

Audit and Governance Committee

Agenda

Date: Tuesday, 25th January, 2011
Time: 2.00 pm
Venue: Committee Suite 1,2 & 3, Westfields, Middlewich Road,
Sandbach CW11 1HZ

The agenda is divided into 2 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 foot 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**

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.

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 wishing to ask a question at the meeting should provide at least three clear working days' notice in writing and should include the question with that notice. This will enable an informed answer to be given.

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

For requests for further information

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4. **Minutes of Previous meeting** (Pages 1 - 6)

To approve as a correct record the Minutes of the Meeting held on 17 November 2010

5. **Annual Audit Letter** (Pages 7 - 28)

The report of the Borough Treasurer & Head of Assets summarises the Audit Commission findings from the 2009-10 audit.

The Committee is asked to receive and comment on the Annual Audit Letter for 2009-10.

Representatives from the Audit Commission will be attendance.

6. **Audit Plan 2010-11** (Pages 29 - 58)

The report of Borough Treasurer & Head of Assets details the Audit Plan for 2010 -11.

The Committee is asked to receive and comment on the Audit Plan.

7. **2010 -11 Opinion Audit Changes** (Pages 59 - 70)

The report of the Borough Treasurer & Head of Assets provides an update on the 2010-11 opinion audit and the expected changes.

That the Committee is asked to receive and comment on the changes.

8. **Implementation of International Financial Reporting Standards (IFRS) - Progress Update** (Pages 71 - 74)

The report of the Borough Treasurer & Head of Assets provides an update on the International Financial Reporting Standards (IFRS) Project Plan.

The Committee is asked to note progress to date on the IFRS Project Plan.

9. **Compliance with International Auditing Standards** (Pages 75 - 82)

In order to comply with International Standards on Auditing (UK and Ireland) the Council's External Auditors (Audit Commission) require an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council (ISA 240).

The Audit and Governance Committee is the committee 'charged with governance' and the joint report of Head of Internal Audit & Compliance and Borough Treasurer & Head of Assets has been drafted in order to assist formally responding to the Audit Commission.

10. **Risk Management Update** (Pages 83 - 100)

The report of the Head of Policy and Performance provides a summary of the key corporate risks.

The Committee is requested to consider and comment on the Key Corporate Risks and the approach outlined in the report.

11. **Compliance with Data Protection Act (1998), Freedom of Information Act (2000) and Environmental Information Regulations (2004)** (Pages 101 - 106)

The report of the Head of Policy and Performance provides an update on how Cheshire East Council fulfils its obligations under this legislation and highlights the volumes of requests, trends and current and future issues.

The Committee is asked to note the processes in place to ensure that the Council complies with the relevant legislation and is sufficiently well-informed and well-positioned to effectively handle any future demands, changes and/or developments to the legislation.

12. **Internal Audit Plan 2010/11 and Update Report** (Pages 107 - 120)

The report of the Head of Internal Audit & Compliance updates the Committee on the progress against the Internal Audit Plan 2010/11, revisions to the plan and to summarise work during the period September – December 2010.

The Committee is asked to 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.

13. **Annual Governance Statement 2009/10 Action Plan Update** (Pages 121 - 134)

The joint report of the Head of Internal Audit & Compliance and Borough Solicitor updates the Committee on progress against the Annual Governance Statement (AGS) 2009/10 Action Plan.

The Committee is asked to note progress against the Action Plan.

14. **Anti-Fraud and Corruption Strategy** (Pages 135 - 156)

The report of the Head of Internal Audit & Compliance advises the Committee on the content of the Council's Anti-Fraud and Corruption Strategy and notes the need for subsequent amendment in order to take account of developments in best practice since it was approved in May 2009.

15. **Work Plan** (Pages 157 - 166)

The report of the Head of Internal Audit and Compliance presents an updated Work Plan for the Committee's consideration

PART 2 - THERE ARE NO PART 2 ITEMS

At the conclusion of the meeting the Committee will receive presentations on Compliments, Suggestions and Complaints and on Performance Management.

CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Wednesday, 17th November, 2010 at Committee Suite 2/3 -
Westfields, Middlewich Road, Sandbach, CW11 1HZ

PRESENT

Councillor M J Simon (Chairman)

Councillors E Alcock, S Conquest, B H Dykes, J Hammond, M Hardy and
M Lloyd

APOLOGIES

Councillors A Kolker (owing to Council Business)

OFFICERS

Joanne Butler, Risk and Business Continuity Officer
Carol Jones, Democratic Services Officer
Ross McCormick, Legal Services
Vivienne Quayle, Head of Policy and Performance
Jon Robinson, Internal Audit Manager
Sandra Smith, Compliance Unit Manager
Neil Taylor, Internal Audit Manager
Joanne Wilcox, Corporate Finance Lead

ALSO IN ATTENDANCE

Andrea Casting, Audit Commission
Judith Tench, Audit Commission

17 DECLARATIONS OF INTEREST

No declarations of interest were made.

18 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.

19 MINUTES OF PREVIOUS MEETING

RESOLVED:

That the Minutes of the Meeting held on 30 September 2010 be approved as a correct record.

20 FINAL ACCOUNTS MEMORANDUM

The Audit Commission had presented its audit findings to the Committee meeting held on 30 September 2010 at which time it issued an unqualified opinion.

The Committee now received the Final Accounts Memorandum which identified action points for Officers and Members to consider for the preparation of the 2010-2011 financial statements. These included –

- The qualitative issues reported in the Annual Governance Report;
- Opportunities for strengthening controls and procedures; and
- Action in respect of known risk areas for the 2010-2011 accounts.

Judith Tench and Andrea Castling (Audit Commission) were in attendance and spoke to the report, highlighting key issues.

The Committee was asked to note an increase in the audit fee as set out in paragraphs 8 and 9 of the Memorandum. The original fee for the audit which had been set at £402,925 in April 2009 had been based on certain assumptions. In the event, additional work had been carried out and the Audit Commission was raising an additional fee in the order of £13,650. The reasons for the increase and the level of fee had been discussed and agreed with the Borough Treasurer. The report gave details of the additional work undertaken.

In response to a Member's question about the possibility of comparison with other authorities; for example, Cheshire West and Chester, the Committee was informed that comparisons with other authorities were not helpful in terms of bench-marking. A more meaningful measure would be for Members to consider progress against the Authority's management accounts reported to Cabinet on 19th July 2010 in the Final Outturn report.

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Following comments, it was AGREED that Officers provide more detailed information under separate cover for Members of the Committee.

At the January meeting, a detailed Audit Plan would be submitted, together with a further update.

RESOLVED:

1. That the Final Accounts Memorandum for 2009-2010 be received; and
2. That the audit fee, as set out in paragraphs 8 and 9 of the Memorandum, be noted.

21 CODE OF CORPORATE GOVERNANCE

The Committee considered the joint report of the Head of Internal Audit and Compliance and the Borough Solicitor.

The report sought approval for the Code of Corporate Governance which had been revised to take account of the Chartered Institute of Public Finance and Accountancy (CIPFA)'s *'Application Note to Delivering Good Governance in Local Government: a Framework'*

In order to implement the recommendations contained within the Application Note, the Council's Code of Corporate Governance had been revised to include additional/expanded governance requirements. The Committee noted that the Application Note was intended to be a temporary measure only which would operate for the financial years 2009/10 and 2010/11 during which time a full review of the CIPFA/SOLACE Framework, including consultation would be carried out.

RESOLVED:

That the Code of Corporate Governance be adopted and used as a basis for self-assessment, continuous improvement and as a contributor to producing the Annual Governance Statement.

22 ANNUAL GOVERNANCE STATEMENT 2010-2011

The Committee considered the joint report of the Head of Internal Audit and Compliance and the Borough Treasurer which recommended a process for the completion of the Annual Governance Statement for 2010/11 in accordance with best practice.

The Accounts and Audit Regulations 2003 (as amended) required the Council to produce an Annual Governance Statement (AGS). It was acknowledged to be good practice to agree in advance with Members, the process for its production. Members of the Committee had been briefed on the AGS process on 16 June 2010 and the report submitted built on that in advance of the year end.

RESOLVED:

That the process for the production of the 2010/11 Annual Governance Statement be endorsed.

23 RISK MANAGEMENT UPDATE REPORT - KEY CORPORATE RISKS

The Committee considered the report of the Head of Policy and Performance which provided an update on the risk management framework of the Council and its Key Corporate Risks.

Given the context of developments in the public sector, the current economic climate and the Council's need to deliver local priorities within the limits of available funding, risk management had gained an increased profile. It was important for the Council to be able to demonstrate that effective risk management processes were in place.

The report submitted identified 14 Key Corporate Risks which may adversely, or beneficially, affect the Council's ability to achieve its corporate objectives. These had been identified by the Corporate Management Team at a workshop held on 19 October 2020. The Team was of the view that if unmanaged, these could prevent the Council from achieving its strategic aims and/or operating its business. As a result of discussion of the risks at that meeting, a new corporate risk (risk 15) in relation to the external environment and government reviews had also been suggested for inclusion.

RESOLVED:

That, in respect of the Key Corporate Risks, the approach outlined in the report, together with the identified actions in place to mitigate the risks, be commended to Cabinet at its meeting to be held on 20 December 2010.

24 INTERNAL AUDIT - TERMS OF REFERENCE

The Committee considered the report of the Head of Internal Audit and Compliance which informed Members of the Terms of Reference for the Internal Audit function at Cheshire East Council. The Terms of Reference which formally defined the purpose, authority and responsibility of Internal Audit had been approved by the Governance and Constitution Committee in June 2009.

RESOLVED:

- 1 That the Committee note the content of the Terms of Reference for the Internal Audit function at Cheshire East Council as set out in the report; and
- 2 That it be noted that the Terms of Reference would be amended following the publication of CIPFA's document *The Role of the Head of Internal Audit in Public Service Organisations*.

25 INTERNAL AUDIT STRATEGY

The Committee considered the report of the Head of Internal Audit and Compliance which informed Members of the content of the Internal Audit Strategy.

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 Strategy, which had been approved by the Governance and Constitution Committee in September 2009, was a high-level statement of how the internal audit service would be delivered and developed in accordance with the terms of reference and how it linked to organisational objectives and priorities.

RESOLVED:

- 1 That the content of the Internal Audit Strategy be noted; and
- 2 That it be noted that the Strategy would be amended following the publication of CIPFA's document *The Role of the Head of Internal Audit in Public Service Organisations*.

26 WHISTLEBLOWING POLICY

The Committee considered the report of the Head of Internal Audit and Compliance which highlighted a number of proposed changes to the Whistleblowing Protocol.

The Protocol had been reviewed against the *Whistleblowing Arrangements Code of Practice Publicly Available Specification 1998:2008* to ensure that it remained current, relevant, and reflected best practice.

The Protocol formed part of the Council's Constitution and it would be for the Constitution Committee to consider the final document for recommendation to full Council in due course.

RESOLVED:

- 1 That the proposed changes to the Council's Whistleblowing Protocol be endorsed in principle;
- 2 That, in view of the implications for staff, the Protocol be subject to consultation with the unions before finalising the proposed amendments; and
- 3 That, following consultation, the Protocol be re-submitted to the Committee for consideration.

27 REVIEW OF CORPORATE COMPLIMENTS, SUGGESTIONS AND COMPLAINTS PROCEDURES

The Committee considered the report of the Customer Relations Manager. The report provided a summary of performance during the first and second quarters against the defined Corporate Compliments, Suggestions and Complaints policy and procedure which came into effect on 1 April 2010. It also summarised the performance of complaints received under the Adult Social Care Complaints Procedures and the Children's Social Care Complaints Procedures.

The Committee's terms of reference included a requirement to seek assurance that arrangements for addressing customer complaints were sufficiently robust. Reports on Local Government Ombudsman complaints and customer complaints would be submitted periodically to the Committee.

RESOLVED:

That the report be noted.

28 WORK PLAN

The Committee considered an updated Work Plan and were invited to identify any additional items/training/briefing sessions to enable the Committee to meet its responsibilities. The Work Plan had been approved at the September 2010 meeting; a number of changes had been made subsequent to that meeting and these were included in the revised document.

A programme of meetings and agenda items ensured comprehensive consideration of topics which fell within the remit of the Committee.

It was AGREED that the Whistleblowing Protocol be added to the agenda for the January 2011 meeting (subject to the outcome of consultation with the unions).

RESOLVED:

- 1 That the Work Plan, as amended at the meeting, be approved;
- 2 That the Work Plan be submitted to the Committee periodically, for development and approval.

The meeting commenced at 10.00 am and concluded at 11.15 am

Councillor M J Simon (Chairman)

CHESHIRE EAST COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 25 January 2011
Report of: Borough Treasurer & Head of Assets
Subject/Title: Annual Audit Letter

1.0 Report Summary

- 1.1 The report summarises the Audit Commission findings from the 2009-10 audit.
- 1.2 The report comprises of two elements, the audit of the financial statements and the arrangements to achieve value for money in the use of resources.

2.0 Recommendation

- 2.1 That the Committee receive and comment on the Annual Audit Letter for 2009-10.

3.0 Reasons for Recommendations

- 3.1 The appointed auditors are required to report to those charged with governance.

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including - Climate change - Health

- 6.1 None.

7.0 Financial Implications (Authorised by the Borough Treasurer)

- 7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 None.

9.0 Risk Management

- 9.1** The Annual Audit letter has been prepared to meet the requirements set out in the Statement of Responsibilities of Auditors

10.0 Background and Options

- 10.1** The report includes the overall conclusion from the 2009-10 audit, the 2009-10 use of resources assessment, identifies current and future challenges and future audit arrangements.
- 10.2** The Audit Commission will be attending the meeting to answer any questions raised by members on the Annual Audit Letter.

11.0 Access to Information

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

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Annual Audit Letter

Cheshire East Borough Council

Audit 2009/10

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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Summary

This report summarises my findings from the 2009/10 audit. My audit comprises two elements: the audit of your financial statements (pages 4 to 5 and my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 12).

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I assess whether the Council's accounting statements give a true and fair view of its financial position. I issued an audit report on 30 September 2010 including an unqualified opinion that the financial statements and all related notes give a true and fair view of the Council's financial position as at 31 March 2010.

Value for money

2 I assess whether the Council achieves economy, efficiency and effectiveness in using its resources, against criteria set by the Audit Commission. I concluded that the Council met the criteria in 2009/10 and issued an unqualified value for money conclusion on 30 September 2010.

Audit fees

3 I set out my fee proposals to you in my 2009/10 fee letter in April 2009. I set an initial audit fee of £401,925. I increased this by £5,950 in August 2010 to accommodate additional work responding to electors' questions on the sale of County Hall.

4 During my audit of your financial statements, I had to carry out additional work in a number of areas including:

- opening balances;
- agreeing amendments to the accounts; and
- detailed testing of transactions due to control failures in order to gain sufficient audit assurance.

5 This work was over and above the assumed level of work included within the initial fee and I raised an additional fee of £13,650 to cover this work.

Current and future challenges

6 The Council faces significant financial pressures from 2010/11 onwards brought on by the economic downturn and the consequent pressures on the public sector. The recent comprehensive spending review confirmed that local government funding will be cut by 7.1 per cent each year for the next four years. The precise impact on the Council will not be known until the Government makes its detailed funding announcement in December 2010. But it is clear that the Council will have to make tough spending decisions both in the short and medium term.

7 Since its formation on 1 April 2009, the Council's financial plans have taken account of likely significant reductions in funding. The Council reported efficiency savings of around £9.7 million in its first year of operation and included a savings target of £7.7 million in the 2010/11 budget. These savings have been identified through a robust challenge of spending plans and delivered through the implementation of service transformation programmes.

8 During the first half of 2010/11 the Council has experienced growing financial pressures particularly around increased demand for children and adults services. The mid year financial report identified additional budget pressures of £18.9 million. Officers have undertaken work to identify remedial actions which will reduce the forecast overspend for the year to £6.7 million. Work is continuing to identify further savings, including use of ear marked reserves, in order to achieve the in year target savings and maintain the general fund balance at £8 million.

9 In response to the increased financial pressures, the Council is reviewing its longer term financial plans to maintain robust finances while working towards achieving its strategic objectives. It seems likely that the financial pressures will continue to worsen at least in the short term and significant savings, currently estimated at £32 million, will be required over the following three years to achieve a balanced budget.

Financial systems and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds. I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September, within the statutory target date.

Overall conclusion from the audit

10 I gave an unqualified audit opinion on the Council's financial statements on 30 September 2010.

11 The financial statements presented for audit were amended for five material errors and 22 non material errors. The adjusted errors increased the reported deficit to £66,639k (from £64,317k). In addition my audit identified five unadjusted misstatements which management declined to adjust.

12 The working papers and audit trail to support the accounts were adequate with some exceptions, most notably the audit trail to support opening balances. Officers responded very positively to requests for additional information. However, there is scope to significantly improve the quality and accuracy of the accounts presented for audit and the quality and timeliness of supporting working papers.

13 I am required to let the Council know about the amendments to the financial statements made as a result of my audit. These are set out in my Annual Governance Report which I presented to the Audit and Governance Committee on 30 September 2010.

Internal control

14 My review of the Council's Internal Audit arrangements found that good progress had been made in establishing an Internal Audit function which could provide independent and objective assurances to the Council on its control environment and the operation of its internal controls.

15 Internal Audit fully met seven of the eleven CIPFA standards and was implementing arrangements to meet the remaining four standards. Key areas for further development are performance management and a quality assurance programme.

16 My testing of key controls in the financial systems at both the Council and the shared service found that controls were generally operating as intended. I identified some weaknesses in the operation of the following controls around:

- payroll authorisation;
- bank reconciliations;
- income invoicing; and
- journals.

17 The findings from my audit of your financial statements and underlying financial systems were reported to the Audit & Governance Committee in November 2010.

International Financial Reporting Standards

18 The Council will prepare financial statements based on International Financial Reporting Standards (IFRS) for the first time in 2010/11. The introduction of IFRS raises significant challenges for local authorities. Disclosure requirements will be much greater under IFRS than under previous rules and the burden will be particularly large in the first year.

19 Internal Audit carried out a review of the Council's readiness for International Financial Reporting Standards (IFRS) during the first half of 2010/11. It found that while there was an IFRS implementation plan in place, there had been significant slippage due to closure of accounts, staff shortages and delays by managers providing information.

20 The Borough Treasurer is pulling together detailed plans and timetables for the restatement exercise. The 2009/10 experiences around the opening balances exercise should provide useful lessons to help officers in preparing and implementing their detailed plans. The key technical areas to be addressed are:

- asset valuations, including an assessment of asset lives;
- identification of leases and other lease type arrangements;
- detailed information to support the calculation of employee benefits; and
- impact of group accounting on shared service arrangements.

21 Officers expect to produce the restated 2009/10 balance by the end of January 2011. I plan to complete an early review of the re-stated balances, operating costs and notes to confirm they are in line with the guidance, before the end of March 2011.

Recommendation

R1 Ensure that sufficient capacity and priority is given to the implementation of IFRS to meet the required deadlines.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

22 At the end of May 2010, the Audit Commission wrote to the Chief Executive to tell her that following the government's announcement, work on Comprehensive Area Assessment would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

23 I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

24 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

25 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission (VFM arrangements). I issued an unqualified conclusion on 30 September 2010 stating that the Council has satisfactory VFM arrangements.

26 I have set out the specified criteria in the table below and my summary findings follow in paragraphs 6 to 16.

Criteria	Adequate arrangements?
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	
Strategic asset management	Yes
Workforce	Yes

27 My assessment was on the Council's first operational year following local government re-organisation in Cheshire in 2009. The Council made good progress in developing its arrangements for securing value for money during its first year. Of necessity, some of these arrangements were based on interim strategies and inherited priorities while the Council worked to develop its longer term plans. The Council succeeded in delivering a number of significant outcomes and is well placed to build on this work by consolidating its arrangements.

Managing finances

28 Since its inception on 1 April 2009 the Council has worked hard to develop its strategic performance management and financial planning arrangements. The Council used interim plans (based on inherited priorities from predecessor bodies) to set its direction for the year while it put longer term strategic plans in place following consultation with stakeholders and formal service reviews.

29 Budget setting is effective and spending was managed within overall budgets through:

- a robust budget monitoring approach;
- challenges around managing service demands; and
- use of reserves.

30 The Council has a robust approach to understanding its costs. All services underwent a challenge panel 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. The Council successfully delivered efficiency savings of £9.7 million in year through a range of mechanisms including service redesign, shared services, and procurement and transformation projects.

31 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 identification and management of cost pressures and delivery of planned savings. The Council plans to strengthen its arrangements by integrating financial and performance information in reports to Cabinet and more closely aligning service reporting to its revised structure.

Governing the business

32 For 2009/10, the Council set out its ambitions and strategic priorities in a Corporate Plan based on an Interim Sustainable Community Strategy. It 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.

33 Corporate procurement arrangements have developed well over the last year. There is a procurement strategy in place with a three year planning cycle for procurement activity within the Council. However, the lack of a long term sustainable community strategy means that key priorities and actions for future service delivery are still to be agreed. The Council made use of a variety of shared service arrangements to secure good levels of service and efficiencies (£10m to date).

34 After a slow start, the Council implemented a data quality and performance management framework. The framework, 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. 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 The Council's systems of internal control are generally sound and its Risk Management Strategy provides a framework for managing strategic, operational and partnership risks. Members are involved in the identification and management of strategic risks.

Managing resources

36 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 asset database alongside a property maintenance plan including £6 million investment. It also relocated over 1,000 staff from a number of locations across Cheshire and consolidated them at three main sites.

37 Similarly, the Council developed interim plans for managing its staff resources while work started on a long term three year Workforce Strategy. The Council again achieved a number of significant outcomes including the

- transfer of over 8,000 staff to the new authority;
- development of a shared HR service;
- relocation of over 1,000 staff
- delivery of staffing reductions, and
- improvement in sickness absence levels.

Risk Based performance reviews

38 To support my assessment, I undertook a review of the sale of County Hall and a brief review of shared services with Cheshire West & Chester Council. My conclusions from these reviews are as follows.

