Audit and Governance Committee

Agenda

Date:	**Tuesday, 29th March, 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**

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

   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.

For requests for further information
Contact: Carol Jones
Tel: 01270 686471
E-Mail: carol.jones@cheshireeast.gov.uk with any apologies

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

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

To approve as a correct record the Minutes of the Meeting held on 25 January 2011.

5. **Certification of Claims and Returns - Annual Report** (Pages 7 - 20)

The joint report of the Borough Treasurer and Head of Assets provides a summary of the key findings which have been identified during the Audit Commission's certification process for 2009-2010 specific grant income.

The Committee is invited to comment on the Grants Certification Report attached as an Annex to the report.

6. **Progress Report - Audit 2010-2011** (Pages 21 - 42)

The report of the Borough Treasurer and Head of Assets updates Members on progress to date against the 2010-2011 Audit Plan presented to the Committee on 25 January 2011.

7. **Final Accounts - Progress Report** (Pages 43 - 74)

The report of the Borough Treasurer and Head of Assets provides –

- an update on the issues contained within the Audit Commission's Final Accounts Memorandum;
- progress to date on the implementation of International Financial Reporting Standard (IFRS) compliant accounts;
- updated accounting policies, and
- potential changes to how the Accounts are presented to Members for approval in the future.

The Committee is asked to note progress in respect of producing year-end accounts and to consider the impact of amended reporting requirements for the meeting of the Committee in June.

8. **Operational Procedures for Covert Surveillance - Regulation of Investigatory Powers Act 2000** (Pages 75 - 78)

The report of the Head of Policy and Performance seeks to provide assurance that Cheshire East Council is complying with the requirements for covert surveillance under the Regulation of Investigatory Powers Act, 2000 (RIPA).

The Committee is asked to note the requirements of RIPA legislation and the actions in place to ensure that the Council complies with these requirements.

9. **Business Continuity Update** (Pages 79 - 82)

The Civil Contingencies Act 2004 requires that Local Authorities, amongst other organisations, are prepared to deliver key functions in an emergency. The report of the Head of Policy and Performance aims to provide assurance that Cheshire East Council has business continuity plans in place to provide critical services under a number of different emergency scenarios.

The Committee is asked to note the requirements of the Civil Contingencies legislation and the actions in place to ensure that the Council complies with these requirements.

10. **Risk Management Update** (Pages 83 - 92)

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 report of the Head of Policy and Performance seeks to provide the Committee with a summary of the key corporate risks and risk management work undertaken since the last report so that it may undertake this oversight.

11. **Internal Audit Plan for 2011-2012** (Pages 93 - 102)

The report of the Head of Policy and Performance seeks the Committee's endorsement of the approach to internal audit planning and invites the Committee to approve the Internal Audit Plan 2011-2012.

12. **Update on Annual Governance Statement 2010-2011** (Pages 103 - 106)

The joint report of the Head of Policy and Performance and the Borough Solicitor, updates the Committee on the work being undertaken to produce the Annual Governance Statement for 2010/11.

13. **Audit & Governance Committee Self-Assessment** (Pages 107 - 116)

The report of the Head of Policy and Performance is to facilitate compliance with the requirements of the Accounts and Audit Regulations (2003 as amended); consequently, it advises Members on the results of a self-assessment of the effectiveness of the Audit and Governance Committee using the CIPFA publication *'Audit Committees – Practical Guidance for Local Authorities (Appendix A)'*.

In addition to noting that the detailed outcome of the review of the system of Internal Audit will be considered by the Audit and Governance Committee as part of the Annual Governance Statement (AGS) approval process, the Committee is invited to consider the self-assessment and determine any required amendments.

14. **Sale of County Hall** (Pages 117 - 156)

To consider the joint report to Cheshire West and Chester Council (CWAC) and Cheshire East Council. The report examines the actions of both councils in relation to the sale of County Hall. The CWAC Audit and Governance Committee considered this matter at its meeting held on 1 March 2011.

The Committee is invited to comment on the report.

15. **Work Plan** (Pages 157 - 172)

The report of the Head of Policy and Performance presents an updated Work Plan for consideration.

16. **Date of Next Meeting**

To note that the first meeting of the Committee in the new Municipal Year is to be held on Thursday, 30 June 2011 at 2.00 pm at Westfields, Sandbach.

There are no Part 2 items

CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Tuesday, 25th January, 2011 at Committee Suite 1, 2 & 3, Westfields, Middlewich Road, Sandbach CW11 1HZ

PRESENT

Councillor M J Simon (Chairman)
Councillor A Kolker (Vice-Chairman)

Councillors S Conquest, B H Dykes, J Hammond, M Lloyd, J Narraway and M J Weatherill

APOLOGIES

Councillors E Alcock and M Hardy

OFFICERS

Joanne Butler, Risk and Business Continuity Officer
Vivienne Quayle, Head of Policy and Performance
Lisa Quinn, Borough Treasurer and Head of Assets
Jon Robinson, Internal Audit Manager
Neil Taylor, Internal Audit Manager
Joanne Wilcox, Corporate Finance Lead
Nia Wolley, Legal Services
Julie Zientek, Democratic Services Officer

ALSO IN ATTENDANCE

Andrea Castling, Audit Commission
Ivan Parkhill, Audit Commission

29 **DECLARATIONS OF INTEREST**

No declarations of interest were made.

30 **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.

31 **MINUTES OF PREVIOUS MEETING**

RESOLVED:

That the Minutes of the Meeting held on 17 November 2010 be approved as a correct record and signed by the Chairman, subject to the following amendments:

1. That Councillor J Narraway be included in the list of Members who had sent apologies for absence owing to Council Business.

2. That the second sentence of the third paragraph of Minute 23 be amended to read: 'These had been identified by the Corporate Management Team at a workshop held on *19 October 2010*.'

32 **ANNUAL AUDIT LETTER**

The Committee considered a report summarising the Audit Commission findings from the 2009-10 audit, which comprised two elements: the audit of the Council's financial statements and an assessment of the Council's arrangements to achieve value for money in the use of resources. The report also identified current and future challenges, and future audit arrangements.

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

The Committee noted that the report was a retrospective look at 2009-10, and that there had subsequently been significant improvements. In addition, the section outlining current and future challenges was now out of date, following the Local Government Finance settlement.

RESOLVED:

That the Annual Audit Letter for 2009-10 be received.

33 **AUDIT PLAN 2010-11**

The Committee considered a report regarding the Audit Plan, which set out the work that the Audit Commission proposed to undertake for the audit of financial statements and the value for money conclusion 2010-11. The Audit Plan also specified the level of audit fees.

Andrea Castling and Ivan Parkhill (Audit Commission) were in attendance and spoke to the report.

In response to a question regarding the voluntary redundancy scheme and whether it could be demonstrated that it had delivered value for money, the Head of Policy and Performance confirmed that a review of the scheme could be added to the Internal Audit Plan for 2011-2012.

RESOLVED:

That the Audit Plan for 2010-11, as set out in Appendix A of the report, be received.

34 **2010 -11 OPINION AUDIT CHANGES**

The Committee considered a report regarding changes in the delivery of the audit of the Council's 2010-11 financial statements following the completion of a comprehensive project to improve the clarity of all the International Standards on Auditing.

Andrea Castling and Ivan Parkhill (Audit Commission) were in attendance and spoke to the report.

RESOLVED:

That the main changes to the International Standards on Auditing and their impact on the 2010 -11 Opinion Audit be noted.

35 **IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) - PROGRESS UPDATE**

The Committee considered a report which provided an update on the International Financial Reporting Standards (IFRS) Project Plan and detailed the progress the Council had made in implementing International Financial Reporting Standards.

RESOLVED:

That progress to date on the IFRS Project Plan be noted.

36 **COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS**

The Committee considered a report setting out a response to a request from the Council's External Auditors, the Audit Commission, for information regarding management arrangements for identifying and reporting the risk of fraud and complying with relevant laws and regulations.

RESOLVED:

That it be noted that Appendix A of the report 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.

37 **RISK MANAGEMENT UPDATE**

The Committee considered a report regarding the key corporate risks, and how they are identified, evaluated, managed and reviewed.

The Committee noted that the Corporate Risk Management Group reviewed all matters concerning the development, maintenance and implementation of the Council's risk management framework, and that it submitted a quarterly report to the Audit and Governance Committee.

RESOLVED:

1. That the key corporate risks and the approach taken to identify the actions in place to mitigate the risks be noted;

2. That in future only a Key Corporate Risks Summary (including the direction of travel of risks together with an explanation), as set out in Appendix A of the report, be submitted to the Committee for consideration.

