

Audit and Governance Committee

Agenda

Date:	Tuesday, 29th June, 2010
Time:	2.30 pm
Venue:	Committee Suite 1 & 2, Westfields, Middlewich Road, Sandbach CW11 1HZ

The agenda is divided into two parts. Part 1 is taken in the presence of the public and press. Part 2 items will be considered in the absence of the public and press for the reasons indicated on the agenda and at the top of each report.

PART 1 – MATTERS TO BE CONSIDERED WITH THE PUBLIC AND PRESS PRESENT

1. **Election of Chairman**

To elect a Chairman of the Committee to serve until the next Annual Meeting of the Council.

2. **Election of Vice-Chairman**

To elect a Vice-Chairman of the Committee to serve until the next Annual Meeting of the Council.

3. **Apologies for Absence**

4. **Declarations of Interest**

To provide an opportunity for Members and Officers to declare any personal and/or prejudicial interests in any item on the agenda .

5. **Public Speaking Time/Open Session**

In accordance with Procedure Rules Nos. 11 and 35 a total period of 10 minutes is allocated for members of the public to address the Committee on any matter relevant to the work of the Committee.

For requests for further information

Contact:	Carol Jones
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Individual members of the public may speak for up to 5 minutes but the Chairman will decide how the period of time allocated for public speaking will be apportioned where there are a number of speakers.

Members of the public should provide 3 clear working days notice, in writing, if they wish to ask a question at the meeting, in order for an informed answer to be given. It is not required to give notice of the intention to make use of public speaking provision, however, as a matter of courtesy, a period of 24 hours notice is encouraged.

6. **Annual Governance Statement** (Pages 1 - 22)

The Committee is asked to approve the Annual Governance Statement for signature by the Leader of the Council and the Chief Executive.

7. **Annual Report** (Pages 23 - 56)

To note the Annual Report of the Head of Audit and Compliance.

8. **Draft Statement of Accounts - 2009-2010** (Pages 57 - 74)

To approve the draft Statement of Accounts 2009-2010 by 30 June 2010 in accordance with the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) Regulations 2006.

Note: The attached revised report was tabled at the meeting and replaces that which was originally published with the agenda.

9. **Calendar of Meetings - 2010-2011**

The Committee is recommended to approve the following dates for its meetings for the remainder of the Municipal Year. All meetings are to be held at Westfields, Sandbach.

30 th September	Thursday	10.00 am
17 th November	Wednesday	10.00 am
25 th January 2011	Tuesday	2.00 pm
29 th March	Tuesday	2.00 pm

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 29 June 2010
Report of: Corporate Governance Group
Title: Annual Governance Statement (AGS) 2009/10

1.0 Report Summary

- 1.1 As reported to the Governance and Constitution Committee on 21st January 2010, the Council is required to prepare and publish an Annual Governance Statement (AGS). This requirement was introduced by the revised CIPFA/SOLACE Good Governance Framework (Delivering Good Governance in Local Government) and is necessary to meet the statutory requirement set out in Regulation 4 of the Accounts and Audit Regulations (2003 as amended).
- 1.2 The purpose of the AGS process is to provide a continuous review of the organisation's governance arrangements so as to give assurance on the effectiveness on the processes and/or to address identified weaknesses. This report and Appendix A are the results of that review.
- 1.3 The review of governance arrangements in place for 2009/10 has been informed by the work of Internal Audit and senior managers and also comments made by the External Auditors and other review agencies/inspectorates. The sources of assurance include:
- Directors and Managers assigned with the ownership of risks and delivery of services through the risk management process
 - The Section 151 Officer and the Monitoring Officer in meeting statutory responsibilities
 - Internal Audit, through the annual and interim reports
 - External Audit through reports and the Management and Inspection letters relating to predecessor Authorities
 - Outcomes from other review agencies and inspectorates
 - Directors and Service Managers who independently sign off on the adequacy of controls within their service areas via disclosure statements
 - Designated officers who complete AGS self assessment questionnaires (in this way compliance with the Council's Code of Corporate Governance will be evidenced).

- 1.4 The AGS has been considered by the Corporate Management Team with work being co-ordinated by the Corporate Governance Group.
- 1.5 In order that Members may discharge their duties, the Committee (or predecessor Governance & Constitution Committee) has received reports, information and training throughout the period under review including:
- Internal Audit Annual Report for 2009/10
 - Interim update reports from Internal Audit
 - Update reports on Risk Management
 - A workshop that examines the draft AGS and supporting documentation.
- 1.6 Regular updates on progress on the AGS Action Plan will be brought to this Committee during 2010/11.

2.0 Recommendation

- 2.1 That the Committee approves the Annual Governance Statement for signature by the Leader of the Council and the Chief Executive.

3.0 Reasons for Recommendation

- 3.1 To approve the Annual Governance Statement in accordance with the Accounts and Audit Regulations.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

- 5.1 Not applicable.

6.0 Policy Implications including

- 6.1 Not applicable.

7.0 Financial Implications 2010/11 and beyond

- 7.1 No specific financial implications. The production of the AGS aligns with the production of the Annual Accounts and will be published alongside the audited accounts (approved by end of September 2010).

8.0 Legal Implications

- 8.1 The production of the AGS is required by the Accounts and Audit Regulations.

9.0 Risk Assessment

- 9.1 The Authority is required to prepare and publish an Annual Governance Statement to meet the statutory requirement set out in Regulation 4 of the Accounts and Audit Regulations. Failure to do so could result in non-compliance with the requirements of the Regulations.

For further information:

Portfolio Holder: Councillor David Brown
Officer: Vivienne Quayle, Head of Internal Audit
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Background Documents:

Local Government Act 1972
Accounts and Audit Regulations (2003 and updated 2006)
CIPFA Internal Audit Code of Practice

**CHESHIRE EAST COUNCIL
ANNUAL GOVERNANCE STATEMENT 2009-10**

Scope of responsibility

Cheshire East 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. Cheshire East 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.

In discharging this overall responsibility, Cheshire East 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.

Cheshire East 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*. A copy of the code is on our website at [Code of Corporate Governance](#). This statement explains how Cheshire East Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit regulations 2003 as amended by the Accounts and Audit (Amendment) (England) regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. 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, cost effective services.

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 Cheshire East Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Cheshire East Council for the year ended 31 March 2010 and up to the date of approval of the annual report and statement of accounts.

Describe the key elements of the systems and processes that comprise the authority's governance arrangements including arrangements for:

Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users

- The Sustainable Community Strategy (SCS) sets out a collective vision for Cheshire East and the priority actions which need to be addressed over the next 15 years to achieve that vision. Following a major consultation process, our new SCS is due to be approved in July 2010.
- The Council's vision and purpose is brought together and communicated via the Council's Corporate Plan. This plan aims to ensure Cheshire East delivers its obligations and wider community leadership role. There is an interim Corporate Plan. A new Corporate Plan is due to be approved in July 2010.
- The performance management framework governs how Cheshire East translates priorities into plans, and plans into delivery through setting clear objectives, aligning resources to ensure delivery, and setting robust targets to keep focus on delivering the right outcomes.
- There is an annual communication plan that ensures priorities, finances, achievements, and objectives are communicated relevantly to stakeholder groups.

Reviewing the authority's vision and its implications for the authority's governance arrangements

- The mechanism for delivering the new Sustainable Community Strategy will be the Local strategic Partnership (LSP) through Local Area Partnerships (LAPs) and devolved service delivery based on LAP areas. Basic governance arrangements were adapted for the LAPs during the shadow year but these will require refinement. The governance of devolved service delivery will be created when delivery commences.
- The impact of the Council's vision on the governance arrangements is considered through the Code of Corporate Governance.

Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources

- Scrutiny Committees and the Governance and Constitution Committee hold the Cabinet to account in discharging their functions. The Committees assist and challenge the Council and Cabinet in the development and review of its major plans, policies and strategies and undertake specific reviews of the Council's organisation and service provision with a view to improving service delivery.
- The Council has a Data Quality Strategy in place and is continuing to develop its performance management systems. There is a medium term financial strategy in place and the business planning cycle included extensive external consultation. There is an opportunity to much further align corporate priorities to financial plans and this is in hand for 2010/11.
- The Council reports on performance regularly. For 2009/10, the emphasis has been on mid and three quarter year review. A Summary Performance Report that assesses the Council's achievements and performance over the year will be presented to Cabinet in June 2010.
- The Cheshire East Complaints policy and procedure has been in place since 1 April 2009, supported by a Complaints database to manage individual cases. A new Complaints Management system, providing much improved management information, is planned for implementation in June 2010. A customer satisfaction solution to provide customers with the opportunity to feedback on their experience across all Council services will be identified and implemented as a deliverable of the Customer Access Programme during 2010/11.

Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

- The Council has adopted a Constitution including descriptions of member and officer roles and responsibilities. Departments maintain registers of delegated decisions by officers. The Constitution is renewed in-year by the Governance and Constitution Committee and updated. The Cabinet and individual executive members take decisions which are fully recorded and minuted.
- The roles of senior officers, non-executive members, other committees and members generally are set out by the Constitution and Protocols. Senior officers also have contracts of employment. The responsibilities of individual members are not brought together into a single document but

are to be found in the various protocols.

- The Constitution contains a scheme of delegation to officers and delineates between Council, executive and individual cabinet members regarding their powers. This is renewed in-year by Governance and Constitution Committee.

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

- Officers and Members Codes of Conduct are included within the Constitution. The values embedded in the Codes define standards of behaviour expected of Members and Officers and are required to be observed as part of their normal conditions of service. The Codes are communicated to Members and Officers via briefings, training and are available on the Council's intranet and internet.
- The Standards Committee promotes high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members and Officers of the Council and also advises the Council on the adoption or revision of the Codes of Conduct for Members and Officers.

Ensuring the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer

Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

- The Constitution contains a range of documents which comprise its governance arrangements. These include the Council's Procedure Rules, Finance and Contract Procedure Rules and Schemes of Delegation. The Constitution is subject to regular review and is widely available.
- The Council's decision making arrangements are set out in the Constitution and Officers are required to get Legal and Financial professional sign off before reports go to decision making bodies.
- The Council's Risk Management Strategy and Framework is reviewed annually with the current version being approved by Cabinet on the 14 July 2009. All Service Plans include a risk assessment of all operational and strategic risks. All Committee reports for key decisions also require a risk assessment.

Ensuring the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on *The Role of the Chief Financial Officer in Local Government (2010)*

- The Chief Financial Officer is professionally qualified, reports directly to the Chief Executive and is a member of the Corporate Management Team, with a status at least equivalent to other members.
- The local code of governance will, in 2010/11, be amended to reflect the additional/expanded governance requirements from the CFO Statement on the Role of the Chief Financial Officer in Local Government (2010).

Undertaking the core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*

- The audit function has been undertaken to date by the Governance and Constitution Committee. The Committee's role is to help the Council improve by providing effective assurance on the adequacy of its governance arrangements as well as the general control environment. In May 2010, Council approved the setting up of separate Committees; a specific Audit & Governance Committee and a Constitution Committee.

Ensuring compliance with relevant laws and regulations, internal policies and procedures, and the expenditure is lawful

- The Council has in place, within the Constitution, various procedure rules which set out how budget and policy decisions are made. Officers are required to ensure that compliance with relevant laws and regulations and lawful expenditure is delivered. Reports provide a section for legal implications, and reports cannot go before Cabinet or Council without this being addressed.
- The Council's Statutory Officers have a positive responsibility to report to the Council, in respect of:
 - Co-ordination of functions, staff and management matters – the Chief Executive (Head of Paid Service)
 - Financial administration, probity and propriety – the Borough Treasurer and Head of Assets (Section 151 Officer)
 - Legality and administration – Borough Solicitor (Monitoring Officer).
- Internal Audit's annual plan contains a programme of work that includes reviews of compliance with policies, procedures, laws and regulations. In addition, work is carried out by Scrutiny Committees, External Audit and other inspection agencies.

- The Head of Internal Audit produces an annual audit report which provides assurance on the adequacy of the Council's control environment.
- The Risk Management Strategy aims to embed risk management into the operational management of the Council and risk assessments are used as part of the key decision making process.

Whistle-blowing and arrangements for receiving and investigating complaints from the public

- The Council has had formal Whistle-blowing and Anti-Fraud and Corruption policies in place throughout the year. They are prominent on the web site both internally and externally. All instances of whistle-blowing have been investigated and closed appropriately and all incoming and in-year instances of potential fraud and corruption have been reviewed and closed, including referral to the police where necessary.

Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

- Members receive individual induction and access to a comprehensive member training programme. Member Personal Development Plans are in place for four years, with an annual review. This was facilitated by North West Employers in 2009.
- Any member taking on a new role is offered an induction and any training required. Planning and Licensing Committee Members have to undertake mandatory training before taking their place on the committee.
- A comprehensive corporate training programme for Members and Officers has been delivered since April 2009, specifically focusing on leadership, change management, employee engagement and lean techniques. This is in line with the aims and objectives of the Council's Workforce Development Plan 2009-2010.

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

- The Council is developing a process to ensure regular feedback on the delivery of priorities, with research planned in each year and supplemented by regular 'point of contact' customer service feedback. Although there is no overall framework to engage with customers, there have been examples of communications with the public e.g. Place Survey.

Appendix A

- Engagement and communication activity is monitored for effectiveness, together with an analysis of the value of media reporting. An effective engagement strategy is yet to be put into place that identifies and targets the needs of communities and particular community groups. This is an action for 2010-11.
- Most meetings are held in public, using the public interest criteria in the Access to Information Rules. The status of sub-committees and working parties is critically reviewed to ensure that public access is given wherever appropriate.

Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the authority's overall governance arrangements

- The Council is involved in a wide range of partnership arrangements involving joint and external funding. The Council's significant partnerships have been determined by Corporate Management Team and their governance arrangements and values have been documented in protocols or formal joint agreements. For other partnerships, a working party of officers and Standards Committee members is currently developing a partnership governance protocol based on a draft model produced by Standards for England.
- The Local Strategic Partnership (LSP) has three tiers – an Executive, five thematic partnerships, seven LAPs. Whilst a draft partnership agreement has been developed, partners agreed that further work was needed to define the roles and responsibilities in relation to thematic and area working. A review of LAPs is being completed and the roles and responsibilities at each tier of the LSP will be further developed following this feedback.
- The Partnerships team has been established during 2009/10 and clear line management responsibilities are in place. Co-ordination with officers supporting the five thematic partnerships takes place in the Partnership Management Group (PMG).

Review of effectiveness

Cheshire East 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 informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of

Internal Audit's annual report, 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 as follows:

Council/Constitution

- The Council has formally adopted a Constitution that sets out details of how the Council operates, how decisions are made, and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The Governance and Constitution Committee, in consultation with other appropriate Members, the Monitoring Officer and Section 151 Officer, monitor and review the Constitution to make sure that its aims and principles are given full effect. Changes to the Constitution are approved by the full Council after consideration of the proposal by the Governance and Constitution Committee.
- All Councillors meet together a number of times each year as the Full Council. Together, they set the Council's major plans, policies, strategies and the budget. They take decisions together where required by law, or where the Council decides that collective decisions should be taken.

Cabinet/Other Committees

- The Council has appointed a Leader who has appointed his Cabinet. The Council has appointed a number of committees to make decisions. Many of the Council's decisions are made by the Council's Cabinet, Cabinet committees, or officers acting on its behalf. Other decisions, such as planning and licensing decisions, have to be made by committees of the Council, or officers acting on their behalf. The decision making framework has been developed in accordance with the requirements of the law.
- The Cabinet meets formally at least once per month, to deal collectively with the high level operational and more strategic business, including key decisions of the Authority. Additionally, the Cabinet has adopted a scheme of delegation to the individual Cabinet Members, so that they are able to take decisions as appropriate within their portfolio responsibility.

Scrutiny Committees

- The Council has appointed five Scrutiny Committees. The role of the Committees includes not just 'holding the Cabinet to account' but also carrying out advisory work on policy development (the 'Overview' function). Each of these Scrutiny Committees meets a minimum of six times during the year. Additional meetings may be required, to deal with

unplanned business such as the “call in” of particular Cabinet decisions, ad hoc requests by the Cabinet to undertake policy development work, and specific proposals identified by non Executive Members.

Standards Committee

- The Standards Committee promotes high standards of ethical behaviour by developing, maintaining and monitoring codes of Conduct for Members of the Council (including Co-opted Members and other persons acting in a similar capacity) and for employees in accordance with best practice and Government guidance. The Standards Committee has formed three Sub-Committees to deal with the initial assessment of any complaints raised against Members; review of decisions whether or not to investigate; and to conduct hearings.
- The Standards Committee Annual Report 2009-2010 revealed four instances where complaints had been received concerning serving or former Councillors. In two cases the Assessment Sub-Committee considered the report of the Investigator and agreed that there had been no breach of the Code of Conduct by the subject Member. One request to withdraw a complaint was granted and in the final case the Assessment Sub-Committee concluded that there was no case to answer.

Corporate/Management Assurance

- The Council's Corporate Management Team provides strategic advice to the Council and co-ordinates the Council's activities to ensure high standards of performance.
- Councillors are supported by the Council's employees (officers) who provide advice, implement decisions and manage the day to day delivery of services. Some officers have specific duties to ensure that the Council acts within the law, and uses resources wisely. These are the Monitoring Officer and Section 151 Officer.
- Formal assurance with regard to the governance framework is provided by Directors, Heads of Service and Service Managers who independently sign off on the adequacy of controls within their service areas via disclosure statements. Furthermore, designated officers complete Annual Governance Statement self-assessments in order to determine the extent to which the Council complies with the principles of good governance contained within its local code.

Internal Audit

- The Council's Internal Audit & Compliance section produce and deliver against a risk-based Annual Plan, approved by the Governance and Constitution Committee, in accordance with the CIPFA 'Code of Practice

for Internal Audit in Local Government in the United Kingdom 2006'. The Head of Internal Audit & Compliance reports progress against the Plan and the section's individual performance targets to the Governance and Constitution Committee throughout the year and annually provides a formal opinion on the effectiveness of the Council's control, risk management and governance arrangements that is timed to support production of the AGS.

External Audit/Inspection

- The Council's External Auditors (The Audit Commission), annually reviews the financial aspects of corporate governance, including the work of Internal Audit. In carrying out this work the Commission seeks assurance that the systems of financial control are in place and operating effectively. This includes a review of the Council's key financial systems in order to establish that they operate soundly and that there are no fundamental breakdowns in controls that would result in material discrepancies.
- Further assurance is provided by External Auditors and other review/inspection bodies such as the Health & Safety Executive, the Audit Commission, Office for Standards in Education (OFSTED) and the Care Quality Commission.

Governance & Constitution/Audit Committee

- The Governance and Constitution Committee plays a key role in the review of the effectiveness of the governance framework by seeking assurance on the adequacy of the Council's risk management, control and governance arrangements and monitoring the AGS action plan. During 2009-2010, the Chairman of the Committee and the Head of Audit and Compliance assessed the effectiveness of the system of internal audit using the following checklists:
 - compliance with the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006
 - self-assessment - measuring the Effectiveness of the Audit Committee
- Although the arrangements were found to be broadly compliant, a decision was made to introduce a separate Audit and Governance Committee to ensure independence.
- Work on the governance statement is co-ordinated by the Governance Working Group, which reports its findings to the Governance and Constitution Committee following consideration by the Corporate

Management Team. The Governance and Constitution Committee/Audit and Governance Committee critically review the AGS and its supporting documentation and, in considering whether to approve the Statement, seeks to satisfy itself that Management has obtained relevant and reliable evidence to support the disclosures made.

- The Audit and Governance Committee approves the Statement of Accounts and the AGS based on the adequacy of assurance provided by Management.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Governance and Constitution Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

As a result of the review of effectiveness process described above, the Council's Governance Framework is considered adequate; however, there are a number of significant issues that require action and development. These are listed below:

- Corporate and Financial Planning
- Financial Management
- Risk Management
- Partnerships & Governance
- Performance & Cost Management
- Procurement/Asset Management

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. A detailed Action Plan is included as Appendix 1. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

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Leading Member & Chief Executive on behalf of Cheshire East Council

SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2010/11

No.	Area	Action	Responsibility	Target date
1	Corporate and Financial Planning			
	<p>The Sustainable Community Strategy (SCS) sets out a collective vision for Cheshire East and the priority actions which need to be addressed over the next 15 years to achieve that vision. Following a major consultation process, the new SCS is due to be approved in July 2010.</p> <p>The Council's vision and purpose is brought together and communicated via the Council's Corporate Plan. This plan aims to ensure Cheshire East delivers it's obligations and wider community leadership role. There is an interim Corporate Plan. A new Corporate Plan is due to be approved in July 2010.</p> <p>There are opportunities to further align corporate priorities to financial plans.</p>	<p>Aligning Corporate and Service Plans to produce a comprehensive Delivery Plan linked to the Performance Management Framework.</p> <p>Review and improve the Business and Financial Planning Framework for 2010/11.</p>	Head of Policy & Performance/Borough Treasurer & Head of Assets/Corporate Management Team	July 2010

SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2010/11

No.	Area	Action	Responsibility	Target date
2	Financial Management			
	<p>The Council set an ambitious budget for 2009/10, with the aim of maximising the opportunities offered by local government reorganisation to drive out efficiencies, through rationalisation of service delivery and streamlining of corporate overheads.</p> <p>Whilst the overall financial out-turn has been broadly in line with forecasts, a number of challenges have been faced, in monitoring progress against the financial targets set, including:-</p> <ul style="list-style-type: none"> Volatility in both the cost and budget base, as adjustments have been made to reflect on-going restructuring, staff appointments and apportionment of budgeted savings. Complexities caused by shared service arrangements, and delays in processing recharges. 	<p>Service budgets will be reviewed and realigned in the light of the 2009/10 out-turn experience and the on-going staff appointments process.</p> <p>Processes for the allocation and apportionment of corporate overheads and cross-cutting savings will be reviewed and refined.</p> <p>A standard organisational Business Management model and supporting back – office processes will be implemented to secure improvements in transactional compliance.</p> <p>A programme of financial training for budget managers, members and finance professionals will be developed to enhance levels of financial literacy and financial management skills across the Council.</p>	<p>Borough Treasurer & Head of Assets/Corporate Management Team</p> <p>Borough Treasurer & Head of Assets/Corporate Management Team</p> <p>Borough Treasurer & Head of Assets/Corporate Management Team</p> <p>Finance Manager</p>	<p>On-going</p> <p>On-going</p> <p>December 2010</p> <p>September 2010</p>

SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2010/11

No.	Area	Action	Responsibility	Target date
	<ul style="list-style-type: none"> ▪ Technical difficulties relating to system cut-over and migration of legacy data, which have prevented consolidated reporting from a single database until the final quarter of the year. ▪ On-going compliance issues in respect of basic transaction processes, impacting both the accuracy and completeness of financial management information at a detailed level. ▪ Inexperience of budget managers and accountancy staff, who have taken time to familiarise themselves with new systems and reporting tools, and to fully understand the reconfigured cost and budget position. <p>Many of these issues are of a transitional nature, arising specifically from the process of</p>	Existing financial reporting tools will be further promoted and the development of 'dashboard' and other self-serve technologies explored as part of the Oracle R12 upgrade programme.	Finance Manager	March 2011

SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2010/11

No.	Area	Action	Responsibility	Target date
	reorganisation and creation of a new Council.			
	Finance Procedure Rules require all service managers to draw up local schemes of delegation, setting out the financial approval limits and responsibilities of individual officers. Managers have found it difficult to comply with requirements in this area, due to the interim nature of staffing structures and high levels of turnover.	Managers will be required to publish service schemes of delegation, in accordance with Finance Procedure Rules.	Borough Treasurer & Head of Assets/Corporate Management Team	September 2010
	Improvements are needed to the arrangements for the monitoring and management of sundry debt. The policy and operational frameworks inherited from previous councils require systematic review and update in the light of the Councils new Income & Funding Strategy, and the Oracle R12 upgrade, which will make available improved systems functionality, particularly in relation to debt case management.	Revised credit and debt management policies and processes will be developed and launched, as part of the Oracle R12 upgrade programme and Business Management implementation.	Borough Treasurer & Head of Assets/Corporate Management Team	March 2011

SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2010/11

No.	Area	Action	Responsibility	Target date
3	Risk Management			
	<p>The AGS process noted that risk management arrangements are developing and areas for improvement include:</p> <ul style="list-style-type: none"> ▪ embedding risk management in order that it is seen as part of the overall performance management process, ▪ regularly reviewing and reporting on the effectiveness of the whole process including insurance, health and safety, financial planning etc. 	<p>Continue to develop and embed the risk management processes already in place by:</p> <ul style="list-style-type: none"> ▪ further developing and strengthening strategic and departmental risk registers. ▪ further developing and strengthening corporate and departmental risk management groups. ▪ integrating risk management into the new performance management system. 	Head of Policy & Performance/Corporate Management Team	On-going
4	Partnerships & Governance			
	<p>The AGS process highlighted that the Councils significant partnerships are at different stages of development, and whilst more mature partnerships are underpinned by partnership agreements and robust governance frameworks, others are subject to arrangements that are being developed as the</p>	<ul style="list-style-type: none"> ▪ Develop governance arrangements for all partnerships. ▪ Developing and strengthening the Partnership Management Group. ▪ Introducing a Code of Practice for Partnerships in order 	Head of Policy & Performance/Corporate Management Team	On-going

SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2010/11

No.	Area	Action	Responsibility	Target date
	partnerships evolve.	to ensure that the Council adopts a consistent approach to the way it manages its partnerships and reports on performance.		
5	Performance & Cost Management			
	<p>Corporate framework of performance management is still developing. There is a Data Quality Strategy and Performance Management Strategy in place and both need wider communication and development throughout the Authority.</p> <p>Whole life costing is used but no overall corporate approach is yet in place.</p> <p>Financial and performance data are not yet aligned formally.</p>	<ul style="list-style-type: none"> ▪ Development of greater consistency in performance management. ▪ New performance management system. ▪ Development of corporate approach to whole life costing. ▪ Development of corporate PI set. ▪ Roll out of Data Quality Strategy. 	Borough Treasurer & Head of Assets/ Head of Policy & Performance/Corporate Management Team	On-going
6	Asset Management/Procurement			
	Strategic Asset Management is still developing. There is a short term asset plan in place and a major accommodation strategy	<p>Further development of strategic asset management, including:</p> <ul style="list-style-type: none"> ▪ Improving 	Borough Treasurer & Head of Assets	On-going

SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2010/11

No.	Area	Action	Responsibility	Target date
	<p>was introduced and a review has taken place along with significant refurbishment and relocation of staff during 2009/10.</p> <p>A corporate framework for procurement has been developed with a Procurement Strategy and Action Plan in place.</p>	<p>performance information</p> <ul style="list-style-type: none"> ▪ Developing Strategic Asset Management Plan ▪ Clarifying roles and responsibilities between Asset Management Team and Finance ▪ Establishing corporate forum for the co-ordination of strategic asset management. <p>Further development of Procurement Strategy, including:</p> <ul style="list-style-type: none"> ▪ Develop clearer understanding of full contract landscape and clear visibility of 'off contract' spend ▪ Develop joint commissioning, user engagement. 	Borough Treasurer & Head of Assets	On-going

SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2010/11

No.	Area	Action	Responsibility	Target date
		Establish a Procurement Board for co-ordination and procurement activity and links to transformation programme.		

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 29 June 2010
Report of: Head of Internal Audit and Compliance
Title: Internal Audit Annual Report 2009/10

1.0 Report Summary

- 1.1 All principal local authorities subject to the Accounts and Audit Regulations 2003 (as amended) must make provision for internal audit in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 1.2 In order to comply with the Code the Head of Internal Audit and Compliance must provide a written report to those charged with governance timed to support the Annual Governance Statement. The primary purpose of the report, which is set out in Appendix A, is to provide an opinion on the overall adequacy and effectiveness of the Council's control environment.

2.0 Recommendation

- 2.1 To note the contents of Internal Audit's annual report for 2009/10.

3.0 Reasons for Recommendation

- 3.1 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 (and previously the Governance and Constitution 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.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

- 5.1 Not applicable.

**6.0 Policy Implications including – Climate Change
– Health**

6.1 Not applicable.

7.0 Financial Implications 2010/11 and beyond

7.1 The internal audit team must be appropriately staffed and resourced to comply with statutory and best practice requirements. The budget for the internal audit function currently provides for sufficient staffing levels to fulfil this function.

8.0 Legal Implications

8.1 The requirement for an internal audit function is either explicit or implied in legislation with s151 of the Local Government Act 1972 requiring Councils to “make arrangements for the proper administration of their financial affairs” and the Accounts and Audit Regulations 2003 (as amended) requiring a relevant body to “maintain an adequate and effective system of internal audit ...”

9.0 Risk Assessment

9.1 The Authority is required to maintain an adequate and effective system of internal audit in accordance with Regulation 6 of the Accounts and Audit Regulations 2003 as amended. Failure to consider the effectiveness of its system of internal audit, and the opinion on Council’s control environment, could result in non- compliance with the requirements of the Regulations.

For further information:

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Background Documents:

Local Government Act 1972
Accounts and Audit Regulations (2003 and updated 2006)
CIPFA Internal Audit Code of Practice

Report to Audit and Governance Committee
Internal Audit Annual Report 2009/10
29 June 2010

1.0 Background

1.1 The Accounts and Audit Regulations 2003 (as amended) state that Cheshire East Council must make provision for internal audit in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom. The purpose of this annual report is to facilitate compliance with the requirements of the Code of Practice and, consequently, it provides Members with the following information:

- an opinion on the overall adequacy and effectiveness of the Council's control environment comprising the systems of governance, risk management and internal control
- any qualifications to that opinion, together with any reasons for the qualification
- a summary of the audit work from which the opinion is derived, including:
 - a summary of Internal Audit work carried out in the period 1 January to 31 March 2010
 - progress on implementing Internal Audit recommendations for the year
- issues that the Head of Internal Audit and Compliance judges particularly relevant to the preparation of the Annual Governance Statement (AGS)
- a comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets
- comment on compliance with the Code and the results of the internal audit quality assurance programme.

1.2 This information is provided to the Committee in order that Members may discharge the following duties:

- reviewing internal audit performance
- monitoring and reviewing the main issues arising and actions taken on audit recommendations

1.3 The report where necessary, takes account of the year-end position of the Council's control environment and has been timed in order to support approval of the AGS. The inclusion or comment on any area or function in this report does not indicate that matters are being escalated to Members for further action. Members' interest in internal audit should be restricted to gaining an assurance that the organisation's system of internal control is adequate and that where audit does not consider this to be the case that action is taken to ensure that any shortcomings are rectified promptly. 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 Management.

2.0 Opinion on the Internal Control Environment

2.1 The CIPFA Code of Practice for Internal Audit in Local Government requires the annual report to include an opinion on the overall adequacy and effectiveness of the Council's control environment. It should be noted that the assurances given by Internal Audit are never absolute because it is impossible to examine every activity and every transaction. The most Internal Audit can provide is a reasonable assurance that there are no major weaknesses, or that the weaknesses identified have been addressed.

2.2 In the opinion of the Head of Internal Audit and Compliance, the Council has generally established adequate and effective risk management, control and governance processes, given the extent of the reorganisation. The weaknesses identified during the audits have been, or are being addressed. This opinion is based upon:

- all audits and opinion based work undertaken during the year
- Management's response to advice and recommendations
- the AGS process
- Financial Management Standard in Schools (FMSiS) Chief Financial Officer (CFO) Assurance Statement 2009-2010
- informal feedback from the Use of Resources Assessment

3.0 Summary of audit work from which the opinion is derived

3.1 An interim internal audit plan was approved for the first four months of Cheshire East. In a year of such significant reorganisation, an annual plan, agreed in March and delivered over the 2009/10 year made little sense. Resources available were uncertain, staff across the organisation were new to posts, little consultation was possible prior to 1 April 2009 and the pace of change was high. A decision was taken to adopt an interim plan over five broad areas and then build on that for the remainder of the year based on consultation, service plans and risk assessments.

3.2 The full Audit Plan for 2009/10 was designed to allow Internal Audit to offer an opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes. The plan was developed using the following areas of audit activity:

- Supporting Corporate Governance (5%)
- Core Financial and Fundamental Systems (20%)
- Key Service and Departmental Systems (35%)
- Counter Fraud and Probity (15%)
- Value for Money/Strategic Reviews (5%)

The remaining audit time (20%) was allocated to follow up and responsive work.

- 3.3 A programme of audits has been carried out in accordance with the plan that was approved by the Governance and Constitution Committee in September 2009. A brief summary of the audit work from which the opinion is derived is contained below:

Supporting Corporate Governance

- 3.4 In accordance with Regulation 4 of the Accounts and Audit Regulations the Council is required to conduct a review at least once a year of the effectiveness of its governance arrangements and publish an Annual Governance Statement (AGS) with the Authority's financial statements.
- 3.5 Internal Audit has assisted Management in the production of the Council's AGS for 2009/10 by:
- developing the Council's Code of Corporate Governance (approved by the Governance and Constitution Committee in November 2009)
 - advising on and co-ordinating the assurance gathering process (see separate report)
 - completing an initial self- assessment against the CIPFA/SOLACE Good Governance Framework which fed into the self assessment that was completed by designated officers of the Council (In this way compliance with the Council's Code of Corporate Governance will be evidenced)
 - supporting the Council in considering the key messages that were put to Cheshire East via predecessor Council's AGS' and in particular auditing some of the areas in order to establish whether the issues remain relevant to the production of the 2009/10 Annual Governance Statement
 - sitting on the Corporate Governance Group and advising on risk management, control, and governance issues that have been identified through audit work.
- 3.6 This report draws attention to issues that the Head of Internal Audit and Compliance judges particularly relevant to the preparation of the Annual Governance Statement (see paragraphs 4.1 – 4.15).

Core Financial and Fundamental Systems

- 3.7 The interim audit plan work mainly consisted of a programme, developed jointly with Cheshire West and Chester Internal Audit, of closure/transition audits across five headings: Procurement, HR, Income, Assets and ICT. This work covered services across all legacy Authorities as well as the new Authority. Although many of the issues could not be resolved retrospectively there were a number of learning points for Cheshire East that have been reported to the appropriate service.
- 3.8 The completion of the closure/transition audits supported the decision for Cheshire East not to issue an addendum or supplementary supporting

statement in respect of predecessor Council's AGS'. Such a statement would have been necessary if Cheshire East (or its s151 officer) identified any issues that arose when finalising the statements of accounts post-reorganisation date.

- 3.9 Furthermore, work was undertaken on the Council's fundamental financial systems in order to gain assurance that the systems of financial control are in place and operating effectively. The fundamental systems have been agreed with External Audit in order that they may rely on the work of internal audit. Areas being subject to audit include: assets, investments, council tax, national non domestic rates, debtors, payroll, and creditors. Internal Audit has undertaken compliance testing (examining the evidence that the control has operated effectively throughout 2009/10) on a number of key controls that have been agreed with External Audit.
- 3.10 A joint review with Cheshire West and Chester Internal Audit on problem transactions within the Procure to Pay (P2P) process identified non compliance with the procurement vision leading to delays in time taken to pay invoices. Furthermore, it was noted that Services failed to deal promptly with transactions awaiting approval, receipt goods promptly, and establish approval hierarchies and associated budget responsibilities. A number of Supplier errors were identified, including sending invoices:
- to the wrong address,
 - with insufficient detail about the transaction
 - that do not reflect disputes or amendments
 - which are in advance of receipt of goods or service, and / or where a credit note is due before the payment can be made.
- Shared Service errors included some keying errors and some delays in keying invoices once received. This area is an ongoing development for the Authority.
- 3.11 The scope of Core Financial and Fundamental Systems work extended to the Council's use of HR and Finance Shared Service (hosted by Cheshire West and Chester Council) because it operates the integrated Accounts Payable/Accounts Receivable/Payroll and General Ledger on behalf of both Councils. Following consultation it was agreed that Cheshire West and Chester's audit team would test a number of key controls in this area using sample transactions from both Councils with support, where necessary, from Cheshire East Internal Audit Section. The results of the reviews are, as follows, with the assessment of the control environment being scored 1-4, where 4 is best:
- Accounts Payable (4)
 - Accounts Receivable (3)
 - Pensions Payroll (4)
 - HR Payroll (3)
 - Reconciliation Control (2)
 - Pension Fund Bank Reconciliation (3)

- 3.12 Recommendations made to address the control weaknesses have been agreed by the relevant Managers including a timescale for implementation.
- 3.13 Although this work hasn't highlighted any material discrepancies, issues may still arise as a result of the external audit of the Statements by the Audit Commission. Furthermore, assurances given by Internal Audit are never absolute, because it is impossible to examine every activity and every transaction.