Sale of County Hall

39 Some properties owned by the Cheshire authorities, prior to local government reorganisation, were transferred into the joint ownership of the Council and Cheshire West & Chester Council. County Hall in Chester was one such property. Chester University expressed an interest in acquiring County Hall from the two new councils in May 2009. Between May and October 2009, they negotiated the sale of County Hall to Chester University.

40 During this time, I received correspondence from a number of electors expressing concern at how this transaction was being managed. Concerns were expressed around the apparent lack of public consultation, perceived absence of proper option appraisals, and overall value for money. There had also been substantial coverage in the local press. In view of the exceptional and significant nature of the transaction, I have reviewed it to ensure that value for money has been secured.

41 The sale of County Hall was one of the first high profile decisions taken by both councils. It provided them with the opportunity to review their accommodation strategies. For Cheshire East it also presented the choice to reduce the Council's ongoing liability for the building and obtain a significant income benefit at an early stage.

42 My review of the sale of County Hall is almost complete. I expect to agree the final report with officers of both Cheshire East Council and Cheshire West and Chester Council in early January 2011.

Shared services

43 One of the central planks of re-organisation was to realise cost and efficiency savings. Cheshire East Council in conjunction with Cheshire West & Chester Council set up 29 shared services in 2009/10. Some of these operations were intended as short term transition arrangements to ensure service continuity during the first and second years of the new councils' operation. For a smaller number of services, longer term arrangements were planned to deliver on-going cost and efficiency savings.

44 The councils have a clear vision for shared services outlined in business plans which are overseen by a Joint Operating Board comprising senior officers from both councils. Shared services are managed through service liaison meetings between officers and shared service managers. Each shared service has a business plan which outlines key cost and performance data and targets for the coming year. The HR and Finance shared service was benchmarked to gain an understanding of relative costs.

45 Performance management arrangements for shared services are developing but could be strengthened through better quality performance monitoring data and broadening the range of performance measures for each shared service.

46 Significant efficiency savings were achieved in year through the use of shared services. Officers recognise that there is scope for further savings through streamlining and standardising shared service processes and arrangements.

47 The Councils are currently reviewing all the arrangements to decide which should now be split and which should be further developed. For the long term shared services, the Councils are proposing to:

- create a trading company to generate income and deliver those services which already have a sound customer base and a record of trading in a competitive market, for example, the Occupational Health service;
- create a collaborative company to deliver the majority of functions in the Human Resource, Finance and ICT shared services and partner with other public sector organisations; and
- transfer services from the collaborative company to the trading company as and when they become competitive and the partners agree that this is appropriate.

Housing Benefits inspection

48 The Council's Benefits Service inspection report was published in October 2010. Inspectors conclude that the Benefits Service (the Service) provided to customers by Cheshire East Council is 'fair' with 'promising' prospects for improvement.

49 The Service was created by the merger of three former district council benefits services in April 2009. This presented a range of challenges to the Council and the Service. The delay in moving to a single benefit processing system has hindered full integration and different working practices continue across the Council. The level and quality of advice about benefits is also variable.

50 The Service does not have a good understanding of how long customers wait to be seen or for their telephone call to be answered. This makes it difficult to target improvements. Some customers experience lengthy delays with their claims. In 2009/10, the time taken to deal with new claims was 22.4 days. But this slipped to 31.2 days in early 2010/11. A backlog of work has built up which is proving difficult to clear.

51 Support for local people to get the help they are entitled to is mixed. In 2009/10 the Service ran several successful benefit take-up initiatives. These are continuing in 2010/11. But, customers who ask for a decision on their claim to be looked at again, or appeal, are experiencing delays.

52 Overall the Service delivers value for money for local people. Substantial savings were made in the first year as a result of reorganisation. The cost of providing the Service is below average. But performance needs to improve in some important areas eg recovery of overpaid benefit.

53 The Service's track record of improvement in areas that customers notice most is improving. The 2009 customer survey shows high levels of satisfaction.

54 The Service has effective leadership. The Service has a clear vision with overall links to wider priorities. The continuing investment in ICT will help deliver improvements for customers. Staff development is progressing well with an effective programme of training and evaluation in place.

55 Service planning is satisfactory and arrangements are in place for the switch over to a single processing system in December 2010. But delays in procuring the new system are hampering the overall progress the Service can make. The lack of progress in clearing a backlog of work, combined with the introduction of the new ICT system, present a risk that customers will continue to experience avoidable delays.

56 The Service works well with its partners and this has benefited local people. For example through joint benefit take-up initiatives and registered housing providers receiving and verifying claims on behalf of the Service.

57 There are good arrangements in place for checking assessments before paying benefit, and dealing with benefit fraud. Performance is reported and discussed by service managers, but there are some gaps in performance information meaning managers do not have a complete view of service delivery. Effective scrutiny arrangements at a corporate level are not in place. The Council is seeking to tackle this.

Approach to local value for money work from 2010/11

58 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

59 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

60 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial challenges

61 The last few years have seen the United Kingdom enter a significant economic recession on the back of a global economic crisis. The effect locally, is an increasing demand for some public services at a time of when central government funding is falling. The recent comprehensive spending review (CSR) confirmed that funding for local authorities will fall by 7.1 per cent each year, in real terms, over the next four years.

62 The Council's medium term financial strategy, approved in February 2010, outlined the Council's plans to deliver a balanced budget for the next three years and included targets for significant levels of recurrent savings over that period. During the first half of 2010/11 the Council has experienced growing financial pressures particularly around increased demand for children and adults services. The mid year financial report identified underlying budget pressures of £18.9 million. Officers have undertaken work to identify remedial actions which will reduce the forecast overspend for the year to £6.7 million. Work is continuing to identify further savings, including use of ear marked reserves, in order to achieve the in year target savings and maintain the general fund balance at £8 million.

63 The impact of the recession and the CSR will present a challenge for the Council for the coming years in preserving services to local people, keeping a strong financial position and delivering value for money. Officers are currently working out the full implications of the CSR as part of the update of the Council's medium term financial strategy for 2011/12 onwards. Early indications are that the impact will be significant. Assuming a 0 per cent council tax increase and reductions in grants of approximately £14 million over the next three years, the Council will need to deliver £32.5 million in savings during that time. Delivering the 2010/11 planned savings recurrently will be key in managing the Council's financial position over the medium term.

64 The Local Government Finance settlement is expected in early December and will provide the detailed information on which the Council can base its future financial plans.

Closing remarks

65 I have discussed and agreed this letter with the Chief Executive and the Borough Treasurer. I will present this letter at the Audit & Governance Committee on 25 January 2011 and will provide copies to all cabinet members.

66 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit plan	7 January 2010
Annual Governance Report	29 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum	5 November 2010
Annual Audit Letter	28 November 2010

67 The Council has taken a positive and helpful approach to our audit. I wish to thank the Cheshire East Council staff for their support and cooperation during the audit.

Future audit arrangements

68 In August 2010, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission and the transfer of the audit practice to the private sector. The proposed abolition will be from 2012/13 at the earliest and is subject to the passage of legislation.

69 Arrangements for the audit of local government bodies from 2012/13 onwards will be clarified when the government publish their white paper on the future of public audit. This is expected in early 2011.

70 My priority is to ensure our professional standards and commitment are maintained for the 2010/11 and 2011/12 audits. You will experience no deterioration in customer service and quality.

71 We are currently working on a proposal to develop an independent audit practice to continue beyond the abolition of the Audit Commission. Options available to us include a potential mutualisation or buy-out. Whatever the governance model that we adopt, we remain committed to providing excellent services to our existing clients, seeking new opportunities to improve financial management and reporting and helping the sector achieve better value for money.

Judith Tench
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£205k	£224.6K	£19.6k
Value for money	£197k	£197k	nil
Total audit fees	£402k	£421.6k	£19.6k
Non-audit work	nil	nil	nil
Total	£402k	£421.6k	£19.6k

I set a fee of £401,925 for the audit in April 2009. During the audit, we had to carry out additional work on opening balances, agreeing amendments to the accounts, and detailed testing of transactions due to control failures in order to gain sufficient audit assurance to issue an unqualified audit opinion. The cost of this work was £13.6k.

In addition 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 was £6k.

The additional fees were discussed with the Borough Treasurer and reported to you at the September and November Audit & Governance Committees.

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

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.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

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 money, people and time.

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0844 798 7070

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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.



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CHESHIRE EAST COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 25 January 2011
Report of: Borough Treasurer & Head of Assets
Subject/Title: Audit Plan 2010-11

1.0 Report Summary

- 1.1 The Audit Plan for 2010-11 is set out in Appendix A.

2.0 Recommendation

- 2.1 That the Committee receive and comment on the Audit Plan for 2010-11.

3.0 Reasons for Recommendations

- 3.1 The Audit Plan sets out the work that the Audit Commission propose to undertake for the audit of financial statements and the value for money conclusion 2001-11.

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including - Climate change - Health

- 6.1 None.

7.0 Financial Implications (Authorised by the Borough Treasurer)

- 7.1 The Audit Plan sets out the audit work specified by the Audit Commission for the 2010-11 financial statements and the level of audit fees.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 None.

9.0 Risk Management

- 9.1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
- audit work specified by the Audit Commission for 2010-11;
 - current national risks relevant to the authorities local circumstances;
 - local risks.

10.0 Background and Options

- 10.1 The Audit Commission are required to carry out the audit of the financial statements under the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 10.2 The Audit Commission will be attending the meeting to answer any questions raised by members on the Annual Audit Plan.

11.0 Access to Information

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

Name: Joanne Wilcox
Designation: Corporate Finance Lead
Tel No: (01270) 685869
Email: Joanne.wilcox@cheshireeast.gov.uk

Audit plan

Cheshire East Borough Council

Audit 2010/11

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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Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

2 I will keep my risk assessment up to date as the audit progresses. If there are changes to my risk assessment or future changes to the audit fee, I will amend the plan and present the changes to a future Audit and Governance Committee meeting.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

4 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Joint Working

5 My main objective as your appointed auditor is to plan and carry out an efficient audit that meets the requirements of the Code. I recognise that to achieve this objective, we need to work together effectively. We need good communication throughout the year to identify and resolve issues early and be flexible enough to manage developments as they arise. In support of these aims, I have issued a joint working protocol to the Borough Treasurer which reflects my commitment to promote productive joint working between my audit team and your finance team.

Fee for the audit

The fee for the audit is £397,500, as indicated in my letter of 23 April 2010.

6 The Audit Commission 2010/11 scale fee for the Council is £364,300. The fee proposed for 2010/11 is 9 per cent above the scale fee. This is within the normal level of variation specified by the Commission and represents a 1.1 per cent reduction from the 2009/10 fee.

7 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is similar to that for 2009/10;
- good quality, accurate working papers and clear audit trail are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2011.

8 Where these assumptions are not met, I will be required to undertake additional work. This is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Borough Treasurer. I will issue supplements to the plan to record any revisions to the risk and the impact on the fee. Further information on the fee basis is set out in Appendix 1.

9 My original fee letter stated that the Audit Commission planned to subsidise the cost of auditing the transition to reporting under International Financial Reporting Standards (IFRS) in 2010/11 and a refund was issued to the Council of £22,297.

10 In August 2010, the Commission wrote to all audited bodies about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation was delayed until December 2010.

11 The Commission has now been able to clarify a number of funding issues with the Government and has issued its consultation paper on future audit fees. The proposal includes a rebate of 3.5 per cent of 2010/11 scale fee for single-tier councils, which would equate to £12,750 for Cheshire East Council. The proposed rebate reflects the reduction in work require following the cessation of Comprehensive Area Assessment.

12 As a result of the changes noted above, the revised audit fee for 2010/11 is £362,453 after rebates totalling £35,047.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

13 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

14 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

15 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Changes to Auditing Standards

16 My audit of the financial statements is governed by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.

17 In 2009 the auditing professional completed a comprehensive project to improve the clarity of all the ISAs. One of the main objectives of this was to promote greater consistency of application between auditors. The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek from you. These changes have been set out in a separate report to this Committee.

Identification of specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
Restatement of financial statements in compliance with International Financial Reporting standards (IFRS).	This is a significant risk. I will review the Council's restated opening balances for compliance with IFRS focussing on non-current asset valuation and componentisation, identification and accounting for leases, employee benefits and group accounting. I will also review the Council's revised accounting policies as part of this work.
In year financial pressures and the impact on reserves increases the risk of financial misreporting which could impact on the true and fair presentation of the accounts.	This is a significant risk. I will undertake extended testing on income and expenditure for under and over-statement respectively. I will review material journals for unusual transactions. I will review accounting treatments against the Council's stated accounting policies. I would review the financial out-turn for the year against the Council's MTFP and planned use of reserves.
Implementation of the new Revenues and benefits system during the year.	This is a significant risk. I will review the work carried out by Internal Audit to check that standing and transactional data is migrated to the new system completely and accurately and consider whether any additional testing is required.
Upgrade of the Oracle General Ledger.	This is a significant risk. I will review the work carried out by Internal Audit and assess how the upgrade affects the Council's financial reporting arrangements and capabilities.

Other issues

18 At this stage, I have identified a number of other issues that may have an impact on the Council's financial statements. These include:

- Waste Private Finance Initiative;
- Identification of related party transactions;

- Accounts close down and capacity; and
- Revaluations of fixed assets.

I will keep these areas under review and update my risk assessment as the audit progresses. I will report any changes to my risk assessment to the Audit & Governance Committee.

Testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

19 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

20 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where testing could be carried out early.

- Review of accounting policies (as part of our work on the IFRS restatement).
- Investments – ownership.
- Year-end feeder system reconciliations.
- Fixed asset valuations.
- Material accounting estimates.
- Material journals.
- Overhead apportionment and BVACOP analysis.

Where I identify other possible early testing, I will discuss it with officers.

21 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of the following pieces of work.

- Controls testing of agreed financial system controls.
- Revenues and Benefits data migration testing on accuracy and completeness of standing and transactional data transfers to new system.
- Review of Oracle upgrade.
- Head of Internal Audit's Opinion to inform my review of the Council Annual Governance Statement.

22 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors and experts in the following areas.

- External auditors of Cheshire West & Chester Council for corroboration of design and controls over shared services financial systems.
- External Auditor of Cheshire Pension Fund.
- PWC assessment of the pension fund actuary's approach and assumptions used in valuing pension fund assets and liabilities.
- Gerald Eve for property valuation indices.

23 I also plan to rely on the work of management's experts in the following areas.

- District Valuer for valuations of Council property.
- Daniel & Hulme for valuations of Council property.
- Cheshire Pension Fund actuary.

Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

24 The value for money conclusion is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the PCT is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the PCT secures economy, efficiency and effectiveness – focusing on whether the PCT is prioritising its resources within tighter budgets and improving productivity and efficiency.

25 As part of my audit planning I have undertaken an initial risk assessment drawing on the information I gathered last year in undertaking my value for money assessment of the Council. The Council set itself an ambitious savings target for 2010/11 and is experiencing additional in year financial pressures in some service areas. Officers are also currently working through the impact of the Government's Comprehensive Spending Review on the Council's financial plans. My audit team will be looking for evidence that the Council has appropriate arrangements in place to identify and monitor delivery of its planned savings and efficiencies. My team will also review the Council's medium term financial planning arrangements and progress in securing financial stability over the medium term.

26 My ongoing risk assessment will be kept up-to-date in a number of ways including regular discussions with senior management, Councillors and through review of Board papers and minutes. In undertaking these processes my audit team will be looking for evidence that the Council continues to have appropriate arrangements in place for:

- reviewing and updating the medium-term financial plan; and
- reviewing and monitoring the achievement of agreed savings targets.

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

27 The key stages in producing and auditing the financial statements are in Table 2. A detailed timeline is included at Appendix 2.

28 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers and clear audit trails.

29 During the post statements site visit, the audit team will meet with Jo Wilcox weekly to review the status of all audit queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

Activity	Date
Present Audit Plan to Audit & Governance Committee	25 January 2011
Control and early substantive testing	January to April 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	30 June 2011
Start of detailed testing	July 2011
Post statements progress meetings	Weekly
Present report to those charged with governance at the audit committee	September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Judith Tench District Auditor	j-tench@audit-commission.gov.uk 0844 798 3556	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Andrea Castling Audit Manager	a-castling@audit-commission.gov.uk 0844 798 3557	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Ivan Parkhill Team Leader	i-parkhill@audit-commission.gov.uk 0844 798 3552	Coordinates work of team on site. Key point of contact for corporate accountant and finance team.

Independence and objectivity

30 I am not aware of any relationships that may affect the independence and objectivity of the audit team, which I am required by auditing and ethical standards to communicate to you.

31 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

32 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

33 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, who will look into any complaint promptly and to do what he can to resolve the position.

Mr Westwood can be contacted at the Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ.

(c-westwood@audit-commission.gov.uk)

34 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

35 My team will discuss and agree reports with the right officers before issuing them to the Audit & Governance Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Audit Plan	January 2011
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements & VFM conclusion	September 2011
Final accounts memorandum	October 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is no higher than that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
 - good quality working papers and records to support the financial statements by 1 July 2010;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Detailed audit timeline

The following table sets out a high level timeline for delivery of key elements of the opinion audit. Discussions are in underway to agree responsibilities for completing various elements of audit testing set out below. While detailed work may be carried out by other parties - I retain overall responsibility for delivery of the audit opinion. I reserve the right to carry out further testing if the quality of the work carried out by those parties does not meet relevant professional standards or if the results of testing indicate that further testing is required. I will report progress in delivering the plan to the Audit & Governance Committee on a regular basis.

Table 5: **Proposed Opinion Audit Timeline**

Timing of audit work

Audit Work Stream	Delivery Date	Responsibility
Corroboration of material financial systems and controls - operated at Cheshire East Council/Shared Services	January/February 2011	Cheshire East External Audit Team/ Cheshire West & Chester External Audit Team
Testing of controls over financial systems - at Cheshire East Council/Shared Services	February/April 2011	Internal audit teams at Cheshire East & Cheshire West & Chester (TBC) External Audit Team at Cheshire West
Review of IFRS restated balances	February 2011	Cheshire East External Audit Team
Early Substantive Testing	February/June 2011	Cheshire East External Audit Team
Post Statements Audit	July/September 2011	Cheshire East External Audit Team

Appendix 3 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit & Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be

justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 4 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive	DA	Quarterly	General update plus: <ul style="list-style-type: none"> ■ March - audit plan; ■ July - accounts progress; and ■ September - annual governance report
Borough Treasurer	DA and AM	6 weekly	General update plus: <ul style="list-style-type: none"> ■ March - audit plan; ■ July - accounts progress; and ■ September - annual governance report.
Head of Finance	AM and TL	Bi-monthly	Update on audit issues
Corporate Finance lead	TL	Weekly (during post statements)	Update on progress in clearing audit queries
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: <ul style="list-style-type: none"> ■ Audit Plan; ■ Annual governance report; and ■ other issues as appropriate.

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;

- use of video and telephone conferencing for meetings as appropriate;
and
- reducing travel.

Appendix 5 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Directors

Members of the executive board who are collectively and individually responsible for the overall direction and control of the audited body.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Regularity (of expenditure and income)

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Statement on internal control/Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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0844 798 7070

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



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CHESHIRE EAST COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 25 January 2011
Report of: Borough Treasurer & Head of Assets
Subject/Title: 2010 -11 Opinion Audit Changes

1.0 Report Summary

- 1.1 The report provides an update on the 2010-11 opinion audit and the expected changes.

2.0 Recommendation

- 2.1 That the Committee receive and comment on the changes.

3.0 Reasons for Recommendations

- 3.1 The audit of the financial statements is governed by International Standards on Auditing (ISAs). In 2009 the auditing professional completed a comprehensive project to improve the clarity of all the ISAs. The new clarified framework will apply to the audit of the 2010-11 financial statements.

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including - Climate change - Health

- 6.1 None.

7.0 Financial Implications (Authorised by the Borough Treasurer)

- 7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 None.

9.0 Risk Management

- 9.1 The project has been completed in order to promote greater consistency of application between auditors and to improve the overall readability and understanding of the ISA's.

10.0 Background and Options

- 10.1 The purpose of the document is to highlight the main changes and how they will impact on the 2010-11 opinion audit.
- 10.2 The Audit Commission will be attending the meeting to answer any questions raised by members on the report.

11.0 Access to Information

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

Name: Joanne Wilcox
Designation: Corporate Finance Lead
Tel No: (01270) 685869
Email: Joanne.wilcox@cheshireeast.gov.uk

2010/11 opinion **audit - changes** **you can expect** **to see**

Cheshire East Council

Audit 2010/11

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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Purpose of this document

1 As your appointed auditor, the audit of the financial statements I deliver to you, is governed by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.

2 As with all guidance and frameworks, auditing standards are revised and updated, often in a piecemeal fashion. However, in 2009 the auditing professional completed a comprehensive project to improve the clarity of all the ISAs. This is known as the Clarity Project.

3 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

4 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they seek from you. The purpose of this document is to highlight to you the main changes and how they will impact you.

5 In summary the main changes you will see cover:

- journals;
- related party transactions;
- accounting estimates; and
- reporting deficiencies in internal control.

Impact of the main changes

Journals

6 ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDea software or excel, depending on the compatibility of your general ledger software. My Audit Manager will discuss a suitable approach to this work soon.

Related party transactions

7 ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting estimates

8 ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the uncertainty arising because the estimate cannot be precise or exact); and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Deficiencies in internal control

9 ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

10 If I identify a deficiency in any of your internal controls during the audit, I will undertake more audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to your Audit & Governance Committee as those charged with governance.

Appendix 1 Letter to management



January 2011

Lisa Quinn
Borough Treasurer & Head of Assets
Cheshire East Council
Westfields
Middlewich Road
Sandbach
Cheshire CW11 1HZ

Email j-tench@audit-commission.gov.uk

Dear Lisa

Audit of Cheshire East Borough Council Financial Statements - Clarified International Standards on Auditing (ISAs)

The completion of the Clarity Project in 2009 resulted in 36 newly updated and clarified ISAs which come into effect for the audit of the 2010/11 financial statements. In order to comply with these clarified ISAs, I am required to obtain an understanding of your processes and controls for identifying related party transactions and accounting estimates.

