

Audit and Governance Committee

Agenda

Date:	Thursday, 30th September, 2010
Time:	10.00 am
Venue:	Committee Suite 2/3 - 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. **Apologies for Absence**

2. **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

3. **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. It is not required to give notice of the intention to make use of the public speaking provision; however, as a matter of courtesy, a period of 24 hours notice is encouraged.

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, to enable an informed answer to be given.

For requests for further information

Contact: Carol Jones
Tel: 01270 686471
E-Mail: carol.jones@cheshireeast.gov.uk

4. **Minutes of Previous Meeting** (Pages 1 - 4)

To approve as a correct record, the Minutes of the meeting held on 29 June 2010.

5. **Work Programme** (Pages 5 - 16)

To consider the report of the Head of Internal Audit and Compliance which presents a work plan for consideration.

Members are invited to make any appropriate amendments and to note that this will be re-submitted to the Committee, periodically, for development and approval.

6. **Internal Audit Plan Update** (Pages 17 - 28)

To consider the report of the Head of Internal Audit and Compliance. The report updates the Committee on progress against the Internal Audit Plan 2010/11, outlines revisions to the plan and summarises the work during the period April – August 2010.

The Committee is asked to note the issues identified, endorse the approach to achieving adequate audit coverage during the remainder of 2010/11, and discuss future audit issues and ways of working, as appropriate.

7. **Review of Internal Audit Effectiveness** (Pages 29 - 52)

The report of the Head of Internal Audit and Compliance provides the Committee with the Audit Commission's review of Internal Audit, including the management response.

Representatives from the Audit Commission will be in attendance to present the findings of the review.

8. **2009-2010 Annual Governance Report** (Pages 53 - 84)

To consider the report of the Borough Treasurer. The report invites Members to comment on the Annual Governance Report for 2009/2010.

The Committee is asked to approve the final Statement of Accounts for 2009/2010 and the Chairman is asked to sign the letter of representation for Cheshire East Borough Council.

(Note: the attached Annual Governance Report was not available at the time of publication of the agenda and is now attached for completeness.)

9. **Date of Next Meeting**

The Committee is reminded that the date of the next meeting is 17 November 2010 at 10.00 am in Committee Suite 1, 2, 3 Westfields, Sandbach.

A risk management training session is to be delivered at the conclusion of the meeting, at approximately 12 noon. Alternative arrangements will be made for those Members who are unable to attend.

There are no Part 2 Items

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CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Tuesday, 29th June, 2010 at Committee Suite 1 & 2, Westfields,
Middlewich Road, Sandbach CW11 1HZ

PRESENT

Councillors M Simon, E Alcock, D Beckford, S Conquest, B H Dykes,
J Hammond, M Hardy, A Kolker, J Narraway and J Weatherill

NON-COMMITTEE MEMBERS IN ATTENDANCE

Councillor F Keegan Portfolio Holder for Resources
Councillor A Knowles Portfolio Holder for Health and Wellbeing

IN ATTENDANCE

Lisa Quinn	Borough Treasurer and Head of Assets
Vivienne Quayle	Head of Policy and Performance
Christine Mann	Finance Manager
Joanne Wilcox	Corporate Finance Lead
Paul Goodwin	Places Financial Lead
Ross McCormick	Team Manager Corporate
Dominic Oakeshott	People Financial Lead
Steve Wilcock	Performance and Capacity Lead
Ivan Parkhill	Audit Commission
Carol Jones	Democratic Services Officer

1 ELECTION OF CHAIRMAN**RESOLVED:**

That Councillor M J Simon be elected Chairman of the Committee to serve until the next Annual Meeting of the Council.

2 ELECTION OF VICE-CHAIRMAN**RESOLVED:**

That Councillor A Kolker be elected Vice-Chairman of the Committee to serve until the next Annual Meeting of the Council.

3 DECLARATIONS OF INTEREST

No declarations of interest were made.

4 PUBLIC SPEAKING TIME/OPEN SESSION

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

There were no questions from members of the public and the Committee proceeded to its next business.

5 ANNUAL REPORT 2009-2010

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. To comply with the Code, the Head of Internal Audit and compliance must provide a written report to those charged with governance, time to support the Annual Governance Statement.

The Committee considered the Internal Audit Annual Report 2009-2010 the primary purpose of which was to provide an opinion on the overall adequacy and effectiveness of the Council's control environment.

Members were reminded that the role of the Committee was to provide independent assurance of the adequacy of the risk management framework and the associated control environment.

Officers drew attention to key issues in the report, including –

- Upgrading of the Oracle system
- Streamlining of income-collection. Operational difficulties were currently being experienced. A new policy was being developed and would be submitted to the Committee in due course.

Members made comments/observations and these were responded to by Officers, as appropriate.

RESOLVED

That the Internal Audit Annual Report for 2009/2010 be noted.

6 ANNUAL GOVERNANCE STATEMENT

The Council was required to prepare and publish an Annual Government Statement (AGS), a requirement which had been introduced by the revised CIPFA/SOLACE Good Governance Framework (Delivering Good Governance in Local Government) and was necessary to meet the statutory requirement set out in Regulation 4 of the Accounts and Audit Regulations (2003 as amended).

The purpose of the AGS was to provide a continuous review of the organisation's governance arrangements to give assurance on the effectiveness of the processes and/or to address identified weaknesses. The report detailed the results of the review.

Minor editorial amendments were made to the report, as follows –

Appendix A	Page 11	Heading "Cabinet/Other Committees"
First line	Delete Insert	"Cabinet" "Leader"
	Page 14	Heading "Significant governance issues"
Following Insert		"....considered adequate;" ".....however,"

The Annual Governance Statement would be uploaded onto the website as part of the accounts

RESOLVED:

That in accordance with the Accounts and Audit Regulations, the Annual Governance Statement be approved for signature by the Leader of the Council and the Chief Executive.

7 DRAFT STATEMENT OF ACCOUNTS - 2009-2010

The Committee considered a revised report on the Draft Statement of Accounts 2009-2010 which required approval by 30 June 2010 in accordance with the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) Regulations 2006. The Local Government Act 2003 and the Local Government and Housing Act 1989 required the Statement of Accounts to be produced in line with recommended accounting practices.

A Member briefing session had been held immediately prior to the meeting.

It was noted that this was the first set of accounts for Cheshire East Borough Council and there were, therefore, no prior year comparatives available in the Income and Expenditure account. The report set out the key areas which had affected the accounts in the first year of operation.

During discussion, it was agreed that a session be held in mid-September to offer training for Members on the International Financial Reporting Standards and to update Members on the key messages arising out of the audit of the accounts.

RESOLVED

- (a) That, 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, Cheshire East Borough Council Draft Statement of Accounts for 2009-2010 be approved; and
- (b) That staff in the Borough Treasurer's department be thanked for their contribution to the preparation and timely completion of the accounts.

8 CALENDAR OF MEETINGS - 2010-2011

The Committee was recommended to approve a calendar of meetings for the remainder of the Municipal Year. All meetings would be held at Westfields, Sandbach.

RESOLVED:

That the Committee approve the following calendar of meetings for 2010-2011 –

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

Note: The Statement of Accounts would be submitted to the Committee on 30 September 2010, following completion of the audit. As noted in Minute No. 7 above, an additional meeting would be arranged for mid-September to brief Members on the key issues arising out of the audit.

The meeting commenced at 2.30 pm and concluded at 4.00 pm

Councillor M J Simon
(Chairman)

CHESHIRE EAST COUNCIL

Audit and Governance Committee

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

1.0 Report Summary

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

2.0 Recommendation

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

3.0 Reasons for Recommendation

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

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

More specific responsibilities include:

- developing a Code of Corporate Governance
- approving the Council's Statement of Accounts
- where necessary, overseeing and agreeing the arrangements for Members to be indemnified for and insured against risks and liabilities arising from the performance of their duties as Members of the Council, and as the Council's representatives on outside bodies
- approving the Annual Governance Statement
- seeking assurance that customer complaint arrangements are robust
- reviewing the Council's whistle blowing arrangements
- overseeing the implementation of the Council's anti fraud and corruption policy and strategy.

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

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

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

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

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

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications

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

8.0 Legal Implications

8.1 None directly from this report.

9.0 Risk Assessment

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

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

For further information:

Portfolio Holder: Councillor David Brown

Officer: Vivienne Quayle, Head of Internal Audit and Compliance

Tel No: 01270-529684

Email: vivienne.quayle@cheshireeast.gov.uk

Background Documents:

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

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

Draft Work Plan 2010/11

<u>Committee Date/Agenda Item</u>	<u>Notes</u>
<u>29 June 2010</u>	
Internal Audit Annual Report	The Committee noted the Internal Audit Annual Report for 09/10 the primary purpose of which was to provide an opinion on the overall adequacy and effectiveness of the Council's control environment.
Annual Governance Statement (AGS)	The AGS was approved. The purpose of the AGS was to provide a continuous review of the organisation's governance arrangements to give assurance on the effectiveness of the processes and/or to address identified weaknesses.
Draft Statement of Accounts	The Committee approved the Draft Statement of Accounts 2009-2010 in order to comply with the Accounts and Audit Regulations and increase public confidence in the objectivity and fairness of the Statements.
<u>23 September 2010</u>	
Audit of Financial Statements	Briefing at the request of the Committee on key messages which have arisen during the audit on financial statements process.
International Financial Reporting Standards (IFRS)	A training session on the key requirements of the International Financial Reporting Standards (IFRS).
<u>30 September 2010</u>	
Annual Governance Report, Auditors' report on Financial Statements and Value for Money conclusion.	<p>The Committee will receive the 2009/10 Annual Governance Report produced by the external auditor.</p> <p>Following the approval of the draft accounts on 29 June 2010, the external auditors will present a report on the findings, conclusions and recommendations of the audit work undertaken on the financial statements and an assessment of how well the Council manages its resources to deliver Value for Money giving an opinion on whether:</p> <ul style="list-style-type: none"> the accounts presented fairly the financial position