Key Service and Departmental Systems

- 3.14 Audit work was undertaken within People, Places and Performance and Capacity. This work comprised of a mix of risk based audits, regularity audits, computer audits, investigations, and the provision of advice to officers. There was a themed review of all high risk cash income services including Leisure and Culture, Tatton Park and Car Parking. The reviews focused on basic controls and consistency across the new Borough.
- 3.15 Systems in place at Leisure venues differ significantly. There are some poor practices in place which have led to a number of investigations and subsequent issues regarding the capability of staff. These have been reported to the Head of Service and remedial action agreed. It is not unusual for weaknesses of control to be identified at remote locations where few staff are on duty at any one time and there is constant, direct customer interface. Such work highlighted opportunities to improve system design and operational performance.
- 3.16 The extension to the Gorsey Bank School was reviewed in order to identify lessons for future projects. This identified a failure to adhere to Cheshire County Council Finance Procedure Rules with the company that supported the project not being procured through a competitive tendering process and appointment of Companies not being formalised under signed contracts.
- 3.17 A number of audit reviews/investigations within the People Directorate have highlighted that Cheshire East, in common with many other Councils, has some difficulties with the management of service user and Council finances. The management arrangements in some parts of the Directorate are weak and lack clear disciplined working practices. The experiences from investigations frequently highlight wider issues surrounding adherence to policies and procedures. Managers are aware of the situation and are taking action.
- 3.18 Members Allowances were reviewed focussing on the formation of the Independent Remuneration Panel and Members' claims both in the Shadow year and 2009/10. Recommendations included making the authority to appoint the Independent Remuneration Panel explicit in the Constitution, ensuring that the recruitment process for Panel complies explicitly with the guidance, ensuring claim forms are completed correctly and applying independent reality checks on the claims prior to submission for payment.

- 3.19 Management have, therefore, been informed of areas where systems are weak, or not being applied properly and appropriate remedial action has been recommended and agreed where considered necessary.
- 3.20 The Financial Management Standard in Schools (FMSiS), introduced by the DCSF provides a good opportunity to assess the level of control operated in schools. The Schools Finance Team has continued to assess schools against the standard, providing advice and guidance as necessary. The Secondary Schools have been re-accredited during 2009 -10, whereby it was felt that they had generally maintained a satisfactory standard of control since they were first accredited, but some of the requirements considered not essential to the running of the business were not complied with. The FMSiS Assurance Statement 2009 -10, completed by the Council's Chief Financial Officer, indicates that all schools are considered to be meeting the standard as at 31 March 2010.

Counter Fraud and Probity

- 3.21 Internal Audit has supported the introduction of key corporate policies and procedures relating to the prevention, detection and investigation of fraud & corruption including the Anti Fraud and Corruption, Whistleblowing and Anti Money Laundering policies. Work has also commenced on ensuring that the policies are developed and maintained in accordance with best practice. Internal Audit work aims to develop an anti-fraud and corruption culture, create a strong deterrent effect and prevent fraud and corruption by designing areas of vulnerability out of the Council's systems. As well as areas outlined above, other counter fraud work has been completed on declarations of interest and gifts and hospitality, where it was noted that procedures need to be applied consistently throughout the Council.
- 3.22 Work was undertaken on the National Fraud Initiative, an exercise run by the Audit Commission that matches electronic data within and between audited bodies to prevent and detect fraud. Internal Audit continues to work with Management to ensure that vulnerabilities that may give rise to fraud and corruption identified by the exercise are designed out of Cheshire East's systems and procedures.

Responsive – investigations

- 3.23 A review of residual fraud and irregularity cases revealed a number of learning points which were incorporated into audit programmes and discussed, on a case by case basis, with relevant managers. Particular examples are the length of time between staff suspension and case resolution (and the monitoring of this factor) and the issue of prevention of employing illegal immigrants.
- 3.24 Throughout 2009/10, Internal Audit assisted Management in the investigation of potential irregularities. Detailed reports have been prepared for consideration by the Head of Policy and Performance in accordance with the

Anti Fraud and Corruption Policy. The reporting process ensures that specific learning points for the Council have/will be addressed.

Value for Money/Strategic Reviews

- 3.25 Internal Audit completed a review of charging in Cheshire East using the Audit Commission's "Positively Charged" document (for further details please see paragraph 4.5 below).

4.0 Issues relevant to the Annual Governance Statement 2009/10

- 4.1 In compiling the AGS (see paragraphs 3.4 – 3.6) significant issues that are considered to fall short of the expected standards should be commented on in the Statement. An action plan explaining how the issue will be addressed in 2010/11 should also be included in the Statement.

- 4.2 The work referred to in paragraph 3.5 enables the Head of Internal Audit and Compliance to highlight any issues that are relevant to:

- the action plan for 2010/11
- the preparation of the Annual Governance Statement for 2009/10

Such issues were discussed in the interim reports to the Governance and Constitution Committee throughout 2009/10 and specifically during Quarter 3 where it was noted that Internal Audit:

- completed an assessment of the Council's arrangements against the CIPFA/SOLACE Good Governance Framework in order to determine the extent to which they comply with the Council's Code of Corporate Governance.
- reviewed the predecessor Council's AGS' in order to ensure that issues referred to Cheshire East were being considered/addressed whilst the Council develops its own governance framework.

- 4.3 The following paragraphs provide the year-end position with regard to such issues and include information taken from a detailed self assessment that was completed by designated officers of the Council during Quarter 4.

Corporate and Financial Planning

- 4.4 The review by Internal Audit and subsequent self assessment of governance arrangements by Management highlighted that there were opportunities to establish clearer corporate priorities. In particular it was noted that:

- Although the Council has had an interim Sustainable Community Strategy (SCS) in place since April 2009, a new SCS is currently being developed following a major consultation process. This sets out a collective vision for Cheshire East and the priority actions which need to be addressed.

- Throughout 09/10 there was an interim Corporate Plan. A new Corporate plan is being developed that will ensure the Council's vision and purpose is brought together and communicated. This plan will aim to ensure Cheshire East delivers it's obligations and wider community leadership role.
- There is an opportunity in 2010/11 to publish an annual report to communicate the authority's activities and achievements, including its financial position and performance.

4.5 An Internal Audit review of Charging across the authority using the Audit Commission document "Positively Charged" highlighted that arrangements could be improved in order that charging policies support achievement of the corporate plan. As a result of audit recommendations Management has agreed to:

- Develop a corporate pricing policy as part of the Income and Funding Strategy 2009 – 13. This will address the criteria for concessionary access to services
- Ensure that services review their pricing policy on an annual basis as part of the budget setting process.
- Use the Household Calculator so that services and Members can appreciate the impact of various options as part of the decision making process
- Prioritise the harmonisation of Health and Wellbeing prices
- Use shared service projects to address variations in approach across services to cash collection and debt management
- Use the Income Generation Officer to work within the External Funding team to identify new areas of income generation

The findings have, therefore, been considered when determining action point 1 on the 2010/11 AGS action plan.

Financial Management

4.6 As part of the assurance gathering process for the AGS, Service Managers were asked to complete Disclosure Statements to sign off on the adequacy of controls within their service areas on significant control issues. A number of Managers raised issues around Financial Management and budgetary information. There are a number of issues that have emerged during 2009/10:

- Volatility in both the cost and budget base, as adjustments have been made to reflect on-going restructuring, staff appointments and apportionment of budgeted savings.
- Complexities caused by shared service arrangements, and delays in processing recharges.

- Technical difficulties relating to system cut-over and migration of legacy data, which have prevented consolidated reporting from a single database until the final quarter of the year.
- On-going compliance issues in respect of basic transaction processes, impacting both the accuracy and completeness of financial management information at a detailed level.
- Inexperience of budget managers and accountancy staff, who have taken time to familiarise themselves with new systems and reporting tools, and to fully understand the reconfigured cost and budget position.

Many of these issues are considered to be of a transitional nature, arising specifically from the process of reorganisation and creation of a new Council. This area will be subject to an internal audit review in 2010/11.

- 4.7 The Council's Constitution contains a scheme of delegation to officers and delineates between Council, executive and individual cabinet members regarding their powers. This is renewed in-year by the Governance and Constitution Committee. However, audit noted that schemes of financial delegation were at various stages of completion within the Authority and it is anticipated that a complete and consistent system will not be in place until 2010/11.
- 4.8 The findings of an Internal Audit review of debt management identified that a number of issues required addressing urgently in order that a consistent approach to income collection is adopted and that the collection of income is maximised. As a result of audit recommendations, Management has agreed to:
- Clarify debt management roles and responsibilities through the Business Management Review and target training appropriately
 - Develop corporate debt and credit management policies during 2010/11
 - Include a full analysis of outstanding debt in the 2009/10 out-turn report
 - Address the level of provision for bad and doubtful debt as part of the account closure process

This is an area that remains of concern and will be kept under review.

The findings have, therefore, been considered when determining action point 2 on the 2010/11 AGS action plan.

Risk Management

- 4.9 The Section has continued to manage the Council's Risk Management function and facilitate the development and implementation of the Risk Management and Business Continuity Strategies. It can, therefore, be reported that the strategy and processes have been in place throughout the year and awareness sessions and training have been held with the Governance and Constitution Committee, Cabinet and the Corporate Risk Group. Risk assessment was part of the service planning process, and reports

to all Committees include a risk management element. Furthermore, a strategic risk register is in place.

- 4.10 Development areas for 2010/11 include embedding the management of risk within the performance management process, regularly reviewing and reporting on effectiveness of mitigating actions and making more overt linkages between risk and other areas of relevance e.g. insurance, project management, health and safety and financial planning.
- 4.11 The findings have, therefore, been considered when determining action point 3 on the 2010/11 AGS action plan.

Partnerships & Governance

- 4.12 Internal Audit's initial self- assessment of the Council's arrangements against the CIPFA/SOLACE Good Governance Framework indicated that a set of governance principles for all Council partnerships was being developed by the Standards Committee that are in accordance with the Standards for England (SfE) document. This will need to be implemented in 2010/11.
- 4.13 During Quarter 4 Internal Audit assisted Management in identifying the Council's significant Partnerships and assessing their governance arrangements using the Audit Commission document 'Bridging the Accountability Gap'. The self assessment process highlighted that the partnerships, which includes the Authority's overall Shared Service agreement with Chester West and Chester Council, are at different stages of development, and whilst those that are more mature are underpinned by more formal agreements and governance frameworks, others are subject to arrangements that will need to be developed/refined as the partnerships evolve throughout 2010/11.

The findings have, therefore, been considered when determining action point 4 on the 2010/11 AGS action plan.

Performance & Cost Management

- 4.14 An internal audit of the system for producing the Council's National Indicators (NI's) was undertaken during 2009/10 which highlighted that arrangements could be improved in order that Cheshire East produces relevant and reliable data and information to support decision making and manage performance. Management's response to audit recommendations includes the following improvements:
 - A data quality action plan has been prepared to support the Council's Data Quality Strategy.
 - A data quality audit will be undertaken in 2010 to confirm that quality checks and sign off are carried out by divisional managers.
 - On-going engagement with partners on data quality and sharing of information will continue.

- The Council's Data Quality Strategy has been shared with partner organisations who attended a training and briefing session with Council Managers. These initiatives will be built on with the aim of introducing a partnership Data Quality Policy.
- A register of systems and procedures will be introduced to ensure that all systems that support the production of NI's are documented.

4.15 The findings have, therefore, been considered when determining action point 5 on the 2010/11 AGS action plan.

5.0 Performance against Audit Plan 2009/10

5.1 There has been a wide range of audit coverage with most areas of the Council receiving some audit activity, be it through the interim plan, planned audit reviews, or the annual management assurance process which is also used to inform the AGS. However there is a shortfall between the number of audit days in the plan and those actually achieved. The shortfall being attributable to available chargeable days being less than planned due to:

- Two senior vacancies within the section for the whole of 2009/10.
- The need to sometimes review three or four different ways of working across Cheshire East whilst services are harmonising
- Recruitment of staff into the structure, including the need to rewrite all job descriptions, complete job evaluations, slotting and interviewing.
- Staff being located across four sites and regular temporary relocation of staff as refurbishments occurred
- Retirement of a Principal Auditor from December 2009 and resignation of a Senior Auditor from October 2009.
- Structures within services not being finalised/in place.

5.2 In addition time allocations have been revisited and prioritisation used where diversion to more high risk jobs became apparent. These include requests by management to support them in the discharge of their duties such as assisting in investigations, leading on the National Fraud Initiative (NFI), co-ordinating the response to the Swine Flu Pandemic and assisting in the implementation of the Risk Management Strategy and the CAA Use of Resources Assessment. This is to be expected in a large newly formed and complex organisation where it is necessary to deliver an audit plan that is responsive to the changing priorities of the Council. Furthermore, it should be noted that the required audit resource is difficult to determine because all relevant issues cannot be reasonably foreseen when compiling the plan.

5.3 The above issues were reported to the Governance and Constitution Committee in the 2009/10 interim reports and priorities determined. A more detailed analysis of performance against the plan is shown in Appendix 1. This includes the status of work included in the original plan and findings relating to Quarter 4 of 2009/10.