ISA (UK&I) 540 – Auditing accounting estimates, including fair value accounting estimates, and related disclosures

ISA (UK&I) 540 requires me to look at your accounting estimates in detail. I will need a list of your accounting estimates, together with an understanding of the process followed to identify all required estimates. For each estimate I need to know:

- the method, including where applicable the model, used in making the accounting estimate;
- the controls and checks on the process;
- whether an expert has been used to assist in making the estimate;
- the assumptions underlying the estimate;
- alternative estimates considered and why they have been rejected;
- how the effect of estimation uncertainty has been assessed;
- whether there has been a change in the methods for making the accounting estimates from last year and if so why.

ISA (UK&I) 550 – Related parties

ISA (UK&I) 550 requires me to review your procedures for identifying related party transactions. I need to understand in particular:

- who you consider your related parties to be, including any changes to last year
- the controls you have in place to ensure all relevant related parties and transactions are identified and disclosed appropriately
- any specific controls to authorize significant transactions
- the controls in place to authorize and approve significant transactions and arrangements outside the normal course of business.

For each related party identified, can you tell me:

- The nature of the relationship between the Council and the related party
- Whether there have been transactions with the related party in the year, and if so, the type and purpose of the transactions

Please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Judith Tench
Engagement Lead

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



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CHESHIRE EAST COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 25 January 2011
Report of: Borough Treasurer & Head of Assets
Subject/Title: Implementation of International Financial Reporting Standards (IFRS) – Progress Update

1.0 Report Summary

- 1.1 The report provides an update on the International Financial Reporting Standards (IFRS) Project Plan and the progress the authority has made in implementing IFRS.

2.0 Recommendation

- 2.1 That members note progress to date on the IFRS Project Plan.

3.0 Reasons for Recommendations

- 3.1 Members of the Audit and Governance Committee are required to receive regular updates on progress in accordance with the work programme.

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including - Climate change - Health

- 6.1 None.

7.0 Financial Implications (Authorised by the Borough Treasurer)

- 7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 None.

9.0 Risk Management

- 9.1 The restatement of financial statements in compliance with International Financial Reporting Standards (IFRS) has been identified as a specific risk in the 2010-11 Audit Plan. Regular liaison meetings will be held with the Audit Commission commencing in January to review progress and keep the identified risks under review.

10.0 Background and Options

- 10.1 The 2010-11 accounts will be prepared in accordance with international accounting standards. As part of this process the 2009-10 accounts will be restated under IFRS both to provide comparative information for the 2010-11 accounts and to give the Council experience in preparing IFRS compliant accounts.
- 10.2 The draft restated accounts under IFRS will be available for external audit in February. The process will provide assurance of best practice in preparation for the 2010-11 accounts.
- 10.3 The main changes to the accounts under IFRS relate to the following areas:
- Lease Arrangements – Reclassification of lease arrangements between operating and finance leases.
 - Employee Benefits – Annual leave carried forward.
 - Property, Plant and Equipment revaluations.
 - Investments Properties.
 - Assets held for sale.
 - Accounting for Private Finance Initiatives (PFI's)
 - Changes to Accounting Policies and disclosures.

Update on the Project Plan

- 10.4 Meetings have been held with Human Resources, Asset Management, Legal and Procurement colleagues to identify key staff and allocate responsibilities.
- 10.5 The training of financial staff has been completed and all accountancy staff have received an overview of the changes under IFRS. Members of this committee received training on the 23rd September 2010. Training for key staff will continue during February and March 2011 through attendance at CIPFA Financial Advisory Network courses and Final Account workshops.
- 10.6 Asset Management colleagues in conjunction with the District Valuer and Daniel & Hulme have provided the information to restate the authorities' assets for the 2009-10 balance sheet.

- 10.7 An Asset Champion has been designated to work with the Corporate Finance team on all asset related matters.
- 10.8 A review of lease properties to be revalued and reclassified under IFRS has been undertaken.
- 10.9 A sampling exercise was undertaken during May 2010 to enable the calculation of accrued holiday pay entitlements as at 31 March 2010; this will be repeated in April 2011 to obtain the information as at 31st March 2011.
- 10.10 Procedure and guidance notes have been developed by the IFRS Consultant John Kingshott and the CIPFA Practitioners Guidance Notes have now been purchased.
- 10.11 The following work is currently underway to ensure compliance with full IFRS implementation by 31st March 2011.
- Draft accounts restating the 2009-10 accounts under IFRS are being prepared for audit.
 - Asset management are currently working towards revaluing assets in 2010-11 under IFRS.
- 10.12 Corporate Finance have implemented a detailed workplan with nominated tasks and a team of qualified accountants are dedicated to this work over the coming months to ensure completion of the accounts by the required deadline.

11.0 Access to Information

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

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Designation: Corporate Finance Lead
Tel No: (01270) 685869
Email: Joanne.wilcox@cheshireeast.gov.uk

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CHESHIRE EAST COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting:	25 January 2011
Report of:	Head of Internal Audit & Compliance and Borough Treasurer and Head of Assets
Subject/Title:	Compliance with International Auditing Standards

1.0 Report Summary

- 1.1 In order to comply with International Standards on Auditing (UK and Ireland) the Council's External Auditors (Audit Commission) require an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council (ISA 240).
- 1.2 The Audit Commission also require an understanding of how those charged with governance gain assurance that all relevant laws and regulations have been complied with (ISA 250).
- 1.3 The Audit and Governance Committee is the committee 'charged with governance' and this report has, therefore, been drafted in order to assist both the Chairman and the Borough Treasurer and Head of Assets in formally responding to the Audit Commission.

2.0 Recommendation

- 2.1 That the Committee notes (i) the content of this report and (ii) that it will form the basis of the written response to the Council's External Auditors by the Chairman of the Audit and Governance Committee and the Borough Treasurer and Head of Assets.

3.0 Reasons for Recommendations

- 3.1 The Council's officers are responsible for establishing and implementing arrangements to counter fraud and corruption and ensuring the Council's operations are conducted in accordance with laws and regulations. In order for the Council's anti fraud and compliance objectives to be achieved it is important that the Audit and Governance Committee actively oversee management arrangements including considering the potential for override of controls or other inappropriate influence over the financial reporting process.

3.2 In recognition of this important role, and in order to comply with International Standards on Auditing (UK and Ireland), the Audit Commission require an understanding of:

- management arrangements for identifying and reporting the risk of fraud and complying with relevant laws and regulations
- how the Audit and Governance Committee exercises oversight of these processes

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications including - Climate change - Health

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Borough Treasurer)

7.1 No specific financial implications although incidences of fraud and non compliance with the law and regulations can result in financial consequences for the Council such as fines and litigation.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 The responsibilities of public sector entities in relation to the prevention and detection of fraud and error are set out in statute, standards and other guidance. Local Government entities have a statutory duty to make arrangements for the proper administration of their financial affairs. An officer (Borough Treasurer and Head of Assets) must also be appointed to have responsibility for the administration of these arrangements.

8.2 In addition the Accounts and Audit Regulations require the “responsible financial officer” to determine accounting control systems that include measures to enable the prevention and detection of inaccuracies and fraud.

9.0 Risk Management

9.1 The Council as a large organisation is at risk of:

- loss due to fraud
- failure to comply with laws and regulations

Both of which may materially affect the financial statements.

- 9.2 The impact of which can have consequences that are serious and often far reaching. Financial loss is the obvious key risk but the undermining of public confidence that can result from the discovery of such issues can inflict a much greater damage than the act itself. In order to mitigate this risk Management needs to establish and implement robust arrangements that are actively overseen by those charged with governance.

10.0 Background and Options

- 10.1 The Audit Commission has requested an understanding of the following:

- 1) Management processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud
 - identifying and responding to risks of fraud in the organisation
 - communication to employees of views on business practice and ethical behaviour
 - communication to those charged with governance the processes for identifying and responding to fraud
- 2) Management's awareness of any actual or alleged instances of fraud.
- 3) How management gain assurance that all relevant laws and regulations have been complied with.
- 4) Whether there is any potential litigation or claims that would affect the financial statements.

- 10.2 Management's response to the external auditor's request for information can be found at Appendix A.

11.0 Access to Information

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

Name: Vivienne Quayle
Designation: Head of Policy and Performance
Tel No: 01270 685859
Email: Vivienne.quayle@cheshireeast.gov.uk

1.0 Management Processes**Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud**

- 1.1 The Council's risk management process has identified the "Risk that the Council fails to manage expenditure within budget and maintain an adequate level of reserves, thereby threatening financial stability and service continuity and preventing the achievement of corporate objectives" as a Strategic Risk. This risk recognizes that the Council could be exposed to losses or unplanned expenditure, as a result of the misappropriation of assets and/or fraudulent financial reporting as well as other causes/triggers. Following the identification and assessment of mitigating controls the risk has been measured as high with planned actions reducing the risk to a medium.
- 1.2 The full Internal Audit Plan for 2010/11 is designed to allow Internal Audit to offer an opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes. The plan has been developed using the following areas of audit activity:
- Supporting Corporate Governance
 - Core Financial and Fundamental Systems
 - Key Service and Departmental Systems
 - Counter Fraud and Probity
 - Value for Money/Strategic Reviews

The remaining audit time is allocated to follow up and responsive work.

- 1.3 A programme of audits has been/is being carried out in accordance with the plan that was approved by the Governance and Constitution Committee in May 2010.
- 1.4 The work includes the Council's fundamental financial systems in order to gain assurance that the systems of financial control are in place and operating effectively. The fundamental systems (those that could give rise to material mis-statements) and key controls have been agreed with External Audit in order that they may rely on the work of internal audit. Internal Audit continues to undertake testing (examining whether the control has operated effectively throughout 2010/11) on the controls. In this way Management can get reasonable assurance with regard to the potential for override of management controls or other inappropriate influence over the financial reporting process.
- 1.5 As part of the Annual Governance Statement process for 2010/11 the Directors, Heads of Service and Managers will be required to sign off on the adequacy of controls within their service areas/directorate via disclosure statements.

Identifying and responding to risks of fraud in the organization

- 1.6 The Council ensures that the standards of conduct expected of staff are defined and communicated through, for example, Codes of Conduct, an anti-fraud and corruption policy and the whistleblowing policy. Such policies, together with the Councils Constitution, prescribe the arrangements that ensure suspected cases of fraud and corruption are reported promptly to the appropriate person for further investigation.
- 1.7 The Council's anti fraud and corruption strategy states that Cheshire East Council's members and employees are positively encouraged to raise concerns regarding fraud and corruption, immaterial of seniority, rank or status, in the knowledge that such concerns will be taken seriously and wherever possible, treated in confidence and properly investigated.
- 1.8 Concerns must be raised when members or employees reasonably believe that one or more of the following has occurred, is in the process of occurring, or is likely to occur:
- a criminal offence
 - a failure to comply with a statutory or legal obligation
 - improper and/or unauthorised use of public or other funds
 - a miscarriage of justice
 - maladministration, misconduct or malpractice
 - endangering of an individual's health and safety
 - damage to the environment
 - deliberate concealment of any of the above.
- 1.9 Concerns must be raised firstly with the supervisor/line manager or, where a person feels unable to do this, via other routes, for example:-
- Heads of Service, Directors, or the Chief Executive, who will report such concerns to the Internal Audit Manager or their authorised representative.
 - Directly to the Internal Audit Manager or a senior member of the internal audit team
 - The External Auditor, who depending upon the nature of the concern will liaise with the Internal Audit Manager or Borough Treasurer and Head of Assets (as Section 151 officer)
 - The Monitoring Officer as outlined in the Confidential Reporting (or Whistleblowing Protocol)
 - The Customer, compliments, Comments & Complaints procedure for use by the general public.
- 1.10 Partners, contractors, consultants, suppliers, service users, employees and committee members of organisations which the Borough Council funds and the general public are also encouraged to report concerns through any of the above routes.
- 1.11 The Council ensures that any allegations received in any way, including by anonymous letters or telephone calls are taken seriously and investigated in an appropriate manner.

- 1.12 Under the National Fraud Initiative (NFI) the Council supplies sets of data from information systems such as benefits, pay and pensions and suppliers. NFI then cross matches this data to identify potential inaccuracies and fraud which the Council then investigates.
- 1.13 Work by internal audit – See above. Furthermore, internal auditors are personally responsible for applying due professional care which includes being alert to the possibility of intentional wrongdoing, errors and omissions and failure to comply with management policy and conflicts of interest.
- 1.14 All allegations of fraud are reported to the Head of Internal Audit & Compliance even if it is not necessary for internal audit to investigate. This informs the opinion on the control environment and internal audit's work programme. At the request of management internal audit may assist with the investigation of suspected fraud ensuring that any local investigations are undertaken thoroughly, consistently and impartially or by requesting assurance that management have taken action to reduce the likelihood of re-occurrence.
- 1.15 The Benefit Fraud Team is responsible for all benefit fraud investigations and prosecutions. The Benefits Anti Fraud and Corruption Strategy, which deals specifically with welfare benefits issues, is complimentary to the main Anti Fraud Strategy. The benefits service strategy is supplemented by the Benefits Fraud Sanction Policy. This policy outlines the criteria used to determine which sanctions may be applicable if a case is proven by the Investigation Team.
- 1.16 In addition to a confidential reporting procedure the benefit investigation team also operate a separate hotline, for use by members of the public. Referrals may also be made from the national fraud hotline managed by central government. These hotlines are publicised in relevant council literature as well as targeted media campaigns.
- 1.17 In line with the Anti Fraud and Corruption Strategy the Borough Solicitor will, in consultation with the appropriate Chief Officer, decide whether any matter under investigation should be recommended for referral to the Police or the appropriate enforcement agency.

Communication to employees of views on business practice and ethical behaviour

- 1.18 All employees are governed by the Council's Financial and Contract Procedure Rules. They are required to follow the standards set out in the Code of Conduct, which is issued to all staff along with their Contract of Employment. Employees are further governed by the Council's HR Policies (Disciplinary Procedure etc), which are issued to all staff. The Codes are communicated via briefings, training and are available on the Council's intranet and internet.
- 1.19 The role that employees are expected to play in the Council's framework of internal control is included in staff induction procedures

by their line manager and then subsequently through corporate induction training, as appropriate.

- 1.20 The anti fraud & corruption policy states that Cheshire East Council expects its employees to comply with codes of practice or other relevant professional obligations issued by professional bodies of which they may be members. Furthermore it reminds employees that they must comply with Section 117 of the Local Government Act 1972 which requires any interests in contracts that have been proposed to be entered into by the Council to be declared. The Legislation also prohibits the acceptance of fees or rewards other than by means of proper remuneration.
- 1.21 Employees must register any interests they may have in the departmental register recording Declarations of Interests.
- 1.22 All offers of gifts and hospitality, regardless of whether the offer was accepted or declined, must be recorded in the departmental register. Such registers are reviewed by the appropriate departmental management team on a regular basis and a record kept of such review.
- Communication to those charged with governance the processes for identifying and responding to fraud**
- 1.23 The Head of Internal Audit and Compliance provides a written report to the Audit & Governance Committee to support the Annual Governance Statement. The report includes an opinion on the overall adequacy and effectiveness of the Council's control environment, and a summary of the audit work from which the opinion is derived including counter fraud, probity and investigations work.
- 1.24 In addition to the annual report, the Head of Internal Audit provides the Committee with interim audit and risk management reports in the course of the year. The audit reports address emerging issues in respect of the whole range of areas to be covered in the annual report.
- 1.25 The Audit and Governance Committee work programme includes various update reports with regard to anti fraud and corruption.

2.0 Management's awareness of any actual or alleged instances of fraud

- 2.1 To monitor the success of the Anti Fraud & Corruption Strategy, the following indicators are reported to the Head of Policy and Performance on a quarterly basis:-
- Number of cases referred or identified to Internal Audit & Housing Benefit Investigation Teams
 - Number of cases in which fraud/corruption was proved
 - Value (£) of misappropriation

- Number and type of benefit fraud sanctions
- Number of employees disciplined for offences of fraud and corruption

2.2 From the work undertaken by internal audit during 2010/11, there is no evidence to suggest any impact on the 2010/11 Financial Statements.

3.0 How management gain assurance that all relevant laws and regulations have been complied with.

3.1 The Council has in place, within the Constitution, various procedure rules which set out how budget and policy decisions are made. Officers are required to ensure that compliance with relevant laws and regulations and lawful expenditure is delivered. Reports provide a section for legal implications, and reports cannot go before Cabinet or Council without this being addressed.

3.2 The Council's Statutory Officers have a positive responsibility to report to the Council, in respect of:

- Co-ordination of functions, staff and management matters – the Chief Executive (Head of Paid Service)
- Financial administration, probity and propriety – the Borough Treasurer and Head of Assets (Section 151 Officer)
- Legality and administration – Borough Solicitor (Monitoring Officer).

3.3 Internal Audit's annual plan contains a programme of work that includes reviews of compliance with policies, procedures, laws and regulations. In addition, work is carried out by Scrutiny Committees, External Audit and other inspection agencies.

3.4 The Head of Internal Audit produces an annual audit report which provides assurance on the adequacy of the Council's control environment.

3.5 The Risk Management Strategy aims to embed risk management into the operational management of the Council and risk assessments are used as part of the key decision making process.

4.0 Whether there is any potential litigation or claims that would affect the financial statements.

4.1 As part of the closure of the accounts the Borough Treasurer and Head of Assets (Section 151 Officer) will assess the adequacy of financial reserves and provisions for known and contingent liabilities arising from current or potential future litigation and claims. The nature and impact of such claims are disclosed in the notes to the accounts. Directors and Heads of Service are required to notify the Borough Treasurer and Head of Assets of any significant control issues which may result in litigation or claims against the Council as part of their annual disclosure statement.

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting: 25 January 2011
Report of: Head of Policy & Performance
Subject/Title: Risk Management Update

1.0 Report Summary

- 1.1 The Audit and Governance Committee has a key role in providing an oversight of the effectiveness and 'embedding' of risk management processes, and in testing and seeking assurance about the effectiveness of control and governance arrangements. In order to form an opinion on these arrangements, it needs to establish how key risks are identified, evaluated and managed, and the rigour and comprehensiveness of the review process. The purpose of this paper is to provide the Audit and Governance Committee with a summary of the key corporate risks so that it may undertake this oversight and seek assurance in order to form an opinion.

2.0 Recommendation

- 2.1 Following the Audit and Governance Committee meeting held on 17 November 2010, the Corporate Risk Register has been thoroughly reviewed and an extract is attached to this report. The Committee is requested to consider and comment on the Key Corporate Risks and the approach outlined in the paper to identify the actions in place to mitigate the risks.
- 2.2 The Committee is requested to consider whether it would be happy in future to receive the summary provided in **Appendix A** (including the direction of travel of risks together with an explanation) or whether it would like to also receive (in addition to Appendix A) an extract of the Corporate Risk Register as attached at **Appendix B**. The Audit and Governance Committee should note that in any case it will receive an annual risk report which notes progress on all identified key risks.

3.0 Reasons for Recommendations

- 3.1 In order to form an opinion on the effectiveness of the Council's risk management arrangements, the Audit and Governance Committee needs to establish how key risks are identified, what the key risks are and how they are evaluated, managed and reviewed.

4.0 Wards Affected

4.1 All

5.0 Local Ward Members

5.1 All Ward Members

**6.0 Policy Implications including - Climate change
- Health**

6.1 Risk Management is integral to the overall management of the authority and, therefore, considerations regarding key policy implications and their effective implementation are considered within departmental risk registers and as part of the risk management framework.

7.0 Financial Implications (Authorised by the Borough Treasurer)

7.1 None

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 As well as the need to protect the Council's ability to achieve its strategic aims and to operate its business, general principles of good governance require that it should also identify risks which threaten its ability to be legally compliant and operate within the confines of the legislative framework, and this report is aimed at addressing that requirement.

9.0 Risk Management

9.1 This report relates to overall risk management.

10.0 Background and Options

10.1 It is considered good practice to include an update to Audit and Governance Committee at every meeting on progress against key risks. This monitoring should summarise general direction of travel in order to clearly demonstrate progress being made on specific risk items. If all is well then no discussion may be required; if all is not well then it is easy to identify the issues to pursue.

10.2 The Council has a Corporate Risk Management Group, the purpose of which is to assist the Council with the management of risks to achieving its strategic priorities and service delivery, by reviewing all matters concerning the development, maintenance and implementation of the Council's risk management framework, including monitoring and reporting arrangements. A full version of the Corporate Risk Register is reviewed and discussed in detail by the Corporate Risk Management Group. A copy of the Terms of Reference for the Corporate Risk Management Group is attached for information at **Appendix C** to this report.

- 10.3 Attached at **Appendix A** is a summary of the Council's Key Corporate Risks and the net risk rating for each risk, it is intended that this summary be reported at each meeting. The direction of travel for each risk has been shown as stable for each risk in this report but in future reports this will provide tracking of the direction of travel of risks, with a commentary for any risks that change. This can then be utilised as a tool to ensure that any risks not being managed to an acceptable level are monitored, reported on and escalated as required.
- 10.4 Attached at **Appendix B** is an extract from the Council's Corporate Risk Register which records information captured at meetings to date with individual risk owners and key staff to review the Key Corporate Risks. Meetings included discussions on mitigating actions and future issues as well as the assessment of risk ratings for each of the individual risks.
- 10.5 An issue to consider is the balance of responsibility between the Corporate Risk Management Group and the Audit and Governance Committee, and the level of detail required by the Audit and Governance Committee in order to form an opinion on the effectiveness of risk management.
- 10.6 The assessment methodology used to score the risks is attached at **Appendix D** to this report for information.