3. That the Committee receive a presentation on reputational risk management at its next meeting.

38 **COMPLIANCE WITH DATA PROTECTION ACT (1998), FREEDOM OF INFORMATION ACT (2000) AND ENVIRONMENTAL INFORMATION REGULATIONS (2004)**

The Committee considered a report which detailed how the Council fulfilled its obligations under the Data Protection Act 1998, Freedom of Information Act (2000) and the Environmental Information Regulations (2004). The report also highlighted volumes of requests, trends, and current and future issues.

RESOLVED:

That 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 be noted.

39 **INTERNAL AUDIT PLAN 2010/11 AND UPDATE REPORT**

The Committee considered a report which detailed progress against the Internal Audit Plan 2010/11, revisions to the plan and work undertaken during the period September – December 2010.

RESOLVED:

That the issues identified be noted and the approach to achieving adequate audit coverage in the remainder of 2010/11 be endorsed.

40 ANNUAL GOVERNANCE STATEMENT 2009/10 ACTION PLAN UPDATE

The Committee considered a report regarding progress against the Annual Governance Statement 2009/10 Action Plan.

RESOLVED:

That the progress against the Action Plan, as set out in Appendix 1 of the report, be noted.

41 ANTI-FRAUD AND CORRUPTION STRATEGY

The Committee considered a report regarding proposed amendments to the Council’s Anti-Fraud and Corruption Strategy, which had been reviewed against best practice in order to ensure that the Council had in place robust arrangements to counter the threat of loss through fraud and corruption.

RESOLVED:

1 That the proposed changes to the Council’s Anti-Fraud and Corruption Strategy, as set out in Appendix B of the report, be endorsed in principle;

2 That, in view of the implications for staff, the Strategy be subject to consultation with the unions before finalising the proposed amendments; and

3 That, following the consultation process, the amended Strategy be re-submitted to the Committee for consideration.

42 WORK PLAN

The Committee considered the Work Plan for 2010/11, which had been amended since its last meeting, on 17 November 2010.

RESOLVED:

1 That the changes made to the Work Plan since it was last discussed in November 2010 be noted;

2 That the Work Plan be submitted to the Committee periodically, for development and approval.

The meeting commenced at 2.00 pm and concluded at 3.47 pm

Councillor M J Simon (Chairman)

CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	29th March 2011
Report of:	Borough Treasurer & Head of Assets
Subject/Title:	Certification of Claims and Returns – Annual Report

1.0 Report Summary

1.1 The report provides a summary of the key findings that have been identified during the Audit Commission's certification process for 2009-10 specific grant income.

2.0 Recommendation

2.1 That members receive and comment on the Grants Certification Report which is attached as Annex 1.

3.0 Reasons for Recommendations

3.1 To ensure that members consider the issues and recommendations raised within the report.

4.0 Wards Affected

4.1 Not applicable.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

6.1 None.

7.0 Financial Implications (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 risks associated with the findings of this report relate to a position where the Council may not meet the conditions required for grant funding and a financial liability is incurred.

10.0 Background and Options

10.1 The report summarises the findings from the certification of 2009-10 claims and includes recommendations arising from the auditor's assessment of the Councils arrangements for preparing claims and returns and information on claims that were amended or qualified.

10.2 The report recommends the strengthening of arrangements to ensure that all claims and returns are submitted in accordance with the timetable and improvements in supporting documentation.

10.3 The fees associated with the grant certification work in 2009-10 were £77,170.

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
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Email: Joanne.wilcox@cheshireeast.gov.uk

Certification of claims and returns - annual report

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.

Contents

Summary

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants. This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims

1 Cheshire East Borough Council received £267 million funding from various grant paying departments which required certification in 2009/10.

2 My audit team was asked to certify seven claims. I amended two claims requiring full certification for errors. For three claims, I was unable to fully certify the claim and issued a qualification letter to the grant-paying body. I have yet to certify the Sure Start claim. I am waiting for the Council to provide additional evidence. A summary of the 2009/10 claims is set out in appendix 1.

Significant findings

3 The Council has put adequate arrangements in place for the proper and accurate preparation of claims and returns. The Council's major claims, Housing & Council Tax Benefit and National Non Domestic Rates (totalling £214 million) were compiled using information from three different systems. My review of these claims found no significant issues. This represents a considerable achievement for the Council in its first year.

4 The Council can its improve overall control arrangements by ensuring all claims are completed and submitted for certification by the specified deadlines and are supported by clear well referenced working papers.

Certification fees

5 The fees I charged for grant certification work in 2009/10 were £77,170.

Background

6 The Council claims £267 million for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim.

7 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Cheshire East Borough Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

8 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

9 The key features of the current arrangements are as follows.

- For claims and returns below £125,000 the Commission does not make certification arrangements.
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

10 Claims are certified on the following bases.

- Without qualification.
- Without qualification but with agreed amendments made by the Council.
- With qualification (with or without agreed amendments made by the Council).

Findings

Control environment

11 As part of my certification of claims, I am required to make an assessment of the control environment to determine whether I can place reliance on it to reduce the level of detailed testing on individual claims. In assessing the control environment, I review the following.

- Arrangements for ensuring claims and returns are completed accurately and in accordance with the grant scheme terms and conditions.
- Internal financial control arrangements, including internal audit work on financial systems and budget monitoring and control arrangements.
- Quality of the Council's supporting working papers.
- Expertise and relevant knowledge of claim preparers, including adequacy of supervision and review.
- Cumulative knowledge of any problems associated with the compilation of individual claims.

12 I also carry out an analytical review of claims to identify any unexpected variances and their subsequent investigation and explanation.

13 As 2009/10 was the first year for Cheshire East Council, I was unable to place full reliance on the control environment. A number of issues were identified by my team as a result of their work. These are set out below.

- Four of the seven claims requiring certification were submitted to us after departmental deadlines for submission to auditors for certification. I was able to certify two of these claims by the audit review deadline.
- I qualified three claims and issued qualification reports to the grant paying departments. For the Local Transport Plan and Housing Benefits claims, the qualifications related to minor reporting issues with no impact on the amount of grant claimed. The Single Programme claim, based on advice from the grant paying body, included £858,358 of expenditure of which £666,480 was not paid until 2010/11. The certification instructions state that the claim should only include payments made during the period.
- I agreed amendments to a further two claims for minor issues. These claims were submitted to the department without qualification reports.
- The Sure Start is still uncertified. I have been unable to meet the deadline of 29 October 2010 as I am still awaiting further information to support the amounts claimed. If there are significant issues arising I will report these to you at a later date.

Recommendations

R1 Put arrangements in place to ensure the Council identifies all claims and returns that require certification and ensure submission in accordance with the specified timetable.

R2 Ensure the entries on the claims are clearly cross-referenced to supporting documentation.

Specific claims

14 A summary of the 2009/10 claims is set out in appendix 1.

Appendix 1 Summary of 2009/10 certified claims

Table 1: **Claims and returns above £500,000**

Claim	Value £	Amended	Qualification
National non-domestic rates (NNDR3)	122,878,713	Yes	No
Housing and council tax benefit	90,939,372	No	Yes
Local transport plan: major projects - A34 Alderley Edge & Nether Alderley Bypass	22,776,695	No	Yes
Teachers' Pension	20,602,539	Yes	No
Sure Start	7,346,661	To be completed	
Single Programme (NWDA) - Crewe Town Centre Public Realm	858,358	No	Yes

Table 2: **Claims between £100,000 and £500,000**

Claim	Value £	Amended	Qualification
Disabled Facilities Grant	478,000	No	No

Appendix 2 Action plan

Recommendations	
Recommendation 1	
Put arrangements in place to ensure the Council identifies all claims and returns that require certification and ensure submission in accordance with the specified timetable.	
Responsibility	
Priority	
Date	
Management response	The Grants register will continue to be developed especially in the light of significant changes in the structure of grant income during 2010. The register includes recognition of audit requirements and key contacts (internal and external), the information will be ratified with External Audit as part of regular liaison.
Recommendation 2	
Ensure the entries on the claims are clearly cross-referenced to supporting documentation.	
Responsibility	
Priority	
Date	
Management response	Clear guidance will be issued to the contacts identified on the grants register as to working paper requirements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

Design and production by the Audit Commission Publishing Team.

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

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	29th March 2011
Report of:	Borough Treasurer & Head of Assets
Subject/Title:	Progress report – Audit 2010-11

1.0 Report Summary

1.1 The report is provided to update members with progress to date against the 2010-11 Audit Plan presented to this Committee on 25th January 2011.