Summary of Internal Audit work in Quarter 4

- 5.4 Despite the reduction in available resources audit work has been undertaken on the whole of the control environment comprising risk management, key control and governance processes. Reports have been issued throughout the period in order to:
- prompt Management to implement agreed actions for change leading to improvement in performance and control
 - provide a formal record of points arising from the audit assignment and, where appropriate, of agreements reached with Management.
- 5.5 A summary of the audit work undertaken in the first 9 months of the year has been reported to the Governance and Constitution Committee on a quarterly basis. Work for the final quarter of 2009/10 concentrated on:
- the fundamental financial systems in order that External Audit can place reliance on the work of Internal Audit
 - assisting Management in compiling the AGS in order to provide a continuous review of the effectiveness of the Council's governance arrangements
 - developing arrangements/auditing key systems that support the CAA Use of Resources and AGS process
 - investigations/preparation for The National Fraud Initiative (data matching exercise)
 - a 'mystery shopper' exercise, commissioned by the Chief Executive.
- 5.6 The Section has continued to manage the Council's Risk Management and Compliance function and facilitate the development and implementation of the Risk Management and Business Continuity Strategies, Freedom of Information requests and Data Protection work across the organisation.
- 5.7 The Section has also provided advice to Management as requested. This work contributes to the opinion that Internal Audit provides on the control environment. The main areas where Internal Audit has provided such advice include risks relating to new systems, processes and procedures, application of Finance and Contract Procedure Rules, Schemes of Financial Delegation, ICT Security Policy.

Implementation of recommendations

- 5.8 In order for the Council to derive maximum benefit from the work of Internal Audit, agreed recommendations need to be implemented. Internal Audit therefore continually undertakes follow-up work in respect of all audit reviews to ascertain whether agreed actions have been acted upon. Follow-up action

includes a review of the timeliness and effectiveness of the implementation of recommendations. Management responses that are judged to be inadequate in relation to the identified risk are escalated in order that the risks of not taking action have been understood and accepted at a sufficiently senior management level. This escalation procedure could result in Internal Audit bringing to the attention of the Committee any relevant areas where significant weaknesses have not been addressed by management. The Section has, during the quarter, worked with Management to ensure that issues are being addressed. As indicated in this report progress is being made to implement improvement.

- 5.9 An area for improvement in 2010/11 is the timeliness of management responses to audit reports and implementation of audit recommendations.

6.0 Compliance with Code of Practice for Internal Audit in the United Kingdom

- 6.1 Regulation 6 of the Accounts and Audit Regulations 2003 (as amended) requires relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the body to consider the findings.

- 6.2 In accordance with the Regulations the performance of Internal Audit has been measured using the checklist appended to the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. (A separate assessment of the Audit Committee has been undertaken). The review, completed by the Head of Internal Audit has concluded that although there were areas for improvement the internal audit service is being delivered to the required standard. This has been discussed with the portfolio holder and the Chairman of the Governance and Constitution Committee.

- 6.3 The areas for improvement can be summarised as follows:

CIPFA standard	Key Messages/Action
Scope of Internal Audit <i>The Head of Internal Audit should decide, in consultation with all parties, whether internal audit staff conduct the work to derive the required assurance for service provided through partnership themselves or rely on the assurances provided by other auditors.</i>	The Head of Internal Audit & Compliance needs to formally agree the arrangements for obtaining assurance over the operation of shared services between the Council and Cheshire West & Chester Council.
Principles of Reporting <i>Reports should be issued promptly and within laid down timescales</i>	The performance management and quality assurance framework will include timescales for reports to be issued.

<p>Staffing Training and Continuing Professional Development <i>Internal audit should be appropriately staffed to achieve its objectives and comply with these standards</i></p>	<p>There were a number of vacancies which remained unfilled as a result of the LGR transition. The Section is currently recruiting to the new structure.</p>
<p>Performance, Quality & Effectiveness <i>The Head of Internal Audit should establish policies and procedures in an audit manual to guide staff in performing their duties and complying with the Code</i></p> <p><i>The performance management and quality assurance framework should include internal quality reviews periodically to ensure compliance with the audit manual</i></p>	<p>A Cheshire East Internal Audit Manual was drafted and issued to staff in 2009/10. This is currently being finalised based on staff feedback on its use to date.</p> <p>Quality is assured by ensuring that Internal Audit Staff are appropriately supervised and work is monitored throughout all audits to review progress, assess quality and coach staff.</p>
<p>Performance, Quality & Effectiveness <i>The performance management and quality assurance framework should include user feedback for each individual audit and periodically for the whole service.</i></p>	<p>This is in development. Consideration is being given to using satisfaction questionnaires on individual audits and annual surveys.</p>
<p>Performance, Quality & Effectiveness <i>The performance management and quality assurance framework must include a comprehensive set of targets to monitor performance</i></p>	<p>A formal set of performance indicators have been included in the Service Delivery Planning process for 2010/11.</p>

- 6.4 An action plan for improvement has been developed that is separate from the AGS action plan, as the latter should only include significant weaknesses. Consequently, the review has established that the opinion, contained within this report, may be relied upon as a source of evidence in the AGS.

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Supporting Corporate Governance				
Code of Corporate Governance	Produced Code of Corporate Governance – Approved by Governance & Constitution Committee in November 2009.		Complete.	-
Annual Governance Statement (AGS)	Assessment against CIPFA/SOLACE Good Governance Framework to evidence compliance with Code.		Complete.	Supporting management in production of AGS for 09/10.
CAA Use of Resources	Production of position statements/ Key Lines of Enquiry assessments/Service baseline assessments etc.		Complete.	CAA has now ceased.
Core Financial and Fundamental Systems				
Main Accounting – Budget Monitoring	None.		C/fwd to 2010/11	Detailed review across services.
Main Accounting – Bank Reconciliation	Fact-finding review of system.		Complete.	-
Asset Management	Review of asset registers and disaggregation of assets following LGR.	Major operational assets records are incomplete in some cases and do not always	Draft report issued.	Finalise report

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
		<p>contain comprehensive information.</p> <ul style="list-style-type: none"> - Schemes of Financial Delegation are incomplete in some cases and do not identify those staff with responsibility to maintain asset registers/inventories. - Locally held asset registers/inventories are not subject to review and physical checks. 		
Council Tax	Review of key controls over all 3 ex-District systems.	<ul style="list-style-type: none"> - Income posted to the old PARIS system should be regularly reconciled to the Great Plains ledger. (Macclesfield) 	Final report issued.	-
NNDR	Review of key controls over all 3 ex-District systems.	<ul style="list-style-type: none"> - Reconciliations should be undertaken reconciling all of the income from the cash receipting systems to the NNDR systems and ledger on a regular basis. (Macclesfield) 	Final report issued.	-
Housing Benefits	Review of key controls over all 3 ex-District systems.	<ul style="list-style-type: none"> - Reconciliations are not currently completed between the benefit payments and the 	Final report issued.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
		postings to the General Ledger. - The recovery process for overpayments needs to be approved and implemented at the earliest opportunity (Macclesfield).		
Debt Management	Review of key controls around raising of invoices and monitoring of debt.	- No corporate debt management policy and procedures in place resulting in an inconsistent approach - Confusion over roles and responsibilities and little communication between all sections involved in the process - Debtors are remaining unchallenged in respect of outstanding payment due - Not all relevant staff have received the appropriate training to enable them to monitor debt - Continued use of legacy systems to raise invoices due to a lack of confidence in the Oracle system	Final report issued.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
		<ul style="list-style-type: none"> - The authority's debt position is currently not being reported to management and members 		
Payroll	Review of controls around Starters and Leavers, to specifically include CRB checks.	<ul style="list-style-type: none"> - Many former district CRB (Criminal Records Bureau) records have not yet been consolidated onto the Oracle system and there are some gaps where evidence is not available. A review is currently being undertaken by HR to clarify which posts should be subject to CRB checks together with the requirements of the Independent Safeguarding Authority Vetting and Barring policy which will come into effect in the latter half of 2010. - Whilst HR policies and procedures are available on the CEntranet for managers to reference, these are not written in a step by step manner, and not available in one easy to find location. 	Draft Report issued – response received.	Finalise report

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Treasury Management	Review of the management of the Authority's cash flow, investments and loan arrangements	<ul style="list-style-type: none"> - Need to review the best practice guidance now available and update the Treasury Management Strategy to reflect this. - To implement any strategic or operational changes to processes to achieve the requirements of best practice as adopted within the updated Treasury Management Strategy. 	Final report issued.	-
P2P Joint Review	Joint review with Cheshire West and Chester Audit on problem transactions.		Draft Report issued – Cheshire East response received.	Finalise report
Cheque Review (U)	Specific review of the cheque payment procedures and controls as part of the Transitional Review (see below).		Draft report issued	Finalise report – issues b/fwd to 10/11.
Transitional Review	Audit covering Cheshire East Council and four		Final report issued.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
	predecessor Authorities.			
Shared Services – Review of key financial systems (U)	Specific testing on East transactions	<u>Reconciliation Control:</u> - Regular formally documented reconciliations were not being undertaken for all accounts examined. - Monthly documented reconciliations are not always completed in a timely manner, with some monthly accounts being reconciled up to five months after the month being reconciled. - Reconciliations are not always reviewed and agreed by a senior officer promptly after completion. - Some unreconciled items identified on the Northgate Control reconciliations undertaken between April – December 2009 were still unreconciled at the time of the audit.	Complete	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Extended Testing – Audit Commission (U)	Specific testing for External Audit on key controls identified by their 09/10 work.	-	Ongoing	Finalise findings for Audit Commission.
People				
LSC Funding 14-19	Review to ensure that the immediate requirements for funding provision can be met by the authority from April 2010 and that the authority is sufficiently prepared for the transfer of responsibility.	- The responsibility for preparing and approving the quarterly reconciliation statement required by the YPLA has not been allocated. - A review of the authority's Finance and Procedure Rules in the context of the LSC transfer and the roles and responsibilities which that confers on the local authority has not been undertaken.	Final report issued.	
Extended Services	-	N/A	C/fwd to 2010/11	Planned for 2010/11
Payments to foster parents/adopters	-	N/A	Ongoing	Covered under extended testing – Audit Commission
Section 17 funding	-	N/A	C/fwd to 2010/11	Planned for 2010/11
Aiming high for disabled children	Advice and guidance provided to the service	N/A	Complete.	Not planned

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Grant Funding	Fact finding review.		Complete.	Covered under extended testing – Audit Commission
ContactPoint	Assisting in the design of appropriate systems of control and monitoring of these systems and a review on the operation of these systems of control.		Draft report issued.	Finalise report. Awaiting confirmation of future of ContactPoint.
Gorsey Bank School Extension	Review of issues arising and lessons learned for future projects. Reported to Corporate Management Team.		Final report issued.	Follow up audit will be undertaken in 10/11 as agreed with management.
Social Care Redesign	Providing support and advice in a number of areas i.e. Pre loaded prepayment cards.		Ongoing.	Continued support and advice in key areas.
Pooled Budget	-	N/A	C/fwd to 2010/11	Planned for 2010/11
ShareCare	Review of project governance and resourcing.		Final papers issued.	-
East Domestic Unit imprest	Review at request of management.		Final report issued.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
account				
Macclesfield Leisure Centre	Review of system controls, principally around income.	<ul style="list-style-type: none"> - Procedures & forms (including terms and conditions) at Crewe and Macclesfield sites are out dated and relate to former Authorities. - Manual receipting procedures are not always evident, this is particularly important in the event of a system downtime. - Inductions are not recorded satisfactorily and linked to Health Questionnaires to provide sufficient evidence that an induction has been carried out. - improvements around physical security required. 	Final report issued.	-
Crewe Pool	Review of system controls, principally around income.		Final report issued.	-
Congleton Leisure Centre	Review of system controls, principally around income.		Final report issued.	-
Lyceum Theatre (U)	Review of system controls, principally around income.	Improvements over the cashing up process, authorisation of refunds and overtime payments, and budgetary information.	Final report issued.	-
Target Income	Legacy monitoring work.		Now finished.	-
PARIS	Review of AOP Financials		Complete.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Resource Allocation System (RAS)	Review of system to ensure it allocates resources to meet a service user's unmet eligible needs in a more objective, transparent and fair manner than the current system.	Lack of agreed and documented procedures for post-implementation review of the RAS once it has been rolled out.	Final report issued.	To be followed up during 2010/11
Places				
Car Parking	Review of key controls over ex-District systems (Crewe & Nantwich/Macclesfield).		Audit complete.	Work to be followed up during 10/11
Carbon Footprint	Fact- finding review.		Complete.	-
Places Risk register	Facilitation and development.		Complete.	-
Depot Rationalisation	-	N/A	Not planned.	Not planned.
Licensing	-		Draft report	Finalise report.
Planning & Building Control Fees	-	N/A	C/fwd to 2010/11	Planned for 2010/11
Integrated Transport Unit	-	N/A	Not planned.	Not planned.
Crewe Green Link Road Scheme	-	N/A	Not planned.	Not planned.
Other Key Areas	-	N/A	Not planned.	Not planned.