11.0 Access to Information

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

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Designation: Head of Policy & Performance
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Key Corporate Risks Summary – January 2011

Risk Ref	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel
KCR1	Service Delivery Prioritisation: Risk that poor management of service prioritisation causes ineffective and inefficient delivery of services such that we fail to achieve our key priorities and corporate objectives.	Erika Wenzel, Chief Executive	Cllr Wesley Fitzgerald	12 High	↔
KCR2	Financial Control: Risk that the Council fails to manage expenditure within budget and maintain an adequate level of reserves, thereby threatening financial stability and service continuity and preventing the achievement of corporate objectives.	Lisa Quinn, Borough Treasurer	Cllr Wesley Fitzgerald	12 High	↔
KCR3	Community Safety: Risk that ineffective management of community safety causes poor perception and poor provision of safety, leading to an increase in anti-social behaviour and impacting on our ability to enhance the Cheshire East environment and improve opportunities for all.	John Nicolson, Strategic Director Places	Cllr Rachel Bailey	6 Medium	↔
KCR4	Vulnerable Children: Failure to recognise and act accordingly to safeguard and mitigate the risks of significant harm to children, resulting in an inability to ensure better outcomes in life and possible death.	Lorraine Butcher, Director of Children & Families	Cllr Hilda Gaddum	12 High	↔
KCR5	Vulnerable Adults: Failure to recognise and act accordingly to safeguard and mitigate the risks to vulnerable adults, resulting in an inability to ensure better outcomes in life for the most vulnerable, undermining the reputation of the Council and possibly resulting in significant legal and financial consequences.	Phil Lloyd, Director of Adult, Community Health & Wellbeing Services	Cllr Roland Domleo	8 Medium	↔
KCR6	Equality Gap: Risk that we fail to accurately recognise community needs and/or address those needs by taking the most appropriate action to close the equality gap across Cheshire East, thus preventing us from improving life opportunities and health for all.	Phil Lloyd, Director of Adult, Community Health & Wellbeing Services / Lorraine Butcher, Director of Children & Families	Cllr Roland Domleo / Cllr Hilda Gaddum / Cllr David Brown	9 Medium	↔

Key Corporate Risks Summary – January 2011

Risk Ref	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel
KCR7	Partnerships: Risk that we fail to effectively engage with partners (third parties/private sector/voluntary sector) and/or lack the ability to fund partnerships, resulting in lack of service delivery affecting service users, poor reputation, and damage to future engagement opportunities and our ability to be an excellent council, working with others to deliver for Cheshire East.	Vivienne Quayle, Head of Policy & Performance	Cllr David Brown	6 Medium	↔
KCR8	Health Partnerships: Risk that we fail to integrate with Health partners, resulting in fewer opportunities to maximise health benefits and reduced efficiency gains, and affecting our ability to meet our corporate objectives to work with others to improve health.	Urvashi Bramwell, Planning & Performance Manager / Phil Lloyd, Director of Adult, Community Health & Wellbeing Services	Cllr Andrew Knowles	12 High	↔
KCR9	Education: Risk that we fail to manage and maintain effective educational provision resulting in poor educational standards and affecting our ability to improve life opportunities.	Lorraine Butcher, Director of Children & Families	Cllr Hilda Gaddum	On Hold	↔
KCR10	Workforce: Risk that we fail to retain and motivate an effective and engaged workforce, such that the staffing infrastructure fails to support the Council in being excellent and achieving the corporate objectives.	Paul Bradshaw, Head of HR & Organisational Development	Cllr Peter Mason	9 Medium	↔
KCR11	Opportunities: Risk that we fail to position the Authority to maximise opportunity, resulting in an inability to build up potential, capability and resource to respond to future needs and a sustainable Cheshire East.	Erika Wenzel, Chief Executive	Cllr Wesley Fitzgerald	9 Medium	↔
KCR12	Long-Term Planning: Risk that we fail to plan effectively for long term success, threatening the future viability and sustainability of Cheshire East.	Erika Wenzel, Chief Executive	Cllr Wesley Fitzgerald	9 Medium	↔

Key Corporate Risks Summary – January 2011

Risk Ref	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel
KCR13	Transformation: Risk that we fail to manage the scale of change of transformation projects to effectively and efficiently shape our services, deliver essential benefits, resulting in a possible loss of continual improvement and a possible inability to deliver our key corporate objectives.	Ceri Harrison, Head of Corporate Improvement	Cllr Wesley Fitzgerald	12 High	↔
KCR14	Information, Research & Business Intelligence: Risk that we fail to invest in / make effective use of information / business intelligence, which leads to poor decision making, and undermines our ability to effectively and efficiently deliver the corporate objectives.	Vivienne Quayle, Head of Policy & Performance	Cllr David Brown	12 High	↔
KCR15	Reputation: Risk that consideration is not given and management action is not taken, to effectively maintain the reputation of the Council, leading to a loss of public confidence, threatening the stability of the Council and our ability to deliver the corporate objectives.	Vivienne Quayle, Head of Policy & Performance	Cllr David Brown	16 High	↑
KCR16	External Environment: That development and changes as a result of government policy and reviews, such as the comprehensive spending review and the abolition of some quangos, compromise the Council's ability to deliver its key strategic aims.	Erika Wenzel, Chief Executive	Cllr Wesley Fitzgerald	12 High	↑

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KEY CORPORATE RISK REGISTER

Risk Ref	Risk Description	Corporate Objectives Ref	Agreed Risk Owner	Cabinet Member Strategic Lead	Gross Score (without controls)			Existing Controls & Evidence	Net Score (as it is now)			Planned Actions
					Likelihood	Impact	Total Score		Likelihood	Impact	Total Score	
					L	I	Lx I		L	I	Lx I	
1	Service Delivery Prioritisation: Risk that poor management of service prioritisation causes ineffective and inefficient delivery of services such that we fail to achieve our key priorities and corporate objectives.	All	Erika Wenzel, Chief Executive	Cllr Wesley Fitzgerald	3	4	12	A robust business planning process which has started for the planning cycle for 2011-2014. There is an efficiency / challenge process with senior members and officers reviewing the efficiency of service delivery areas. Weekly business planning group meeting with key Council staff members from Finance, Policy and Performance and Corporate Improvement. A documented service planning process making the links between services and the overall corporate plan. Quarterly performance reporting to Cabinet and CMT and a suite of mostly national indicators. Quarterly reporting to the PACE Executive on key performance outcomes. Reports include updates on mitigating actions. There are a series of external inspections and assessments which help ensure that resource and service delivery is effective (for example, OFSTED, CQC, Audit Commission). The sustainable community strategy was developed through major consultation and in conjunction with other key strategies for example the transport strategy and the local development framework. The 7 key priorities of the SCS are being used by the LAPS and all Strategic Partner Organisations to prioritise delivery. We have a comprehensive financial planning process which is now aligned to the overall business planning process and a mor	3	4	12	An improved service planning process, which includes a review of previous service delivery and is better linked to the financial planning process for the 2011/12 year. Establishing more robust performance management across all service areas including implementing a new ICT system and periodic Portfolio Holder Challenge meetings. Improved business intelligence through the Joint Strategic Needs Assessment and individual research analysis through MOSIAC. Undertake and utilise the findings of the Quality of Life Survey of Cheshire East residents. Use the priorities within the SCS to continually develop the LAP delivery plans and report to the PACE Board.
2	Financial Control : Risk that the Council fails to manage expenditure within budget and maintain an adequate level of reserves, thereby threatening financial stability and service continuity and preventing the achievement of corporate objectives.	All	Lisa Quinn, Borough Treasurer	Cllr Wesley Fitzgerald	4	4	16	CFO is professionally qualified, report directly to the Chief Executive and is a member of the Corporate Management Team. Experienced, dedicated Finance Team with significant complement of professionally qualified and part qualified staff. Clearly defined financial roles, responsibilities and decision making processes, set out in the Council’s Constitution, Finance & Contract Procedure Rules and local Schemes of Delegation. Standard templates for Member level decisions require financial implications and risks to be clearly set out. Fully integrated financial management system (Oracle), with comprehensive system access and security controls. Well developed suite of financial reporting tools providing scheduled and ad-hoc reports for management and monitoring purposes. Robust medium term financial planning linked to service performance and corporate objectives, as part of the corporate Business Planning process. Reserves Strategy incorporating specific analysis of financial risks, forward forecasting and assessment of the adequacy of general balances. Quarterly financial updates, incorporating variance analysis and out-turn projections at service level and overall assessment of impact on balances. On-going review by Internal and External Audit teams, of the adequacy and effectiveness of financial and management controls. Robust anti-fraud and corruption framework comprising :- Anti Fraud & Corruption Strategy, Benefits Anti- Fraud and Corruption	3	4	12	Review on-going impact of current out-turn projections as part of budget setting and forward financial planning. Develop financial training programme to ensure clear understanding of roles and responsibilities and promote financial literacy at officer and member level. Identify key cost drivers for significant service activities and develop appropriate monitoring arrangements to allow for early identification of out-turn issues. Contribute to the development of the Business Management model and supporting back-office processes, with a view to improving transactional compliance and the accuracy, timeliness and completeness of financial information. Implement Oracle R12 upgrade, including financial reporting enhancements. Support managers to make best use of on-line and self-serve reporting tools, including financial ‘dashboards’. Develop budget risk assessments to ensure resources are focussed on high risk budgets and issues. Provide financial support to a range of transformation and improvement projects and initiatives with a view to securing long term financial
3	Community Safety: Risk that ineffective management of community safety causes poor perception and poor provision of safety, leading to an increase in anti-social behaviour and impacting on our ability to enhance the Cheshire East environment and improve opportunities for all.	3, 4 & 5	John Nicolson, Strategic Director Places	Cllr Rachel Bailey	4	3	12	Dedicated Senior Management Post and Team for the development and monitoring of safer and stronger communities. Safer Cheshire East Partnership (SCEP) as part of the Crime Disorder Reduction partnership (CDRP) made up of all 6 statutory partners i.e. Cheshire East Council, Police, Police Authority, Fire Service, Primary Care Trust and Probation Service. There are 6 thematic working groups within the SCEP for each priority area, for example, groups may look at town centre problems or anti-social behaviour in a specific area. There are fortnightly meetings on joint tasks and co-ordination around many areas where the partners share information and statistics and agree on specific actions for issues (e.g. Halloween / bonfire night advice, events etc.) National Indicators are presently used to measure how well Cheshire East Council is performing which are collected quarterly and are reviewed at SCEP meetings. If any indicators give cause for concern then action plans are agreed and taken forward through a thematic group. Cheshire East Council may give funding for intervention on particular theme problems such as funding a resource to talk about alcohol issues. Evidence of the controls is through the organisation structures, partnership meeting minutes and actions and data held on pe	2	3	6	To streamline the partnership structures such that the focus is on delivery rather than strategic areas. Plans to look at performance measures in place and to review how effective actions taken and outcomes have been. Look at performance areas and ensure prioritisation of these from a funding viewpoint.
4	Vulnerable Children: Failure to recognise and act accordingly to safeguard and mitigate the risks of significant harm to children, resulting in an inability to ensure better outcomes in life and possible death.	1, 3 & 5	Lorraine Butcher, Director of Children & Families	Cllr Hilda Gaddum	4	4	16	A robustly chaired and managed local Safeguarding Children Board (includes partners) Appropriately skilled and trained workforce in Childrens Services Robust monitoring of safeguarding procedures by other agencies. Spot need early through early intervention mechanisms through the Childrens Trust. Sound recruitment processes.	3	4	12	Bedding in quality assurance of safeguarding activity. Implementation of integrated model for targeting early intervention and prevention. Continuing to improve the quality of care assessments and initial assessments. Strengthen the ‘front-door’ processes for access and referrals into appropriate services.

Risk Ref	Risk Description	Corporate Objectives Ref	Agreed Risk Owner	Cabinet Member Strategic Lead	Gross Score (without controls)			Existing Controls & Evidence	Net Score (as it is now)			Planned Actions
					Likelihood	Impact	Total Score		Likelihood	Impact	Total Score	
					L	I	Lx I		L	I	Lx I	
5	Vulnerable Adults: Failure to recognise and act accordingly to safeguard and mitigate the risks to vulnerable adults, resulting in an inability to ensure better outcomes in life for the most vulnerable , undermining the reputation of the Council and possibly resulting in significant legal and financial consequences.	1, 3 & 5	Phil Lloyd, Director of Adult, Community Health & Wellbeing Services	Cllr Roland Domleo	4	4	16	Local Safeguard Adults Board, Local Safeguarding Childrens Board, Cheshire East Domestic Abuse Partnership and Domestic Abuse Family Safety Unit, MARAC – Multi-Agency Risk Assessment Conference as the Police lead on potentially dangerous persons, MAPA – Multi-Agency Protection Arrangements (for those in the criminal justice system). Safeguarding Services undertake quality monitoring with the Council and other external providers. Contract section undertakes contract compliance checks with providers. Critical review of practice. Meet with Care Quality Commission. Training is undertaken by all stakeholders including basic safeguarding awareness. Electronic system PARIS captures referrals and investigation reports. Work with Partnership Safeguarding Boards with statutory organisations such as the Police, Fire Service, PCT and Acute Health. Recruitment checks for people working in children and adult care including CRB checks. Risk assessments undertaken and reviewed through local independent living teams. ‘Critical Few’ List most vulnerable individuals reviewed at Director level through ‘supervision’ discussions monthly. Emergency Duty Team in place across both Children’s and Adults Services. Approved mental health professionals and best interest assessors to ensure best support is provided. Deprivation of Liberty P	2	4	8	Prevention activity - raising awareness within Cheshire East on adult abuse and adult protection and related information. How to report concerns to professionals to access help.
6	Equality Gap: Risk that we fail to accurately recognise community needs and/or address those needs by taking the most appropriate action to close the equality gap across Cheshire East, thus preventing us from improving life opportunities and health for all.	1, 3 & 5	Phil Lloyd, Director of Adult, Community Health & Wellbeing Services / Lorraine Butcher, Director of Children & Families	Cllr Roland Domleo / Cllr Hilda Gaddum	4	3	12	Target resources to meet needs of community, targeted local delivery. Targeting initiatives re closing the equality gap, e.g. free school meals. Targeted drive around education attainment for children in care. Target approach to reduce teenage conceptions. Targeted support for transition into work for cared for children. Sustainable strategy identified as a key priority and is addressing health priorities e.g. Drive at the causes of poor health. Recession mitigation working group aims to mitigate the impact of the recession on business and residents of Cheshire East. Cabinet approved Equalities Action Plan.We commission an interpretation service for assessments as part of the commissioning strategy. Quality impact assessment on commissioning strategies. Personalisation offers a more tailored approach to meeting people’s needs. Discussion with key agencies re gypsies and travellers so that we can undertake a bespoke approach to support. Corporate Equalities Group and Equalities Group for Adults, specific post re Quality Impact Assessments until end of March. Joint strategic needs assessment tells us about the needs of our population based on demographics.	3	3	9	Need to maintain a sphere of influence Embedding targeted work at a locality level Strengthening the advocacy for vulnerable children who are living at the margins (White Paper will clarify LA role and responsibilities in respect of holding schools to account)
7	Partnerships: Risk that we fail to effectively engage with partners (third parties/private sector/voluntary sector) and/or lack the ability to fund partnerships, resulting in lack of service delivery affecting service users, poor reputation, and damage to future engagement opportunities and our ability to be an excellent council, working with others to deliver for Cheshire East.	All	Vivienne Quayle, Head of Policy & Performance	Cllr David Brown	4	4	16	Strong partnerships between LA and education providers Strong volunteering and faith sector in Cheshire East Governance structure with Partnership Agreement to support this approved by Audit & Governance and adopted by Local Strategic Partnership Executive Board. Partnerships management group which is an operational group to catch-up and ensure that aims are working in practice and that delivery has taken place. Regular meetings with Cheshire CVS (Council Voluntary Services) which is an umbrella organisation to ensure effective engagement. Cross working group with the community and voluntary sector to look at how we engage and fund activity at a strategic level. Clear structures in place through the sustainable community strategy business plan with 7 key priority areas. We have a strategic partnerships team and there are key staff across the organisation to work and facilitate actions with key partners. We work at a sub-regional level and are included in sub regional structures such as the Leaders Group which includes the 3 Council Leaders for Cheshire East, Cheshire West and Warrington and the Chief Executives for the Fire Service and Police Auth We work with 160 voluntary groups and each has a separate agreement with the Council. Presently continue to review performance against Local Area Assessment (LAA) Strategy and measures.	2	3	6	Threat of reduced financial capacity but also opportunity that we might be able to achieve same or better – more focused commissioning. Reviewing our service delivery against reduced funding may lead to more effective targeting. Joint commissioning with partners through Children’s Trust. Best value principles Working more effectively with parents. Ensure each service looks at how we facilitate effective partnership working. Partnerships Business Manager will review significant operational risks in relation to Partnership themes from services and directorates. Continual review of new and emerging governance arrangements re partnerships to ensure they are robust and fit to deliver. Will review the performance management framework and key indicators post LAA.

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					Likelihood	Impact	Total Score		Likelihood	Impact	Total Score	
					L	I	Lx I		L	I	Lx I	
8	Health Partnerships: Risk that we fail to integrate with Health partners, resulting in fewer opportunities to maximise health benefits and reduced efficiency gains, and affecting our ability to meet our corporate objectives to work with others to improve health.	1 & 3	Phil Lloyd, Director of Adult, Community Health & Wellbeing Services / Lorraine Butcher, Director of Children & Families	Cllr Andrew Knowles	4	4	16	Through Children’s Trust have coordinated activity – e.g. reduce teenage pregnancies, improving immunisation rates – reducing childhood obesity. Working on joint commissioning with progress report due in new year. Devolved to GPs discussion whether GPs wish to retain commissioning or for this to be done across the Borough. Set up partnership arrangements with GP Consortia – this has been received well. Transition Plan for transition element of PCT to Cheshire East. Transition Board has been set-up and meets regularly. Commitment from CMT to strengthen the Joint Strategic Needs Assessment (JSNA) in order to meet the challenges of the future health arrangements. Growing awareness and knowledge of health landscape and changes internally (weekly briefings to Chief Executive) Senior post oversight of health agenda. Work already going on in Adults Directorate to integrate the Commissioning and service delivery models with other health care providers.	3	4	12	Development of Health and Wellbeing Board Public Health transferring to LA Targeted locality work around early intervention Joint commissioning Establishing working with GP consortia and health professional Health and Wellbeing Board to come into being from Apr 13 but will be in shadow form beforehand. LSP and thematic groups will require a review. Considering integrating continuing healthcare with local authority e.g. assessment warrants full healthcare such as residential care or nursing care Strengthening the public health transition plan. Public Health White Paper gives expectations. CMT decided to take step route to development of the JSNA. Developing a NHS Transition Programme.
9	Education: Risk that we fail to manage and maintain effective educational provision resulting in poor educational standards and affecting our ability to improve life opportunities.	2, 3 & 5	Lorraine Butcher, Director of Children & Families	Cllr Hilda Gaddum			0	Identification and documentation of this risk is on hold pending the digestion of the Schools White Paper 'The Importance of Teaching'			0	
10	Workforce: Risk that we fail to retain and motivate an effective and engaged workforce, such that the staffing infrastructure fails to support the Council in being excellent and achieving the corporate objectives.	All	Paul Bradshaw, Head of HR & Organisational Development	Cllr Peter Mason	4	3	12	Workforce Planning / Workforce Development Planning – Document owned by Organisational Development. Bespoke CEC People Strategy in place – Available on Intranet (owned by HR Strategy), progress to be reported to Staffing Committee annually. Harmonisation & Equal Pay / Job Evaluation – to be completed in 2011. Positive relations with Trade Unions – ongoing. Evident at Corporate TU meetings and through Staffing committee. Learning & Development – Corporate Training Programme now in place for all staff. Health & Safety – Corporate H&S team that work closely with service to minimise risk and identify H&S risks. Equalities & Diversity – Single Equality Scheme Action plan. Modern apprenticeships - opportunities to recruit and develop young people. Exit interviews – to better understand why people leave the organisation and what we can learn from that (to improve retention of key members of staff). Staff Survey and follow up ‘People’ focus groups – Assess staff motivation and engagement levels through the staff survey and follow up actions/improvements through the focus groups. Recognition Scheme (based on ASPIRE) – Corporate recognition scheme that not only rewards and recognises.	3	3	9	Further develop workforce plans and workforce development plans at service level. Succession planning Framework to be designed and implemented. Implement Oracle Learning Management to better enable the Council to manage development resources and identify skills gaps in key areas. Development of a Stress Management Toolkit jointly with HR, H&S and OHU to further support employees.
11	Opportunities: Risk that we fail to position the Authority to maximise opportunity, resulting in an inability to build up potential, capability and resource to respond to future needs and a sustainable Cheshire East.	All	Erika Wenzel, Chief Executive	Cllr Wesley Fitzgerald	4	3	12	Sub-regional partnership working and group architecture. Leader and Chief executive meet regularly with their equivalents across the sub-region to ensure joint working and maximising opportunities of working together. We are heavily involved in work to establish a Local Enterprise Partnership (LEP). We have joined the AGMA – Association of Greater Manchester Authorities and are able to make connections and realise benefits of working with the Manchester region. Presently undertaking work on Shared Services and have conducted a workshop with Cheshire West & Chester and four other local authorities to get people to buy into the shared services model. In light of increased freedom for local authorities through localism, we are looking to identify opportunities as well as efficiencies through the Local Strategic Partnerships.	3	3	9	Joint working with health partners to integrate public health activity and maximise opportunities for improving health outcomes and reduce inefficiencies. As part of Service Planning process and review, maximising external opportunities will be an integral aspect. Total Place Activity sponsored through PACE Board will assist in maximising opportunities across all partner aims.