2.0 Recommendation

2.1 That members receive and comment on the Audit Progress Report for 2010-11.

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

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 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 Progress report..

11.0 Access to Information

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

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Progress report

March 2011

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.

Contents

Progress summary

1 The 2010/11 Audit Plan, presented to the Audit and Governance Committee in January 2011 set out the work I propose to undertake in order to be able to give an opinion on your financial statements and to support my Value for Money conclusion. The proposed programme, including progress to date is set out in appendix 1.

2 The Plan was based on my assessment of risk which I am required to update during the course of the audit and report any changes to you along with any proposed changes to the audit fee. My updated risk assessment is set out in appendix 2. At this stage I have not identified any new risks.

Opinion work

3 Work is on track to update our knowledge of the design and operation of your financial systems and testing of key controls. We have met with internal audit to discuss potential areas where we may be able to place reliance their work. We have agreed to seek to place reliance on internal audit work in the following areas:

- controls testing at Cheshire East and Shared Services; and
- assurance work on systems implementation and upgrade for revenues and benefits and main financial ledgers.

I will update the Committee with progress in this area over the next three months.

4 The audit team has met with the Finance team to discuss the changes to the audit approach, particularly in relation to accounting estimates and related party transactions. Work early substantive testing of material journals has been carried out in order to reduce the amount of detailed testing required during the accounts audit visit.

5 The Council has experienced slippage in its timetable for restating its opening 2010/11 balances. As a result we have been unable to carry a review of the restatement in February / March 2011 as planned. Officers expect to provide restated balances to us by the end of March.

Value for money conclusion

6 I have completed my initial risk assessment and identified a number of areas where further evidence is required around in year revisions to the Council's medium term financial plans and reserves strategy; improvements to its performance management arrangements; and delivery of planned savings and efficiencies.

Giving the audit opinion

7 My work on the council's statement of accounts is split into two elements.

- Pre-statements audit:
  - updating, documenting and walking through your systems;
  - identifying and testing key controls;
  - reviewing the implementation of IFRS; and
  - any early substantive testing.
- Post statements audit:
  - testing material balances and ensuring the statements are in line with accounting standards.

Pre-statements audit

8 My work on corroboration of financial systems at Cheshire East and Shared Services is underway and is on track for completion by end of March. My audit team have met with internal audit to agree a testing programme for key controls. I plan to place reliance on Internal Audit work on key controls where appropriate.

9 Early substantive testing on journals has been completed. This work will be updated for the final financial quarter in April.

10 In my Audit Plan I identified two specific risks around the implementation of the new revenues and benefits systems and the upgrade to the oracle financial ledgers. We have reviewed the Council's arrangements for managing systems implementation and for obtaining assurance that the new systems operate as planned. This work will be completed shortly. I will update my risk assessment based on the results of that work and report any residual risk to the next Audit and Governance Committee.

International Financial Reporting Standards (IFRS)

11 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.

12 As reported previously, the Council had plans in place to restate its opening balances for 2010/11 but there was significant slippage against the timetable during last year. As at November 2010, officers expected to produce the restated balances by the end of January 2011 in order for me 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.

13 Work has progressed since then but there has been further slippage and a significant amount of work is still remains to complete the restatement, particularly in respect of leases and fixed asset valuations.

14 Officers now plan to produce restated opening balances for my review by end of March 2011.

Chief Accountants' workshops

15 The Audit Commission runs workshops every year for chief accountants to ensure that consistent messages about technical issues are shared with audited bodies. Cheshire East finance officers attended the Midlands workshop in February.

Ongoing audit support

16 My audit team has provided a set of working paper requirements for the finance team and is having regular discussions to deal with technical issues as they arise. Areas for discussion so far include the implications of revised auditing requirements for related party transactions and accounting estimates.

17 We also attended and presented 'An Audit Perspective' at the Council's accounts closure launch events held in February.

18 An index of Members resources available from the Audit Commission website has been included in Appendix 4 and includes a full list of International Financial Reporting Standards (IFRS) reports and briefings for management and members.

Other support

19 From 1 April 2011, our advisory services team is available to help local public sector bodies increase their productivity, deliver better value for money and be more responsive to customer needs. Details of the type of work that the can be undertaken are set out in Appendix 3.

Value for Money conclusion

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

21 I have completed my initial risk assessment drawing on information gathered last year and from meetings with senior officers. Based on this assessment my audit team will be looking for further evidence that the Council.

- Has reviewed its medium term financial plan in light of the Government's Comprehensive Spending Review and is developing strategies to ensure financial stability over the medium term?
- Updated its reserves strategy?
- Has appropriate arrangements in place to identify and monitor delivery of its planned savings and efficiencies?
- Developed its performance and financial monitoring and management arrangements to support delivery of its strategic objectives?

Appendix 1 Progress to date

Activity	Date work planned	Comment
Corroboration of material financial systems and controls - operated at Cheshire East Council / Shared Services	January to March 2011	Systems updates - work on track to be completed March 2011. Early substantive testing on journals completed.
Testing of controls over financial systems - at Cheshire East Council / Shared Services	February / April 2011	Controls testing - Internal Audit field work underway.
VFM conclusion work	February to June 2011	Initial assessment to be shared with Senior officers June 2011.
Review of IFRS restated balances	February 2011	Review date revised to end March/April 2011.
Receipt of accounts and supporting working papers	30 June 2011	
Detailed testing (including Whole of Government Accounts return)	July - September 2011	
Present report to those charged with governance at the audit committee	September 2011	
Issue opinion and value for money conclusion	By 30 September 2011	
Annual Audit Letter	November 2011	

Appendix 2 Risk assessment

Risk area	Assessment	Proposed work
Restatement of financial statements in compliance with International Financial Reporting standards (IFRS).	This remains as a significant risk.	■ Review 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. ■ Review the Council's revised accounting policies.
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 remains as a significant risk.	■ Extended testing on income and expenditure for under and over-statement respectively. ■ Review material journals for unusual transactions. ■ Review accounting treatments against the Council's stated accounting policies for changes in practice. ■ 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 remains as a specific risk.	■ Review Internal Audit work to check that standing and transactional data migrated completely and accurately to new system. ■ Consider whether any additional specific testing is required.
Upgrade of the Oracle General Ledger.	This remains as a specific risk.	■ Review of Oracle upgrade project manage arrangements, including risk identification and management. ■ Review of assurance work carried out by Internal Audit. ■ Assessment of impact of upgrade on Council's financial reporting arrangements and capabilities.

I identified a number of other issues in my Audit Plan that may have an impact on my risk assessment on the Council's financial statements. At this stage I have not assessed any of these issues as additional audit risks but will keep them under review.

Appendix 3 Advisory services

22 The landscape of local government has changed radically in the past year. Central government announced major changes in policy. At the same time, funding has been cut back sharply. The implications of these changes for local government are huge. Local people expect the same or better services but councils and their partners will have less to spend and far fewer staff to deliver them.

23 Our Advisory Services team carries out work to help local public sector bodies increase their productivity, deliver better value for money and be more responsive to customer needs. Their work covers three broad themes:
- managing with less;
- performance challenge; and
- productive partnerships.

Managing with less

24 Councils will need to make more radical decisions than in the past, and these decisions need to be made quickly. These will result in new ways of delivering services, reduced service provision, decommissioning and shared services. This scale of change will rely on robust decision-making, clear plans and effective leadership. Strong management and supporting arrangements will be essential to ensure that they deliver against the plans.

25 Advisory Services can help councils to work through barriers in putting together plans, deal with budget management problems and help them review priorities because of reduced resources.

Performance challenge

26 Councils need to ensure that key services are as effective as possible and deliver the maximum benefit to clients. The absence of a national framework for local government places increased emphasis on robust local performance management. To meet the performance challenge, councils will need to develop different forms of delivery and new approaches performance management.

27 The scale and speed of setting up new models of public service delivery bring risk. It is important that decisions are well informed and accountability is clear. Our performance challenge work aims to help councils improve performance through better performance management, better use of information and the robust management of risk.

Productive partnerships

28 Effective partnerships are needed to help deliver services more efficiently and effectively. But councils will need to be clear about the true costs of partnership working and the value they get from it. Councils can save money by ensuring that partnerships are focused, efficient and delivering results. They can also save money by reducing the time and money they put into partnerships which are not delivering value for money for local people. However streamlining partnership working carries its own risks and councils will need to ensure that partnerships are transparent and accountable to citizens.

29 Our Productive Partnerships work aims to help councils tackle the partnership challenge and develop local solutions which work.