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
in Places				
Performance & Capacity Policy & Performance				
National Indicators (NI's)	Review of procedures and controls.		Draft Report	Finalise report.
Blue Badges	-		Not planned.	Not planned.
Mystery Shopper Review (U)	Mystery Shopper Review	Opportunities for improvement identified.	Report issued to Chief Executive.	-
Regulation of Investigatory Powers (RIPA) (U)	Review of the awareness and understanding within services of their obligations under RIPA and whether key potential users of RIPA have been adequately trained and that the Council's approved policy and legislative requirements are being complied with.	<ul style="list-style-type: none"> - Lack of a Council policy to identify when it is necessary and proportionate to undertake non-criminal covert surveillance (which is outside the umbrella of RIPA). - Lack of maintenance of a central register of non RIPA forms and identification of an authorisation and monitoring process, as with RIPA authorisations. - Identify which Council properties have CCTV cameras and ensure adequate signage and usage in accordance with Council 	Final report issued.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
		policy. - Consider implications of RIPA when reviewing the ICT suite of policy documents, particularly in relation to monitoring of staff/members emails.		
Performance & Capacity Finance				
Scheme of Financial Delegation	Phase 1 - Establishing format for scheme, intranet site, liaising and monitoring with service representatives. Phase 2 – Review of Schemes to check in place, authorised, in accordance with Oracle etc.	<u>Phase 2</u> - Some services have no Schemes of Financial Delegation in place. Others have only been prepared detailing high level Senior Managers. Few schemes have provided sufficient information detailing all levels of staff. - There is a need for comprehensive training to all managers in the basics of Financial Regulations together with an Oracle overview. - In some instances oracle limits are not reflective of the Service Scheme of Financial Delegation.	Phase 2 – Draft report issued	Finalise report.

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
		- The current Schemes of Financial Delegation focus predominantly on oracle based transactions. Separate Schemes have been prepared in some services for non-oracle financial activity.		
Finance & Contract Procedure Rules	Providing advice to services/implementing changes and making recommendations to the Governance & Constitution Committee.		Ongoing.	As necessary.
Shared Services Back Office	See work under <i>Cross Cutting</i>		Ongoing.	Follow up review to consider current position for 10/11.
Cash Receipting	-	N/A	Not planned.	Not planned.
Grant Payments	-	N/A	Not planned.	Not planned.
VAT Accounting	-	N/A	Not planned.	Not planned.
Data Migration	-		C/fwd to 2010/11	Review of procedures and controls.
Opening Balance Sheet	-		C/fwd to 2010/11	Review of procedures and controls.
Performance & Capacity ICT				
ICT Business Continuity	Review plans to ensure continuity of the ICT		Review complete.	Included in Plan.

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Planning – Flu Pandemic	services used by Cheshire East in the event of a flu pandemic.			
ICT Security – Liaison and Advice	Provide advice and ensure audit view is recognised on wide variety of ICT security topics.		On-going	Continue to advise and liaise.
ICT Shared Services	Review arrangements for the governance and control of the ICT Shared Service, and their corporate impact.		Report being drafted.	Finalise report
CAATS Evaluation	Evaluation and selection of File analysis software.		Completed – recommendation accepted and software procured.	See also under <i>Counter Fraud</i>
Government Connect	Review process for achieving compliance with the Code of Connection.		Draft report issued.	Finalise report.
ICT Security Policy & Acceptable Use	Established a sub-group of the Corporate Governance Group, jointly attended by all interested parties.		ICT Security Policy drafted.	Finalise and roll-out policy.
ICT Strategy	-	N/A	Not planned.	Not planned.
Information Management – new strategy	-	N/A	Not planned.	Not planned.
Performance & Capacity Procurement				

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Tendering & Contracting System	Ongoing liaison and advice.		Complete.	
Procurement Compliance	Review and evaluation of adherence to the Council's formal tendering process.		Draft report issued.	Finalise report.
Performance & Capacity Borough Solicitor				
Council Deeds/important documents	-	N/A	Not planned.	Not planned.
Online payment of fees to HMLR/HMCS	Consultancy advice provided.		Complete.	-
Members Allowances	Review focussing on the formation of the Independent Remuneration Panel and o submitted Members' claims both in the Shadow year and 2009/10 (to date).		Final report issued.	-
Registration Services	Review of the adequacy of the systems and processes used in storing and issuing certificates, and collecting income across the		Final report issued.	-

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
	Registration Service's establishments.			
Cross Cutting				
Shared Services – Overall Governance	Initial review of Service Level agreements in place carried out.		Complete.	Follow up review to consider current position for 10/11.
Service Delivery Planning/Risk Management	Facilitation, assistance and challenge to Service Delivery Plans/Risk Registers.		Complete.	
Income Maximisation/ Efficiency	-		Not planned - although see work on Debt Management	Not planned - although see work on Debt Management.
Project Management	-	N/A	Not planned.	Not planned.
Support to Business Continuity and Risk	Audit support to Business Continuity and Risk function in first six months of 09/10.		Complete.	-
Counter Fraud				
Anti Fraud & Corruption Policy	Strategy drafted by Internal Audit and endorsed by G&C in May 2009.		Ongoing	Ensuring policies are developed and maintained in accordance with best practice.
Codes of Conduct	-	N/A	Not planned.	Not planned.

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
– Members/Officers				
Whistleblowing	Approved by Governance & Constitution Committee in October 2008. Work commenced to ensure that policy complies with best practice.		Ongoing	Ensuring policies are developed and maintained in accordance with best practice.
Declarations of Interest	Review of member forms – minor issue notified via e-mail.		Complete	
Gifts & Hospitality	Review of Staff/Members schemes for declaration.		Draft report issued.	Finalise report.
Anti Money Laundering	Drafted by Internal Audit, approved by Cabinet in October 2009 following recommendation from Governance & Constitution Committee.		Ongoing	Ensuring policies are developed and maintained in accordance with best practice.
Use/Development of IDEA	Following CAATS evaluation – procure appropriate software.		In progress	Training and undertake a pilot analysis.
National Fraud Initiative	Co-ordination of Initiative and investigation of matches.		Ongoing.	Ensure vulnerabilities are designed out of systems and procedures.

Summary of Internal Audit Plan 09/10

Project (U – Unplanned work)	Work Done in 09/10	Key Findings Quarter 4 work only	Current Status	Implications for 10/11 Plan
Responsive Work	Support management in investigation of fraud and corruption. Details reported to Head of Policy & Performance in accordance with Fraud & Corruption Strategy.		Ongoing.	As necessary.
Value For Money Reviews				
Charging	Review of Charging in Cheshire East with the objective of establishing whether the Council is maximising potential income generation and charging opportunities.		Final report issued.	-
Other	-	N/A	Not planned.	Not planned.
Responsive Work				
Consultancy & Advice	Variety of ad-hoc consultancy and advice on risk and control issue across all services.		Ongoing.	As necessary.
Follow Up work	Various follow up work on projects relating to predecessor Authorities.		Complete.	-

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting:	29 June 2010
Report of:	Borough Treasurer and Head of Assets
Subject/Title:	Final Accounts 2009/10

1.0 Report Summary

- 1.1 This report asks the Audit and Governance Committee to approve the Draft Statement of Accounts 2009/10 by 30 June 2010 in accordance with the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) Regulations 2006. It summarises the key issues reflected in the accounts, the format of the financial statements and the process for audit, certification and publication.
- 1.2 The Statement of Accounts will be available to Members on 28 June 2010, a briefing session will be provided prior to the meeting with any further updates to this report.

2.0 Recommendation

- 2.1 That Members approve the Draft Statement of Accounts for 2009/10 for Cheshire East Borough Council.

3.0 Reasons for Recommendations

- 3.1 To comply with the requirements of Section 21(2) of the Local Government Act 2003 and Sections 41 and 42 of the Local Government and Housing Act 1989.

4.0 Wards Affected

- 4.1 None

5.0 Local Ward Members

- 5.1 None

6.0 Policy Implications including

- 6.1 Not applicable

7.0 Financial Implications (Authorised by the Borough Treasurer)

7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 None

9.0 Risk Management

9.1 The Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) Regulations 2006, require the Draft Financial Statement of Accounts to be approved by 30 June 2010.

9.2 The Local Government Act 2003 and the Local Government and Housing Act 1989 require the Statement of Accounts to be produced in line with recommended accounting practices.

10.0 Summary

10.1 This is the first set of accounts for Cheshire East Borough Council and therefore there are no prior year comparatives available in the Income and Expenditure account. This report sets out the key areas that have affected the accounts in the first year of operation.

10.2 The key areas to note are:

- A £64.3m deficit on the Income and Expenditure Account, reflecting all expenditure incurred, income generated and all notional charges and credits required in order to comply with the Statement of Recommended Practice (SORP). These include: charges for depreciation and Financial Reporting Standard (FRS) 17 pension-related costs; losses on the sale of fixed assets, and credits for governments grant and contributions applied to capital expenditure. It is important to note that this deficit on the Income and Expenditure Account does not represent the real impact on the General Fund.
- A £11.6m decrease in the General Fund balance, (£12.2m decrease in General Fund and £0.6m increase in schools' balances). This is shown in the Statement of Movement on the General Fund Balance, after the notional charges and credits have been removed. It should be noted that the General Fund balance includes balances held on behalf of schools as well as the Council's General Fund.
- A reduction of £306.2m in the Council's balance sheet i.e. net assets. This is predominantly due to:
 - £350.8m increase in long term liabilities, mainly due to a £297m increase in the pensions liability, this is referred to in further detail in paragraph 10.9;
 - £44.7m increase in working capital (current assets less current liabilities)

- £1.2m increase in long term investments

Offset by

- £75.1m increase in fixed assets.

Overall the Council continues to demonstrate a healthy financial position, with a strong balance sheet and a General Fund balance of £19.3m, representing 8.2% of the net expenditure budget for 2009-10.

Caretaker Authority

- 10.3 On 1 April 2009 Cheshire West & Chester were designated the nominated body to discharge a large number of short term liabilities that related to the County Council i.e., to pay creditors and debtors. A 'caretaker account' was set up for this purpose. This nominated body processed all County Council transactions up to 31 January 2010 when the balance sheet as at that date was disaggregated between Cheshire East and Cheshire West & Chester. Any assets/liabilities not discharged through the caretaker account have been disaggregated between Cheshire East Council and Cheshire West and Chester Council. Inevitably a number of misallocations and minor errors were subsequently identified and adjustments were made to the opening balance sheet positions of both authorities in consultation with the External Auditors.
- 10.4 The two successor Councils failed to reach agreement on the future ownership of Tatton Park , the Conway Centre, and four other Outdoor Education Centres. Tatton Park and the Conway Centre are leased properties, and are not shown on the balance sheet of either Council. The Burwardsely, Beeston, Delamere and Tattenhall Outdoor Education Centres are freehold properties lying within the geographical boundary of Cheshire West & Cheshire. They are currently included in the opening balance sheet of Cheshire West & Chester.

Shared Services

- 10.5 As part of the LGR transition, the Council entered into an agreement with Cheshire West & Chester Council to initially deliver 32 services via Shared Services Agreements, some of which are long term Shared Services and others transitional Shared Services to safeguard business continuity. The sharing of selected services is a major component in the planning of Cheshire East and Cheshire West and Chester Councils. It is a shared ambition of both councils to retain the benefits of scale of a range of frontline specialist operations, such as Emergency Planning and Archives and also to support all of our front line services with an efficient shared back office for transactional HR and Finance and our ICT operations, in line with best industry practice and the Government's strategy for enhanced efficiency within the public sector.
- 10.6 Services which could be operated as part of a shared services arrangement have been determined and assessed using the criteria of

maintaining operational efficiency and identifying those services that utilised a single infrastructure that could not be disaggregated economically or in the short term. The structure of the Shared Service arrangements for accounts purposes, is that of a joint venture that is not an entity (JANE), which means that each party accounts for its share of the assets, liabilities, income, expenditure and cashflows as if they had been directly incurred. Further details on the Shared Services Agreements are included in the accounting policies and notes to the financial statements.