Risk Ref	Risk Description	Corporate Objectives Ref	Agreed Risk Owner	Cabinet Member Strategic Lead	Gross Score (without controls)			Existing Controls & Evidence	Net Score (as it is now)			Planned Actions
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					L	I	Lx I		L	I	Lx I	
12	Long-Term Planning: Risk that we fail to plan effectively for long term success, threatening the future viability and sustainability of Cheshire East.	All	Erika Wenzel, Chief Executive	Cllr Wesley Fitzgerald	3	4	12	Sustainable Community Strategy has a 15 year vision with priorities. Local transport plan and local development framework all have 15 year time horizons. Regeneration strategy work underway for Crewe and Macclesfield which is key for long-term planning for a sustainable Cheshire East. Monthly meeting of Place Shaping Group – this is cross-directorate and ensures joined up thinking of services such as transport, housing, health and well being, local development framework and economic development. Ageing Well Strategy is a 5 year plan from April (includes Dementia Strategy), on the Adult, Community and Wellbeing side there are plans to shift resource in the long-term from reaction to prevention. There is a ‘Lifestyle Concept’ to integrate health and well being in adults to create a healthier population to reduce the demand on health and well care services. A robust business planning process (including financial planning, staffing and organisational structure planning) which has started for the planning cycle for 2011-2014. There is an efficiency / challenge process with senior members and officers reviewing the efficiency of service delivery areas.	3	3	9	Make better link with Ageing Well Strategy Integration of NHS activities. Horizon scanning. Working with strategic partners to link all organisations to 7 priorities in the SCS Targeted activities through the LAPS based on ‘Total Place’ concept. Joint planning with the LEP. Formal process to escalate issues to MPs and lobby where appropriate. Implementation of the Transformation programme.
13	Transformation: Risk that we fail to manage the scale of change of transformation projects to effectively and efficiently shape our services, deliver essential benefits, resulting in a possible loss of continual improvement and a possible inability to deliver our key corporate objectives.	All	Ceri Harrison, Head of Corporate Improvement	Cllr Wesley Fitzgerald	4	4	16	Dedicated post and team reporting directly to Chief Executive and member of Corporate Management Team, responsible for the development and monitoring of the corporate improvement programme. A revised transformation programme for the whole Council has been produced and presented to CMT. Service specific resources dedicated to the delivery of major improvement and transformation projects with individual governance arrangements. Some programme management methodology in place. Some external consultancy and advice currently employed to assist with transformation.	3	4	12	The Corporate Improvement Team will provide quality assurance of project and programme management and ensure that project plans are robust and deliverable. The team are introducing and will be using consistent methodology for projects through the use of Sharepoint etc. It is planned to launch a project management system integrated with business planning and the CorVU system. The Corporate Improvement Team will ensure that all projects have a completed Project initiation Document (PID), clearly stated milestones, comprehensive benefits realisation plans, and risk and issues logs will exist for every project. The improvement service will ensure that these plans are reported against on a regular basis and that action is taken accordingly. The governance arrangements are currently being reviewed and a transformation / corporate improvement steering group will be developed. This will be lead by the Leader of the Council and will be created to ensure the review of all activity across the Council and the Group will monitor performance and progress of the projects. The Team in partnership with CMT will develop the cultural aspect of transf
14	Information, Research & Business Intelligence: Risk that we fail to invest in / make effective use of information / business intelligence, which leads to poor decision making, and undermines our ability to effectively and efficiently deliver the corporate objectives.	All	Vivienne Quayle, Head of Policy & Performance	Cllr David Brown	4	4	16	There is a dedicated business intelligence team and there are Service Planners within Adult and Childrens Services who use data to influence future planning. There is a core data set contained with the Joint Strategic Needs Assessment (JSNA) which is used to influence commissioning of health provision and adult social care. New performance management system – CorVu has been purchased and is currently being implemented (phase 1 underway). We have set of performance indicators that are regularly reported on to Cabinet, Scrutiny and CMT. Working at sub-regional levels ‘DORIC’ about efficiency savings and developing sub-regional links with Cheshire West and Warrington. Research team tools such as Mosaic to profile and plan where services are best aimed and delivered. Use of the PARIS system by both Childrens Services and Adult Services to ensure future service planning. Supporting the census to improve the comprehensiveness of intelligence to understand the people and demographics for Cheshire East. Economic forecasting providing information particularly to Regeneration Team. Undertaking the Quality of Life Survey. We have an Equality and Diversity Policy and Action Plan based on current data. Use of inspection outcomes and reports to improve delivery and ensure continuous improvement of service.	3	4	12	Using the 2011 census to improve the comprehensiveness of intelligence to understand the people and demographics to influence service planning for Cheshire East. Disaggregating information from all sources (e.g. census, previous surveys, economic analysis) by people and LAP areas. Implementing the Action Plan from the Quality of Life Survey. Implementing the Action Plan for Equality & Diversity. Developing improvement actions against the performance indicators. Adapting the performance indicators to the localism agenda and the single data set. Implement the findings of the JSNA peer review to better use the data to influence commissioning. Develop culture and raise awareness of better use of business intelligence to make decisions. Review the action taken as a result of the mosaic reports.

Risk Ref	Risk Description	Corporate Objectives Ref	Agreed Risk Owner	Cabinet Member Strategic Lead	Gross Score (without controls)			Existing Controls & Evidence	Net Score (as it is now)			Planned Actions
					Likelihood	Impact	Total Score		Likelihood	Impact	Total Score	
					L	I	Lx I		L	I	Lx I	
15	Reputation: Risk that consideration is not given and management action is not taken, to effectively maintain the reputation of the Council, leading to a loss of public confidence, threatening the stability of the Council and our ability to deliver the corporate objectives.	All	Vivienne Quayle, Head of Policy & Performance	Cllr David Brown	4	4	16	The democratic process and the constitution ensures the openness and authorisation of decision making. Media Relations Protocol agreed by Cabinet and published on Centranet Media Relations Training in place in Members Training programme Members of Communications Team attend Directorate DMT's Member of Media Relations Team on call 24/7 Media monitoring service that reports on positive, negative and neutral coverage which is used to influence Cabinet members on informing the Communications Team and Senior Managers about issues earlier. Communications Team have a slot on the Induction Session – will cover what is reputation management, why it is so important, when it goes wrong and when it goes right, how measure on collective basis – tips and hints. We have Customer Services standards and a Customer Services Strategy We have a Customer Complaints Process We have a corporate objective “Being an excellent Council and working with others – to deliver for Cheshire East” and Service Plans that link to Corporate Objective. We did a Quality of Life Survey to gain customer feedback on a variety of issues including the Council’s reputation. We did a ‘mystery shopping’ survey on customer outlets to assess the effectiveness of service and have an Action Plan as a result. Strong quality control within the Contact Centre, we record every call and there is a training officer that reviews and gives feedback. We undertake proactive campaign management, for example, Love Food Hate Waste. Democratic Services maintain a risk register for the elections process.	4	4	16	Reputational Management Strategy to be drafted. Wider training on reputational management based on the strategy. Ownership and awareness of customer service standards. Learning from Customer Complaints Setting performance measures for customer standards for individuals. Measure output of service plans to ensure that we achieve the individual and corporate objectives (obj 5). Drafting an Action Plan as a result of the Quality of Life Survey. Further developing the Mystery Shopper Survey across other areas. To include a prompt within the decision making process about Reputation Risk. To further utilise the media monitoring service that reports on positive, negative and neutral coverage to inform and develop future strategies.
16	External Environment: That development and changes as a result of government policy and reviews, such as the comprehensive spending review and the abolition of some quangos, compromise the Council’s ability to deliver its key strategic aims.	All	Erika Wenzel, Chief Executive	Cllr Wesley Fitzgerald	4	4	16	The Council subscribes to a number of national research and analysis networks/services to obtain up to date information on the latest policy and financial developments, so that key changes can be reflected in planning assumptions , policy reviews and financial modelling. The Council participates in national consultation exercises, surveys etc, and briefs local MPs and MEPs, with a view to influencing and informing national policy thinking and ensuring CEC’s position is fully represented regionally and nationally. Members and CMT are regularly briefed on finance and policy developments, so that decision making can take into account key issues and changes for CEC. The Council works through research and lobby groups, and through professional associations to promote national debate on issues of key local interest e.g. balances of funding review. Round table discussions are had through the LSP to undertake horizon scanning and raise topics that may impact on other partners. Director of Adult, Community and Wellbeing Services is a member of the Association of Directors of Adult Services, this is a powerful body that negotiates with Government regionally and nationally and gives good advice and information to Directors	4	3	12	To improve joint working with policy and affairs to pool thinking. Tailoring the Policy Briefings specifically to Cheshire East and ensuring actions are taken.

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**Corporate Risk Management Group
Terms of Reference**

Purpose & Scope: To assist the Council with the management of risks to achieving its strategic priorities and service delivery by reviewing all matters concerning the development, maintenance and implementation of the Council's risk management framework, including monitoring and reporting arrangements.

Responsibilities:

- To develop, adapt and maintain a formal framework for the management of strategic and operational risks, ensuring there is no disconnect with the Council's strategic priorities and objectives.
- Group members to be a catalyst for embedding risk management in corporate business processes through their role as being departmental risk champions.
- To develop the corporate risk register, ensure the completeness and accuracy of risks recorded and undertake ongoing review, monitoring and reporting of these risks.
- To provide a medium for ensuring that significant operational risks that may affect the achievement of the Council's objectives are escalated and reviewed alongside the Corporate Risk Register.
- To monitor the implementation of actions to mitigate the corporate and most significant risks to acceptable levels and ensure the effectiveness of the escalation and cascade processes.
- To ensure that risks are assessed consistently across the Council and to propose levels of risk acceptability for CMT approval.
- To review and monitor significant new and emerging corporate and operational risks and mitigating actions.
- To receive and review significant risks in relation to partnerships, shared services and key projects that may impact on the achievement of one or more of the Council's objectives
- To gain assurance from specialist risk management functions, such as health & safety and insurance, that risks are being effectively managed.
- To receive information from the Compliance Unit on trends, generic and cross-directorate risks to identify where these risks can be addressed corporately.
- To provide an assurance to the Audit & Governance Committee that risks of all types are identified, monitored and controlled to an acceptable level.
- To report on any issues and make recommendations to CMT and Audit & Governance Committee on any action required to enhance the effectiveness of the risk management procedures and outcomes.
- To provide a quarterly report on the management of the corporate and most significant risks to the CMT, Cabinet and Audit & Governance Committee.
- To review and monitor risks in relation to specific area needs as and when required e.g. climate change, health & safety and insurance.
- To monitor the progress and status of business continuity planning and the Council's level of resilience and report quarterly to the Corporate Management Team, Cabinet and Audit and Governance Committee on this.

Membership:

Cllr David Brown, Portfolio Holder for Policy & Performance (in the Chair)
Vivienne Quayle, Head of Policy & Performance
Paul Bradshaw, Head of HR & Organisational Development
Ceri Harrison, Head of Corporate Improvement
Peter Hartwell, Head of Safer & Stronger Communities
Christine Mann, Finance Manager
Jackie Gray, Shared Services Manager
Urvashi Bramwell, Planning & Performance Manager
Pauline Walsh, Manager of Joint Commissioning & Standards (Adult Services)
Catriona Thompson, Head of ICT Security
Sandra Smith, Compliance Unit Manager
Jon Robinson, Audit Manager
Joanne Butler, Risk and Business Continuity Officer

Additional members with specialist expertise may be co-opted as required.

Secretary: Compliance Unit

Frequency and timing of meetings:

6 times a year

Scoring Chart for Risk

APPENDIX D

Scoring chart for IMPACT

	Factor	Score	Effect on Corporate Objectives	Effect on Service/Project	Embarrassment/ Reputation	Personal Safety	Financial Implications
THREATS	Critical	4	Critical impact on corporate objectives and performance and could seriously affect reputation. Long term damage that may be difficult to restore with high costs.	Service - Major loss of several important areas. Disruption 5+ Days Project - Complete failure or extreme delay (3 months or more)	Adverse and persistent national media coverage Adverse central government response	Death	> £1m Or >£5m for corporate risks
	Major	3	Major impact on corporate objectives and performance, could be expensive to recover from and would adversely affect reputation in the medium to long term.	Service - Complete loss of an important area. Major effect to services in one or more areas for a period of weeks Disruption 3-5 Days Project - Significant impact on project or expected benefits fail/ major delay (2-3 months)	Adverse local publicity of a major and persistent nature Adverse publicity in professional/municipal press arena	Major injury	Between £1m and £500,000
	Significant	2	Significant impact on corporate objectives, performance and quality, could have medium term effect and be potentially expensive to recover from.	Service - Major effect on an important area or adverse effect on one or more areas for a period of weeks Disruption 2-3 Days Project - Adverse effect on project/ significant slippage (3 weeks–2 months)	Adverse local publicity /local public opinion aware	Severe injury	Between £500,000 and £100,000
	Minor	1	Minor impact on the corporate objectives and performance, could cause slight delays in achievement. However if action is not taken, then such risks may have a more significant cumulative effect.	Service - Brief disruption of important area Significant effect to non-crucial service area Disruption 1Day Project - Minimal impact to project/ slight delay less than 2 weeks	Complaint from individual/small group	Minor injury or discomfort	Less than £100,000
OPPORTUNITIES	Exceptional	4	Result in major increase in ability to achieve one or more strategic objectives	Major improvement to service, generally or across a broad range	Positive national press National award or recognition by national government	Major improvement in health, welfare & safety	Producing more than £50,000
	Significant	3	Impact on some aspects of the achievement of one or more strategic objectives	Major improvement to service or significant improvement to critical service area	Recognition of successful initiative Sustained recognition and support from local press	Significant improvement in health, welfare & safety	Producing up to £50,000

Scoring Chart for Risk

APPENDIX D

Scoring Chart for LIKELIHOOD

Factor	Score	THREATS - Description	Indicators	OPPORTUNITIES (Favourable Outcome) - Description	Indicators
Very likely	4	>75% chance of occurrence	Regular occurrence Frequently encountered - daily/weekly/monthly	>75% chance of occurrence or achieved in one year.	Clear opportunity, can be relied on with reasonable certainty to be achieved in the short term.
Likely	3	40% - 75% chance of occurrence	Within next 1-2 yrs Occasionally encountered (few times a year)	40% to 75% chance of occurrence. Reasonable prospects of favourable results in one year.	May be achievable but requires careful management. Opportunities that arise over and above the plan.
Unlikely	2	10% - 40% chance of occurrence	Only likely to happen 3 or more years	<40% chance of occurrence or some chance of favourable outcome in the medium term.	Possible opportunity which has yet to be fully investigated by management.
Very unlikely	1	<10% chance of occurrence	Rarely/never before	<10% chance of occurrence	Has happened rarely/never before

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Risk Matrix – Likelihood and Impact

Likelihood						THE RISK MATRIX (With Scores)			
Very Likely	4	LOW	MEDIUM	HIGH	HIGH	4	8	12	16
Likely	3	LOW	MEDIUM	MEDIUM	HIGH	3	6	9	12
Unlikely	2	LOW	LOW	MEDIUM	MEDIUM	2	4	6	8
Very Unlikely	1	LOW	LOW	LOW	LOW	1	2	3	4
Impact		Minor 1	Significant 2	Serious 3	Major 4				

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting: 25 January 2011
Report of: Head of Policy & Performance
Subject/Title: Compliance with Data Protection Act (1998), Freedom of Information Act (2000) and Environmental Information Regulations (2004)

1.0 Report Summary

- 1.1 The Compliance Team within Internal Audit manages and coordinates the corporate response to requests for information, in accordance with the Data Protection Act 1998 (DPA), Freedom of Information Act (2000) (FOI), and the Environmental Information Regulations (2004) (EIR). This report aims to provide an update on how Cheshire East Council fulfils its obligations under this legislation, as well as to highlight volumes of requests, trends and current and future issues.

2.0 Recommendation

- 2.1 That the Committee note the processes in place to ensure that the Council complies with the relevant legislation and is sufficiently well-informed and well-positioned to effectively handle any future demands, changes and/or developments to the legislation.

3.0 Reasons for Recommendations

- 3.1 In order to form an opinion on the Council's compliance with this legislation, the Audit and Governance Committee needs to gain assurance that there is an established and effective process in place, together with adequate and trained resource to fulfil all FOI and DP requests in a timely and appropriate manner.

4.0 Wards Affected

- 4.1 All

5.0 Local Ward Members

- 5.1 All Ward Members

**6.0 Policy Implications including - Climate change
- Health**

- 6.1 Compliance with Freedom of Information and Data Protection legislation is integral to effective management of information within the Authority. Effective records management is essential to satisfy regulatory requirements, facilitate good business administration and allow us to be accountable for our actions. Freedom of Information legislation and Environmental Information regulations make public bodies open and transparent, whilst Data Protection legislation protects personal data from improper use. It is essential, therefore, that all relative policies and procedures take account of these regulations.

7.0 Financial Implications (Authorised by the Borough Treasurer)

- 7.1 Failure to comply with the legislation can lead to large fines being imposed on the Council. The current maximum penalty for breach of Data Protection or non-compliance is £500,000. Non-compliance with FOI can lead to enforcement action by the Information Commission or possibly costly court proceedings and reputational damage.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 The Council has an obligation to comply with the legislation set out in 1.0 above. The Information Commissioner, who is responsible for enforcing compliance, issues guidance on how compliance is to be achieved.

9.0 Risk Management

- 9.1 The impact on the Council of not complying with the legislation would be significant, as identified above, and may prevent achievement of the corporate objective of "Being an excellent Council and working with others to deliver for Cheshire East".

10.0 Background

- 10.1 The Compliance Team (consisting of 2 fte) manages and coordinates the corporate response to requests for information, in accordance with the above legislation. They act as a source of training, expertise and advice on the legislation, its developing use and interpretation, and ongoing guidance from the Information Commissioner. Requests must be responded to within the statutory timescales of 20 working days for FOI requests and 40 calendar days for DP Subject Access requests. With regard to FOI, any recorded information held by the Council can be requested, even if it has been created by another organisation, and the Council does not 'own' it, e.g. contractors, suppliers and partner organisations. Information may include electronic and paper records, handwritten notes, videos, photographs, e-mails and even diaries.

- 10.2 Since the inception of the Council, over 2000 requests for information have been received, with almost all of these being responded to within the statutory timescales. Many requests are 'round robin' requests which are also sent to other Local Authorities, and a number of requests are received via the "What Do They Know" website, with the Council's response being published directly onto this website.
- 10.3 The number and complexity of requests being received is increasing. From April 2010 to date (nine months) 1018 requests have been received, compared with just under 1000 in 2009/2010. Of these 1018 requests, 738 were for FOI, 175 for DP and 105 for EIR. A similar tendency is reported by neighbouring councils and has also been noted in the Information Commissioner's Annual Report for 2009/10 as a national increase in the public take up of the rights conferred under FOI/DP legislation. Both the increase in the number of requests and the increased use of email reflect an increasing level of awareness of access to information legislation. However, it is worthy of note that this year has also seen an increase in the number of requests that require specific consideration under the Environmental Information Regulations.
- 10.4 The legislation does not require the requestor to state the reason for the request and, with the increasing use of e-mail, the identity and motivation of requestors becomes difficult to define. However, basic analysis of the requests received to date suggests that the requestors may be categorised as follows:

Individuals	40%
Commercial organisations	33%
Press/Media	13%
Public Sector (Police, HMRC, CSA, Other LA's)	10%
MP's/Councillors	2%
Campaign/Pressure Groups	1%
Students	1%

- 10.5 Requests relate to all areas of the Council's operations, but the largest number of requests was received for the following areas:

Children and Families	16%
Land Search Charges	10%
Council Tax	9%
Finance	7%
HR	6%
Planning	6%
Adult Services	4%

As can be seen from the above figures, a significant number of requests this year have related to Land Searches. Local authorities have been particularly targeted by Property Search companies in their

desire to gain access to local authority data. In previous years, Councils have been able to charge for the provision of information on properties. However, under the Environmental Regulations, Councils are now expected to provide this information free of charge.

- 10.6 Where information is not to be released, a refusal notice is issued and the requestor is able to, firstly, request an internal review, and then to appeal to the Information Commissioner for a decision if they remain unhappy with the Council's decision. Information is only withheld in a small number of cases. There are currently two appeal cases outstanding with the Information Commissioner and, to date, two Decision Notices have been made against the Council (relating to Land Search Charges).

10.7 Fees and Charges

The Council is able to charge £10.00 for all DP subject access requests. With regard to FOI requests, these cannot generally be charged for, other than to cover the costs of photocopying and postage. However, where it is likely to take more than 18 hours of an officer's time to locate, retrieve and extract information, then a charge can be imposed and a Fees Notice is issued.

10.8 Data Protection Issues

A serious breach of the Data Protection Act, e.g. loss or inappropriate disclosure of personal data, could incur a financial penalty of up to £500,000. The Information Commissioner was given the power to impose such penalties in April 2010 and issued his first penalty of £100,000 in November, 2010, to Hertfordshire County Council. The breach involved sending details of a child sex abuse case to a member of the public, instead of a barrister, by fax. The Compliance Team tries to ensure that officers are fully aware of the requirement to ensure that sensitive personal data is handled and communicated in a secure way.

- 10.9 The Compliance Team conducts training sessions with Services to ensure that officers are clear about their responsibilities under the Data Protection Act 1998 to protect personal data from improper use. E-learning packages are also available on Centranet.

- 10.10 Work is also underway on the streamlining of access to social care records. The Data Protection Officer meets on a regular basis with Legal Services and Social Services to tighten procedures and determine an appropriate pathway for requests, which will give a single point of contact for clients and alleviate social worker time in reviewing files before they are disclosed.

- 10.11 A further area of work is in information sharing. A number of areas within the Council share data with partner agencies and work is in progress to establish information sharing protocols where necessary.

11.0 Access to Information

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

Name: Sandra Smith
Designation: Compliance Unit Manager
Tel No: 01270 685865
Email: sandra.smith@cheshireeast.gov.uk

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CHESHIRE EAST COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 25 January 2011
Report of: Head of Internal Audit & Compliance
Subject/Title: Internal Audit Plan 2010/11 and Update Report

1.0 Report Summary

- 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 September – December 2010 (see Appendix 1).

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 Recommendations

- 3.1 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”.
- 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 Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including - Climate change - Health

- 6.1 Not applicable.

7.0 Financial Implications (Authorised by the Borough Treasurer)

- 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 (Authorised by the Borough Solicitor)

- 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 Management

- 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.