Appendix 4 Members resources

Audit Commission information for members

The local government national studies programme aims to improve local public services through its independent authoritative analysis of national evidence and local practice. Information on the programme is on the Audit Commission's website at national studies programme.

Upcoming reports

The following are studies that the Audit Commission is currently undertaking:

Savings in district councils from shared services and management

Cuts in funding from government require councils to achieve financial savings while protecting frontline services. Many councils have begun to explore, or already achieved, savings from sharing chief executives, management teams or services. The Audit Commission has been supporting the Local Productivity Programme (LPP) shared services work stream to synthesize knowledge about shared services and management and how to implement them. A guide for councils and a series of case studies will be published through the LPP community of practice website in February 2011. Planned publication date: Spring 2011.

Local government workforce

What are the most effective means for councils to achieve savings from the pay bill while continuing to meet the needs of their communities? This study will explore how councils can do this, including how they address working patterns, staffing tiers and numbers, rates of pay, and reward packages. It will identify barriers to achieving savings and their solutions as well as highlight innovative approaches to configuring workforces in response to financial cutbacks. Planned publication date: Spring 2011

Review and challenge in councils

Councils need to have effective means for reviewing and challenging their major activities, priorities and risks. This project will research how this can be done effectively and efficiently. Research will identify the principles that best underpin review and challenge in councils. These principles will provide the basis for a series of questions to help those responsible for council governance assess their review and challenge arrangements. Planned publication date: Spring 2011

Schools workforce management

Our 2009 report, 'Valuable lessons', set out savings that could be made by schools through better balance management and more effective procurement. This study will focus on how schools, working with local authorities, can maintain or improve the value for money of their workforce deployment. It will result in a set of briefing papers examining the cost-effectiveness of classroom deployment, curriculum offer, absence management and the wider schools' workforce. Planned publication date: Spring 2011.

Domestic abuse

This provides questions for commissioners and practitioners to use in reviewing a locality's services. It highlights the themes that underpin more effective partnerships, including an understanding of costs and benefits. Planned publication date: Spring 2011

Road maintenance

What works in road maintenance, in the context of a tough funding environment? This study will help councils make difficult decisions on road maintenance spending priorities through four key areas:

- the strategic use of asset management
- decision-making and prioritization
- potential savings from procurement arrangements
- effective partnership working

Planned publication date: Spring 2011.

Managing with less

This research project aims to help councils respond to the challenges of public spending reductions. It examines the approaches taken by local councils in responding to the need to make savings and to managing with less, and at how and why decisions are made. There will be a particular focus on the data and information used; the involvement of members and partners; and the balance between short, medium and longer term planning. Planned publication date: Spring 2011.

Improving value for money in adult social care

The aim of this research is to help councils and their health partners achieve better value for money in the commissioning and delivery of adult social care. Planned publication date: Spring/Summer 2011.

Published reports

Latest releases

- **Auditing the accounts 2009/10: Quality and timeliness of local public bodies' financial reporting**, 16 December 2010. A summary of the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and local government bodies.

- **Against the odds - Re-engaging young people in education, employment or training;** published 3 November 2010. Since the release of the report on 7 July 2010, we have produced a series of maps detailing changes in the proportion and numbers of young people not in employment education and training (NEET).

- **Financial management of personal budgets**; Challenges and opportunities for councils. Published 28 October 2010. This report examines personal budgets in adult social care and considers the financial management and governance implications for councils. It reviews the approaches to transition from providing services to providing personal budgets, the choices for allocating money, and how councils can plan for the financial implications. It also considers changes in social care commissioning and the governance arrangements needed for personal budgets. It is aimed at finance staff and staff in adult social care departments interested in personal budgets. The report includes a self-assessment checklist to help councils review progress in implementing personal budgets and identify areas for improvement.

- **Protecting the public purse**; Fighting fraud against local government and local taxpayers. Published 27 October 2010. we describe what has happened in the field of fraud detection and prevention since 2009 and set out the findings from our recent fraud survey. Last year England's councils detected around £99 million worth of benefit fraud, over £15 million worth of council tax fraud, and £21 million worth of other types of fraud including false insurance claims, and abuse of the disabled parking 'blue badge' scheme. In addition nearly 1,600 homes have been recovered by councils with a replacement cost of approximately £240 million. We also describe the action taken by some council to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. Our updated checklist gives organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud. Also available is a single person discount comparator tool that allows local authorities to compare their levels of council tax single person discount with their predicted levels, based on a national average.

- **Finance improvement tool**. Published16 September 2010. Following our 'Under Pressure' study (February 2010), we have developed a finance improvement tool to help councils respond to the financial challenges of an ageing population and identify scope for improvement.

- **Strategic financial management in councils**, 8 September 2010. Delivering services with a reduced income. In our latest report, we reveal how organisations that manage their finances strategically are more adaptable and resilient when money is tight, and how other councils can learn from them. Councils need to make some urgent and tough decisions. 'Strategic financial management in councils' is aimed at all council staff, especially those who hold the purse strings of local government. In it, we point out potential financial pitfalls, highlight successes, and feature a value for money self-assessment questionnaire that can be used locally. The findings in the report are supported by a good-practice checklist that describes the key issues for improving financial management. Councillors and managers can use the checklist to evaluate their current approach to financial management.

- **Local government pensions in England - an information paper** - 29 July 2010. In our latest information paper, we examine the long-term affordability of the Local Government Pension Scheme, and look at steps that could be taken to put it on a better financial footing.

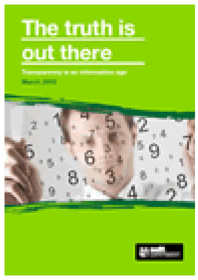
- **Local government claims and returns, 27 July 2010**. The level of amendments and the number of qualification letters issued by auditors in 2008/09 shows some authorities can improve their preparation of claims and returns. The first Audit Commission annual report on certification work, published on Thursday 29 July, shows that in 2008/09 Audit Commission auditors certified claims and returns from local authorities for schemes covering £45.6 billion of public money. Auditors agreed amendments to claims and returns totalling £54.5 million. Eight schemes had total amendments over £1 million and auditors qualified 673 (24 per cent) claims and returns. For the housing and council tax benefits scheme, 85 per cent of benefits claims had qualifications or amendments or both. Certification of 2008/09 claims and returns cost local authorities £18.7 million which is 0.04 per cent of the total value certified.

- **Against the odds. Re-engaging young people in education, employment or training** - 7 July 2010. We reveal how councils need a new approach in getting to grips with the needs of their local teens, in order to make scarce resources work harder for those at greatest risk of long-term unemployment.

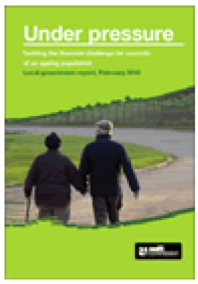
- **A review of collaborative procurement across the public sector**, 21 May 2010. The National Audit Office and the Audit Commission have jointly produced this review. It draws on Audit Commission research in local government, carried out during the autumn of 2009. The review finds that although collaborative procurement has the potential to improve value for money, the public sector procurement landscape is fragmented, with no overall governance. Consequently, public bodies are incurring unnecessary administration costs by duplicating procurement activity, and they are paying a wide range of prices for the same commodities, even within existing collaborative arrangements. It recommends that, given the size of public sector procurement spend and the potential to significantly improve value for money, public bodies should work together much more effectively than they currently do. And there should be a clear framework to coordinate public sector procurement activity.

- **By mutual agreement**, 16 March 2010. Severance deals serve councils and the taxpayer. But our research shows that not all pay-offs are justified. Competent chief executives sometimes lose their jobs needlessly, and less effective individuals have been paid-off rather than dismissed.

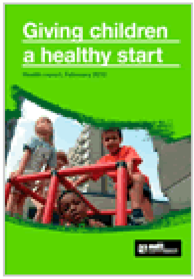
- **Healthy balance**, 11 March 2010. Does your ward have a high number of teenage pregnancies, or is there growth in childhood obesity? This briefing says the NHS allocated £21 billion in 2009/10 on the basis of inequalities in health between areas. The impact of the spending is unclear.



- **The truth is out there: A discussion paper,** 5 March 2010. Information is essential: it helps you make better decisions. Making more and better information available to the public should help them evaluate the decisions their elected representatives are making, what public money is spent on and with what result. This discussion paper looks at how councils and health trusts, social workers, doctors and police can improve data and analysis made available to the public.



- **Under pressure**: Tackling the financial challenge for councils of an ageing population, 18 February 2010. Councils need to understand the nature and needs of residents who are ageing. The report stresses growth in the number of older citizens affects all services. We need better working across boundaries.