Draft Work Plan 2010/11

<u>Committee Date/Agenda Item</u>	<u>Notes</u>
Internal Audit Update	<p>of the authority and its expenditure and income for the year in question; and</p> <ul style="list-style-type: none"> the accounts have been prepared properly in accordance with relevant legislation and applicable accounting standards. <p>The Committee will be asked to approve the final Statement of Accounts for 2009/10.</p> <p>The purpose of this report is to facilitate compliance with the requirements of the Code of Practice for Internal Audit and, consequently, it provides Members with emerging issues in respect of the whole range of areas to be covered in the formal annual report. It enables the Committee to monitor Internal Audit's performance.</p>
Review of Internal Audit	<p>The Committee should evaluate the extent to which the Internal Audit Service complies with the Code of Practice for Internal Audit. It should do this by considering the work performed by external audit in its assessment of the internal audit service.</p>
Work Plan	<p>A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.</p>
<u>17 November 2010</u>	
Final Account Memorandum	<p>This report provides the Council with the detailed messages from the audit of the 2009/10 main financial statements, with the aim of helping the Council to improve the quality of its financial statements further in future years.</p>
Code of Corporate Governance	<p>The Committee is responsible for developing the Council's Code of Corporate Governance which is used as a basis for self-assessment, continuous improvement and as a contributor to producing the AGS. Hence it needs to approve any proposed changes to it.</p>
Risk Management update report	<p>The Risk Management function will report on whether best practice is being followed in the Council's</p>

Draft Work Plan 2010/11

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

Draft Work Plan 2010/11

<u>Committee</u> <u>Date/Agenda Item</u>	<u>Notes</u>
	Internal Audit and, consequently, it provides Members with emerging issues in respect of the whole range of areas to be covered in the formal annual report. It enables the Committee to monitor Internal Audit's performance.
Opinion Plan	The Plan identifies the work that is planned by the External Auditor to give an opinion on the Council's Financial Statements for the financial year 2010/11.
Annual Audit Letter	The purpose of preparing and issuing annual audit letters is to communicate to the audited body and external stakeholders, including members of the public, the key issues arising from the external auditors' work, which they consider should be brought to the attention of the Council. The annual audit letter covers the work carried out since the previous annual audit letter was issued.
Grants Report to those charged with Governance	External Auditors are required to report annually on the issues, amendments and qualifications arising from certification work of grant claims and returns. This report is important because it gives feedback on how effectively the Authority is managing the grants and subsidies it receives and administers.
Risk Management Strategy & Business Continuity Strategy	In considering the effectiveness of the Authority's risk management arrangements the Committee must be aware of the Risk Management Strategy and any proposed changes to it.
Business Continuity Update	The Committee will be made aware of how the authority manages its own contingency and business recovery plans.
AGS Action Plan	The Committee will be asked to note the progress made in implementing the Annual Governance Statement (AGS) action plan for 2009/10. Failure to consider and monitor the AGS action plan could result in agreed improvements to the governance arrangements not being implemented.

Draft Work Plan 2010/11

<u>Committee Date/Agenda Item</u>	<u>Notes</u>
Update on IFRS	The Committee will be asked to note the progress made on the IFRS Action Plan.
Anti Fraud & Corruption	<p>In order to comply with a number of International Standards on Auditing, external audit are required to obtain the Audit Committee's understanding of the following:</p> <p>1) Management processes in relation to:</p> <ul style="list-style-type: none"> • undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud • identifying and responding to risks of fraud in the organisation • communication to employees of views on business practice and ethical behavior • communication to those charged with governance the processes for identifying and responding to fraud <p>2) How the Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control</p> <p>3) How the Committee is made aware of actual, suspected or alleged frauds</p> <p>4) How it gains assurance that all relevant laws and regulations have been complied with.</p>
Freedom of Information and Data Protection	The Freedom of Information and Data Protection Acts are seen as essential elements of the regulatory framework within which the Authority works. This report will provide Members with an update with regard to FOI and DP issues.
Work Plan	A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.

Draft Work Plan 2010/11

<u>Committee</u> <u>Date/Agenda Item</u>	<u>Notes</u>
<u>29 March 2011</u>	
Internal Audit Plan for 2011/12	The Head of Internal Audit must prepare a risk-based audit plan designed to implement the audit strategy that is fixed for a period of no longer than one year. The Committee is responsible for approving (but not directing) the plan.
Regulation of Investigatory Powers Act (RIPA)	<p>The RIPA annual report that is submitted to the Committee includes:</p> <ul style="list-style-type: none"> • details of the overall number and type of authorisations granted • the outcome of the case, where known • a breakdown of the same information by service or groups of services, as appropriate • the results of the most recent inspection carried out by a representative of the Office of Surveillance Commissioners, where applicable (inspections may not take place annually).
Risk management update	The Risk Management function will report on whether best practice is being followed in the Council's management of its risks and how new risks are identified and existing risks are changing.
AGS update	The Committee will be asked to note the progress made in implementing the Annual Governance Statement (AGS) action plan for 2009/10. Failure to consider and monitor the AGS action plan could result in agreed improvements to the governance arrangements not being implemented.
Governance	The Council's management is responsible for the governance arrangements (including the system of internal control). Periodically, management should assure the audit committee that the arrangements prescribed by the Code of Corporate Governance and described within the AGS are operating effectively. The Committee must be informed of any major changes made to the arrangements.
Anti Fraud & Corruption	The anti-fraud and corruption strategy includes a series of measures designed to prevent any

Draft Work Plan 2010/11

<u>Committee Date/Agenda Item</u>	<u>Notes</u>
Whistleblowing	<p>attempted fraudulent or corrupt act and the steps to be taken if such an act occurs. Periodically Internal Audit should assure the Committee that the measures prescribed by the strategy are operating effectively.</p> <p>The whistleblowing policy includes a series of measures designed to encourage staff to raise concerns and the steps to be taken to investigate such concerns. Periodically Management should assure the audit committee that the policy is operating effectively.</p>
Work Plan	<p>A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.</p>
<u>Unallocated</u>	
Insurance	<p>The Committee is responsible for, overseeing and agreeing the arrangements for Members to be indemnified for and insured against risks and liabilities arising from the performance of their duties as Members of the Council, and as the Council's representatives on outside bodies.</p>
Anti-Money Laundering	<p>The Council is required to have procedures in place for the detection and disclosure of incidents of suspected money laundering and terrorism financing. This Policy aims to establish prudent and responsible anti-money laundering controls and reporting arrangements designed to detect and avoid involvement in the offences described in Regulations The Policy is considered by the Committee before approval by Cabinet. Hence it needs to be made aware of and endorse any changes to the Policy.</p> <p>Periodically Management could assure the Committee that the measures prescribed by the Policy are operating effectively.</p>
Treasury Management	<p>CIPFA's Code of Practice requires that members are tasked with treasury management responsibilities, including scrutiny of the treasury management function. The Committee will receive appropriate training so that members fully understand their roles and responsibilities.</p>

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 30 September 2010
Report of: Head of Internal Audit and Compliance
Title: Internal Audit Plan 2010/11 and Update Report

1.0 Report Summary

- 1.1 The Code of Practice for Internal Audit in Local Government in the United Kingdom states that, “in addition to the annual report”, the Head of Internal Audit and Compliance “should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 1.2 The purpose of the report is to update the Audit and Governance Committee on progress against the Internal Audit Plan 2010/11, revisions to the plan and to summarise work during the period April – August 2010.

2.0 Recommendation

- 2.1 That the Committee note the issues identified, endorse the approach to achieving adequate audit coverage in the remainder of 2010/11 and discuss future audit issues and ways of working as appropriate.

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, 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.
- 3.2 This interim report addresses emerging issues in respect of the whole range of areas to be covered in the annual report.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications

7.1 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:

Portfolio Holder: Councillor David Brown

Officer: Vivienne Quayle, Head of Internal Audit and Compliance

Tel No: 01270-529684

Email: vivienne.quayle@cheshireeast.gov.uk

Background Documents:

Local Government Act 1972

Accounts and Audit Regulations (2003 and updated 2006)

CIPFA Internal Audit Code of Practice

Summary of Internal Audit Plan 10/11

Report to Audit and Governance Committee
Internal Audit Plan 2010/11 and Update Report
30 September 2010

1.0 Background

- 1.1 The purpose of the report is to update the Audit and Governance Committee on progress against the Internal Audit Plan 2010/11, revisions to the plan and to summarise work during the period April – August 2010.
- 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 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 recommendations and will bring to the attention of the Committee any significant weaknesses that have not been addressed by Management.

2.0 Internal Audit Plan 2010/11

- 2.1 The Internal Audit Plan for 2010/11 was approved by the Governance and Constitution Committee on 27 May 2010 and was developed using the following split:

Supporting Corporate Governance (4%)	This includes work on the Local Code of Corporate Governance, the Annual Governance Statement and the CAA Use of Resources.
Core Financial and Fundamental Systems (12%)	Core system 'key control' work as required by External Audit as well as the results of Internal Audit's risk assessment of fundamental systems. Systems included are: Budget Monitoring, Debtors, Creditors, Housing Benefits, Council Tax, National Non-Domestic Rates (NNDR).
Key Service and Departmental Systems (46%)	Strategic and service risk audits including assurance work focussing on "back to basics" type work across key themed areas and establishments. People e.g. Establishment audits, Financial Management Standard in Schools (FMSiS) review, Social Care redesign and review of controls in material systems such as PARIS. Places e.g. Emergency Planning, Waste PFI, Highways maintenance contract, Car parking, Licensing, Planning

Summary of Internal Audit Plan 10/11

	& Building Control. Performance & Capacity e.g. Compliance with HR policies, Performance Management including data quality, Communications, ICT audits, Procurement including tendering/commissioning, Asset Management. Cross Directorate, Partnerships, Shared Services e.g. Governance, Service Delivery Planning, Project Management, Business Continuity.
Counter Fraud and Probity (18%)	Response to notifications under the anti-fraud and corruption policy informing opinion on the internal control environment. Pro- active work based on risk assessment including promotion of relevant policies and assessment of key controls. Includes administration of National Fraud Initiative (NFI) & creation of fraud risk assessment.
VFM and Strategic Reviews (3%)	

The remaining audit time (17%) was allocated to follow up and responsive work.