10.0 Background and Options

- 10.1 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.
- 10.2 At the Audit and Governance Committee meeting on 30 September 2010, the Committee was updated on progress against the Audit Plan for the first five months of 2010/11.

11.0 Access to Information

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

Name: Vivienne Quayle
Designation: Head of Policy and Performance
Tel No: 01270 685859
Email: Vivienne.quayle@cheshireeast.gov.uk

Summary of Internal Audit Plan 10/11

Report to Audit and Governance Committee Internal Audit Plan 2010/11 and Update Report 25 January 2011

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 September – December 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

Summary of Internal Audit Plan 10/11

	<p>Management Standard in Schools (FMSiS) review, Social Care redesign and review of controls in material systems such as PARIS.</p> <p>Places e.g. Emergency Planning, Waste PFI, Highways maintenance contract, Car parking, Licensing, Planning & Building Control.</p> <p>Performance & Capacity e.g. Compliance with HR policies, Performance Management including data quality, Communications, ICT audits, Procurement including tendering/commissioning, Asset Management.</p> <p>Cross Directorate, Partnerships, Shared Services e.g. Governance, Service Delivery Planning, Project Management, Business Continuity.</p>
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 reviewed progress against the Council's Annual Governance Statement (AGS) 2009/10 Action Plan (see separate report). Work has also commenced in assisting Management in the production of the Council's AGS for 2010/11.

Core Financial and Fundamental Systems

- 3.2 A major review of Budget Monitoring was concluded in November 2010. The review covered 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.
- 3.3 The key findings from the audit are below. These have been discussed, in the first instance, with the Finance Management Team but a formal

Summary of Internal Audit Plan 10/11

management response will be required from the Corporate Management Team.

- Roles and responsibilities of Business Support, Finance and Budget Managers vary across Directorates.
- Budget managers in some service areas receive good financial support and information from Finance. However, there was concern expressed in other areas that financial support and information was limited and the standard can vary even within the same team.
- Training has been rolled out in some areas and managers are satisfied with the training they have received. However there are still a significant number of operational Budget Managers who have not received any training on how to use Oracle financial modules or received 'Budget Management' training.
- Some operational Budget Managers still do not have the system access they need in order to monitor their budgets effectively.
- Within Adults, Community Health and Wellbeing, decisions have been taken by Members to continue providing services despite the budget being withdrawn as part of ongoing savings.
- Part year costs against nil budgets are being incurred due to the lead in time taken to implement closures identified as part of policy proposals.

- 3.4 An audit of Purchase Cards was undertaken utilising the IDEA (Interactive Data Extraction and Analysis) software. It was found that there were no inappropriate transactions processed from the sample tested; all expenditure related to Council business. However, there is currently no overall Purchase Card Policy in place and it is unclear who the owner of the process is. There is also no clear policy regarding the allocation of Purchase Cards to staff and currently no Contracts Register for the Authority, preventing cardholders from complying with the current Purchase Card guidance.
- 3.5 A follow up review of Debt Management has commenced following the initial audit, findings for which were reported to management in March 2010.
- 3.6 Audits of Revenues and Benefits (i.e. Housing Benefits, Council Tax and National Non Domestic Rates) are well underway. These are focussed on the legacy systems. A new system has recently been introduced and testing on this will be performed in the coming months. Work has also been carried out in supporting the project to implement the new system over the last few months.
- 3.7 Cheshire East's core business system, Oracle is being upgraded to a new release (R12) with a go-live date of early February. Internal Audit,

Summary of Internal Audit Plan 10/11

jointly with Cheshire West and Chester Council's Internal Audit team, has been involved in two main areas of this project:

- Supporting the project workstreams in reviewing the findings of work undertaken by PricewaterhouseCoopers which identified best practice system controls and access rights.
- Reporting back to the Programme Board on whether to progress to the next system iteration and ultimately on the 'go live' decision.

- 3.8 A number of key financial Shared Services system audits, such as Payroll have commenced during the period. This work is being carried out in conjunction with Cheshire West and Chester Council's Internal Audit team and will be reported in the final quarter of the year.

Key Service and Departmental Systems**Adults, Community, Health & Wellbeing/Children & Families**

- 3.9 A series of establishment audits was undertaken across a sample of Adult Services Day Centres and Supported Living Networks. A recent restructure had raised concerns within the services that the control environment was not sufficiently robust. The audits focussed upon the financial management of both official and client funds and clarified the service concerns by identifying specific control weaknesses and appropriate actions required to address these issues.. Individual reports are being provided to managers with a consolidated report identifying common issues and high risk areas is being produced and will be presented to senior management within the service.
- 3.10 A Project Group has been set up within Adults Services to review processes and implement improvements and efficiencies within the broader area of finance across the Service. Internal Audit is represented on this group with a view to ensuring that any system changes retain an appropriate level of internal control to mitigate the risk of loss to the authority.
- 3.11 A review of a number of Contact Centres was undertaken during the period covering areas including income, pricing and assets. This work is still in progress and will be reported in the final quarter.
- 3.12 An audit of Supporting People systems and procedures was undertaken during the period. A small number of recommendations were made relating to contract specifications, security of ICT equipment and review of client eligibility to receive Housing Benefits. Management have responded to and agreed all the recommendations.

Summary of Internal Audit Plan 10/11

- 3.13 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.
- 3.14 A review of Extra Care Housing commenced during the period, focussing on the control around expenditure. This audit will conclude and the findings reported in the near future.
- 3.15 During the period, an audit of the process in place for the accreditation of Cheshire East Schools against the Financial Management Standard in Schools (FMSiS) was due to take place. However, the Government announced in November 2010 that FMSiS would end with immediate effect. Internal Audit is liaising closely with the Schools Finance Team regarding the best way in which to proceed prior to a replacement framework being released by the Government.

Places

- 3.16 A review of the Building Control service was carried out towards the end of the period with the findings to be reported imminently. The audit focussed on risks surrounding income, standard of work undertaken, recovery of costs and application of relevant Standards.
- 3.17 Work was commenced on an audit of the Waste PFI contract. However, this funding was withdrawn as part of the Government's spending review and in response a revised scope for the audit is therefore being discussed with management.
- 3.18 Further work within key high risk areas in Places is planned in the remainder of 2010/11.

Performance & Capacity

- 3.19 A review of ICT Shared Services – Governance and Control was completed during the period with a resultant discussion paper issued to the ICT Manager. Further ICT specific work included:
- Finalising ICT security policies and guidance.
 - Producing draft guidance on seizure of ICT equipment for forensic purposes.
 - Liaison with Cheshire West and Chester's ICT Auditor on proposed joint working.
- 3.20 A review of Contracts and Tendering Processes has recently been undertaken. This focussed on the controls within the e-tendering system that the Authority introduced in April 2010. Findings are due to be reported to management shortly.

Summary of Internal Audit Plan 10/11

- 3.21 Work has commenced on a Performance Management Review. This will focus on three main areas: a follow up to the National Indicator review that Internal Audit carried out in 2009/10, a review of the new Performance Management system and a review of Data Quality.

Cross Directorate, Partnerships, Shared Services

- 3.22 During the period an audit of Shared Services - Governance Arrangements was completed. This review assessed the governance and monitoring arrangements of Shared Services from Cheshire East's perspective. The review concluded that the setting up and maintenance of so many Shared Services was a major achievement for both Authorities although further improvements were still required.

Counter Fraud and Probity

- 3.23 A review of the Anti Fraud and Corruption Strategy against best practice guidance has been carried out and is subject to a separate report to this Committee detailing identified areas for improvement and recommended remedial actions.
- 3.24 A revised Whistleblowing Policy has been developed in line with the report presented to the November 2010 meeting. This document is currently undergoing a consultation process prior to being brought back to Committee for formal approval and adoption
- 3.25 Work for the 2010/11 National Fraud Initiative (NFI) 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. Electronic datasets have now been submitted to the Audit Commission and training has been given to nominated users within the Authority. Initial matches from the exercise are due to be received shortly.
- 3.26 A review of Declarations of Interest was carried out during the period, covering both Members and Officers. There are a number of recommendations, primarily around the process with Officer Declarations. These mainly relate to communication, guidance and secure filing of submitted forms. There are certain services within the Authority where no Declarations of Interest have been submitted. The report has been sent to the Corporate Governance Group for formal response.
- 3.27 An audit of the Anti Money Laundering Policy was undertaken in December 2010. The main findings, which have been reported to the Borough Treasurer & Head of Assets, relate to the need for current policy and guidance to be updated and better linkage with the Council's other 'reporting concerns' policies e.g. Anti-Fraud and Corruption, Whistleblowing, Complaints Procedure.

Summary of Internal Audit Plan 10/11

- 3.28 Advice has been provided to management with regards to the RIPA (Regulation of Investigatory Powers Act) requirements and restrictions for the use of CCTV cameras within the workplace and their potential use in investigations.

Responsive – Investigations

- 3.29 Internal Audit has assisted management in the investigation of potential irregularities of which certain cases remain on-going.

- 3.30 The investigations included:

- Potential over-claiming of travel expenses, within an area of Adults, Community, Health and Wellbeing.
- Invoices being received by school's from a particular company for goods that have not been either ordered or supplied. This is an issue across the country and was initially highlighted by the National Anti Fraud Network (NAFN). Internal Audit enquiries revealed that although some of these invoices have been received by our schools, none were paid. We were also able to provide NAFN with additional information regarding this fraud which has subsequently been circulated to all members.
- An investigation has been carried out in conjunction with Cheshire West and Chester's Internal Audit team into the charging arrangements of a company with whom we jointly contract. This resulted in improvements in the contract monitoring arrangements and a small amount being repaid to both authorities.

- 3.31 In addition to the above investigations, a number of Whistleblowing reports and tip offs have also been received and investigated.

Value for Money/Strategic Reviews

- 3.32 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

Summary of Internal Audit Plan 10/11

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. A number of vacancies are currently held in the Section (including the Internal Audit Manager) whilst the implications of the 2011/12 budget settlement are debated. The current budget engagement process includes significant savings from Internal Audit which will need to be considered in formulating next year's audit plan. Reasons for the shortfall between the number of audit days in the plan and those actually achieved, include:
- A Senior Auditor post and the Audit and Compliance Assistant post both vacated early in 2010/11 remain unfilled and are temporarily on hold.
 - Maternity leave for a Principal Auditor and Senior Auditor.

However, during the period one Senior Auditor post has been 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:
- Completing fundamental financial systems audits (e.g. Housing Benefits, Council Tax etc.) in order that External Audit can rely on the work of Internal Audit.
 - The National Fraud Initiative exercise.
 - Work on the Annual Governance Statement 2010/11.
 - Work on significant partnerships.
 - Further work in addressing the recommendations of the Audit Commission's 'Internal Audit Review'.
 - High risk areas in Places (e.g. Car Parking) and in Children & Families (e.g. Children's Centres).

5.0 Implementation of Recommendations

Summary of Internal Audit Plan 10/11

- 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.

6.0 Performance Management

- 6.1 The main process through which Internal Audit performance is managed is through a review against the Policy & Performance Service Plan. This was published and endorsed by the Portfolio Holder early in 2010/11 and is part of our overall performance management framework.

A brief update against the Service Delivery Plan for key outcomes is as follows:

Service Objective: To provide an appropriate Assurance function which takes into account transparency, good use of resources and reputational protection in accordance with the Code of Practice for local government so that the Authority adopts robust arrangements and protects public funds (PAP13)	
Target Outcome/Output	Current (December 2010)
Annual Head of Audit Report to Audit Committee.	Achieved.
Development and completion of an appropriate audit strategy, annual plan and work programme covering key risk areas.	Achieved.
Adherence to CIPFA Code of Practice as judged by Audit Commission.	Achieved.
Completion of agreed programme of work to assist the external audit process and internal audit work relied on by external audit.	Achieved.
Service Objective: To facilitate best practice in governance arrangements leading to the production of an Annual Governance Statement (PAP14)	
Target Outcome/Output	Current

Summary of Internal Audit Plan 10/11

	(December 2010)
Production of AGS by due deadline.	Achieved.
Action plan to address improvements to governance arrangements based on the AGS outcome.	Achieved.
Undertake programme of work and incorporate into the Corporate Governance Group.	Achieved.
Service Objective: To promote and encourage a culture of high ethical standards, sound financial & management control and proactively deters and discourages fraudulent or irregular activities so that the organisation uses its resources effectively and is a role model in this regard (PAP15)	
Target Outcome/Output	Current (December 2010)
Implement an Anti- Fraud and Corruption and Whistleblowing Policy.	Achieved.
Programme of awareness raising and learning from previous or other public body fraud.	On-going
Proactive intervention as part of work within the audit plan targeting high fraud risk areas.	On-going

- 6.2 Performance management of staff is carried out through the Council's corporate Employee Performance Development Framework. Key objectives for staff are set at the start of the year and monitored formally through the year through regular individual '1-2-1's'. In addition, regular team meetings are held.
- 6.3 A key outcome achieved during the period has been the agreement of an Audit Protocol with Cheshire West and Chester Internal Audit.
- 6.4 Feedback on Internal Audit performance has been continually received since April 2009 from Corporate Management Team, Cabinet and the Portfolio Holder amongst others. To gain user feedback, a client questionnaire has been developed and will begin to be utilised on audit projects in January 2011.
- 6.5 A number of Performance Indicators are currently being developed and reviewed along with the processes to produce the information. Three Performance Indicators are currently measurable:

Performance Indicator	2010/11 Target	Current 2010/11 (December 2010)
Chargeable Days as a percentage of Available Working Days	80%	83.6%
Average number of days between end of fieldwork to issue of draft report	15 days	12.5 days
Percentage of significant recommendations (high & medium) which are agreed.	100%	98.4%

Summary of Internal Audit Plan 10/11

One indicator under development is the number of days between the issue of the draft audit report and the receiving of a formal management response. This is a key area for improvement in 2011/12 and measures are being taken to address this issue.

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CHESHIRE EAST COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 25 January 2011
Report of: Head of Internal Audit & Compliance and Borough Solicitor
Subject/Title: Annual Governance Statement 2009/10 Action Plan Update

1.0 Report Summary

- 1.1 The purpose of the report is to update the Audit and Governance Committee on progress against the Annual Governance Statement (AGS) 2009/10 Action Plan.

2.0 Decision Requested

- 2.1 That the Committee note the progress against the Action Plan in Appendix 1.

3.0 Reasons for Recommendations

- 3.1 The purpose of the AGS process is to provide a continuous review of the organisation's governance arrangements so as to give assurance on the effectiveness on the processes and/or to address identified weaknesses.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including - Climate change - Health

- 6.1 Not applicable.

7.0 Financial Implications (Authorised by the Borough Treasurer)

- 7.1 No specific financial implications.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 No specific legal implications.

9.0 Risk Management

- 9.1 Failure to consider and monitor the AGS Action Plan could result in agreed improvements to the Council's governance arrangements not being implemented.

10.0 Background and Options

- 10.1 The Audit and Governance Committee approved the Annual Governance Statement 2009/10 on 29 June 2010. It was reported at that meeting that "regular updates on progress on the AGS Action Plan will be brought to this Committee during 2010/11".

11.0 Access to Information

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

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**SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2009/10
PROGRESS UPDATE JANUARY 2011**

No.	Area	Action	Responsibility	Target date	Progress update
1	Corporate and Financial Planning				
	<p>The Sustainable Community Strategy (SCS) sets out a collective vision for Cheshire East and the priority actions which need to be addressed over the next 15 years to achieve that vision. Following a major consultation process, the new SCS is due to be approved in July 2010.</p> <p>The Council's vision and purpose is brought together and communicated via the Council's Corporate Plan. This plan aims to ensure Cheshire East delivers it's obligations and wider community leadership role. There is an interim Corporate Plan. A new Corporate Plan is due to be approved in July 2010.</p> <p>There are opportunities to further align corporate</p>	<p>Aligning Corporate and Service Plans to produce a comprehensive Delivery Plan linked to the Performance Management Framework.</p> <p>Review and improve the Business and Financial Planning Framework for 2010/11.</p>	<p>Head of Policy & Performance/Borough Treasurer & Head of Assets/Corporate Management Team (CMT)</p>	<p>July 2010</p>	<p>On 22nd July 2010 the Sustainable Community Strategy and Corporate Plan was approved.</p> <p>Eleven Service Plans were produced by end of August 2010 (and are available online).</p> <p>The Business planning framework for 2011-2014 has been refreshed and approved by Cabinet on 19th July 2010. The revised framework, presented jointly by the Borough Treasurer and Head of Assets, and the Head of Policy & Performance was developed in the light of feedback on the 2010/2013 Business Planning process, and specifically outlined the links between community, corporate, service and financial planning. In addition,</p>

**SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2009/10
PROGRESS UPDATE JANUARY 2011**

No.	Area	Action	Responsibility	Target date	Progress update
	priorities to financial plans.				regular weekly Policy & Performance and Finance meetings have been taking place to ensure a co-ordinated approach to efficiency and budget setting between the two departments.
2	Financial Management				
	<p>The Council set an ambitious budget for 2009/10, with the aim of maximising the opportunities offered by local government reorganisation to drive out efficiencies, through rationalisation of service delivery and streamlining of corporate overheads.</p> <p>Whilst the overall financial out-turn has been broadly in line with forecasts, a number of challenges have been faced, in monitoring progress against the financial targets set, including:-</p> <ul style="list-style-type: none"> Volatility in both the cost 	<p>Service budgets will be reviewed and realigned in the light of the 2009/10 out-turn experience and the on-going staff appointments process.</p> <p>Processes for the allocation and apportionment of corporate overheads and cross-cutting savings will be reviewed and refined.</p>	<p>Borough Treasurer & Head of Assets/ Corporate Management Team</p> <p>Borough Treasurer & Head of Assets/ Corporate Management Team</p>	<p>On-going</p> <p>On-going</p>	<p>Service budgets continue to be reviewed and realigned in the light of emerging outturn issues, service restructuring and transformation and grant funding changes; specifically those introduced following the change of government in June 2010.</p> <p>In accordance with the agreement reached by CMT in June 2009, significant progress has been made in centralising the management of corporate costs e.g. insurances, desktop IT, building and facilities management, thereby</p>

**SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2009/10
PROGRESS UPDATE JANUARY 2011**

No.	Area	Action	Responsibility	Target date	Progress update
	<p>and budget base, as adjustments have been made to reflect on-going restructuring, staff appointments and apportionment of budgeted savings.</p> <ul style="list-style-type: none"> ▪ Complexities caused by shared service arrangements, and delays in processing recharges. ▪ Technical difficulties relating to system cut-over and migration of legacy data, which have prevented consolidated reporting from a single database until the final quarter of the year. ▪ On-going compliance issues in respect of basic transaction processes, impacting both the accuracy and completeness of financial management information at a detailed level. ▪ Inexperience of budget 	<p>A standard organisational Business Management model and supporting back –office processes will be implemented to secure improvements in transactional compliance.</p>	<p>Borough Treasurer & Head of Assets/ Corporate Management Team</p>	<p>December 2010</p>	<p>removing the need for complex recharges, and streamlining purchasing and commissioning. A protocol for the allocation of cross cutting savings has been developed and agreed by CMT. A revised model for the allocation and apportionment of support service and corporate costs has been developed and will be used for 2011/12 budget purposes and 2010/11 account closure.</p> <p>A high level Business Management model was agreed by CMT in April 2010. A number of key business processes are being re-launched as part of the Oracle R12 upgrade, with associated compliance issues being addressed through improved controls, training and system and process redesign.</p>

**SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2009/10
PROGRESS UPDATE JANUARY 2011**

No.	Area	Action	Responsibility	Target date	Progress update
	<p>managers and accountancy staff, who have taken time to familiarise themselves with new systems and reporting tools, and to fully understand the reconfigured cost and budget position.</p> <p>Many of these issues are of a transitional nature, arising specifically from the process of reorganisation and creation of a new Council.</p> <p>Finance Procedure Rules require all service managers to draw up local schemes of delegation, setting out the financial approval limits and responsibilities of individual officers. Managers have found it difficult to comply with requirements in this area, due to the interim nature of staffing structures and high levels of turnover.</p>	<p>A programme of financial training for budget managers, members and finance professionals will be developed to enhance levels of financial literacy and financial management skills across the Council.</p> <p>Existing financial reporting tools will be further promoted and the development of 'dashboard' and other self-serve technologies explored as part of the Oracle R12 upgrade programme.</p>	<p>Finance Manager</p> <p>Finance Manager</p>	<p>September 2010</p> <p>March 2011</p>	<p>An initial module 'Understanding Local Government Finance' has been launched as part of the Corporate Training Programme 2010/11. Further modules will be developed over the next twelve months. In addition, extensive on the job training and coaching has been undertaken on an ad-hoc basis with budget managers at all levels.</p> <p>Phase 2 Dashboard training for all senior managers in Cheshire East is underway, including dashboard navigation and manager self-serve. The Oracle R12 upgrade is on target to go-live from the end of January 2011. This will provide a fully supported systems platform on which to develop a sustainable dashboard</p>

**SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2009/10
PROGRESS UPDATE JANUARY 2011**

No.	Area	Action	Responsibility	Target date	Progress update
	Improvements are needed to the arrangements for the monitoring and management of sundry debt. The policy and operational frameworks inherited from previous councils require systematic review and update in the light of the Councils new Income & Funding Strategy, and the Oracle R12 upgrade, which will make available improved systems functionality, particularly in relation to debt case management.	<p>Managers will be required to publish service schemes of delegation, in accordance with Finance Procedure Rules.</p> <p>Revised credit and debt management policies and processes will be developed and launched, as part of the Oracle R12 upgrade programme and Business Management</p>	<p>Borough Treasurer & Head of Assets/Corporate Management Team</p> <p>Borough Treasurer & Head of Assets/Corporate Management Team</p>	<p>September 2010</p> <p>March 2011</p>	<p>solution. The aim is to provide a basic financial dashboard for roll-out to managers from April 2011.</p> <p>The majority of local schemes of delegation have been completed and some updated, with substantial progress made in uploading them to the intranet. Just one scheme remains outstanding and this is being pursued. Further review will be required in the light of continuing rationalisation of staffing structures.</p> <p>Work to revise credit and debt management policies and processes is in hand, but needs to reflect changing business requirements, particularly in respect of social care client charging, which will impact significantly the scope and scale of the debt</p>

**SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2009/10
PROGRESS UPDATE JANUARY 2011**

No.	Area	Action	Responsibility	Target date	Progress update
		implementation.			management portfolio.
3	Risk Management				
	<p>The AGS process noted that risk management arrangements are developing and areas for improvement include:</p> <ul style="list-style-type: none"> ▪ embedding risk management in order that it is seen as part of the overall performance management process, ▪ regularly reviewing and reporting on the effectiveness of the whole process including insurance, health and safety, financial planning etc. 	<p>Continue to develop and embed the risk management processes already in place by:</p> <ul style="list-style-type: none"> ▪ further developing and strengthening strategic and departmental risk registers. ▪ further developing and strengthening corporate and departmental risk management groups. ▪ integrating risk management into the new performance management system. 	Head of Policy & Performance/Corporate Management Team	On-going	<p>The risk management process has been refreshed and a new strategic risk process introduced including new forms to identify corporate risks. The membership and focus of the Corporate Risk Group has been reviewed (to include more front line service managers) and meets every other month; the Terms of Reference for group was agreed on 22nd October 2010.</p> <p>On 17th November 2010 the Audit and Governance Committee members received training on risk management, and regular updates will be provided to CMT and Cabinet.</p> <p>Moving forward it is expected that risk management will</p>

**SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2009/10
PROGRESS UPDATE JANUARY 2011**

No.	Area	Action	Responsibility	Target date	Progress update
					have strong links with the performance management system. A briefing to SMT on 8 th December 2010 brought together risk management and performance management processes and emphasised the need for risk management to be embedded in performance management.
4	Partnerships & Governance				
	The AGS process highlighted that the Councils significant partnerships are at different stages of development, and whilst more mature partnerships are underpinned by partnership agreements and robust governance frameworks, others are subject to arrangements that are being developed as the partnerships evolve.	<ul style="list-style-type: none"> ▪ Develop governance arrangements for all partnerships. ▪ Developing and strengthening the Partnership Management Group. ▪ Introducing a Code of Practice for Partnerships in order to ensure that the Council adopts a consistent approach to the way it manages its partnerships and 	Head of Policy & Performance/Corporate Management Team	On-going	<p>The Local Strategic Partnership was formed in March 2009, and the partnership agreement was adopted by executive in September 2010.</p> <p>Thematic partnerships are under review and decisions will be taken in February to either continue or cease some.</p> <p>Local Area Partnerships have also been reviewed and a new model developed which</p>

**SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2009/10
PROGRESS UPDATE JANUARY 2011**

No.	Area	Action	Responsibility	Target date	Progress update
		reports on performance.			<p>outlines accountability and how meetings should be conducted.</p> <p>A Shared Service Administrative Agreement is in place together with protocols for HR, procurement and finance between the two Authorities.</p>
5	Performance & Cost Management				
	<p>Corporate framework of performance management is still developing. There is a Data Quality Strategy and Performance Management Strategy in place and both need wider communication and development throughout the Authority.</p> <p>Whole life costing is used but no overall corporate approach is yet in place.</p> <p>Financial and performance data are not yet aligned formally.</p>	<ul style="list-style-type: none"> ▪ Development of greater consistency in performance management. ▪ New performance management system. ▪ Development of corporate approach to whole life costing. ▪ Development of corporate PI set. ▪ Roll out of Data Quality Strategy. 	Borough Treasurer & Head of Assets/ Head of Policy & Performance/Corporate Management Team	On-going	<p>Comprehensive quarterly data quality performance reports are prepared.</p> <p>Portfolio challenges on performance will take place quarterly; one round has already taken place and has been reported to Cabinet. Performance Management and Finance are combined in one quarterly report.</p> <p>A new performance Management System (MAPS) has been procured and is</p>

**SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2009/10
PROGRESS UPDATE JANUARY 2011**

No.	Area	Action	Responsibility	Target date	Progress update
					<p>currently being rolled out with implementation due March 2011.</p> <p>A Data Quality Strategy is in place and has been agreed by Performance Peers Group. A review of National Indicator Set (NIS) is in progress (pending the core data set announcement due by government).</p>
6	Asset Management/Procurement				
	Strategic Asset Management is still developing. There is a short term asset plan in place and a major accommodation strategy was introduced and a review has taken place along with significant refurbishment and relocation of staff during 2009/10.	<p>Further development of strategic asset management, including:</p> <ul style="list-style-type: none"> ▪ Improving performance information ▪ Developing Strategic Asset Management Plan ▪ Clarifying roles and responsibilities between Asset Management Team 	Borough Treasurer & Head of Assets	On-going	<p>The Council's first Corporate Asset Management Plan (2011-2014) was approved by Cabinet in October 2010 incorporating an action plan in line with the recommendations of CIPFA Healthcare Check (review Oct 11).</p> <p>Performance information will be monitored and reported through CAMP updates and Assets Business Plan. Asset Management Team is part of</p>

**SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2009/10
PROGRESS UPDATE JANUARY 2011**

No.	Area	Action	Responsibility	Target date	Progress update
	A corporate framework for procurement has been developed with a Procurement Strategy and Action Plan in place.	<p>and Finance</p> <ul style="list-style-type: none"> ▪ Establishing corporate forum for the co-ordination of strategic asset management. <p>Further development of Procurement Strategy, including:</p> <ul style="list-style-type: none"> ▪ Develop clearer understanding of full contract landscape and clear visibility of 'off contract' spend ▪ Develop joint commissioning, user engagement. 	Borough Treasurer & Head of Assets	On-going	<p>the Capital Asset Group and advises regularly as part of the annual capital bidding process.</p> <p>Terms of Reference and draft membership are in place to establish a corporate asset management group.</p> <p>The establishment of a full contracts register is on going. A Procurement Improvement Programme has been launched which includes the establishment of a contracts register.</p> <p>A cleansed contract register has been prepared and is currently being sent to service procurement coordinators who will have until the end of January to complete.</p> <p>This will give a clearer picture of the corporate contracts and</p>

**SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2009/10
PROGRESS UPDATE JANUARY 2011**

No.	Area	Action	Responsibility	Target date	Progress update
					<p>assist with the development of a forward procurement plan. Process changes as part of the Oracle upgrade programme will allow greater control and visibility of Off contract spend and will allow procurement the opportunity to approve/ reject non catalogue requisitions above £10,000.</p> <p>We have established a joint commissioning project that will trial an integrated whole system commissioning model with the Central & Eastern Cheshire Primary Care Trust from April 2011 in the areas of: Learning Disabilities; Physical Disabilities; Mental health; Older People (outside hospital); Carers supporting people; Vulnerable Adult Services; Children & Young People Services (outside hospital); Drug and Alcohol</p>

**SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN 2009/10
PROGRESS UPDATE JANUARY 2011**

No.	Area	Action	Responsibility	Target date	Progress update
		Establish a Procurement Board for co-ordination and procurement activity and links to transformation programme.			<p>(may transfer to Public Health); safeguarding Violent Abuse and Domestic Abuse; Reablement and Intermediate Care; Physical Disability & Sensory Impairment, which would run in parallel with the current transition arrangements of the GP Consortia.</p> <p>The Procurement Board is established and meeting bi monthly. Procurement is currently supporting activity within the transformation programme and is presently receiving targeted support from the Head of Transformation.</p>

CHESHIRE EAST COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 25 January 2011
Report of: Head of Internal Audit & Compliance
Subject/Title: Anti-Fraud and Corruption Strategy

1.0 Report Summary

- 1.1 This report advises the Committee on the content of the Council's Anti-Fraud and Corruption Strategy and notes the need for subsequent amendment in order to take account of developments in best practice since it was approved in May 2009.

2.0 Decision Requested

- 2.1 That the Committee be advised of the content of the Council's Anti-Fraud and Corruption Strategy and endorse, in principle, the proposed changes to it.
- 2.2 That the Committee note that (i) in view of its implications for staff, that there will need to be consultation with the unions before the proposed amendments can be finalised and (ii) following the consultation process the amended policy will need to be brought back to the Committee for formal approval and adoption.

3.0 Reasons for Recommendations

- 3.1 The Council recognises that, as a large organisation, it is at risk of loss due to fraud and corruption both from within the organisation and external to it. In order to mitigate this risk the Council introduced an Anti Fraud and Corruption Strategy that is intended to be explicit about the way fraud will be regarded and dealt with. Members are referred to the Strategy contained in Appendix A to this report.
- 3.2 The action needed to be effective in countering fraud and corruption is described in the publication "*Managing the risks of fraud – Actions to Counter Fraud and Corruption*" produced by the CIPFA Better Governance Forum Counter Fraud Advisory Panel. The Council's Anti Fraud and Corruption Strategy, which was first drafted in May 2009, has been reviewed against this document and other relevant best practice guidance in order to ensure that it remains current, relevant, and reflects best practice. This report highlights a number of proposed changes to the Strategy which are presented to the Committee for comment.

3.3 The findings of the review are contained within Appendix B and the Committee is asked to endorse the proposed amendments to the Strategy and to note that, in view of its implications for staff, there will need to be consultation with the unions before the contents of the draft can be finalised.

3.4 The Audit and Governance Committee's role in overseeing the implementation of the Anti Fraud and Corruption Strategy is crucial for the Council to achieve its anti fraud and corruption objectives.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications including - Climate change - Health

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Borough Treasurer)

7.1 An overriding responsibility of the Council is the provision of effective and efficient services in a manner that seeks to ensure the best possible protection of the public purse in its delivery arrangements. Hence the Council must have appropriate policies and mechanisms to safeguard the Council's resources and reduce losses to fraud and corruption in all areas to an absolute minimum.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 The responsibilities of public sector entities in relation to the prevention and detection of fraud and error are set out in statute, standards and other guidance. Local Government entities have a statutory duty to make arrangements for the proper administration of their financial affairs and appoint an officer to have responsibility for the administration of these arrangements.

9.0 Risk Management

9.1 The Council as a large organisation is at risk of loss due to fraud and corruption both from within the Council and outside it. The impact of fraud on the Council can have consequences that are serious and often far reaching. Financial loss is the obvious key risk but the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict a much greater damage than the act

itself. In order to mitigate this risk the Council needs to be explicit about the way fraud will be regarded and dealt with.

10.0 Background and Options

- 10.1 The current Anti Fraud and Corruption Strategy was approved by Governance and Constitution Committee on 21 May 2009 but has not been subject to a review since its implementation.
- 10.2 In order to ensure that the council has in place robust arrangements to counter the threat of loss through fraud and corruption it is essential that the Anti Fraud and Corruption Strategy is subject to regular review against best practice and takes into account the latest developments in the area of counter fraud.

11.0 Access to Information

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

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Designation: Head of Policy and Performance

Tel No: 01270 685859

Email: Vivienne.quayle@cheshireeast.gov.uk

Anti Fraud and Corruption Strategy

1.0 INTRODUCTION

- 1.1 Cheshire East Council is a large employer within the Borough, employing more than 14,000 people and managing a gross budget in excess of £700 million. The Council fully recognises its responsibilities for spending public money and is committed to the fullest support for members and employees in upholding the reputation of Cheshire East and maintaining the public's confidence in the integrity of the Council.
- 1.2 In carrying out its functions and responsibilities, the authority has adopted a culture of openness and fairness and expects that members and employees at all levels will adopt the highest standards of propriety and accountability. This is achieved by leading by example and by an understanding of and adherence to rules, procedures and agreed practices. These standards are also expected from organisations that have a relationship with the authority (e.g. partners/suppliers/contractors).
- 1.3 Cheshire East Council is committed to the prevention, detection and investigation of all forms of fraud and corruption and will deal equally with perpetrators from inside (members and employees) and outside the authority. In addition, there will be no distinction made in investigation and action between cases that generate financial benefits and those that do not.
- 1.4 This strategy does not override any obligations as an employer under the Officer or Member Codes of Conduct. In addition, it runs alongside any equality and diversity strategies adopted.
- 1.5 This strategy document embodies a series of measures designed to prevent any attempted fraudulent or corrupt act and the steps to be taken if such an act occurs. For ease of understanding it is separated into the following seven areas:
- Definition Section 2
 - Culture Section 3
 - Prevention Section 4
 - Deterrence Section 5
 - Detection and Investigation Section 6
 - Awareness and Training Section 7
 - Measuring Success and Learning Section 8

- 1.6 The authority is also aware of the high degree of external scrutiny of its affairs by a variety of bodies such as the Audit Commission, several inspection bodies, the Local Government Ombudsman, the Information Commissioner and HM Revenues and Customs. These bodies are important in highlighting any areas where improvements can be made.

2.0 DEFINITIONS

- 2.1 The fraud Act 2006 established new criminal laws to assist in the fight against fraud by creating a new general offence of fraud. It is defined as:

- Fraud by false representation
- Fraud by failing to disclose information, and
- Fraud by abuse of position

- 2.2 Fraud and corruption are defined by the Audit Commission as:-

Fraud – “the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain”.

Corruption – “the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person”.

- 2.3 In addition, this strategy also covers “the failure to disclose an interest in order to gain financial or other pecuniary gain.” Such a failure will also be included for the purposes of this strategy.

3.0 CULTURE

- 3.1 The culture of Cheshire East Council is one of openness and integrity. This culture therefore supports the opposition to fraud and corruption.
- 3.2 The prevention/detection of fraud/corruption and the protection of the public purse are responsibilities of everyone. With this in mind, the Council's expectation is that individuals and organisations associated with the Council will act with integrity and that members and employees will lead by example in these matters.
- 3.3 Cheshire East Council's members and employees play an important role in creating and maintaining this culture. They are positively encouraged to raise concerns regarding fraud and corruption,

immaterial of seniority, rank or status, in the knowledge that such concerns will be taken seriously and wherever possible, treated in confidence and properly investigated.

3.4 Concerns must be raised when members or employees reasonably believe that one or more of the following has occurred, is in the process of occurring, or is likely to occur:

- a criminal offence
- a failure to comply with a statutory or legal obligation
- improper and/or unauthorised use of public or other funds
- a miscarriage of justice
- maladministration, misconduct or malpractice
- endangering of an individual's health and safety
- damage to the environment
- deliberate concealment of any of the above.

3.5 Concerns must be raised firstly with the supervisor/line manager or, where a person feels unable to do this, via other routes, for example:-

- Heads of Service, Directors, or the Chief Executive, who will report such concerns to the Internal Audit Manager or their authorised representative.
- Directly to the Internal Audit Manager or a senior member of the internal audit team
- The External Auditor, who depending upon the nature of the concern will liaise with the Internal Audit Manager or Borough Treasurer (as Section 151 officer).
- The Monitoring Officer as outlined in the Confidential Reporting (or Whistleblowing) Protocol)
- The Customer, compliments, Comments & Complaints procedure for use by the general public.

3.6 Partners, contractors, consultants, suppliers, service users, employees and committee members of organisations which the Borough Council funds and the general public are also encouraged to report concerns through any of the above routes.

3.7 The Council will ensure that any allegations received in any way, including by anonymous letters or telephone calls will be taken seriously and investigated in an appropriate manner.

3.8 The Council will deal firmly with those who defraud the authority or who are corrupt, or where there has been financial malpractice. There is, of

course, a need to ensure that any investigation process is not misused and, therefore, any abuse (such as employees or members raising malicious allegations) or misuse by external organisations or persons may be dealt with as a disciplinary matter or referred to the Chief Executive for further consideration.

- 3.9 When fraud and corruption has occurred due to a breakdown in the Council's systems or procedures, Directors will ensure that appropriate improvements in systems of control are implemented in order to prevent a re-occurrence.

4.0 PREVENTION

- 4.1 It is the responsibility of management to ensure that appropriate, robust controls are in place and working correctly. In addition to this managerial responsibility there are a number of specific preventative measures which are critical to deter fraud.

4.2 Employees

- 4.2.1 The Council recognises that a key preventative measure in dealing with fraud and corruption is to take effective steps at the recruitment stage to establish, as far as possible, the honesty and integrity of potential employees, whether for permanent, temporary or casual posts.
- 4.2.2 The Council has a formal recruitment procedure, which contains appropriate safeguards on matters such as written references and verifying qualifications held. Criminal records will only be taken into account for recruitment purposes where the conviction is relevant.
- 4.2.3 To ensure compliance with the Asylum and Immigration Legislation, the recruitment process contains safeguards to ensure that appropriate documentation is provided as evidence of entitlement to work in the United Kingdom.
- 4.2.4 All employees are governed by the Council's Finance and Contract Procedure Rules. They are required to follow the standards set out in the Code of Conduct, which is issued to all staff along with their Contract of Employment. Employees are further governed by the Council's Disciplinary Procedure, which is issued to all staff containing, reference to disciplinary rules giving, examples of misconducts/gross misconduct and how such situations will be managed.
- 4.2.5 The role that employees are expected to play in the Council's

framework of internal control will be included in staff induction procedures. Immediately by their line manager and then subsequently through corporate induction training, as appropriate.

- 4.2.6 Cheshire East Council expects its employees to comply with codes of practice or other relevant professional obligations issued by professional bodies of which they may be members.
- 4.2.7 Employees are reminded that they must comply with Section 117 of the Local Government Act 1972 which requires any interests in contracts that have been proposed to be entered into by the Council to be declared. The Legislation also prohibits the acceptance of fees or rewards other than by means of proper remuneration.
- 4.2.8 Employees must register any interests they may have in the departmental register recording Declarations of Interests.
- 4.2.9 All offers of gifts and hospitality, regardless of whether the offer was accepted or declined, must be recorded in the departmental register. Such registers will be reviewed by the appropriate departmental management team on a regular basis and a record kept of such review.

4.3 Members

- 4.3.1 Members are required to operate within:

- Members Code of Conduct
- Cheshire East's Finance and Contract Procedure Rules
- Sections 94-97 of the Local Government Act 1972
- Local Authorities (Members' Interest) Regulations 1992
- Section 81 of the Local Government Act 2000

- 4.3.2 These matters are specifically brought to the attention of members in the introduction pack and include the declaration and registration of potential areas of conflict. The Borough Solicitor advises members of new legislative or procedural requirements.

4.4 Systems

- 4.4.1 Cheshire East Council's Finance and Contract Procedure Rules require employees to act in accordance with best practice. In addition to Finance and Contract Procedure Rules, Directorates/Sections may have their own procedures to prevent and detect fraud. There may also be audit reports that recommend methods to minimise losses to the

authority. Managers and employees must be made aware of these various sources of guidance and alter their working practices accordingly.

- 4.4.2 The Borough Treasurer has a statutory responsibility under Section 151 of the Local Government Act 1972 to ensure regulations and accounting instructions are in place governing the procedures and responsibilities of employees in relation to the key financial systems.
- 4.4.3 The Council has developed and is committed to systems and procedures, which incorporate efficient and effective internal controls of duties. Managers are responsible for ensuring that such controls (including those relating to electronic transmission and recording) are properly maintained and documented. Their existence and appropriateness is independently monitored by Internal Audit through the annual internal audit plan.

4.5 Information Technology and the use of IT systems

- 4.5.1 The Council has an overarching Information Governance Policy, supported by detailed policies, standards and procedures as necessary, compliance with which is mandatory for anyone with access to any Cheshire East Council information or facilities. Full compliance with the policy will help the Cheshire East Council to manage the risk from information security threats, be these internal or external, deliberate or accidental.
- 4.5.2 The Council acknowledges that access to the internet is an integral part of many jobs and staff are provided with internet access at work to enable them to do their job. Although the internet is recognised as a world-wide electronic library of information and services, the council has a policy that generally staff should only use and get information from the internet for their official duties and responsibilities. Internet services on Cheshire East IT equipment are covered by the council's policy on abuse, misuse, or unofficial use of resources by staff.

4.6 Confidential Reporting Procedure (known as Whistleblowing)

- 4.6.1 If employees do not feel that they can raise concerns directly with their line manager or other officer, there is an alternative route which the Cheshire East Council has established; the Confidential Reporting Procedure or Whistleblowing protocol. The protocol explains how concerns raised by employees will be dealt with. If these concerns involve issues relating to fraud and corruption, they will be considered by the Monitoring Officer and may be passed directly to the Internal

Audit Manager for investigation and possible referral to the Police.

- 4.6.2 The whistle blowing hotline provides a confidential route to report concerns to the Monitoring Officer.

4.7 External Organisations

- 4.7.1 The Council is committed to delivering outcomes in collaboration with partner organisations from the private, public, voluntary and community sector as well as procuring goods and services from these sectors.

- 4.7.2 Cheshire East Council recognises that a key preventative measure in dealing with fraud and corruption is to take effective steps to establish the integrity of the external organisations with whom it engages.

- 4.7.3 Services are commissioned with the advice of the Corporate Procurement Team who ensure that external organisations are aware of the Authority's anti fraud culture. In addition, the governance arrangements or external organisations are also considered through partnership governance boards and voluntary sector compacts.

4.8 Internal Audit Department

- 4.8.1 Internal Audit plays a vital preventative role in reviewing and assessing to ensure that systems and procedures that management put in place to prevent and detect fraud and corruption are adhered to. Internal Audit investigate all cases of suspected irregularity, in accordance within the requirements of the Human Rights Act 1998. They liaise with management to recommend changes in procedures to prevent further losses to the authority.

- 4.8.2 Internal Audit regularly assess the levels of risk within the Council with a view to preventing fraud and corruption, and these assessments are incorporated into work plans. The outcome of this work is used to inform their opinion on the internal control environment, future internal audit and fraud plans and ultimately the annual governance statement.

- 4.8.3 In addition to the above, Internal Audit maintain a fraud risk register, which is updated on an annual basis. The register identifies the fraud risks to which the authority is most susceptible. This is used to determine specific fraud detection work which is included in the annual work plan.