- **Giving children a healthy start: A review of health improvements in children from birth to five years,** 3 February 2010. Have the large sums spent on young children from 1999 to 2009 improved their health? The study examines local service planning and delivery, and how councils and primary care trusts can improve services and access for vulnerable groups, lone and teenage parents and black and minority ethnic communities.

International Financial Reporting Standards (IFRS)

30 The following IFRS reports and briefings are available on the Audit Commission website for management and members.

Complete list of resources

- Countdown to IFRS: Reporting on operating segments - 29 October 2010 Our latest briefing on the countdown to IFRS covers principles and practical issues that authorities should consider when reporting on operating segments.
- Countdown to IFRS: Progress on the transition to IFRS - 5 October 2010 The deadline for local authorities to produce IFRS-compliant accounts is fast approaching. Successful implementation of IFRS will testify to the ability of local government to manage a major change in its financial arrangements. The paper draws on a survey completed in July 2010 by auditors of all local authorities, fire and rescue authorities, and police authorities, on local government's progress on transition to IFRS. In this paper we:
  - make comparisons with a baseline assessment taken in November 2009;
  - set out relevant lessons from the NHS experience of transition, as NHS bodies have implemented IFRS a year earlier than local government; and
  - outline the key actions that authorities should be taking at this stage.
- Countdown to IFRS: Accounting for employee benefits - 15 July 2010
  Issues authorities may face when accounting for employee benefits.
- Countdown to IFRS: Managing the practical implications of restating non-current assets - 17 June 2010
  Guidance on managing the practical implications of restating non-current assets.
- Countdown to IFRS: Summary paper - 8 June 2010
  A guide for senior managers and members.
- Countdown to IFRS: Accounting for non-current assets - 17 May 2010
  Introducing international financial reporting standards (IFRS) for Accounting for non-current assets.
- Countdown to IFRS - Checklist for councillors - 17 March 2010
  Councillors checklist - discussing IFRS transition plans with officers.
- Countdown to IFRS - Identifying and accounting for leases - 17 March 2010

Issues arising from the introduction of International Accounting Standard (IAS) 17: Leases.

- Countdown to International Financial Reporting Standards (IFRS) - 19 February 2010
  Implementation of IFRS in local government.
- IFRS briefing paper 3 for local government - 4 May 2009
  Managing the transition to IFRS.
- IFRS briefing paper 2 for local government - 1 September 2007
  The move to international financial reporting standards - how can your auditor help?
- IFRS briefing paper 1 for local government - 1 May 2007
  The move to international financial reporting standards.

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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	29th March 2011
Report of:	Borough Treasurer & Head of Assets
Subject/Title:	Final Accounts – Progress Report

1.0 Report Summary

1.1 This report provides Members with:-

- an update on the issues contained within the Audit Commission's Final Accounts Memorandum;
- progress to date on the implementation of International Financial Reporting Standard (IFRS) compliant accounts;
- updated accounting policies, and
- potential changes to how the Accounts are presented to Members for approval in the future.

2.0 Recommendation

2.1 Members are asked to note progress on preparations for producing year end accounts.

2.2 Members are asked to consider the impact of amended reporting requirements for the June Committee meeting

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

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 are being held with the Audit Commission to review progress and keep the identified risks under review.

10.0 Background and Options

10.1 The Final Accounts Memorandum was reported to this Committee on 17th November 2010, the report contained an action plan with a number of recommendations to improve the closure of accounts process for 2010-11. An update against the Action Plan is included in Appendix 1 of this report.

10.2 An update on progress against the IFRS Action Plan was reported to this Committee on 25th January 2011. This process is now approaching its conclusion and the Council has recently completed the restatement of its 2009-10 Accounts into IFRS format, the Audit Commission are about to undertake a review of this process to ensure all the necessary requirements have been met.

10.3 As part of the preparation for the 2010-11 accounts the accounting policies have been updated to comply with International Financial Reporting Standards and to improve readability. The main changes to the policies for IFRS purposes relate to Employee Benefits, Grants and Contributions, Leases and Property, Plant and Equipment. The updated accounting policies for Cheshire East Council are included in Appendix 2 of this report.

<u>Changes to Account and Audit Regulations</u>

10.4 A consultation draft of the Account and Audit Regulations was recently issued which, should it to be adopted into law, will amend the role of the Audit and Governance Committee with regard to the approval of the Council's Statement of Accounts.

10.5 At present there is a requirement for the Council's draft unaudited accounts to be approved by Members before they are presented for audit. This currently takes place at this Committee at the end of June.

The audited accounts are then presented to this Committee for final approval in September.

10.6 Under the changed legislation there would be no need for Member approval of the Accounts before they were presented for Audit. Members would only be asked to approve the Accounts in September when the audit has been completed and any changes as a result of the audit have been reflected in the accounts. The lack of a requirement to formally approve the draft accounts does not preclude Members from scrutinising or challenging any aspect of the Accounts at any point in their preparation.

10.7 The draft Accounts will need to be approved by the Council's Section 151 officer (Borough Treasurer and Head of Assets) before being issued for audit, however this can take place outside of a committee.

10.8 If changes to legislation are not approved before June the next meeting of this Committee on 30th June will receive the 2010-11 Accounts for approval as in previous years. If the changes are adopted it is proposed that a summary presentation focusing on the key information and issues be presented. The draft Accounts would be made available to Members who wished to see them following the meeting.

11.0 *Access to Information*

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

Appendices

Appendix 1 – Update on Final Accounts Memorandum Action Plan
Appendix 2 – Accounting Policies

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

Appendix 1

Update on Final Accounts Memorandum Action Plan

Recommendations

Recommendation 1

Implement a quality assurance process to improve the standard of the accounts presented for audit, ensure compliance with the Code of Practice and reduce the number of accounts compilation errors.

Responsibility: Jo Wilcox
Priority: High
Date: Early June (in accordance with the Closure Timetable)
Comments: The Closure Timetable requires the draft financial statements to be completed by the first week in June, this will allow sufficient time for the accounts to be checked by Finance Leads and for a quality control process to be completed independently from the officers responsible for the accounts. The timetable also allows for the Revenue Outturn Form and the Whole of Government Accounts return to be completed before the end of June, this will form an additional checking process to validate the figures included in the accounts.

Recommendation 2

Ensure that a full set of working papers to support the accounts is available when the accounts are submitted for audit.

Responsibility: Nick Finnan
Priority: High
Date: 1 July 2011
Comments: A review of working papers is currently underway based on advice and guidance from the Audit Commission. The working papers will be held in a central file and categorised for easy reference by service accountants and external audit. The standard of working papers will be checked on a regular basis, finance officers have been allocated responsibility for particular disclosures and notes to the accounts to ensure they are completed in accordance with the deadline to an acceptable standard. In addition, two finance officers from within Corporate Finance have previous audit experience and will carry out additional quality control checks.

Recommendation 3

As part of the reconciliation process, reconciling items should be cleared on a timely basis to ensure that income, expenditure and cash balances are accurately reflected in the ledger.

Responsibility: Gillian Officer
Priority: High
Date: Already implemented
Comments: Reconciliation procedures have improved during the year and have been completed on a more timely basis. Resource issues and the use of legacy systems in 2009-10 led to particular time pressures at year end that we do not expect to experience during this current year end process.

Recommendation 4

Remind staff they should evidence the operation of controls that they are responsible for operating

Responsibility: Employee Service Centre
Priority: High
Date: Already implemented
Comments: During 2009-10 the documentation surrounding the authorisation of payroll controls by supervisors was not completed on a timely basis, this has since been checked as part of the key systems audit work undertaken in 2010-11 to ensure that the paperwork is now completed on time.

Recommendation 5

Council to consider re-instating the control over the authorisation of income invoice requests.

Responsibility: Purchasing and Exchequer Services
Priority: High
Date: Already Implemented
Comments: In 2009-10 the control over the authorisation of income invoice requisitions was turned off. This has been revisited as part of the key systems audit work undertaken in 2010-11 and a response regarding the re-instatement of this control will be included in the internal audit report.

Recommendation 6

Strengthen managerial oversight of journals to ensure that the initial journal posted are accurate and that the need for correcting journals is kept to a minimum.

Responsibility: Jo Wilcox
Priority: High
Date: Already implemented
Comments: During 2009-10 a high proportion of journals related to the aggregation of the balance sheet and the transfer of financial information from legacy systems. Due to time pressures and lack of experience with the chart of accounts a significant number of journals were posted incorrectly and

required further journal entries to be made. The reduction in the number of journal entries required in the 2010-11 accounts and the increased knowledge and experience of staff should reduce the potential for error. In addition the standard practice for producing journals has been reviewed, all journals will be held centrally as part of the final accounts working papers, standard referencing will be used and checks of supporting documentation will be carried out.

