures in the Corporate Scorecard. Work has also been undertaken to ensure that implementation dates are realistic and achievable.
- 2.36. The implementation of agreed recommendations for reports issued in 2021/22, 2022/23, and the current year is detailed in the table below:

Table 5: Implementation of agreed recommendations as at 31 March 2024

On time	After the agreed date	Total implemented	In progress, or overdue	Agreed actions subsequently not implemented
2021/22				
100%	0%	95%	5%	0%
2022/23				
100%	0%	100%	0%	0%
2023/24				
100%	0%	48%	52%	0%

- 2.37. During the recent Section 106 review, it became apparent that previously agreed actions had not been implemented and the arrangements for undertaking follow ups had not identified this issue in a sufficiently timely manner.
- 2.38. In response, a detailed review of all audit actions agreed since 2021/22 has been undertaken to determine whether services have successfully implemented agreed actions. The findings of this review are detailed in Table 6 below:

Table 6: Implementation of Agreed Audit Actions - 2021/22 to 31/03/2024

Action Status	No of Actions
Total actions agreed	151
Completed actions	50
Superseded actions	11
In progress (not yet due)	48
In progress (passed agreed date)	42

- 2.39. The actions that have passed the agreed implementation date are in relation to S106 and CIL. Regular monitoring of the s106 actions has identified that progress is being made in implementing agreed actions, however, the initial timescales have passed and revised timescales are being discussed with management. It was agreed that the CIL actions would be followed up once the Section 106 actions were complete due to the interrelationship between the two areas of operation, in particular the use of the Exacom system.
- 2.40. Additional information in relation to the implementation of actions will be provided in future Internal Audit update reports as our approach to follow up work develops further.

Ongoing Work

- 2.41. The following audits were ongoing at 31 March 2024 with work continuing to finalise the reports which will be detailed in the Annual Internal Audit Opinion report in July 2024. An anticipated assurance level is provided.

Table 7: Ongoing Internal Audit Assignments as at 31 March 2024

Audit	Scope of Review	Status	Anticipated Assurance
ICT Hybrid Programme (joint work with CWAC)	To provide assurance that the Programme has robust governance arrangements and has a delivery plan that recognises the challenging timeframe it has been set.	Fieldwork complete	Substantial
Unit4 – Exception Payments	To review the use of exception payments within Unit4	Draft report for review	Satisfactory
Grant Monitoring and Administration	To review the procedures in place for monitoring and reporting on grants received that are not	Draft report for review	Satisfactory

	subject to sign off by the Head of Audit & Risk		
Treasury Management	To review the arrangements in place for the effective management of the Council's financial assets	Fieldwork complete	Satisfactory
Purchase Cards – Children's Services	To review the use of purchase cards within the directorate and compliance with policy and procedures	Draft report issued	Limited
Purchase Cards – Adults, Health & Integration	To review the use of purchase cards within the directorate and compliance with policy and procedures	Draft report for review	Limited
Purchase Cards – Corporate Services	To review the use of purchase cards within the directorate and compliance with policy and procedures	Draft report for review	Limited
Purchase Cards – Place	To review the use of purchase cards within the directorate and compliance with policy and procedures	Draft report for review	Limited
Purchase Cards – Consolidated Findings	To identify common issues and control weaknesses identified by the directorate purchase card reviews	Draft report for review	Limited
Use of Agency Workers	To review the use of agency workers across the authority and	Draft report for review	Limited
Debt Management and Recovery – Sundry Debt	To review compliance with policies and procedures and ensure that effective processes are in place for the collection of debt	Draft report for review	Limited
Debt Management and Recovery – Adult Social care	To review compliance with policies and procedures and ensure that effective processes are in place for the collection of debt	Fieldwork complete	Limited

Starters, Contractual Changes and Leavers	To review the use of Unit4 and compliance with policies and procedures	Fieldwork complete	Limited
Direct Payments – Adults	To review compliance with policy and procedures and understand the impact of proposed changes to the control environment	Fieldwork underway	Limited
Heritage Asset Responsibilities	To review the arrangements in place for the effective management and stewardship of heritage and historical assets	Fieldwork complete	Limited

Table 8: Work carried forward to 2024/25

Audit	Scope of Review
Accounts Receivable	To review the use of Unit4 and arrangements in place for the timely and accurate raising of invoices
Discretionary Housing Payments	To review the use of discretionary payments and ensure that there is appropriate approval and oversight in place
Pre-Loaded Cards	To review the use of preloaded cards across the Council and ensure appropriate controls are in place
Tribunal Process	To review the arrangements in place and ensure compliance with policies and procedures
Resource Allocation Panel	To review the governance and oversight in place to ensure that spend is subject to appropriate control and monitoring
Direct Payments – Childrens	To review compliance with policy and procedures and understand the impact of proposed changes to the control environment

3. Internal Audit Performance

- 3.1. Internal Audit's performance is measured against performance indicators which are detailed in Table 9.

Table 9: Performance Indicators to date

Performance Indicator	2023/24 Actual	2023/24 Target	2021/22 Actual	Comments on 2022/23 Actuals
% of Audits completed to user's satisfaction	96%	95%	96%	Above target
% of significant recommendations agreed	100%	95%	100%	Above target
Chargeable Time (Assurance Work)	89%	85%	88%	Above target
Draft report produced promptly (per Client Satisfaction Form)	93%	95%	95%	Slightly below target