3.0 Progress against 2010/11 Plan

Supporting Corporate Governance

- 3.1 During the period Internal Audit has assisted Management in the production of the Council's Annual Governance Statement (AGS), which was presented and approved at the Audit and Governance Committee on 29 June. A training session, covering the AGS was given to Committee members in advance of the meeting.
- 3.2 Time was originally provided for in the 2010/11 Audit Plan to support the Authority's Comprehensive Area Assessment (CAA) Use of Resources assessment. This will no longer be required following the abolishment of CAA in May.

Core Financial and Fundamental Systems

- 3.3 One of the main areas of focus during the period within this area was the undertaking of 'extended testing on key controls' over a number of systems. This work covered the 2009/10 financial year and had been agreed with External Audit to support their assurance work on the financial statements. The work covered systems including Schools Finance, PARIS Care Plans, Supporting People, Home Care Roster, Asset Management, Council Tax, NNDR and Highways Term Maintenance Contract. The work was completed and reported back to External Audit in June 2010.
- 3.4 Work was also concluded within some of the key financial Shared Services systems, such as Accounts Payable and Accounts Receivable. This work was carried out on Cheshire East transactions and reported back to Cheshire West

Summary of Internal Audit Plan 10/11

and Chester Council's Internal Audit, who produced the audit reports and formally reported back to Shared Services management.

- 3.5 An audit review of the Authority's readiness for International Financial Reporting Standards (IFRS) was carried out during the period. This concluded that the Authority had an IFRS implementation plan in place but there had been slippages due to closure of accounts, staff shortages and delays by managers providing information. Management have responded to the report and this is an area on which the Committee may wish to receive updates.
- 3.6 A major review of Budget Monitoring was commenced in August 2010. This review aims to cover a wide selection of Budget Managers across all services of the Authority and at various levels within the structure from Directors and Heads of Service through to front line budget managers with devolved management responsibilities.
- 3.7 Following a recent Freedom of Information request, the BBC reported on the use of purchase cards within the authority. Although there is no suggestion of misuse, both the Chief Executive and the Leader of the Council requested an audit review in this area. This work is underway and is utilising the new IDEA (Interactive Data Extraction and Analysis) software.
- 3.8 Cheshire East's core business system, Oracle is being upgraded to a new release (Release 12 or R12) with a go-live date of January 2011. Internal Audit, jointly with Cheshire West and Chester Council's Internal Audit team, will be reviewing and commenting on any key changes to the control environment. Work on this is underway.

Key Service and Departmental Systems**People**

- 3.9 Internal Audit has carried out a review to gain assurance that Cheshire East Council has continued to comply with the accreditation criteria for the use of the Contact Point database. This informed the sign off of the Annual Compliance letters that were required to be completed prior to 30 June 2010. It should be noted that since this work was completed the coalition government have cancelled Contact Point and that the database was switched off on 6 August 2010.
- 3.10 The following establishments within Health and Wellbeing have been subject to audit in order to ensure that appropriate controls are in place over income including the security of cash, budget management, asset management and purchasing arrangements:
- Malkins Bank Leisure Centre
 - Lyceum Theatre
 - Wilmslow Leisure Centre
 - Knutsford Civic Hall & Cinema
 - Alsager Civic Hall

Summary of Internal Audit Plan 10/11

- 3.11 Detailed reports were issued for each visit and common areas of concern have been raised with the appropriate managers to ensure that they are addressed across the whole service. The main areas of weakness highlighted by the audits were:
- Charges have not been consistently updated to reflect the agreed rates for 2010/11.
 - Purchase card holders able to authorise their own transactions.
 - The level of cash floats is not accurately reflected in the financial system.
 - No time recording system to support the authorisation of timesheets.
 - Managers are unable to carry out effective budget management due to an inability to access the financial system.
- A consolidated report will now be produced for senior management.
- 3.12 With effect from April 2010, provision for the education and training of 14-19 year olds transferred from the Learning and Skills Council to Local Authorities. This included staff transferring to Cheshire East Council along with roles and responsibilities for the provision of funding streams. Internal Audit carried out a review to ensure that arrangements had been put in place to enable the authority to meet its responsibilities in accordance with the published guidance on the transfer. The audit work revealed that the risks associated with the transfer had been managed although some action points were raised to ensure that the council's responsibilities continue to be met going forward.
- 3.13 A piece of work is currently underway to support the Client Finance team within Adults in designing and implementing an effective and efficient process for auditing the accounts of social care customers who are in receipt of a direct payment. An issue has been identified in that there is a significant backlog of accounts that require an audit to be carried out but resource issues mean that this will not happen unless the process is changed or additional resources are allocated to the task. A risk based approach is being developed to ensure that the limited resources are able to focus upon the accounts which represent the highest risk of both loss to the authority and the wellbeing of the individual. Upon completion of this piece of work the amount of cash reclaimed from direct payment customers is expected to increase significantly which will have a positive effect on stretched budgets within Adult Services. Internal Audit will continue to work closely with the service to ensure that improvements are made.
- 3.14 Internal Audit continues to support the development and implementation of the Empower Card ensuring that new processes and systems are sufficiently robust to mitigate the risk of loss to the Council. In addition to the review of processes, support and advice has been provided to the Client Finance team and private homecare agencies with regards to reconciling client accounts in preparation for the transfer to Empower Cards.
- 3.15 A series of establishment audits are currently underway across a sample of Adult Services Day Centres and Supported Living Networks. The audits will

Summary of Internal Audit Plan 10/11

focus upon the financial management of both official and client funds and will identify any areas of control that have been weakened by the recent restructure of these services. Individual reports will be provided to managers with a consolidated report identifying common issues and high risk areas presented to senior management within the service.

- 3.16 During October, it is anticipated that, an audit of the process in place for the accreditation of Cheshire East Schools against the FMSiS will take place. This will provides assurance that the standard is being correctly applied in line with Department of Education guidance. The findings will inform the production of a work programme of visits to schools as this is an area that has not received audit coverage for a number of years.

Places

- 3.17 A review of the authority's Licensing activities was carried out during the first quarter focussing on the existence of key controls over pricing, processing of applications, income control and inspections/enforcement.
- 3.18 A number of issues were identified and a meeting with management has been scheduled in order to agree an action plan to address the control weaknesses.
- 3.19 Internal Audit staff have met with the relevant service managers in order to support the further development of the service risk registers.
- 3.20 Further work within key high risk areas in Places is planned in the remainder of 2010/11.

Performance & Capacity

- 3.21 During the period an audit of Absence Management was carried out and findings reported to the HR Delivery Manager. Recommendations made were predominately around strengthening guidance for managers in this area.
- 3.22 Internal Audit carried out a Regulation of Investigatory Powers Act (RIPA) review in April 2010. RIPA is led by the Compliance Team within Internal Audit & Compliance. The audit acted as a pre-inspection review ahead of an inspection by the Office of Surveillance Commissioners in May 2010 to establish whether services were aware of their obligations under RIPA, had been adequately trained, and that the Council's approved policy is being compiled with. A small number of audit recommendations were made.
- 3.23 The Commissioners report concluded that "the policies, procedures, guidance and training put into place by the Council are of the highest order and should enable a compliant use of RIPA" and praised the "conscientious attitude" of staff.
- 3.24 A follow-up review of ICT Asset Inventory was carried out. Following Local Government Re-organisation, Internal Audit reviewed the disaggregation of ICT assets across both new authorities. The review found that there was

Summary of Internal Audit Plan 10/11

confusion as to the ownership and location of many assets and uncertainty about the existence of others. The follow-up review has found that, although a compilation strategy has been adopted and is underway, it is not yet complete. There is still a need for an ICT Asset Register which accurately reflects the current disposition of assets and which is maintained and kept up to date. This has been reported to management.

- 3.25 A review of the Authority's compliance with Government Connect (partnership between national and local government providing a secure method for the electronic transfer of data between both) 'Code of Connection' was undertaken. It was concluded that the process was appropriate and effective and that planning and action was well underway to address the new increased requirements of the enhanced Code in autumn 2010.
- 3.26 An audit of procurement using the formal tendering process was completed during the period. The recent introduction of an e-tendering process is likely to address many of the practical issues identified during the review. A further review is scheduled and this will focus on the e-tendering system.

Cross Directorate, Partnerships, Shared Services

- 3.27 During the period an audit of Shared Services - Governance Arrangements was undertaken. The terms of reference were to assess the governance and monitoring arrangements of Shared Services from Cheshire East's perspective including the current progress with formalising shared services arrangements, reviewing those short term arrangements and the management arrangements for monitoring performance and the value for money achieved. This work is still in progress.

Counter Fraud and Probity

- 3.28 Following the recent appointment of the Principal Auditor (Fraud), a piece of work has commenced to review the Anti Fraud and Corruption Policy against best practice guidance to ensure that it is fit for purpose and sufficiently robust to protect Cheshire East Council against the risk of fraud and corruption.
- 3.29 In addition, it has become apparent that the existing Whistleblowing Policy does not clearly identify what is a Whistleblowing report rather than a complaint or grievance. It has also been discovered that there are some discrepancies between the various sources of information relating to Whistleblowing and a piece of work has begun to identify and address these concerns.
- 3.30 It is intended that updated versions of both policies will be presented to members for approval at the next meeting of the Audit & Governance Committee in November 2010 prior to a formal re-launch to managers.
- 3.31 Preparation for the 2010 National Fraud Initiative (NFI) has commenced and is ongoing. On a bi-annual basis, local authorities are required to participate in a data matching exercise aimed at the prevention and detection of fraud.