Recommendation 7

Review the level of information recorded in the fixed asset register to ensure compliance with guidance.

Responsibility: Jo Wilcox
Priority: High
Date: Ongoing
Comments: An exercise to aggregate and produce a fixed asset register for Cheshire East was undertaken in 2009-10 in addition to the annual exercise of updating the register for revaluations, impairments and depreciation. Work has continued during 2010-11 to verify the information held in the asset register and ensure the assets are classified in accordance with International Financial Reporting Standards.

Recommendation 8

Strengthen the procedures in place to ensure that asset disposals or demolitions and the reclassification of assets between, for example, operational and non-operational are actioned promptly in the asset register.

Responsibility: Jo Wilcox/Rachel Moan
Priority: High
Date: Ongoing
Comments: A closer working relationship has developed with the Asset Management service during 2010-11. Rachel Moan has been nominated as Asset Champion and acts as the liaison officer between finance and asset colleagues responsible for managing the Council's assets. An asset data working group has been established to undertake a major piece of work on data reconciliations. The objective of the working group is to achieve a consolidated property asset knowledge base which provides the council property & finance teams with "one version of the truth".

Recommendation 9

Officers should formally record the steps taken to gain assurances around the qualifications and expertise of the experts on whose work they plan to place reliance to derive figures used in the accounts

Responsibility: Jo Wilcox/Rachel Moan
Priority: High

Date: Ongoing
Comments: The revaluation exercise for 2010-11 has been undertaken by the District Valuer and the instruction was agreed by Finance and Asset Management officers.

Recommendation 10

Officers should undertake corroborative procedures on the results of experts' work to assure themselves that the results fully address the work specified expectations; that the results are in line with expectations, and if not reasons for variations are understood.

Responsibility: Jo Wilcox/Rachel Moan
Priority: High
Date: March/April 2011
Comments: Sufficient time has been built into the timetable for the asset management service to scrutinise and challenge the information back from the valuers and use their local knowledge before using it as the basis of valuation.

Recommendation 11

Carry out a post implementation review to identify lessons learned from the restatement exercise, particularly around timing of work, adequacy of audit trail and control and accuracy of journal postings, to inform planning of the International Reporting Standards restatement exercise in 2010/11.

Responsibility: Jo Wilcox
Priority: High
Date: Already implemented
Comments: A post implementation review was carried out by Yvonne Jones, who was employed as an external consultant to work on the 2009-10 accounts. Following the review a number of briefings and meetings were held with finance staff to reflect on experiences and lessons learnt. A series of training sessions have been completed and a review of working practices and completion of working papers is ongoing. Co-ordination meetings are held on a fortnightly basis between Corporate Finance and Service Accountants which incorporate all aspects of accounting procedures and practices relating to capital and revenue.

Recommendation 12

Ensure that the methodology used to calculate the doubtful debt provision complies with the Council's accounting policy.

Responsibility: Andrew Rennie
Priority: High
Date: Already implemented.

Comments: The policy for calculating the doubtful debt provision has been updated and discussed with the Co-ordinators group to ensure that the methodology is complied with across all service areas.

Appendix 2 – Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2010-11 financial year and its balance sheet position as at 31 March 2011. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2010/11' ('The Code') and those International Financial Reporting Standards (IFRS) where the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance notes. Exceptions are made to accepted accounting practice where this is overridden by legislative requirements. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of Non-Current Assets and Financial Instruments.

Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service or activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

In producing the Statement of Accounts the following accounting concepts are applied:

- **Consistency**
  Cheshire East Council came into existence on 1 April 2009 and has determined its accounting policies based on a review of the policies adopted by the predecessor authorities and consideration of the best approach for the new authority. These accounting policies will be reviewed each year and the impact of any significant change in policies will be declared in the accounting statements so that useful comparisons can be made.

- **Materiality**
  The concept that any omission from, or inaccuracy in, the statement of accounts should not be so large as to affect the understanding of those statements by a reader, either in terms of the nature of the transactions or their value.

- **Going Concern**
  The principle that accounts are always prepared on the basis that the organisation will continue to operate for the foreseeable future. Following Local Government Reorganisation in Cheshire, the Council inherited the assets and liabilities of the district councils of Crewe and Nantwich, Congleton and Macclesfield and a proportion of the assets and liabilities of Cheshire County Council. Cheshire East Council is providing the same services as the demised Councils and therefore the going concern principle still applies.

Changes in Accounting Policies, Changes in Accounting Estimates and Errors

The Code 2010/11, the first to be based on IFRSs, specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of the Council. The Code sets out the proper accounting practices required by section 21(2) of the Local Government Act 2003.

Under the IFRS based Code, authorities should select accounting policies, and account for changes in accounting policies, changes in accounting estimation techniques and correcting errors in accordance with International Accounting Standard (IAS) 8, except where interpretations or adaptions to fit the public sector are detailed in the Code.

Changes to accounting policies are applied retrospectively unless the Code specifies transitional provisions that should be followed. Changes for the current reporting period and, where practicable, the changes resulting from retrospective application are disclosed showing the adjustments on each financial statement.

Any changes to accounting estimates are as a result of changes that have occurred in the circumstances on which the estimate was based or as a result of new information or more experience. They do not relate to prior periods and are not the correction of an error.

Errors may occur in the recognition, measurement, presentation or disclosure of elements
of the financial statements. In line with the Code, material prior period errors have been corrected by retrospective restatement. Prior period errors are material if individual or collective misstatement or omission could influence the decisions or assessments of users taken on the basis of the financial statements.

Accruals of Income and Expenditure

Income and expenditure is included in the accounts on an accruals basis, apart from housing benefit payments and minor cash income, which are shown in the accounts when the expenditure is incurred or the income is received. In particular:

- Sales, fees, charges and rent due from customers are accounted for as income at the date the Council provides the relevant goods and services;

- Supplies are recorded as expenditure when they are consumed; where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet;

- Works are charged as expenditure when they are completed. Prior to this they are carried as work in progress on the Balance Sheet;

- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- The Council is a billing authority and collects National Non Domestic Rates (NNDR) under what is in substance an agency agreement with the Government for the collection of business rates. The same principle applies for Council Tax collected on behalf of the precepting bodies; Cheshire Police, Cheshire Fire Authority and Parish Councils. The income collected on an agency basis is not the income of the billing authority and is not included in the Comprehensive Income and Expenditure Statement.

- Where income or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Council's policy is to provide in full for the non-payment of all debts over 6 months old unless a payment arrangement is in place or the debt is otherwise secured.

- Where income has been received in the year in relation to activities to be carried out in the following financial year, a receipt in advance is recorded in the Balance Sheet.

- Where payment has been made in relation to activities to be carried out in the following financial year, a payment in advance is recorded in the Balance Sheet.

- Severance costs arising from redundancies agreed on or before Balance Sheet date are accrued in the accounts.

- Income and expenditure are credited and debited to the relevant Income and Expenditure Account, unless they properly represent capital receipts or capital expenditure.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions that are immediately repayable without penalty. Cash equivalents are highly liquid investments held at the balance sheet date that are readily convertible to known amounts of cash on the balance sheet date with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

Charges to Revenue for Non-Current Assets

Service Income and Expenditure Accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and Impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off ; and
- Amortisation of intangible fixed assets attributable to the service

When setting the amount of Council Tax that it needs to raise, the Council does not need to raise an amount in respect of depreciation, impairment losses or amortisations. It does, however, need to raise an amount in respect of a contribution towards reducing the amount of borrowing that it has outstanding.

The Council finances a substantial proportion of its capital investment projects through borrowing. Outstanding borrowings are equal to the Council's Capital Financing Requirement (CFR). The CFR represents the Council's past capital expenditure which has not been, or will not be, financed directly from external income, capital receipts or by revenue contribution and which therefore needs to be charged to the Income and Expenditure Account in future years. The CFR is determined by reference to the Council's Balance Sheet at each year end. The provision for the repayment of debt that is charged to the Comprehensive Income and Expenditure Statement each year is determined in accordance with the policy set down in Note x, provision for the repayment of debt in the Notes to the Financial Statements.

This charge, in respect of redeeming the outstanding borrowing, replaces the charge made to the Comprehensive Income and Expenditure Statement, in respect of depreciation. This is achieved by means of an adjustment in the Movement in Reserves Statement. This adjustment, which is made between the Capital Adjustment Account and the General Fund, is equal to the amount of provision for the redemption of debt that needs to be charged for the year, less the amount of depreciation actually charged for the year.