Jointly Owned Assets

- 10.7 Where the former County Council owned assets which served the whole of the County, for example administrative buildings, both new Councils are entitled to benefit from them. All these assets have been disaggregated to a host authority based on geographical location but the interest of the non host authority is recognised as a long term liability on the balance sheet of the host authority and a long term asset on the balance sheet of the non host. Further detail on the arrangements for the management of joint assets is set out in the Statement of Accounting Policies.

Heritable Bank

- 10.8 In October 2008 a number of 'Icelandic' banks went into administration. This included Heritable Bank plc, a UK-regulated subsidiary of the 'Icelandic' Landsbanki; all deposits held by Heritable were frozen and are now subject to the process of administration. On the date that Heritable were placed into administration, Cheshire County Council held £8.5 million of deposits. These monies represented just under 5% of the County Council's cash balances at that date. In accordance with recommended accounting practice, the County's 2008-09 Accounts included an impairment charge of £2.7m (representing the estimated loss of principal and interest). As part of the balance sheet disaggregation exercise Cheshire East received a share of the Heritable Bank deposits. Over the last twelve months the position with regard to the estimated amount that will be recovered has changed and there has been an improvement in the projected income. Consequently £159,000 of additional interest receivable has been credited to the revenue account and a partial reversal of the initial impairment charge has also been made in the accounts. This has resulted in a further £290,000 credit to the revenue account.

Economic Climate

- 10.9 The economic climate has also had a significant impact on the Council directly and indirectly through its involvement in the Cheshire Pension Fund. The Council's net pensions liability has increased from £304m to £601m due to two factors. The first relates to changes made to the actuarial assumptions on mortality to reflect improvements in life expectancy. The second factor relates to a fall in the real discount rate used to value the scheme liabilities which has had a significant impact on the overall liability position. This significant increase in the pension liability

has been experienced by all local authorities. However, it is important to note that this does not represent an immediate call on the Council's reserves. Rather, it is a notional amount which shows how much the Council's pension liabilities exceed its share of the Fund's assets. The Council's actual liability is reviewed every three years as part of the triennial valuation of the Pension Fund and an investment strategy is determined which aims to recover the deficit over a stated period (currently 20 years). A valuation of the fund as at 31 March 2010 is currently underway, this will determine the rate of employer contributions from 1 April 2011.

10.10 The economic recession has also impacted on the Council's income levels, particularly planning fees and car parking charges. Returns on Council balances have also been at historically low levels due to low market interest rates.

10.11 The budget for 2009-10 was under significant pressure due to a number of reasons, the significant areas of variance relate to:

- Pressure on care services, especially the volatility of high value, demand led services, e.g. looked after children and provision of care for older people;
- An increase in staffing costs to deal with additional demand, especially agency staff for Looked after Children;
- Inherited budget pressures relating to the Learning Disability Pooled budget.
- The cost of waste disposal.
- Exceptional winter maintenance costs due to the severe weather conditions.

These issues will be further explored in the 2009-10 Outturn Report to Cabinet on the 19th July 2010.

Severance Costs

10.12 As part of the service re-design process, the aggregation of services after Local Government Reorganisation and the de-layering of management structures, Cheshire East Council has operated a voluntary redundancy programme. Some 274 staff were released during 2009-10.

This voluntary redundancy programme has, and will, incur the following costs:-

- In 2009-10 severance costs of £7.0m were paid by Cheshire East Council.
- The total FRS17 early retirement actuarial costs for the above staff are £7.0m. These actuarial costs are being provided for in the accounts over a three year period, but will be paid over to Cheshire Pension Fund over a five year period. The charge to the 2009/10 Accounts is £2.3m.

- In addition, £1.2m of actuarial costs have been charged to the 2009/10 accounts for staff who took early retirement in 2008/09 as a result of Local Government Reorganisation

The 2009-10 severance costs have been treated as an exceptional item on the face of the Income and Expenditure Account.

Transitional Costs

- 10.13 Expenditure has been incurred with regard to costs associated with the setting up of the new Council. This expenditure has been classed as 'exceptional' costs in the accounts and includes costs of harmonising IT systems, changes to branding, recruitment costs, relocation costs, uniforms etc.
- 10.14 During 2009-10 the Council has incurred £3.4m of transitional costs. £2.1m of this was revenue expenditure which has been charged to the Income and Expenditure Account. £1.3m was capital expenditure and related to the consolidation of network domains and the implementation of Microsoft Office technologies to enable staff to work collaboratively. It also included the development of CEntranet (the new intranet) and the removal of legacy ICT services including several redundant internet links and firewalls.
- 10.15 Further expenditure relating to transitional costs planned to be funded from existing sources within service budgets and has therefore been reflected in the relevant section of the net cost of services.

Future Changes

- 10.16 2009/10 is the final year for the accounts to be prepared under UK Generally Accepted Accounting Practice (UKGAAP), from 2010/11 the accounts will be prepared under International Financial Reporting Standards (IFRS) and this is referred to in more detail later in the report.

11.0 Format of the Accounts

- 11.1 The Statement of Accounts has been compiled in accordance with the professional standards as set out in the Accounts and Audit Regulations 2003, the Code of Practice on Local Authority Accounting, the Best Value Accounting Code of Practice (BVACoP) and other best practice guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 11.2 There have been no major changes in 2009-10 to the format of the core financial statements:
- The Annual Governance Statement provides a review of the governance arrangements of the Council to ensure that its affairs are conducted in a proper manner and that public funds are duly safeguarded.

- The Income and Expenditure Account provides a summary of the costs incurred and income generated by the Authority in the year. This net operating expenditure is then offset against income from local taxation, non specific government grants and national non domestic rates, to give a total surplus or deficit for the year. Included within this figure are a number of notional charges and credits made to comply with recommended accounting practice.
- The Statement of Movement on the General Fund Balance reverses out these notional charges and credits and shows the true amount of net expenditure that is required by statute to be financed from Council Tax. The Statement highlights the net movement on both the General Fund and schools' balances.
- A Statement of Total Recognised Gains and Losses. This brings together all the gains and losses for the year, explains the movement in the balance sheet (i.e. the net worth of the Authority) and reconciles to the bottom half of the balance sheet.
- The Balance Sheet. This summarises the financial position of the Council as at 31 March 2010.
- The Cash Flow Statement. This looks at where the money came from and how it was spent for both revenue and capital activities.
- The Collection Fund. This reflects the statutory requirements for billing authorities to maintain a separate Collection Fund. The statement shows the transactions undertaken by the Council for collection of National Non-Domestic Rates and Council Tax and the distribution to Cheshire Police Authority, Cheshire Fire & Rescue Service and Cheshire East Council, including Parish Councils.
- A consolidated set of notes to the core financial statements is provided to aid understanding of the Accounts.

12.0 Annual Governance Statement

- 12.1 Cheshire East Council's 2009-10 Annual Governance Statement is due to be approved by the Audit and Governance Committee on 29 June 2010 and then will be subsequently signed by the Leader and head of paid service.
- 12.2 This is the first Annual Governance Statement of Cheshire East Council. The Council reviewed the effectiveness of its own governance framework, including the system of internal control, using a range of internal and external sources. These included disclosure statements from service managers, compliance with the Council's Code of Corporate Governance and internal and external audit work.
- 12.3 Overall, the Annual Governance Statement provides assurance that the governance arrangements across the Council were adequate and effective during 2009-10. Nevertheless, within the Council's Statement a number of significant governance issues were highlighted, The main issues identified are:

- Corporate and Financial Planning
- Financial Management
- Risk Management
- Partnerships & Governance
- Performance & Cost Management
- Procurement/Asset Management

12.4 The full details of the significant governance issues identified, and the suggested actions for improvement, can be found in the Annual Governance Statement.

12.5 The work undertaken in closing down the Accounts of the Council has not revealed any further significant governance issues to draw to the Committee's attention. Should the external audit process identify any additional significant governance issues, these will be brought to the September meeting of the Audit & Governance Committee for further consideration.

13.0 Accounting Policies

13.1 The Authority's accounting policies and estimation techniques are disclosed in the published Statement of Accounts to enable users to understand the basis upon which the Accounts have been compiled. Collectively, they provide a framework within which elements of the financial statements, such as assets and liabilities, are recognised, measured and presented.

13.2 All policies and estimation techniques have been reviewed and harmonised to ensure that they remain the most appropriate to the Authority's particular circumstances in so far as ensuring that the Accounts present fairly the financial position of the Council.

14.0 Key Changes

The main changes to the 2009 SORP include:

Accounting for Council Tax

14.1 From 1 April 2009, the Council Tax income included in the Income and Expenditure Account for the year shall be the accrued income for the year. This contrasts with previous accounting requirements where Council Tax income included in the Income and Expenditure Account represented the amounts required under regulation to be transferred from the Collection Fund to the General Fund of the billing authority or, in the case of major preceptors, the amount paid from the Collection Fund to the major preceptor.

Accounting for Business Rates

- 14.2 The 2009 SORP determines that the Council collects NNDR under what is in substance an agency arrangement with the Government. From 1st April 2009 the amount included in the Council's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of a cost of collection allowance) that has not yet been paid to the Government or has been overpaid to the Government on the Balance Sheet date.

Private Finance Initiatives (PFI) Contracts

- 14.3 The SORP 2009 requires these contracts to be accounted for in 2009-10 in a manner that is consistent with the adaptation of International Financing Reporting Interpretation 12 (IFRIC 12) - Service Concession Arrangements. This is a change in accounting policy compared with previous years when PFI contracts were accounted for in accordance with Financial Reporting Standard 5 and the fixed assets were carried on the Balance Sheet of the contractor and not the Council. The effect of IFRIC 12 is that the Council is deemed to control the services that are provided under its PFI schemes and, as ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the Balance Sheet, offset by a liability for the amounts due to the operator.
- 14.4 The Council currently has one PFI scheme. Extra Care Housing combines housing and care support for older people who have access to high quality accommodation with their own front door, with the security of a 24 hour Care Provider on site to provide reliable and responsive support as needed. The Cheshire East sites are based at Crewe, Handforth and Middlewich. The additional sites at Winsford and Ellesmere Port are operated by Cheshire West and Chester.
- 14.5 A detailed assessment of the scheme has been carried out and both control tests specified in IFRIC 12 are satisfied in the agreement between the Council and the operator Advantage (Cheshire) Ltd. The Extra Care Housing scheme has therefore been brought on balance sheet in 2009/10. This is consistent with the approach taken by Advantage (Cheshire) Ltd who have not accounted for the infrastructure assets on their balance sheet but have recognised a finance debtor on their balance sheet in accordance with IFRIC 12.

Officers Remunerations

- 14.6 New regulations came into force on 31 March 2010 which require authorities to publish detailed senior pay information covering salary, bonuses, expenses, compensation payments, pensions and other benefits. The new requirements are intended to ensure comparable remuneration disclosure for all senior staff within local authorities and promote a similar level of openness and transparency as central government as a minimum

and the private sector. For senior employees whose salary is £50,000 or more per year but less than £150,000 they are required to be listed by job title, for those persons whose salary is £150,000 or more they must be disclosed by name.

15.0 Statement of Accounts

Income and Expenditure Account

15.1 The Income and Expenditure Account shows a net deficit of £64.3m. However this is largely explained by notional charges which have been made: a £37.5m charge for depreciation and impairment of fixed assets and a £15.1m loss on the sale of fixed assets.

- The charge for depreciation is reversed out in the Statement of Movement on the General Fund Balance and replaced with the minimum revenue provision for debt repayment (£6.7m).
- The loss on the sale of fixed assets is due to the fact that, in 2009-10, eight secondary schools were granted Foundation School status. This means that, although the assets are still used for the same purposes, the value of the schools cannot be included within the Council's balance sheet. The net book value of the assets has therefore been written out of the accounts and, as no proceeds were received from this, the full "loss" has to be charged to the accounts. This is, however, reversed out in the Statement of Movement on the General Fund Balance.
- In addition, the accounts have reflected the writing out of Cheshire East's share of County Hall. This was a joint asset, held on the balance as a long term debtor as at 1 April 2009. The net effect of the writing out of the asset (£3.4m) and the application of the capital receipt (£5.1m) resulted in a gain of £1.7m.

15.2 The net deficit in the Income and Expenditure Account does not take into account net appropriations to and from reserves. These amount to £1.9m and are charged against the Income and Expenditure deficit in the Statement of Movement on the General Fund Balance. In total, the adjustments made in the Statement of Movement on the General Fund Balance amount to £52.7m and, when offset against the Income and Expenditure deficit, result in a deficit on the General Fund of £11.6m.