Summary of Internal Audit Plan 10/11

Electronic datasets are required to be submitted to the Audit Commission and further investigation is undertaken into any anomalies. The use of the data is covered by the Data Protection Act and consequently 'fair processing' notices have been required to be issued to persons concerned to inform them that information will be used for this purpose.

- 3.32 In addition to the NFI work, a further review was carried out to identify duplicate payments resulting from the simultaneous use of multiple payment systems in the lead up to LGR. This utilised the new IDEA software and provided an opportunity to cleanse the Trade Creditors dataset prior to the NFI upload
- 3.33 The review identified duplicate payments in excess of £22,000 which have been confirmed by the relevant services and have been or being recovered. In addition, a further £6,000 of potential duplicate payments is still being checked within the services involved.
- 3.34 A report detailing the duplicate payments and associated control weaknesses with recommendations for remedial action has been issued to the Borough Treasurer & Head of Assets.

Responsive – Investigations

- 3.35 Internal Audit has assisted Management in the investigation of potential irregularities of which certain cases remain on-going. A detailed report has been prepared for consideration by the Head of Policy and Performance and the Chair of the Audit and Governance Committee in accordance with the Anti Fraud and Corruption Policy. The reporting process ensures that specific learning points for the Council have/will be addressed.
- 3.36 The investigations included an Adult social care establishment and a Children's social care establishment. With regard to the latter investigation, Internal Audit is continuing to work with management to ensure that robust controls are introduced to address the concerns raised and a series of visits to other centres is planned to identify whether the control weaknesses are present throughout the service.
- 3.37 As a result of the significant weaknesses identified in the Children's establishment, Internal Audit has produced detailed guidance for the service manager on the controls that should be built into the processes to be operated at the new community based residential settings. Ongoing support and advice continues to be provided during the development of these systems.
- 3.38 In addition to the above investigations, a number of Whistleblowing reports have also been received and investigated. These have been reported to the Head of Policy and Performance and the Chair of the Audit and Governance Committee.

Summary of Internal Audit Plan 10/11**Value for Money/Strategic Reviews**

- 3.39 This represents a small percentage of the overall audit plan and to date there has been no activity in this area during 2010/11.

4.0 Performance against Audit Plan 2010/11

- 4.1 During the period audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised of a mix of risk based auditing, regularity, computer audit, investigations and the provision of advice to officers.
- 4.2 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.
- 4.3 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 and procedures, application of Finance and Contract Procedure Rules, ICT Security Policies etc.
- 4.4 A number of staffing issues have affected the ability of Internal Audit to deliver the original plan. There has been a shortfall between the number of audit days in the plan and those actually achieved, due to the following:
- A Senior Auditor post and the Audit and Compliance Assistant post have been vacated.
 - Vacancies for two Senior Auditor posts have not been filled. One post will be filled in November 2010. Applications for the other post have been recently received; this post had to be re-advertised after the original successful candidate decided not to take up the post.
 - Maternity leave for a Principal Auditor and Senior Auditor.

However, during the period the two vacant Principal Auditor posts were both filled.

- 4.5 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.
- 4.6 Given the situation, it is necessary, in the next quarter, to align resources to the following key areas of the plan:
- Undertaking fundamental financial systems audits (e.g. Housing Benefits, Council Tax etc.) in order that External Audit can rely on the work of Internal Audit.

Summary of Internal Audit Plan 10/11

- The National Fraud Initiative exercise.
- Follow up on the Annual Governance Statement Action Plan 2009/10.
- Work on the Annual Governance Statement 2010/11.
- Addressing the recommendations of the Audit Commission's 'Internal Audit Review'.
- Key high risk areas in Places.

5.0 Implementation of Recommendations

- 5.1 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.
- 5.2 A number of potential issues are still being discussed with management and may be escalated to this Committee in the future.
- 5.3 The Section has, during the period, worked with Management to ensure that issues are being addressed. As indicated in this report progress is being made to implement improvement.

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 30 September 2010
Report of: Head of Internal Audit and Compliance
Title: Internal Audit Review

1.0 Report Summary

- 1.1 This report provides the Committee with the Audit Commission's review of Internal Audit, including the management response.
- 1.2 Representatives from the Audit Commission will attend the meeting to present the findings of the review.

2.0 Recommendation

- 2.1 It is recommended that the Committee:
 - (1) receive the Audit Commission's report on the Internal Audit (Appendix A)
 - (2) note that the review identified that Internal Audit met seven of the eleven CIPFA standards during the year and partially met the other four. The review also concluded that "good progress was made in developing the Council's Internal Audit arrangements during the year" and that "the Internal Audit team is well placed to act as an assurance function, delivering an independent and objective opinion on the Council's control environment and assurance on internal controls through its annual audit plan".
 - (3) note Management's response (Appendix B) to the auditors findings and recommendations contained within Appendix 1 of the Audit Commission's report.
 - (4) note that periodically the Committee will receive update reports on the action that is being taken to address the issues identified by the Audit Commission.

3.0 Reasons for Recommendation

- 3.1 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. The Code sets out the definitions and principles (the standards) which establish how a professional internal audit service should operate.

- 3.2 The Council's External Auditors have, in accordance with International Standards of Auditing (ISA+ 610), completed a review of Internal Audit's compliance with the Code for the year ended 31 March 2010. The findings and recommendations arising from the review can be found at Appendix A, with Management's response found at Appendix B.
- 3.3 The Committee is, therefore, asked to consider the contents of the External Auditor's report and seek assurance that any issues that significantly fall short of the expected standards have been, or are being addressed appropriately.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 Not applicable.

7.0 Financial Implications

- 7.1 Not applicable

8.0 Legal Implications

- 8.1 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.

9.0 Risk Assessment

- 9.1 Failure to consider the extent to which Internal Audit complies with the Code of Practice for Internal Audit in Local Government could result in non compliance with the Accounts and Audit Regulations.

For further information:

Portfolio Holder: Councillor David Brown

Officer: Vivienne Quayle, Head of Internal Audit and Compliance

Tel No: 01270-529684

Email: vivienne.quayle@cheshireeast.gov.uk

Background Documents:

None.

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Internal Audit Review

Cheshire East Council

Audit 2009/10

September 2010



Contents

Summary report	3
Compliance with standards	6
Appendix 1 – Action plan	13

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Summary report

Introduction and background

- 1 Internal Audit is one of the most important features of a council's internal control environment. It is an assurance function that provides an independent and objective opinion on a council's control environment and provides assurance on internal controls through its annual audit plan. It examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economical, efficient and effective use of resources.
- 2 International Standards of Auditing (ISA+ 610) require us to consider and understand the activities of Internal Audit. This helps us plan our audit and develop an effective audit approach.
- 3 CIPFA's 'Code of Practice for Internal Audit in Local Government in the United Kingdom 2006' (the Code) sets out the standards expected of internal audit teams at local councils. The code describes the 11 organisational and operational internal audit standards. In May 2010, CIPFA issued a draft statement (the CIPFA statement) on the role of the head of internal audit, emphasizing the importance of this role. It states that the head of audit occupies a critical position in any organisation in helping it to achieve its objectives. The head of internal audit does this by giving assurance on internal control arrangements and playing a key role in promoting good corporate governance.

Table 1 Internal Audit Standards

Based on CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Organisational standards	Operational standards
Scope	Audit strategy
Independence	Undertaking audit work
Ethics	Due professional care
Audit Committee	Reporting
Relationships	Quality assurance
Staffing, training and development	

- 4 Cheshire East Council (the Council) came into existence on 1 April 2009. During its first year significant time and effort was expended in establishing the organisation. This included the review and implementation of new structures; appointment of staff; maintaining business continuity and managing the relocation of several hundred staff and a number of departments and teams.

- 5 For Internal Audit this meant establishing a new internal audit team and drafting and implementing an internal audit strategy and supporting plans, procedures and processes. In addition, Internal Audit has provided assistance to other parts of the Council and senior management, through its transitional audit work programme and day to day support and guidance to staff and managers.

Audit approach

- 6 The overall objective of our review was to ensure the Council's Internal Audit meets professional and statutory requirements for the year ended 31 March 2010. We designed our review based on the organisational standards in the Code of Practice. Our work consisted of:
- review of documentation provided by the Council;
 - review of three individual audit assignment files;
 - discussions with the Head of Internal Audit & Compliance (HIAC) and Internal Audit Managers; and
 - review of information arising through other parts of our audit.
- 7 The HIAC also completed a self-assessment, which we used to inform our review.

Main conclusions

- 8 Overall, good progress was made in developing the Council's Internal Audit arrangements during the year ended 31 March 2010. The Internal Audit team is well placed to act as an assurance function, delivering an independent and objective opinion on the Council's control environment and assurance on internal controls through its annual audit plan.
- 9 Our review identified that Internal Audit met seven of the eleven CIPFA standards during the year. Of the other four standards; these were assessed as partially met mainly because the arrangements implemented had not been fully embedded or operational throughout the whole year.
- 10 We made a number of recommendations, highlighting areas where further development is needed to ensure that Internal Audit's future performance meets CIPFA standards. Key areas for further development include:
- implementation of a performance management and quality assurance programme for the internal audit service;
 - review the role of the Council's Audit Committee against the CIPFA self-assessment checklist; and
 - identification of audit staff training needs via the new employee performance and development scheme.
- 11 Our assessment of the compliance with each standard is shown overleaf (table 2).

Summary report

Table 2 Summary of compliance with standards

The Council's Internal Audit has met or partially met the requirements of CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Organisational Standards	Compliance	Operational Standards	Compliance
Scope	Met	Audit strategy	Met
Independence	Met	Undertaking audit work	Met
Ethics	Met	Due professional care	Met
Audit Committee	Partially met	Reporting	Met
Relationships	Partially met	Performance, quality and effectiveness	Partially met
Staffing, training and development	Partially met		

- 12** Detailed findings are set out in the following section. Appendix 1 summarises our recommendations in an action plan.