4.9 Benefit Investigation Team

4.9.1 The Benefit Investigation Team is responsible for all benefit fraud investigations, in accordance with the requirements of the Human Rights Act 1998, Police and Criminal Evidence Act 1994, Criminal Procedures Investigation Act 1996 and other relevant legislation. In cases where employees are involved, they will work with Internal Audit, Human Resources and appropriate senior management to ensure that correct procedures are followed and this strategy is adhered to. In addition, there is a protocol for the disclosure of information about employees found guilty of benefit fraud, so that this information is held on their employee file.

4.9.2 The Benefits Counter Fraud Strategy deals specifically with housing benefits issues and is complimentary to this main Anti Fraud strategy. The benefits services strategy is supplemented by the benefits service prosecution policy. This policy outlines the criteria used to determine any sanctions that may be applicable if a case is proven by the Investigation Team.

4.9.3 In addition to the confidential reporting procedure outlined above (4.5) the benefit investigation team also operate a separate hotline, for use by members of the public. These are publicised in relevant literature.

4.10 Co-operation with Others

4.10.1 Arrangements are in place and continue to be developed to encourage the exchange of information on national and local fraud and corruption activity and its impact on Local Authorities, with external agencies such as:-

- The Police
- Inter Authority Audit Groups
- The Audit Commission
- Her Majesty's Revenues and Customs
- The Department for Work and Pensions
- Borders & Immigration

4.11 Data Matching

4.11.1 The Council participates in several data matching exercises for the purpose of reducing fraud and corruption. It may use any of the data it holds in the course of these initiatives. In every instance where data is provided, the Council will comply with the Data Protection Act

appropriately notifying all data subjects. The two major initiatives the Council currently participates in are:

- The Audit Commission's National Fraud Initiative
- The Department for Work and Pensions' Housing Benefit Matching Service

4.12 National Fraud Initiative (NFI)

4.12.1 The NFI is the Audit Commission's national data matching exercise and is designed to help participating bodies detect fraudulent and erroneous payments from the public purse. The Council takes an active role in pursuing data provided through this means and continues to seek improvements in all systems in order to minimise losses.

4.12.2 Cheshire East Council's approach to NFI is based upon the guidelines issued by the Audit Commission, which recognises a number of key elements that participating organisations must have in place to ensure that the resources invested into the NFI are used as efficiently and effectively as possible. These are:

- Key contact role
- Co-ordination of data submissions
- Overseeing data subject notification
- Follow up approach
- Initial review
- Equipping staff with the NFI application and appropriate knowledge
- Allocating work appropriately
- Tracking progress

4.12.3 The resultant data matches received from the NFI are prioritized. This prioritization is utilized in allocating resources in accordance with the potential risk that matches are indicative of potential fraud.

4.13 Housing Benefit Matching Service (HBMS)

4.13.1 The HBMS, which is part of the Department for Work and Pensions (DWP), undertakes monthly matching for all councils, comparing Housing Benefit data against Pension, HMRC and DWP records. The Benefits Interventions Team receives the monthly matches and look at all of these within 2 to 5 days. Any matches that are highlighted as potential fraud are raised as fraud referrals and passed to the Benefit Investigation Team straight away. This fast turnaround increases the

potential to act on frauds quickly, reduce the levels of overpayments and take any further sanction action within prescribed timescales.

5.0 DETERRENCE

5.1 Prosecution

5.1.1 The authority has adopted a Benefits Prosecution Policy and will review the need for a Corporate Policy. It is designed to clarify the authority's action in specific cases and to deter others from committing offences against the authority. However, it also recognises that it may not always be in the public interest to refer cases for criminal proceedings.

5.2 Disciplinary Action

5.2.1 Theft, fraud and corruption are serious offences against the authority and employees will face disciplinary action if there is evidence that they have been involved in these activities. Disciplinary action will be taken in addition to, or instead of, criminal proceedings, depending on the circumstances of each individual case, but in a consistent manner. Consultation will take place with the Chief Executive and/or Head of Human Resources, Borough Treasurer and Borough Solicitor. (The police will pass valid cases to the Crown Prosecution Service for advice or review of the charge).

5.2.2 Members will face appropriate action under this strategy if they are found to have been involved in theft, fraud or corruption against the authority. Action will be taken in addition to, or instead of, criminal proceedings, depending on the circumstances of each individual case, but in a consistent manner. Such action may include the making of a reference to the Standards Board for England, and/or the appropriate political group leader, as appropriate.

5.3 Publicity

5.3.1 The authority's corporate communications team will optimise the publicity opportunities associated with anti-fraud and corruption activity within the authority. They will also aim to ensure the results of any action taken, including prosecutions, are reported to the media.

5.3.2 In all cases where financial loss to the authority has occurred the authority will seek to recover the loss.

- 5.3.3 All anti fraud and corruption activities, including the update of this strategy, will be publicised in order to make employees and the public aware of the authority's commitment to taking action on fraud and corruption when it occurs.

6.0 DETECTION AND INVESTIGATION

- 6.1 Internal Audit plays an important role in the detection of fraud and corruption. Included in their plans are reviews of systems, financial controls, specific fraud and corruption tests, spot checks and unannounced visits. The Council's preventative systems, particularly internal control systems, are designed to deter any fraudulent activity.
- 6.2 It is often the vigilance of members, employees and members of the public that enables detection to occur and appropriate action to take place.
- 6.3 Despite the best efforts of financial managers and auditors, frauds are often discovered by chance and the Council has in place arrangements to enable such information to be properly and promptly dealt with.
- 6.4 Directors and Heads of Service are required to report all suspected instances of fraud and corruption to the Internal Audit Manager, or his authorised representative. Reporting is essential to the success of this strategy and ensures consistent treatment of information regarding fraud and corruption and facilitates the proper investigation by the appropriate officers.
- 6.5 Depending on the nature of an allegation, the Internal Audit Manager will normally work closely with the Director or Head of Service concerned to ensure that all allegations are thoroughly investigated and reported upon.
- 6.6 The Council's Disciplinary procedures will be used to facilitate a thorough investigation of any allegation of improper conduct as well as the holding of disciplinary hearings and dealing with any recommendations and proceedings thereafter.
- 6.7 Following discussion between the statutory officers, the Borough Solicitor (as monitoring officer) and the Chief Executive will decide, based upon advice from the Internal Audit Manager, whether there are sufficient grounds for the matter to be reported to the police.

- 6.8 The Council's External Auditor will examine the Council's arrangements for the prevention, detection and investigation of fraud and corruption and will report accordingly.

7.0 AWARENESS AND TRAINING

- 7.1 The Council recognises that the continuing success of this strategy and its general credibility will depend largely on the effectiveness of training and responsiveness of employees throughout the organisation.
- 7.2 To facilitate this, appropriate provision will be made through induction and refresher training and for employees via the Council's employee training and development scheme.
- 7.3 The possibility of disciplinary action against employees who ignore such training and guidance is, therefore, quite clear.
- 7.4 The investigation of fraud and corruption is managed through the work of the Internal Audit Manager. Staff in internal audit will be appropriately and regularly trained.

8.0 MEASURING SUCCESS AND LEARNING

- 8.1 To monitor the success of the Anti Fraud & Corruption Strategy, the following indicators will be used and reported to the Head of Policy and Performance on a quarterly basis:-
- Number of cases referred or identified to Internal Audit & Housing Benefit Investigation Teams
 - Number of cases in which fraud/corruption was proved
 - Value (£) of misappropriation
 - Number and type of benefit fraud sanctions
 - Number of employees disciplined for offences of fraud and corruption
- 8.2 The results of the proactive work undertaken will be reported to the Governance and Constitution Committee on an annual basis within the Internal Audit Manager's report.
- 8.3 Reporting will include a summary of changes made to systems as a result of any fraudulent or corruption activity perpetrated.

- 8.4 The Internal Audit Section will keep abreast of fraudulent activity reported in other local authorities and similar organisations in order to learn from the experience of others. Equally the Council will share summary details of cases of fraud with other authorities.

9.0. CONCLUSION

- 9.1 Cheshire East Council has in place a clear network of systems and procedures to assist it in dealing with fraud and corruption. It is determined that these arrangements will keep pace with any future developments in both preventative and detection techniques regarding fraudulent or corrupt activity that may affect its operation.
- 9.2 The Council prides itself on setting and maintaining high standards and a culture of openness, with core values of fairness, trust and value. This strategy fully supports Cheshire East's desire to maintain an honest authority, free from fraud and corruption.
- 9.3 The Internal Audit Manager and Borough Treasurer will maintain a continuous review of such arrangements.

Review of Cheshire East Council Anti Fraud and Corruption Strategy against best practice guidance

1 Introduction

- 1.1 Cheshire East Council is committed to the protection and proper use of public funds. Minimising losses resulting from fraud and corruption in all areas of our business is key to ensuring that the council's resources are used for the purpose for which they were intended.
- 1.2 In order to achieve this, an Anti Fraud and Corruption Strategy was adopted by Governance and Constitution Committee on 21st May 2009. This strategy defines fraud and corruption and sets down Cheshire East Council's approach to the prevention, detection, deterrence and investigation of potentially fraudulent or corrupt activities.
- 1.3 It should be noted that in addition to the Anti Fraud and Corruption Strategy, Cheshire East Council has a number of other ways in which it minimises the risk of loss through these means. These include;
 - Benefits Anti Fraud and Corruption Strategy
 - Benefits Fraud Sanction Policy
 - Participation in the Audit Commission National Fraud Initiative data matching exercise
 - Membership of the National Anti Fraud Network
- 1.4 Losses through fraud and corruption are a major issue for public sector bodies and it is important that councils are aware of the latest developments and have policies and procedures in place to allow them to react to the ever changing threats. To be able to do this effectively it is vital that the overarching Anti Fraud and Corruption Strategy is up to date and effective in driving forward a culture of zero tolerance within the organisation.
- 1.5 The CIPFA Managing the Risk of Fraud – RED BOOK 2 provides a checklist of the elements considered to be essential for an organisation to be effective in countering fraud and corruption. This covers the following areas;
 - Adopting the right strategy
 - Accurately identifying the risks
 - Creating and maintaining a strong structure
 - Taking action to tackle the problem
 - Defining success

- 1.6 The Fraud Advisory Panel has also produced guidance on the expected elements of an effective anti fraud strategy and fraud response plan.
- 1.7 The existing Anti Fraud and Corruption Strategy has therefore been reviewed against the above documents with a view to ensuring that it contains the following elements:
- Policy Statement highlighting the council's commitment to an anti fraud culture
 - Definition of Fraud including examples
 - A Fraud Response Plan detailing what actions should be taken if a report is made
 - Key Responsibilities highlighting the roles of Directors, Managers and Staff
 - How to report suspicions

2 Findings of Review

Policy Statement

- 2.1 The existing strategy clearly sets out the council's commitment to the prevention, detection and investigation of fraud and corruption. However, although it is implied, there is no explicit statement that there is a 'zero tolerance' attitude to fraud and corruption which is now seen as an essential element of the policy statement.
- 2.2 In addition, although the strategy states that all suspected frauds will be investigated and that recovery of losses will be sought in all proven cases, this is not part of the policy statement.

Recommendation 1

The Anti Fraud and Corruption strategy should be updated to include a policy statement that clearly sets out the council's commitment to maintaining a zero tolerance approach to fraud and corruption by ensuring that all suspected incidents are subject to investigation, all losses will be pursued to the full extent of powers available and that all proven cases of fraud and corruption will be publicised to raise awareness both within the council and also amongst members of the public.

Definition of Fraud and Corruption

- 2.3 The current strategy uses the Audit Commission definitions of both fraud and corruption whilst also mentioning The Fraud Act 2006. However, it does not provide examples of these offences. This is now recommended in order to provide an additional assurance that employees are aware of what constitutes fraud and corruption.

Recommendation 2

The section of the strategy concerned with the definition of fraud and corruption should be rewritten to provide examples of the offences.

Fraud Response Plan

- 2.4 Current best practice now recommends that anti fraud and corruption strategies are supported by a separate Fraud Response Plan which at present Cheshire East Council does not have. There is therefore a risk that instances of fraud and corruption may be dealt with in an inconsistent manner and that evidence may not be secured, or may be inadmissible due to the way in which it has been handled.
- 2.5 A good Fraud Response Plan supports the overarching strategy and ensures that:
- Roles and responsibilities are clearly identified and allocated for the entire fraud process from receipt of the initial suspicion through to the production of the final report.
 - Processes are documented and implemented to identify the reasons that fraud and corruption was able to occur and that any lessons learned are documented and addressed.
 - Where appropriate control weaknesses are addressed to ensure that the risk of future fraud and corruption is minimised.

Recommendation 3

A Fraud Response Plan should be developed in line with best practice examples as detailed in the appendices to the CIPFA Managing the Risk of Fraud – RED BOOK 2 and guidance produced by both the Fraud Advisory Network and the National Anti Fraud Network. This will provide a robust framework for managers and staff to ensure the consistent handling and investigation of identified fraudulent and corrupt activities.

Key Responsibilities

- 2.6 The current strategy outlines the responsibilities of employees and members in relation to the prevention and detection of fraud and corruption. However, it does not specify the detailed roles that each plays in the event that a suspected fraud is identified. Recent best practice guidance advises that this level of detail is included in a Fraud Response Plan.

Recommendations 4 & 5

As part of the development of a Fraud Response Plan detailed roles and responsibilities in managing the risk of fraud and responding to cases of suspected fraud and corruption should be clearly defined.

In addition to the allocation of roles in relation to the process of dealing with instances of fraud, it is also necessary to designate ownership of the strategy and responsibility for the regular review and where appropriate updates to ensure that it remains current and fit for purpose.

Reporting Suspensions

- 2.7 Cheshire East Council's Whistleblowing Protocol has been updated since the Anti Fraud and Corruption Strategy was adopted and as such the processes and procedures in place for reporting suspicions have changed.

Recommendation 6

The Anti Fraud and Corruption Strategy should be updated to ensure that it accurately reflects, and provides a link to, the recently updated Whistleblowing Policy. In addition, the strategy should be explicit in its requirement for all instances of fraud and corruption to be reported to the Head of Internal Audit.

3 Conclusions and Recommended Actions

- 3.1 The review has identified that the Anti Fraud and Corruption Strategy requires updating in order to bring it in line with latest best practice. This will ensure that it clearly sets out the vision of the council which is to promote an anti fraud culture across Cheshire East and will clearly allocate appropriate roles and responsibilities for the prevention, identification, investigation and response to fraud and corruption.

- 3.2 It is therefore recommended that the Strategy is subject to a rewrite in line with best practice guidance to ensure that the recommendations identified in the body of this report are addressed.
- 3.3 Once the new Strategy and response plan have been formally adopted it will be necessary to determine an appropriate strategy for the dissemination of their requirements across the authority.
- 3.4 In addition to the update of the Anti Fraud and Corruption Strategy, it is recommended that a full review of the anti fraud arrangements within Cheshire East Council is carried out to gain assurance that the key areas identified by the CIPFA Managing the Risk of Fraud – RED BOOK 2 are appropriately addressed and that the risks of fraud and corruption are effectively mitigated.

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CHESHIRE EAST COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 25 January 2011
Report of: Head of Internal Audit & Compliance
Subject/Title: Work Programme

1.0 Report Summary

1.0 To present an updated Work Plan to the Committee for consideration.

2.0 Recommendation

2.1 That the Committee:

- consider the Work Plan and determine any required amendments
- note the changes made to the plan since it was last discussed in November 2010
- note that the plan will be periodically brought back to the Committee for development and approval.

3.0 Reasons for Recommendations

3.1 The Audit and Governance Committee has a key role in overseeing and assessing the risk management, control and corporate governance arrangements and advising the Council on the adequacy and effectiveness of these arrangements. A forward looking programme of meetings and agenda items is necessary to ensure that the Committee fulfils its responsibilities.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications including - Climate change - Health

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Borough Treasurer)

- 7.1 When reviewing the Work Plan, 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. No specific financial implications.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 No specific legal implications.

9.0 Risk Management

- 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

10.0 Background and Options

- 10.1 A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities has been attached at Appendix A of this report. The Committee is 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 doing so it should be noted that the following changes have been made to the programme that was discussed in November 2010:

- The audit of the financial statements is governed by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures which govern the conduct of the external auditor. As with all guidance and frameworks, auditing standards are revised and updated. Consequently, a new clarified framework applies to the audit of the 2010/11 financial statements

and a paper has been included on the January Agenda to highlight the main changes and the impact they will have.

- The grants report to those charged with Governance has been deferred until March to align agenda items with the Audit Commission's external reporting requirements.
- Revisions to the Risk Management & Business Continuity Strategy have been delayed because the focus for the quarter has been on developing a comprehensive Corporate Risk Register and integrating and aligning risk management into the Council's business planning process. Business Continuity forms part of the Risk Management Strategy and so will be integral to the Strategy update which is anticipated for the March Committee.
- Following a report to the November Committee summarising performance during the first and second quarters against the defined Corporate Compliments, Suggestions and Complaints Policy and Procedure the Committee requested an update on the systems in operation. A presentation addressing the new policy (April 2010), role of the Customer Relations Team, Q1 – Q3 performance summary, LGO relationship, new system overview and expected benefits from the new system has been included in the January 2011 Work Plan.
- Following the review of the Anti Fraud and Corruption Strategy, the results of which are reported to this meeting of the Committee, it has been determined that a wider review of the overarching anti fraud culture within Cheshire East Council should be carried out. This will assess the effectiveness of the arrangements in place to address the 5 key areas identified within the CIPFA publication 'Managing the Risk of Fraud Actions to Counter Fraud and Corruption'. The findings of the review will be reported to the March Committee
- A revised Whistleblowing Policy has been developed in line with the report presented to the November 2010 meeting. This document is currently undergoing a consultation process prior to being brought back to Committee in March 2011 before formal approval and adoption.

10.2 It should be noted that the following items will be presented to the Committee but have not, as yet, been allocated to a specific agenda.

- A final draft of the Anti Fraud and Corruption Strategy will be presented to the Committee taking into account the findings of the review of the existing policy as presented to this Committee, comments from members and the outcome of consultation with the unions

- The terms of reference for Internal Audit will be amended and put to the Committee for approval following publication of CIPFA's '*The Role of the Head of Internal Audit in Local Government*'
- A revised Internal Audit Strategy will be put to the Committee for approval, but not direction, following publication of CIPFA's '*The Role of the Head of Internal Audit in Local Government*'

11.0 Access to Information

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

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<u>Committee</u> <u>Date/Agenda Item</u>	<u>Notes</u>
<u>17 November 2010</u>	
Final Account Memorandum	Members received the Final Accounts Memorandum which provided the Council with the detailed messages from the audit of the 2009/10 main financial statements. Members requested subsequent reports that provide assurance that issues have been, or are being addressed.
Code of Corporate Governance	The Committee approved the revised Code of Corporate Governance and noted that this is to be used as a basis for self-assessment, continuous improvement and as a contributor to producing the Annual Governance Statement.
Annual Governance Statement 2010/11	The Accounts and Audit Regulations (2003 as amended) require the production of an Annual Governance Statement (AGS). The process for producing the AGS was agreed with Members.
Risk Management update report	Members received an update on the risk management framework and the key corporate risks prior to onward submissions to Cabinet in December 2010.
Internal Audit Terms of Reference	The Committee was advised of the content of the Terms of Reference and noted that they would be amended following publication of CIPFA's <i>The Role of the Head of Internal Audit in Public Service Organisations</i> .
Internal Audit Strategy	The Committee was advised of the content of the Internal Audit Strategy and noted that they would be amended following publication of CIPFA's <i>The Role of the Head of Internal Audit in Public Service Organisations</i> .
Whistleblowing Protocol	Members considered and endorsed, in principle, the proposed changes to the Council's Whistleblowing Protocol and noted that final approval will be for full Council following reference to and recommendation from the Constitution Committee.
Customer Complaints	The Committee received a summary of performance during the first and second quarters against the defined Corporate Compliments, Suggestions and Complaints Policy and Procedure.
Work Plan	The Committee noted the changes to the programme

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	<p>of meetings and agenda items.</p> <p><i>A training session on risk management was completed at the end of the meeting</i></p>
<u>25 January 2011</u>	
Annual Audit Letter	<p>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.</p>
Opinion Plan	<p>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.</p>
2010/11 Opinion Audit – Changes You Can Expect to See	<p>The audit of the financial statements is governed by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern the conduct of the external auditor.</p> <p>As with all guidance and frameworks, auditing standards are revised and updated. The new clarified framework applies to the audit of the 2010/11 financial statements. The purpose of this document is to highlight the main changes and the impact they will have.</p>
Update on IFRS	<p>The Committee will be asked to note the progress made on the IFRS Action Plan.</p>
Compliance with International Auditing Standards	<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

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	<ul style="list-style-type: none"> • 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>
Risk Management update report	The Risk Management function will report on whether best practice is being followed in the management of risk and how new risks are identified and existing risks are changing.
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.
Customer Complaints	A presentation on the new policy (April 2010), role of the Customer Relations Team, Q1 – Q3 performance summary, 'you said, we did', LGO relationship, new system overview and expected benefits from new system.
Internal Audit Update	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.
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.

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Counter Fraud Corruption	The outcomes of a review of the Anti Fraud and Corruption Policy against best practice guidance, as stated in CIPFA's ' <i>Managing the Risk of Fraud – Red Book 2</i> ', is presented for consideration and comment prior to the production of an updated strategy document.
Work Plan	<p>A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.</p> <p><i>A training session on performance management is scheduled for this meeting</i></p>
<u>29 March 2011</u>	
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.
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 Strategy & Business	In considering the effectiveness of the Authority's risk management arrangements the Committee must be

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Continuity Strategy	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
Risk Management update	The Risk Management function will report on whether best practice is being followed in the management of risk 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 results of a review of the Council's anti fraud arrangements against those prescribed in the CIPFA publication 'Managing the Risk of Fraud Actions to Counter Fraud and Corruption' will be reported to the Committee.
Whistleblowing	The revised Whistleblowing Policy will be brought back to the Committee before formal approval and adoption.
Work Plan	A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
<u>Unallocated</u>	
Insurance	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

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Anti-Money Laundering	<p>representatives on outside bodies.</p> <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>