15.3 The format of the Income and Expenditure Account is based on the Best Value Accounting Code of Practice (BVACOP) Service Expenditure Analysis which defines how expenditure and income should be categorised. The aim of the BVACOP analysis is to ensure all authorities are reporting data consistently to assist comparison. Members should note that the management structure, like that of most authorities, is not consistent with the BVACOP analysis and the information reported as part of the outturn has been re-analysed to meet accounting guidance.

15.4 The table below shows how the gross revenue expenditure of £817m was distributed across services in 2009-10 in accordance with the Best Value service expenditure analysis:

Children's and Education Services	332,290	41
Adult Social Care	161,791	20
Cultural, Environmental & Planning Services	86,383	11
Highways, Roads & Transport Services	41,415	5
Housing Services	74,732	9
Central Services	35,755	4
Exceptional Items	12,657	2
Other Operating Income and Expenditure	57,206	7
Loss on Sale of Fixed Assets	15,190	2
Total	817,419	100

15.5 In 2009-10 the Council received revenue funding and income of £753.1m. The table below shows where this funding came from:

SOURCES OF FUNDING	2009/2010	
	£000s	%
Fees and Charges	146,909	19.5
Specific Government Grants	354,158	47.0
Surplus / (Deficit) on Collection Fund	(1,003)	(0.1)
Revenue Support Grant	11,580	1.5
National Non-Domestic Rate (NNDR)	50,170	6.7
Other General Grants	162	0.0
Council Tax	175,853	23.4
Local Authority Business Growth Incentive	347	0.0
Area Based Grant	14,926	2.0
TOTAL	753,102	100.0

15.6 Funding for school-related expenditure has been paid directly to local authorities via the Dedicated Schools Grant. This source of income has been shown under specific government grants, which in total, represent 47% of income. 23% of the Council's funding comes from Council Tax, with a further 9% from Revenue Support Grant and National Non Domestic Rates. Fees and charges generated by service activities represent 20% of the total income of the Council. Services are encouraged to continuously review charging policies to ensure that the optimum amount of income can be generated in specific areas to assist the Council in operating within

financial constraints. The Council also receives income in the form of interest through the management of its reserves.

- 15.7 The difference between the Council's funding and gross service expenditure of £64.3m represents the net deficit for the year before accounting for the appropriations to/from reserves and other adjustments required by statute.

Statement of Movement on the General Fund Balance

- 15.8 All the adjustments made in the Statement of Movement on the General Fund Balance, to reverse out the notional charges and credits required to comply with recommended accounting practice, to show the true amount of net expenditure to be funded from Council Tax, are shown in the table below:

	Adjustments made £000
Depreciation and impairment of fixed assets	(37,555)
Government grants deferred contributions amortisation	8,409
Revenue expenditure funded from Capital Under Statute	(894)
Expenditure on items costing less than £10,000	(3,888)
Net gain or loss on sale of fixed assets	(15,190)
Net charges for retirement benefits in accordance with FRS 17	(44,298)
Minimum provision for repayment of debt	6,682
Employer's contributions payable to the pension fund	30,930
Contribution to Housing Receipts Pool	(11)
Transfers to/from reserves	1,930
Collection Fund Adjustment	(230)
Capital expenditure charged to the General Fund Balance	1,106
Other Capital Income	318
Soft Loans	(61)
Difference between SORP and statute finance costs	61
Total Adjustments	(52,691)

- 15.9 In total these amount to £52.7m and, when netted off the deficit on the Income and Expenditure Account, result in a decrease in General Fund balances of £11.6m (£12.2m decrease in General Fund and £0.6m increase in schools' balances). The true deficit (decrease in General Fund balance) for the year is £12.3m. This decrease is explained in the following table:

	£000	£000
Council Fund Balance as at 1 April 2009		22,908
Less Budgeted Use of balances		(5,146)
Service Outturn Overspend	(5,782)	
Supplementary Revenue Estimates	(2,747)	
Unused Contingencies	<u>7,885</u>	(644)
Capital Financing Underspend		2,697
Net Appropriations to Earmarked Reserves		
Voluntary Redundancy	(11,500)	
Other	<u>457</u>	(11,043)
Corporate Items:		
Fleming VAT claim receipts	2,029	
Miscellaneous	<u>(155)</u>	1,874
Council Fund Balance as at 31 March 2010		10,646
Deficit for the year		(12,262)

Balance Sheet

- 15.10 In order to arrive at the opening balance sheet for the new authority the principles of merger accounting have been applied and the assets of the former district authorities have been transferred at their carrying amounts as at 31 March 2009. The assets of the former Cheshire County Council have been disaggregated between the Councils of Cheshire West and Chester and Cheshire East.
- 15.11 The principles underpinning this disaggregation were agreed by both Officers and Members of the two Councils. The table below shows the closing balance sheet for the Council, the transactions which have been discharged by Cheshire West and Chester acting as the caretaker authority and an analysis of the balances disaggregated to Cheshire East Council and Cheshire West and Chester Council.

Balance Sheet headings	2008-09 CCC Balance Sheet £000	Transactions discharged by caretaker authority £000	Balances disaggregated to CE £000	Balances disaggregated to CWAC £000
Long Term Assets	1,080,965	0	552,589	528,377
Current Assets	260,254	156,039	52,129	52,086
Current Liabilities	(208,113)	(155,705)	(22,852)	(29,556)
Long Term Liabilities	(861,607)	0	(448,466)	(413,141)
Net Assets	271,499	334	133,400	137,766

15.12 The Cheshire East Council share of the former County Council balance sheet was then aggregated with the balance sheets of Macclesfield Borough Council, Congleton Borough Council and Crewe and Nantwich Borough Council with the resulting balances realigned for consistency of reporting. It was then necessary to adjust the resulting balance sheet to remove any debtor or creditor balances which were internal to the new Council and, where necessary, to realign accounting treatments.

Balance Sheet headings	CE share of CCC £000	Macclesfield Borough Council £000	Congleton Borough Council £000	Crewe & Nantwich Borough Council £000	Realign/ Remove internal debtor/ creditors £000	Amalgamated Opening Balance Sheet £000
Long Term Assets	552,589	69,076	38,933	28,417	22,785	711,801
Current Assets	52,129	33,274	31,088	13,458	(694)	129,252
Current Liabilities	(22,853)	(8,091)	(6,307)	(5,213)	(867)	(43,330)
Long Term Liabilities	(448,465)	(41,364)	(33,126)	(23,927)	(21,358)	(568,242)
Net Assets	133,400	52,895	30,588	12,735	(134)	229,481

15.13 The opening balance sheet for Cheshire East reflects the aggregated closing balance sheet positions of the former district councils. However, the disaggregated County Council balance sheet was based on the position as at 31 January 2010, after a number of transactions had been processed by the caretaker authority, set up to discharge short term assets and liabilities (debtors and creditors). As a result the opening balances do not represent a true year on year comparison for some categories of assets and liabilities.

15.14 The Council's Balance Sheet has been significantly impacted by a large increase in the FRS 17 pension liability. This is a "snapshot" of the liability position at a moment in time and as such is greatly influenced by market conditions at the time. The volatility of markets can therefore create large swings in the size of the deficit from year to year. The £297m increase in the pension liability has therefore resulted in an overall net liability position on the balance sheet. However, the underlying balance sheet position, taking out the pension liability increase remains healthy.

15.15 Fixed assets, which represent the value of land, buildings, roads, bridges and vehicles, total £755m. These have increased by £70m during the year, largely as a result of a revaluation exercise. The fixed assets of the former district councils were due for a five year revaluation at 31 March 2010 and this has been completed by the District Valuer for the former authorities of Congleton and Crewe & Nantwich Borough Councils and by Daniel and Hulme for the former authority of Macclesfield Borough Council in conjunction with the Asset Management Service.

16.0 Capital Expenditure

16.1 Expenditure on Capital Projects in 2009-10 was £78.6m. In accordance with the Authority's accounting policies, items under £10,000 are transferred to Revenue and included in the revenue account.

16.2 The £78.6 capital expenditure incurred by the Council is broken down below:

		2009-10 £000
People	Children's Services	27,948
	Adult Services	4,356
	Health + Wellbeing	2,565
Places	Environmental Services	28,282
	Safe + Strong Communities	714
	Planning + Policy	2,468
	Regeneration	12,081
Performance and Capacity	Property Services and Building Maintenance	2,491
	ICT	4,188
	Other Services	240
		<hr/> 85,332
	Less Items under £10,000	<hr/> 6,750
		<hr/> <hr/> 78,582

16.3 The sources of income which financed this expenditure are:

Source	2009-10 £000	%
Supported Borrowing	10,798	13
Ringfenced Borrowing	1,441	2
Prudential (Unsupported) Borrowing	10,085	12
Government Grants	42,441	50
Government Grants (used to fund items costing less than £10,000)	2,999	3
Internal / External Contributions	4,538	5
Revenue Contribution to Capital	1,106	1
Capital Reserve	11,924	14
	<u>85,332</u>	<u>100</u>
Less:		
Expenditure on items costing less than £10,000	<u>6,750</u>	
Total	<u>78,582</u>	

16.4 The approved capital budget for 2008-09 was £122.9 m. The variation of £44.3m comprises £6.8m of items transferred to revenue and £37.5m of planned spend which is no longer taking place or has been re-profiled to be spent in 2010-11 and later years.

Capital Schemes can take a number of years to complete; an illustrative list of schemes started in 2009-10 is given below:

Stapeley Broad Lane Primary School	Replacement of 3 temporary classrooms with permanent accommodation
Macclesfield Town Hall Data Centre	Provide CEC with strategic data centre capacity, fitted out to a modern standard, replacing the 3 current centres.
Targeted Capital Fund (TCF) – Kitchens & Dining Facilities	At schools which bid for this funding: a) Improve the quality of the food b) Increase the seating capacity of dining areas c) Improve the dining environment d) Decrease queuing time
National Dementia Strategy - Lincoln House	New wing to create a twelve bedded specialist dementia unit; further expansion and refurbishment.
Office Accommodation Strategy	Provision of office accommodation for CEC in various locations
Local Transport Plan (LTP) – Principal Roads, Non-principal Roads, Bridges	Major programmes for infrastructure maintenance.

Examples of capital schemes completed during 2009-10 and now ready for use:

Playbuilder Scheme – Year 1	Enhanced playground facilities at 11 sites throughout the CEC area.
A51 Millstone Lane, Nantwich	Re-construct a length of the highway with replacement kerbs / drainage; plane-out existing carriageway and replace with new surfacing. Re-lay road markings on completion of the work.
West Street Regeneration (Crewe)	Improvements to street lighting, street furniture and landscaping to reflect the importance of West Street as a principal gateway into Crewe, and as part of Crewe's railway heritage.
Nantwich Directional Signing	Reclassify the road network in Nantwich and alter directional signing to encourage through-traffic to use radial routes.
Dane Embankment repairs (Congleton)	Re-instatement of riverbank and footpath further to erosion resulting from exceptional rainfall. Pathways now re-opened to the public.

17 2009/10 Issues and Future Developments

17.1 This year's accounts will be the last produced under UK Generally Accepted Accounting Practice (UK GAAP). From 2010-11 onwards Local Authority accounts will have to be prepared in accordance with International Financial Reporting Standards (IFRS). This will mean that the accounts will be prepared using the same accounting standards as those adopted by the private sector. Whilst many of the changes in recent years to Local Authority Accounting practice have prepared the way for IFRS there are still a number of further changes that will be required, with the main ones being:

- Changes may be required to the classification of leases as either operating or finance
- All leases will have to be split between land and building elements
- Some fixed assets will be measured and recorded differently
- There will be a greater requirement to adopt component accounting for some fixed assets
- The cost of any untaken annual leave at the end of the financial year will have to be charged to the accounts
- The format of the financial statements and some of the supporting notes will change

Overall these represent quite significant changes and the Council has already started to prepare for this by reviewing leases and contracts and working with service departments to gather together all the required information.

18.0 Approval and Publication

- 18.1 The Council's final accounts will be audited by the Council's external auditors, the Audit Commission, following approval of the Statement of Accounts by the Audit & Governance Committee. Adjustments to the accounts may be agreed with the external auditor during the course of the audit and will be included in the final statements. There will be a public inspection period for the accounts commencing on the 5th July 2010 until the 30th July. The final Statement of Accounts for 2009/10 is required to be published by 30th September 2010 and will include the external auditor's opinion.

Access to Information

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

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