Compliance with standards

Standard 1: Scope of Internal Audit

This standard covers the terms of reference of internal audit, the scope of work undertaken (including non audit work) and arrangements for the notification and investigation of suspected or detected fraud, corruption or improprieties.

- 13 Terms of Reference (TOR) for Internal Audit were drawn up and approved by the Governance & Constitution Committee in June 2009. The TOR covers all the key areas defined in the Code. The HIAC plans to advise the Audit Committee of the need to review the TOR on a regular basis.
- 14 As part of the planning process, Internal Audit staff met with all Heads of Service and CMT members to determine the scope and focus of audit work. Planning also took account of the Council's developing assurance and risk management arrangements.
- 15 The HIAC recognised early the need for a strong focus on shared services and partnership working. A principal auditor post with specific responsibilities for shared services and partnerships was established. The transition audit plan was prepared in conjunction with Cheshire West and Chester Council's (CWAC) Internal Audit team. Detailed discussions took place with CWAC Council about the audit of the financial shared services hosted by CWAC and these arrangements are still being developed.
- 16 Appropriate procedures were put in place for dealing with fraud and corruption and the respective responsibilities of Internal Audit and management have been made clear. Although the Principal Auditor (Fraud) post was vacant during 2009/10, there was sufficient experience within the audit team to undertake the work required.

Standard 2: Independence

This standard covers the independence of the internal audit function and its staff as well as the status of internal audit within the wider organisation.

- 17 In a deliberate move, Cheshire East Council (the Council) placed Internal Audit outside the line management of the Section 151 officer in order to ensure appropriate independence and status within the organisation. For most of the year, the HIAC reported directly to the Head of Policy and Performance, who was a member of the Corporate Management team. Since December 2009 the HIAC has reported directly to the Chief Executive.
- 18 The HIAC's right of access to officers and members of the Council was established in the Terms of Reference and in the Financial Procedure Rules. The HIAC also has responsibility for the Compliance Unit (risk and business continuity) but the work of the unit is kept separate from that of Internal Audit to avoid apparent conflicts. The HIAC also confirmed that there were no significant budgetary constraints in year which adversely impacted the activities of the internal audit function.

Compliance with standards

- 19 Internal Audit needs to ensure it is independent of the areas it audits. All Internal Audit staff completed declaration of interest forms which were reviewed by the HIAC. No conflicts of interest were identified during this exercise.

Standard 3: Ethics for Internal Auditors

This standard covers the arrangements in place to ensure that internal audit work is conducted with integrity, objectivity, competence and confidentiality

- 20 The Council is a new organisation and trust and confidence has taken time to establish. However, early feedback to the HIAC from heads of service has been positive. Planning meetings and other meetings between the HIAC, audit managers and service managers were used as part of the confidence building process. This process could be further bolstered through the use of feedback questionnaires to assess the effectiveness of audit assignments and delivery.
- 21 Internal auditors need to be perceived as being objective and free from conflicts of interest. Audit staff objectivity can be safeguarded by ensuring that audit staff do not undertake audit work in areas where they have previously had operational roles and that audit staff are regularly rotated between areas of work so as to reduce the potential threat of over familiarity. Although there was no formal rotation policy in place, the HIAC took the opportunity in year to rotate staff away from areas that they had previously worked on under the predecessor authorities.
- 22 Internal auditors also need to demonstrate competence in carrying out their work and to ensure that any information they receive in carrying out their duties remains confidential, although this requirement should not limit or prevent Internal Audit from reporting within the Council. The HIAC made staff aware of these requirements through team events and team briefings. The requirements were also set out in 'Risk Based Audit Procedures' document and the draft audit manual.

Recommendations	
R1	Consider using questionnaires for feedback on audit assignments.
R2	Develop a procedure for rotating audit staff between teams and areas of responsibility.

Standard 4: Audit Committees

This standard covers the purpose of the Audit Committee and its relationship with internal audit.

- 23 During 2009/10, the Council's Governance and Constitution Committee (the Committee) undertook the functions of an audit committee. However the terms of reference of the Committee included relatively brief references to audit committee functions. The Committee approved the Internal Audit strategy, annual audit plans and received reports on audit findings. The HIAC attended the quarterly meetings to deliver progress reports on audit delivery and any other relevant audit issues.

- 24** The HIAC also had regular, six weekly, meetings with the Chair of the Committee and met with the Leader of the opposition within the Council and the leader of the Liberal Democrats. There were opportunities for private meetings between the Committee and the HIAC throughout the year.
- 25** Late in the year, the Council agreed to set up a separate Audit committee to enhance members' oversight of financial accounting and reporting within the Council. The Audit committee met for the first time in June 2010. Once the committee has established its role, it should undertake a review of its own remit and effectiveness using the CIPFA self assessment checklist.

Recommendation

- R3** Use the Audit Committee self-assessment checklist to ensure all requirements are adequately covered.

Standard 5: Relationships

This standard covers the relationships between internal audit and management, other internal auditors, elected members, external auditors and other regulators and inspectors.

- 26** Protocols defining how Internal Audit will work with management, members, external audit, other auditors and review agencies are in place and are set out in the Internal Audit strategy document and Internal Audit's terms of reference. A working protocol has also been agreed between the Audit Commission and Internal Audit.
- 27** The early focus in this area during 2009/10 was to develop effective working relationships with departmental management and at director level. Planning meetings were held with service managers to agree terms of reference and timing of work for individual audit assignments.
- 28** Arrangements were also put in place to support joint working with other local councils' audit teams locally. Audit Managers from the Council's Internal Audit team met with their counterparts from Cheshire West and Chester Council regularly to share:
- audit findings; and
 - working on the Galileo planning system and cross over audits.
- 29** There is scope to further develop joint working with the Cheshire West & Chester audit team around the audit of shared services. There may also be benefits from establishing dialogue with the regulatory and inspection agencies that interact with the Council.

Recommendation

- R4** Assess the benefits of establishing dialogue with relevant regulatory and inspection agencies.

Standard 6: Staffing, training and development

This standard covers the resourcing of the internal audit function and continuing training and development of audit staff.

- 30** Due to local government reorganisation, the Council's audit function was reviewed and a new structure implemented during 2009/10. People specifications and job descriptions were drawn up for all audit posts. Staff were appointed to the new structure based on the new job and qualification requirements. Most staff appointed were either qualified or in training. During 2009/10 there were some vacancies within the team which impacted on the delivery of the audit plan. These posts have now been filled.
- 31** The HIAC is qualified with a range of experience in internal audit as well as wider financial management roles. The majority of the internal audit team are also experienced auditors. While the HIAC defined the required skills and competencies for the audit team; individual training needs assessments for all members of staff were not planned for completion until late in the year, after the introduction of the Employee Performance and Development Scheme.

Recommendation

- R5** Identify training needs of audit staff via the new employee performance and development scheme.

Standard 7: Audit strategy and planning

This standard covers the internal audit strategy for delivering internal audit services and annual audit planning

- 32** The Council's Internal Audit strategy was approved by the Governance and Constitution Committee in September 2009. The strategy covers all the requirements listed in 7.1.2 of the code including objectives and service delivery.
- 33** The strategy was underpinned by an annual internal audit plan. For 2009/10 the audit plan was effectively split into two parts. The initial plan for first five months focused on local government reorganisation risks. For the second half of the year - a more traditional risk based plan was approved based on an assessment of key risks and issues identified in discussions heads of service and directorate management teams. This risk based plan produced was designed to implement the audit strategy and was approved in September.
- 34** In January 2010, the HIAC presented an updated audit plan for approval by the Governance and Constitution Committee. The plan was revised to take account of resource issues and to changes in the prioritisation of work during the final quarter of the year.

Standard 8: Undertaking audit work

This standard covers the delivery of audit assignments including the audit approach and planning and recording of work carried out on individual assignments.

- 35** Internal Audit records its work using an electronic system (Galileo). The supporting document 'Risk based audit procedures' describes the required documentation for each audit assignment. During the year, work was undertaken to produce an Audit Manual with two iterations available to staff in year. The manual was updated again in March 2010 at which time a document retention policy was also agreed.
- 36** Our review of individual assignments confirmed there was a brief for each audit assignment. The brief sets out the objectives, scope, risks, timing, staffing and reporting requirements for each audit.
- 37** Our file review shows that Internal Audit's approach is risk based. During each audit auditors bring key issues to the attention of the relevant managers so they can take corrective action quickly and to avoid any surprises at the end of the audit. The Galileo system also includes arrangements for quality review of audit assignments.
- 38** All the files in our sample followed a similar format and the internal audit section has a standard approach to its work. The systematic use of the Galileo system for recording audit work helps and the format and content of working papers enables re-performance of work, if necessary. The working papers are satisfactory and supported by suitable evidence. We found good evidence that work is reviewed appropriately. Overall Internal Audit staff complete and record their work line with professional standards.
- 39** Access to audit files is largely automated through Galileo and managed by access rights. The system is managed by Cheshire East for both Cheshire East and Cheshire West and Chester Councils but hosted by the latter. Access rights to information on the system were reviewed during the year to ensure that the Councils could only access their own records.

Recommendation

- R6** Ensure regular review of the retention of audit documentation to ensure that it continues to meet all legislative requirements.

Standard 9: Due professional care

This standard covers the principles of due professional care and responsibilities of internal audit staff and the head of internal audit.

- 40 During the year all audit staff had access to the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 which sets out requirements in relation to exercise of due professional care. In addition audit staff were reminded of the need for professional objectivity at regular team meetings and received reminders on declarations of interest, gifts and hospitality. All internal audit staff made declarations of interests for the year and these were reviewed by the Head of Audit. Audit staff were also made aware of the procedures in place to capture whistle blowing allegations and disclosure of suspected frauds.
- 41 The HIAC set out a review programme to in the 'Risk Based Audit Procedures' document to monitor and maintain standards of professional care within the audit team. Review of specific assignments by audit managers and team leaders should enable the identification of any significant breaches of due professional care.
- 42 The draft Audit Manual also sets out what is expected from staff in relation to ethics and due professional care.