Collection Fund

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR).

Up to 2008-09 the Council Tax income included in the Income and Expenditure Account (per the SORP) was the amount that was required to be transferred to the General Fund under regulations. From 1st April 2009 the amount included in the Comprehensive Income and Expenditure Statement for the year is the accrued income for the year. The difference between the two amounts is taken to a Collection Fund Adjustment Account.

Up to 2008-09 NNDR taxpayers' debtor and creditor balances and an allowance for doubtful debts were included on the Council's Balance Sheet. From 1st April 2009 the amount included in the Council's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of a cost of collection allowance) that has not yet been paid to the Government or has been overpaid to the Government on the Balance Sheet date.

Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority.

Short-term compensated absences are periods during which an employee does not provide services to the employer, but benefits continue to be paid. Compensated absences may be accumulating or non-accumulating.

Short-term accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full (e.g. annual leave, and flexi leave). An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Short-term non-accumulating absences are those that cannot be carried forward for use in future periods if the current period entitlement is not used in full. Sick leave, maternity leave, paternity leave and jury service is non-accumulating. Non-accumulating compensated absences shall be recognised when the absence occurs.

Termination Benefits

Termination benefits are often lump-sum payments, but also include enhancement of retirement benefits, and salary until the end of a specified notice period if the employee renders no further service that provides economic benefit to the Council. They are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy.

Termination Benefits are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Post-Employment Benefits

Most employees of the Council participate in one of two pension schemes, which meet the needs of employees in particular services (further details are provided in Note X to the financial statements). Both schemes provide final salary defined benefits to members (retirement lump sums and pensions) based on membership earned during the time that the employee was a member of the scheme.

Local Government Pension Scheme (LGPS)

All employees (other than teachers) and Councillors, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The scheme, known as the Cheshire Pension Fund, is administered by Cheshire West and Chester Council.

Local authorities are required to implement International Accounting Standard 19 (IAS19) in full. The accounts have therefore been prepared in accordance with CIPFA's guidance on Accounting for Retirement Benefits. The Local Government Pension Scheme is accounted for as a defined benefit scheme:

- The liabilities of the Cheshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on actuarial assumptions (as detailed in Note X to the financial statements).

  Those liabilities are discounted to their value at current prices, using a discount rate which is based on the indicative rate of return on a high quality corporate bond at each year end as prescribed in IAS19. For 2010-11 this rate was X.X%, (5.5% in 2009-10).

- The assets of the Cheshire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value as follows:
  - unquoted securities – professional estimate
  - quoted securities – current bid price
  - unitised securities – current bid price
  - property – market value

The change in the net pensions liability is analysed into seven components:

- **current service cost** – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- **past service cost** – the increase in liabilities arising from current year decisions the effect of which relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- **interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- **expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **gains and losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, credited or debited to the the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve

- **contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council to raising Council Tax to cover the cash amounts payable by the Council to the pension fund in the year.

Teachers' Pensions

This scheme is administered by the Teachers' Pension Agency (TPA), on behalf of the Department for Education (DfE). Although the scheme is unfunded, the Government has established a notional fund as the basis for calculating employers' contributions. The Council contributes at rates determined by the DfE. The arrangements for the teachers scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme, no liabilities for future payments or benefits is recognised in the Balance Sheet and the Children's Service within the Comprehensive Income and Expenditure Statement is charged with the employers contributions payable to the scheme in year.

In addition, the Council is responsible for any payments relating to early retirements outside the standard terms of the scheme. This part of the scheme is accounted for on a defined benefit basis using the same policies that are applied to the Local Government Pension Scheme.

Financial Instruments

Financial Liabilities

Financial liabilities (i.e. Long-Term Loans raised by the Council) are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the Effective Interest Rate (EIR) for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Repurchase of Borrowing

Premiums and discounts arise when external loans are repaid prematurely by the Council. Premiums arise when the rate of interest paid on the loan repaid early is in excess of current long term interest rates. Conversely, discounts arise when the rate of interest paid on the loan repaid early is below the level of current long term interest rates.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council's policy is that any premiums are charged to the General Fund balance over the shorter of the remaining life of the loan repaid early or over 10 years. Discounts are credited to General Fund over the shorter of the remaining life of the loan repaid or 10 years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types: loans and receivables; and available-for-sale assets.

Loans and Receivables

Loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market. Examples include fixed term money market deposits, instant access accounts and call accounts. They are shown on the Balance Sheet initially at fair value, then subsequently at amortised cost using the Effective Rate of Interest method. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Soft Loans

Soft loans are loans made to voluntary organisations or other bodies, at less than market interest rates. When a Soft Loan is made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the loan, resulting in a lower value for the loan being shown on the balance sheet. Interest is then credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement each year at a higher effective rate of interest than the rate receivable from the voluntary or other organisations, with the difference serving to increase the value of the loan on the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund balance is the interest receivable for the financial year so the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement of Reserves Statement. The Council operates a de minimis level of £250,000 for accounting for soft loans and consequently loans below this level are not written down on the balance sheet to reflect the interest foregone.

Where the value of a loan and receivables financial asset is deemed to be impaired, then the value of the asset is written down to its recoverable amount. The amount of the write down is charged in full to the Comprehensive Income and Expenditure Statement in the year the impairment is recognised. Where there is a revision to the value of the asset previously impaired then adjustments are made to the value of the asset and to the Comprehensive Income and Expenditure Statement in the year in which the revision is made.

The interest credited to the Comprehensive Income and Expenditure Statement in respect of loans and receivables is equal to the coupon rate of interest on the deposit/account.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available for Sale Assets

Available for sale assets are financial instruments that have a quoted market price and/or do not have fixed or determinable payments. Examples of available for sale assets used by the Council are UK Government bonds (gilts) and certificates of deposit (CDs). They are initially measured and carried at fair value. Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the bid or market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Interest

During the year surplus money is invested and the interest earned credited to the Income and Expenditure Account. Interest is paid to Cheshire West and Chester in relation to balances on the Insurance and Relocation Reserves which are managed by Cheshire East on behalf of the two authorities. Interest is also credited to schools on unspent balances held.

The accounting policy for interest payable on financial liabilities and interest receivable on financial assets is included in the accounting policies on financial liabilities and financial assets respectively.

Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that the Authority will comply with the conditions attached to the payments, and the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where a capital grant or contribution has been received, and conditions remain outstanding at the Balance Sheet date, the grant or contribution will be recognised as part of the Capital Grants Receipts in Advance. Once the condition has been met, the grant or contribution will be transferred from the Capital Grants Receipts in Advance and recognised as income in the Comprehensive Income and Expenditure Statement.

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date, the grant or contribution shall be transferred from the General Fund to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer shall be reported in the Movement in Reserves Statement.

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution shall be transferred to the Capital Grants Unapplied Account, reported in the Movement in Reserves Statement. When the expenditure is incurred, the grant or contribution shall be transferred to the Capital Adjustment Account

Intangible Assets

Intangible assets are assets that do not have physical substance but are separately identifiable and controlled by the Council (e.g. software licences) as a result of past events and it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Recognition and Measurement

An Intangible fixed asset shall be recognised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Expenditure on such assets is capitalised in situations where the software costs are more than £10,000 and will bring benefits to the Council for more than one financial year. Expenditure on intangible assets costing less than £10,000 is charged in full to the Comprehensive Income and Expenditure Statement in the year that it is incurred.

Internally generated assets may be recognised subject to criteria being met. They can be capitalised when it is demonstrable that the project is technically feasible and is intended to be completed, with adequate resources being available, and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase.

Amortisation

An intangible asset with a finite useful life is amortised over its useful life reflecting the expected pattern of use of the economic benefits. If the pattern cannot be determined reliably, the straight-line method shall be used.

An intangible asset with an indefinite useful life is not amortised but shall be tested annually for impairment.

The values of intangible assets are reviewed at the end of each financial year for evidence of reductions in value. Impairment of intangible assets is treated in the same way as impairment of tangible assets. When an asset is disposed of or derecognised, the value of the asset is recognised in the surplus or deficit on the Provision of Services.