Standard 10: Reporting

This standard covers reporting of audit work and follow up audits as well as annual reporting and presentation of the audit opinion.

- 43 The document entitled 'Risk Based Auditing Procedures' sets out specific requirements about the:
 - format and content of internal audit reports;
 - quality assurance of reports;
 - the requirement to give an opinion;
 - the process for agreeing reports and action plans with recipients; and
 - follow up and escalation procedures.
- 44 Audit reports use a traffic light system to give an opinion on exposure to risk at assignment level. Audit staff received training in the principles of the system to ensure that they applied the approach consistently.
- 45 We found that audit files included proper evidence and working papers to support the main conclusions in reports. Our review of assignments confirmed that reports are:
 - issued quickly;
 - discussed and agreed with managers.
- 46 Where weaknesses result in significant risks, there were arrangements in place to report matters upwards to Corporate Management Team.

- 47 In June 2010, the HIAC issued her first annual report for Cheshire East Council. It set out the HIAC's opinion on the overall adequacy and effectiveness of the Council's control environment and a summary of work delivered to support the opinion. This report was produced to support the Council's Annual Governance Statement and covered the expected areas set out in the Reporting Standard. Arrangements were also in place during the year to enable the HIAC to report interim findings.

Standard 11: Performance, quality and effectiveness

This standard covers quality assurance procedures for audit work and arrangements for monitoring performance and effectiveness of the internal audit function.

- 48 The HIAC prepared a draft Audit Manual for the Council's Internal Audit team with a planned implementation date of March 2010. The draft Manual included guidance on carrying out audit assignments and made reference to the need for auditors to compliance with the Code of Practice.

- 49 When audit managers assign work to auditors, they are required to ensure that staff have suitable skills, experience and competence to complete those assignments. Internal Audit staff are also required to be appropriately supervised including:

- coaching (where needed)
- monitoring of progress with assignments; and
- supervisory review of work.

Our review of a sample of audit assignments did not identify any issues around adequacy of skills or levels of supervision.

- 50 However, a performance management and quality assurance programme was not fully in place for 2009/10. The HIAC began developing performance and effectiveness monitoring arrangements to assess the internal audit service and individual audit assignments but these were not fully embedded for the entire year. The HIAC is considering using questionnaires on individual audits or annual surveys to further develop performance review arrangements for Internal Audit.

Recommendation

R7 Finalise the implementation of arrangements to assess how effectively the Internal Audit service is performing.

R8 Develop a performance management and quality assurance programme to ensure compliance with the Code of Practice and against the strategy. The programme should include as a minimum:

- performance targets;
- use of feedback, and
- reviews.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 Consider using questionnaires for feedback on audit assignments.					
7	R2 Develop a procedure for rotating audit staff between teams and areas of responsibility.					
8	R3 Use the Audit Committee self-assessment checklist to ensure all requirements are adequately covered.					
8	R4 Assess the benefits of establishing dialogue with relevant regulatory and inspection agencies.					
9	R5 Identify training needs of audit staff via the new employee performance and development scheme.					
10	R6 Ensure regular review of the retention of audit documentation to ensure that it continues to meet all legislative requirements.					

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R7 Finalise the implementation of arrangements to assess how effectively the Internal Audit service is performing.					
12	R8 Develop a performance management and quality assurance programme to ensure compliance with the Code of Practice and against the strategy. The programme should include as a minimum: <ul style="list-style-type: none"> • performance targets; • use of feedback, and • reviews. 					

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

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Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

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Management Response to Internal Audit Review Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 Consider using questionnaires for feedback on audit assignments		Head of Internal Audit	Yes	Agreed. During the first year of Cheshire East developing a questionnaire was not a priority, however feedback was received from CMT, Cabinet, Portfolio Holder amongst others.	31/12/10
7	R2 Develop a procedure for rotating audit staff between teams and areas of responsibility.		Head of Internal Audit	Yes	Agreed. For much of 09/10, the priority was establishing the audit structure/teams and rotation was not relevant. However, the principle is agreed and there is flexibility/rotation between teams. This is included in the Audit Manual and will be formalised further.	31/12/10
8	R3 Use the Audit Committee self-assessment checklist to ensure all requirements are adequately		Head of Internal Audit	Yes	Agreed. The checklist was used for the 'old' Governance and	31/3/11

Management Response to Internal Audit Review Action Plan

	covered.				Constitution Committee in 09/10 on 4/3/10. This exercise will be carried out for the Audit & Governance Committee in 10/11.	
8	R4 Assess the benefits of establishing dialogue with relevant regulatory and inspection agencies.		Head of Internal Audit	Yes	Agreed. Given the current changing nature of the inspection regime, this may not be immediate. Internal Audit established many effective relationships in 09/10 with all political groups, Scrutiny, Cabinet, CMT, SMT, External Audit and Cheshire West and Chester Council.	31/3/11
9	R5 Identify training needs of audit staff via the new employee performance and development scheme.		Head of Internal Audit	Yes	Agreed. This has been carried out in accordance with the corporate scheme in early 10/11.	Done.
10	R6 Ensure regular review of the retention of audit documentation to ensure that it continues to meet all legislative requirements.		Head of Internal Audit	Yes	Agreed. This will be reviewed on a regular basis.	31/12/10

Management Response to Internal Audit Review Action Plan

12	R7 Finalise the implementation of arrangements to assess how effectively the Internal Audit service is performing.		Head of Internal Audit	Yes	Agreed. These were in development in 09/10.	31/12/10
12	R8 Develop a performance management and quality assurance programme to ensure compliance with the Code of Practice and against the strategy. The programme should include as a minimum: <ul style="list-style-type: none"> • performance targets; • use of feedback, and • reviews. 		Head of Internal Audit	Yes	Agreed. This is currently in development.	31/3/11

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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	30 th September 2010
Report of:	Borough Treasurer
Subject/Title:	2009-10 Annual Governance Report

1.0 Report Summary

- 1.1 The Annual Governance Report will be presented to the Committee by the Audit Commission, the Council's external auditors. The report summarises the findings from the 2009/10 Audit. It identifies the key issues that have been considered by the Audit Commission before issuing their opinion on the Council's financial statements and its arrangements for securing economy, efficiency and effectiveness in the use of resources.

2.0 Recommendation

- 2.1 That members receive and comment on the Annual Governance Report for 2009/10 for Cheshire East Borough Council.
- 2.2 That members approve the final Statement of Accounts for 2009/10 and for the Chairman of the Committee to sign the letter of representation for Cheshire East Borough Council.

3.0 Reasons for Recommendations

- 3.1 The appointed auditors are required to report to those charged with governance. The Annual Governance report presents the findings, conclusions and recommendations from audit work undertaken relating to the financial year 2009/10.

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 None.

7.0 Financial Implications

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 Financial Statement of Accounts to be published by 30 September 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 Background and Options

10.1 The draft Statement of Accounts for 2009-10 for Cheshire East Borough Council was reported to the Audit and Governance Committee on 29th June 2010.

10.2 Following the approval of the draft accounts on 29th June 2010, the external audit has now taken place. The auditors are responsible for giving an opinion on:

- whether the accounts present a true and fair view of the financial position of the authority and its expenditure and income for the year in question;
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

10.3 The findings, conclusions and recommendations from the audit work undertaken by the appointed auditors will be presented to the Committee on 30th September 2010.

11.0 Access to Information

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

Name: Lisa Quinn

Designation: Borough Treasurer

Tel No: (01270) 686628

Email: lisa.quinn@cheshireeast.gov.uk

Annual Governance Report

Cheshire East Borough Council

Audit 2009/10

Date **September 2010**

Contents

Key messages	3
Next steps	5
Financial statements	6
Value for money	11
Glossary	17
Appendix 1 – Independent auditor’s report to Members of Cheshire East Borough Council	18
Appendix 2 – Amendments to the draft accounts	21
Appendix 3 – Unadjusted misstatements in the accounts	23
Appendix 4 – Draft letter of representation	24
Appendix 5 – Action plan	28

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	8
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	11

Audit opinion

- 1 My audit of your financial statements is now substantially complete. Subject to my final review of the financial statements, and receipt of the requested letter of representation, I plan to issue an unqualified opinion on the financial statements.

Financial statements

- 2 The Council's finance team produced the financial statements for approval by the Audit and Governance Committee in June 2010. This was in line with the statutory deadline and is a significant achievement given the complexities involved in preparing the first set of financial statements for a large new unitary council.
- 3 The financial statements have been amended for 5 material errors and 22 non material errors. The adjusted errors meant that the deficit reported in the draft accounts has increased from £64,317 to £66,639. In addition my audit identified three misstatements that management have informed us that they do not intend to adjust.

Value for money

- 4 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Audit fees

- 5** I set a fee of £401,925 for the audit in April 2009. The assumptions made in setting the fee at this level have changed, particularly for the work required to review and test material financial systems and to deal with questions raised by members of the public and officers. I received several questions during the year including questions about the sale of County Hall. The cost of the additional work needed to respond to these questions and report to the Council is £5,950. I have discussed this with the Borough Treasurer.

Independence

- 6** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

7 I ask the Governance & Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 8 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

- 9 I have identified five material errors in the accounts. For the purposes of my audit a material error is one which is more than £10.6m. I also identified 22 errors which are below this level but cannot be considered as trivial. There were also some errors and omissions in the notes to the accounts. The Borough Treasurer has agreed to amend the accounts to correct all but two of these errors. I have listed all the amendments at Appendix 2. The un-amended errors are reported in Appendix 3. .
- 10 I draw your attention to following material errors identified at my audit:

Cash and Bank

The cash and bank balance of £149,631k was overstated by net £31.7m as follows:

Finding	£'m
Incorrect inclusion of short term debtor in cash balance	22.7m
Incorrect inclusion of short term investments in cash balance	10.1m
Income not posted in to general ledger (cash balance understated)	(1.1m)
Total net adjustment	31.7m

The accounts have been amended and now show a cash balance of £118,019k

Long-term Debtors and Creditors

The long-term debtors and creditors balances were both overstated by £18.1m due to the incorrect inclusion of historic information on employee car loans. The residual balance on car loans at the year end was a £6k creditor.

Financial statements

My audit also identified that the long-term debtors and creditors balances were also overstated by £0.8m and £3.5m respectively due to errors in the calculation of the Council's share of joint assets.

Fixed Assets

The disclosure in Note 17 of the movement in fixed assets during the year was incorrect mainly due to classification errors and the inclusion of net amounts in respect of additions and impairments. The following adjustments have been agreed:

- Increase in valuation of assets under construction by £1.045m expenditure previously classified as 2010/11 expenditure and by £1.195 expenditure previously written off in 2009/10 as capital expenditure not adding value
- Decrease in land and buildings of £4.023m relating to asset demolished in year but not excluded from the asset register
- Increase in value of additions and impairments of £10.606m to show these items gross in line with recognised accounting practice.

Key areas of judgement and audit risk

- 11** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Accuracy of the Council's opening balances	My testing has concluded that the disaggregated balances from the former Cheshire County Council and the balances from the three former district councils have been properly reflected in the Council's ledger and as the opening balances in the financial statements except for the inclusion of district council intra authority debtors and creditors which were not eliminated in accordance with standard accounting practice. These balances were written off during the year and consequently there is nil impact on the closing reported position
Accounting treatment and disclosure of shared services costs.	I have concluded that the shared service costs are accurately and correctly disclosed in the financial statements.
Accounting treatment and disclosure of Private Finance Initiative (PFI) and similar	PFI contracts have been recognised in the accounts in accordance with financial

Issue or risk	Finding
schemes.	reporting standards. The basis of the valuation of the PFI asset has been revised and is now valued as a leased rather than freehold asset.
Harmonisation of accounting policies from the demised councils.	My audit did not identify any material issues that require to be reported to you
Group relationship with Connexions.	I have reviewed the Council's justification for not producing group accounts for its relationship with Connexions. I agree with the conclusions reached.
Changes introduced by the CIPFA statement of recommended practice 2009.	The required changes relating to the treatment of national non domestic rates, the collection fund and PFI and similar arrangements have been implemented properly.
Fixed asset valuation	My testing found two errors in valuation of fixed assets. One related to a school recorded in the asset register at £4.023m but was demolished in year. The other related to a capital cash payment of £1.045m incorrectly treated as 2010/11 expenditure. These items have been adjusted.
Risk of financial misreporting through fraud or error	I undertook additional audit testing of cut-off, year end journals and provisions. I did not identify any unusual transactions or other matters that I need to report to you.

Important weaknesses in internal control

12 I have identified a number of control weaknesses during the audit. These are set out in Table 2.

Table 2

Issue	Finding
Bank reconciliations - the review of the year end bank reconciliations found that a number of reconciling items had not been cleared.	Income received in the bank not recorded within the accounts. Audit adjustment of £1.1m agreed with officers.

Financial statements

Issue	Finding
Payroll: Documentary evidence that the control over the authorisation of the payroll was operating effectively throughout the year was weak. We carried out additional testing of payroll payments back to contracts of employment.	We found one instance where the payment could not be agreed to supporting evidence. This did not give rise to a material error.
Accounts Receivable: The control over the authorisation of invoice requisitions was "turned off" early in the year. This control provides assurance over the accuracy and classification of income.	Substantive testing of invoices did not identify any errors in accuracy or classification of income reported in the accounts.

Letter of representation

- 13** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Accounting practice and financial reporting

- 14** I consider the non-numeric content of your financial reporting and report any significant issues arising.
- 15** This has been a challenging year for officers as they prepared the Council's first set of accounts. In addition to a major exercise to agree opening balances, there were a number of technical issues to deal with such as the implementation of new accounting rules around the recognition of private finance initiatives and service concessions and changes to collection fund accounting. These issues were generally dealt with successfully but the accounts did contain a significant number of errors particularly in relation to less technical areas of the accounts. The working papers and audit trail to support the accounts were adequate and officers responded positively to requests for additional information.
- 16** Overall there is scope to improve the accuracy of the accounts presented for audit and supporting working papers. A robust quality assurance process which includes a review of the accounts by a senior officer should ensure that the disclosures in the accounts comply with the Statement of Recommended Practice and that housekeeping errors are identified and rectified before the accounts are presented for audit.

Recommendation

- R1** The Council should institute a quality assurance process which includes a review of the accounts by a senior officer to ensure that the disclosures in the accounts comply with the Statement of Recommended Practice and that housekeeping errors are identified and rectified before the accounts are presented for audit.
- R2** The Council to ensure that a full set of working papers to support the financial statements is available when the accounts are submitted for audit.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

Value for money conclusion

- 17 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas below.
- 18 In early 2010, the Audit Commission carried out work at the Council to inform its annual Use of Resources assessment. Following the abolition of Comprehensive Area Assessment in May 2010, the Commission no longer issues scored Use of Resources assessments. However, I have placed reliance on the work my team had already completed to support my opinion on the Council's arrangements to deliver value for money – known as my VFM Conclusion.
- 19 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Table 3 Value for money conclusion

The Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources

Criteria	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Not assessed

Criteria	Met
Strategic asset management	Yes
Workforce	Yes

Managing finances

- 20** Since its inception on 1 April 2009 the Council has worked hard to develop its strategic performance management and financial planning arrangements. However, these arrangements are not yet fully integrated although significant progress was made in the second half of the year. The Council used interim plans (based on inherited priorities from predecessor bodies) for this year while it put longer term strategic plans in place following consultation with stakeholders and formal service reviews.
- 21** Budget setting is effective and spending has been managed within overall budgets through:
- a robust budget monitoring approach,
 - challenges around the management of service demands; and
 - use of reserves.
- 22** The Council has engaged a range of stakeholders to inform its budget setting process for 2009/10. However, there is scope to develop income collection arrangements and ensure that charging policies effectively support corporate objectives.
- 23** The Council has a robust approach to understanding its costs. As part of its business planning process, the Council developed a set of value for money (VFM) profiles comparing costs and performance with unitary authorities of a similar size and nature. This information was used to influence in year service planning. More detailed benchmarking was undertaken within individual service areas. All services underwent a challenge panel of members and officers where costs and performance were reviewed. This process enabled the Council to identify areas of high costs and challenge services to identify measures to bring budgets back into balance and determine investment priorities.
- 24** However, the Council's approach to whole life costing is mixed. I found examples of it being used for larger projects but because there is no formal corporate approach in place, it was not applied consistently. The use of unit cost information was again mixed although there was evidence of the use of unit cost information within some services,
- 25** The Council successfully delivered efficiency savings of £9.7m in year through a range of mechanisms including service redesign, shared services, procurement and transformation projects.
- 26** The Council adopted a strategic approach to financial reporting and monitoring which concentrated on managing the budget at a fairly high level and focussed on the

Value for money

identification and management of costs pressures and delivery of planned savings. There was evidence of close financial monitoring through the implementation of robust action plans to address budget variances.

- 27 Financial reporting across the Council is adequate and has improved over the year. Quarterly financial updates were reported to Cabinet and included a commentary on action planning to address significant forecast outturn variances. More detailed remedial action plans were included in the three quarter review to Cabinet to demonstrate that the risks/impact of the proposed actions had been considered to ensure no adverse impact on service delivery. Financial reporting at service level was less detailed.
- 28 The Council plans to strengthen its arrangements by integrating financial and performance information in reports to cabinet and more closely aligning service reporting to the revised structure.
- 29 The Council's financial statements were prepared and audited in line with the statutory timetable. This was a challenging year because of the need to agree opening balances and establish systems and processes for closedown. Although there were material errors in the accounts and amendments were needed, overall the accounts were of reasonable quality. There is scope to strengthen working papers, audit trails and quality assurance checks going forwards.

Governing the business

- 30 Corporate procurement arrangements have developed well over the last year. There is a procurement strategy in place and a three year planning cycle for procurement activity within the Council. The Council has an understanding of inequalities, diversity and needs of its local communities, based on the Joint Strategic Needs Assessment. However, the lack of a long term sustainable community strategy means that it has yet to set key priorities and actions for future service delivery. As a result it is not yet possible to see how commissioning and procurement activity link to local priorities.
- 31 The Council has made use of a variety of shared service arrangements to secure good levels of service and efficiencies (£10m to date). The Council is reviewing procurement activity by categories across the whole organisation and has developed guidelines for sustainable procurement. During the year, the Council worked with local businesses, for example, by explaining how they could do business with the Council. Where appropriate, it supported potential providers, in building their capacity to deliver services. I also found examples of the Council delivering improvement and efficiency through service redesign.
- 32 After a slow start, the Council implemented a data quality and performance management framework. A corporate performance peers group provides a regular forum for updates and training on performance management and data quality across departments. The Council's corporate performance management framework, which is based on the national indicator sets, is supported by more detailed and better developed performance management arrangements at service levels. However performance management within the local strategic partnership is limited and data

protocols are not yet in place. The Council is working with its partners to improve the data it uses.

- 33** Internal audit carried out a review of the reliability of data systems and checked a sample of National Indicators. It found inconsistencies in the approach adopted across the Council to completing and submitting returns. There is scope to improve the accuracy of some reported performance indicators.
- 34** The Council has effective arrangements in place to ensure data security and compliance with statutory requirements and achieved two major security accreditations: the Government Connect Code of Connection and N3 Code of Connection.
- 35** Prior to inception, the Council's shadow authority approved the constitution which provides comprehensive coverage of the roles and responsibilities of Members and officers. For 2009/10, the Council articulated its ambitions and strategic priorities in its Corporate Plan based on the Interim Sustainable Community Strategy and established a framework for local consultation through the seven Local Area Partnerships. These partnership arrangements are still developing and while a draft governance protocol for the Local Strategic partnership is in place, governance arrangements for all other identified partnerships have yet to be formally documented.
- 36** The basic components of an ethical framework and appropriate internal control systems including an internal audit function, audit committee, Codes of Conduct for Members and staff, whistle blowing and complaints policies were in place during the year. The Standards Committee has been proactive in raising standards of councillor conduct at the Council. The Council's complaints policy was updated in light of operational issues that arose during the year and the Council is looking to replace its complaints system to improve reporting arrangements.
- 37** The Council's Risk Management Strategy provides a framework for managing strategic, operational and partnership risks. The roles and responsibilities of members and officers are clearly set out. There is a Strategic Risk Register in place underpinned by directorate and service risk management processes with Corporate and Directorate Risk Management Groups reporting up through the organisation. Service plans include details of relevant corporate and service specific risks. Members are involved in the identification and management of strategic risks. A Member chairs the Corporate Risk Management Group which receives reports from the Directorate Risk Management Groups and reports quarterly to Corporate Management Team, Governance & Constitution Committee and the Cabinet. Training was provided to members responsible for risk management during the year.
- 38** Basic strategies to manage the risk of fraud and corruption are in place including an Anti-Fraud and Corruption Strategy, Anti Money Laundering Strategy and Codes of Conduct for Members and Employees. The Whistleblowing Policy is available on the Council's website and was publicised in the Council's newsletter and in Team Talks. The Anti Fraud and Corruption Strategy sets out the roles and responsibilities of members, officers as well as partners, contractors, consultants and suppliers. The strategy affirms the Council's commitment to data matching, specifically to NFI and the Housing Benefit Matching Service. This year the Council undertook a programme of proactive housing benefit fraud work. The programme was based on the high risk

Value for money

areas identified by the predecessor bodies rather than a formal risk assessment. There is a good record of prosecution with some limited publicity in the local press for successful cases.

- 39 The Council's systems of internal control are generally sound. The Internal Audit team delivered a risk based plan covering corporate governance, core financial systems, key departmental systems, anti-fraud and corruption work and strategic reviews. No significant issues impacting on the key financial systems were identified. The Internal Audit section largely met the requirements of CIPFA's Code of Practice on Internal Audit although there is scope to develop its performance management and quality assurance arrangements.
- 40 I have reviewed the arrangements for the sale of the former County Hall site. I am satisfied that this does not raise concerns about the Council's overall governance arrangements.
- 41 Business continuity is managed as part of the risk management process. Business continuity plans are informed by business impact assessments and this year successfully responded to the flu pandemic and severe weather.

Managing resources

- 42 The Council put high level interim asset management plans in place for the year. This approach allowed the Council to focus its activities on those areas fundamental to its establishment and day to day operations. As a result, the Council achieved a number of significant outcomes including the development of a single database for all assets transferred from predecessor bodies alongside a property maintenance plan including £6m investment. The Council also relocated over 1000 staff from a number of locations across Cheshire and consolidated them at three main sites. Major refurbishment work was also carried out.
- 43 During the year, the Council engaged CIPFA to undertake an external challenge of its approach to asset management and its interim plans. The review acknowledged the work to date but identified the need to further develop the Council's strategic approach. Arrangements could be enhanced through the development of a strategic asset management plan; establishing a corporate forum to coordinate strategic asset management and clarifying the roles & responsibilities between the Asset Management Team and Finance. The Council needs to develop a whole life costing approach to strategic asset management.
- 44 In its first year the Council put in interim plans for managing its staff resources, including an interim workforce plan. Work also started on a long term three year Workforce strategy. Key HR policies were identified and in place from inception on the 1st April 2009 and a review programme to update all the remaining policies and procedures was set up.
- 45 The Council has achieved a number of significant outcomes in terms of managing its resources. Its achievements in relation to workforce management include the:
 - transfer of over 8000 staff to the new authority;
 - development of a shared HR service;

- relocation of over 1000 staff; and
- delivery of staffing reductions.

46 In addition, during this period of change the Council continued to secure improvements in sickness absence which is now down to 7 days.

47 The Council regularly consults and engages with staff, for example on the Organisation Development strategy. Training programmes to support staff development are in place. The results of the first staff survey were very positive with the Council outperforming the Local Authority average in a number of areas including: good communication, feeling part of a team, job satisfaction and managing change. Work is underway to develop the Council's approach to equality and diversity.

Glossary

Annual governance statement

- 48** A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

- 49** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

- 50** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.

Qualified

- 51** The auditor has some reservations or concerns.

Unqualified

- 52** The auditor does not have any reservations.

Value for money conclusion

- 53** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor's report to Members of Cheshire East Borough Council

Opinion on the Authority accounting statements

- 54** I have audited the accounting statements and related notes of Cheshire East Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.
- 55** This report is made solely to the members of Cheshire East Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Borough Treasurer and auditor

- 56** The Borough Treasurer's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.
- 57** My responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
- 58** I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council and its income and expenditure for the year.
- 59** I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not

Appendix 1 – Independent auditor's report to Members of Cheshire East Borough Council

required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

- 60 I read other information published with the Council's accounting statements, and consider whether it is consistent with the audited Council accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Council's accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

- 61 I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.
- 62 I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

- 63 In my opinion the Council's accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources.

Council's Responsibilities

- 64 The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

- 65** I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

- 66** I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Cheshire East Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

- 67** I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Karen Murray
Officer of the Audit Commission

September 2010

Audit Commission,
1st Floor, Block 4, The Heath Business & Technical Park,
The Heath, Runcorn,
Cheshire, WA74QF

Appendix 2 – Amendments to the draft accounts

I identified the following material or significant misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 4

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Balance sheet - cash and bank	Short term debtor of £22,735k misclassified as cash			22,735k	22,735k
Note 22 - Car Loans	Long term debtor overstated by £18,147k			18,417k	18,147k
Note 30 - Car Loans	Long term creditor overstated by £18,153k			18,153k	18,153k
Balance Sheet - cash and bank	Short term investment of £10,081k incorrectly classified as cash			10,081k	10,081k
Note 30 - Joint assets	Long term creditor overstated by £3,534k			3,543k	3,543k
Note 22 - Joint assets	Long term debtor overstated by £800k			800k	800k
Impairment - I&E / Fixed assets	PFI impairment accounted for net instead of gross value	2,100k			2,100k
Income & Expenditure - loss on disposal fixed assets	Understatement of loss on disposal of Fixed Assets by inclusion of County sale proceeds	1,682k	1,682k		

		Income and Expenditure Account		Balance sheet	
Cut off error	2009/10 capital expenditure of £1,045k not included in accounts			1,045k	1,045k
Balance sheet - fixed assets	Reclassification of assets from operational to non operational - £11,107k			11,107k	11,107k
SMGFB	Net transfer to or from earmarked reserves understated by £146k	146k	146k		
Balance sheet - L/T Borrowing and I&E Interest Payable	Interest payable, and L/T Borrowing , understated by £304k	304k			304k
Balance sheet - fixed assets	Asset demolished - balance overstated by £4,023k			4,023k	4,023k
Balance sheet - cash and bank	Balances in bank at 31 March not reflected in ledger - cash balance understated by £1,193k			1,193k	1,193k
Balance sheet - fixed assets	Additions and impairments netted off in error - £10,606k			10,606k	10,606k
Balance sheet - L/T Debtors	Sale of County Hall did not include the car park - L/T Debtor understated by £950k			950k	950k
Fixed assets - debtors and creditors	Balances overstated by £1,932k due to incorrect posting of journals			1,932k	1,932k

68 Further amendments have been made which impact on the Statement of Total Recognised Gains and Losses, Cash Flow Statement, together with a number of notes to the main statements.

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 5

Description of error	Accounts affected	Value of error £ million
Depreciation charged in error on surplus assets and investment properties	I & E and accumulated depreciation (Balance sheet) - depreciation over charged	£0.110m
Community assets revalued in error	Community assets should be shown at historic costs and not revalued	£0.172m
Opening balances transferred from District Councils incorrectly included intra authority debtors and creditors	Opening Balances - Debtors / Creditors and General Fund	£1.2m
Adjustments to opening debtors and creditor balances not fully agreed to supporting audit trail	Opening Balances Debtors / Creditors /Cash	£0.69m Debtor £0.87m Creditor
Total recognised gains and losses for the year per STRGL does not agree to movement in equity for the year	Uncertainty – could impact I&E or Balance sheet	£0.09m imbalance

Appendix 4 – Draft letter of representation

To: Karen Murray
District Auditor
Audit Commission
The Heath Business and Technical Park
Runcorn
Cheshire
WA74QF

Dear Mrs Murray

Cheshire East Borough Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Council the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Council Accounting in the United Kingdom: A Statement of Recommended Practice which gives a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those

Appendix 4 – Draft letter of representation

charged with governance within the Council and the reasons for not correcting these items are as follows;
reason 1 etc;
reason 2

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and

- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Specific Representations**Pension Fund liabilities**

I confirm that:

- all unfunded liabilities e.g. discretionary added years awarded to staff in the LGPS and discretionary benefits awarded to teachers under the Teachers Pension scheme are included within the FRS17 liability figures, and
- there have been no changes that would affect the split of pension fund liabilities previously notified to the pension fund actuary.

Valuation of Macclesfield land and buildings

I am satisfied that valuation of Macclesfield land and buildings has been carried out by an appropriately qualified and independent valuer and that the basis of the valuation is consistent with that used by the District Valuer.

Appendix 4 – Draft letter of representation

Signed on behalf of Cheshire East Borough Council

I confirm that the this letter has been discussed and agreed by the Council on 30 September 2010

Lisa Quinn
Borough Treasurer

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Governance Report 2009/10 - Recommendations					
10	The Council should institute a quality assurance process which includes a review of the accounts by a senior officer to ensure that the disclosures in the accounts comply with the Statement of Recommended Practice and that housekeeping errors are identified and rectified before the accounts are presented for audit.	3				
10	The Council to ensure that a full set of working papers to support the financial statements is available when the accounts are submitted for audit.	3				

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

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