Expenditure on intangible assets is written down (amortised) to the Comprehensive Income and Expenditure Account on a straight line basis over the estimated economic life of the asset. The estimated economic life of a licence is assumed to be the shorter of 5 years or the period for which the licence has been granted.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Interest in Companies and Other Entities

The Council has an interest in Connexions Cheshire and Warrington, a controlled company set up by Cheshire County Council to promote employment and learning opportunities for young people across Cheshire. The ownership ratio was originally equal thirds but changed on 1st October 2010, to become 37.5% for Cheshire East Council, 37.5% for Cheshire West and Chester Council, and 25% for Warrington Borough Council. The results of the company indicate that there were no material transactions to report and there is no requirement to produce group accounts for the year

Financial Guarantees

The Council holds a £1 investment in South East Cheshire Enterprise Limited, a company limited by guarantee. In addition, as part of the agreement to outsource the Youth Service to Connexions, Cheshire East and Cheshire West and Chester Councils have agreed to act as guarantor for any pension liability of the company. This is treated as a contingent liability in the accounts and further details are provided in Note X.

Inventories and Work in Progress (Contracts)

Inventories are valued at the lower of cost or net realisable value. Stocks of stationery (apart from those held by Central Stores) are not included in the Balance Sheet since such stocks are incidental and deemed not to be material to the accounts.

Work in Progress (Contracts) applies to construction that the Council is undertaking for customers – not assets under construction – where the Council is the customer rather than contractor. (Assume CEBC doesn't act as contractor so N/A – if so, WIP is included at cost).

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Recognition and Measurement

Investment properties are measured initially at cost and subsequently at fair value. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. The gains and losses are not proper charges to the General Fund Balance and are reported in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Jointly Controlled Operations and Jointly Controlled Assets

Cheshire Shared Services – Shared Services Agreement with Cheshire West and Chester Council

The Council has entered into an agreement with Cheshire West and Chester Council to deliver over 30 services via a shared services agreement. Services which could be operated as part of a shared services arrangement have been determined and assessed using the criteria of maintaining operational efficiency and identifying those services that utilised a single infrastructure that could not be disaggregated economically or in the short term.

The Joint Committee oversees the management of the services that are provided on a Cheshire wide basis on behalf of Cheshire East and Cheshire West and Chester Council's to ensure effective delivery of such services and to provide strategic direction. The Joint Operating Board supports the Joint Committee and is responsible for the governance and decision making of Cheshire Shared Services and is chaired by Julie Gill, Director of Resources, Cheshire West and Chester and Lisa Quinn, Borough Treasurer and Head of Assets, Cheshire East.

Business Plans and Service Delivery Statements have been developed for each Shared Service. The documents vary depending on the complexity of the service to be provided and on the length of the arrangement. The Service Delivery Statements are legal documents and detail the services hosted by Cheshire East and Cheshire West and Chester, the scope, agreed objectives and expected outcomes of the shared service arrangements. The roles and responsibilities of staff seconded to the host authority are contained within these statements.

Service Level Agreements (SLA's) have been prepared for all services and form part of the legal agreement between Cheshire West and Chester Council and Cheshire East Council. These set out the basis for services to be provided, identify which Council is hosting the service, the percentage of costs to be borne by each Council and the general reporting and performance management requirements.

The structure of the Shared Services Arrangement is that of a jointly controlled operation in accordance with International Accounting Standard 31. Each authority accounts directly for its part of the assets, liabilities, income, expenditure and cash flows held within or arising from the structure. Where expenditure has been recharged to the non host authority the analysis of net charge has been reflected in the accounts on the same subjective analysis as costs incurred directly.

Services hosted by Cheshire East

The following services form part of the core shared services and are hosted by Cheshire East

Service	East Recharge %	West Recharge %
Farms Estates	50.00%	50.00%
International Unit	50.00%	50.00%
Drug & Alcohol Team	50.00%	50.00%
Highway Maintenance Contract Management	54.00%	46.00%
Commissioned Community Equipment	51.00%	49.00%
Visual Impairment Services	52.00%	48.00%
Youth Offending Team	47.00%	53.00%

Services hosted by Cheshire West and Chester

The following services form part of the core shared services and are hosted by Cheshire West and Chester:

Service	East Recharge %	West Recharge %
HR & Finance Back Office	50.00%	50.00%
ICT	50.00%	50.00%
Civil Protection	50.00%	50.00%
Occupational Health	50.00%	50.00%
Archives	50.00%	50.00%
Libraries	50.00%	50.00%
Emergency Duty Team	52.00%	48.00%
Rural Touring Network	51.00%	49.00%
Approved Mental Health Professional	50.00%	50.00%
Autism Support	47.00%	53.00%
Sensory Impaired Services	52.00%	48.00%
Urban Traffic Control	44.00%	56.00%
Integrated Transport Services – Transport	51.00%	49.00%
Integrated Transport Services – Community Services	51.00%	49.00%
Integrated Transport Services – Looked After Children	51.00%	49.00%
Integrated Transport Services – Home to School	51.00%	49.00%
Children's Centres Development	50.00%	50.00%
Student Finance	50.00%	50.00%
Archaeological Service	50.00%	50.00%
Waste & Mineral Planning	50.00%	50.00%
Learning Resource Network	50.00%	50.00%
CBS Supplies	50.00%	50.00%

Landfill Allowance Trading Scheme (LATS)

The Landfill Allowance Trading Scheme will operate for 15 annual compliance periods and runs from 1 April 2005 to 31 March 2020. The scheme allocates tradable landfill allowances to each waste disposal authority in England. The Council can either buy, sell or carry forward landfill allowance depending on usage requirements above or below the annual capped allowance limit from or to another waste disposal authority. Allowances allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another authority are classified as current assets, measured at the weighted average value at which 2010-11 allowances have traded (£X). More detail is in Note X.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the

Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP).

The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation,
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties,

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Net Expenditure on Continuing Services.

Pooled Budgets

The Council registered a partnership arrangement under Section 31 of the Health Act 1999 to commission services to Adults with Learning Difficulties within Cheshire. The contributions to the partnership are in the following proportions:

Cheshire East Council	61%
Central & Eastern Cheshire PCT	39%

This agreement runs until 31 March 2011 at which point the partnership will be terminated and considerations will be made with regard to a one year agreement for 2011/12 and then beyond this around the GP Commissioning Consortia which will replace the Primary Care Trust from 2012/13 onwards.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition and Measurement

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred

The Council applies capital expenditure de minimis levels of £10,000 for all assets other than property, where a £20,000 limit is applied.

Assets are initially measured at cost, comprising: the purchase price, and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost;

- All other Property, Plant and Equipment assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value). If there is no market-based evidence of fair value, an estimated fair value will be made using a depreciated replacement cost approach, or depreciated historical cost for non-property assets that have short useful lives, low values, or both.

The values of properties used in the accounts are based on certificates issued by the Assets Manager, Daniel and Hulme Property Consultants (RICS), Rory Mack Associates, and the District Valuation Service.

Accounting practice requires all properties to be revalued at least once every five years. All former district properties were revalued in 2009-10, and any residual assets were revalued in 2010-11 as part of the transition to International Financial Reporting Standards. Any increases in the valuation of properties since April 2007 arising from general price level movements are matched by corresponding credits to the Revaluation Reserve. Any revaluation increases/decreases that took place prior to 1 April 2007 are recorded in the Capital Adjustment Account.

Gains recognised on revaluation of Property, Plant and Equipment are matched by credits to the Revaluation Reserve to recognise an unrealised gain, unless the asset has previously been subject to an impairment loss or revaluation decrease charged to Surplus or Deficit on the Provision of Services. In this case the gain is credited to the Comprehensive Income and Expenditure Account.

Where a revaluation loss occurs as a result of revaluation to account for downward changes in market value, the decrease is recognised in the Revaluation Reserve to the extent the asset had previously been revalued upwards and thereafter in the surplus or Deficit on the Provision of Services

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. The objective is to ensure that assets are carried at no more than their recoverable amount. The Assets Manager produces a Certificate of Impairment each year detailing any evidence of impairment found during the preceding year. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

The following strict criteria have to be met before an asset can be classified as held for sale.

- The asset must be available for immediate sale in its present condition and is being marketed for sale at a price reasonable in relation to its fair value
- The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated.
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Capital Receipts

Capital receipts are the amounts derived from the sale of capital assets. The Capital Receipts policy is to ensure that capital receipts are used in the most beneficial way to support corporate priorities and strategic objectives of the Council. The policy is intended to separate the use of resources from the means of acquiring resources therefore supporting the strategic approach to capital investment. This will mean that all receipts will be pooled centrally and allocation to capital projects will be via the Capital Asset Group. The Council has implemented a Disposals Policy as part of the Asset Management Plan, where property assets are not meeting the Council's objectives, their retention will be subject to asset challenge and a process of rationalisation and disposal for surplus/under-performing property will be adopted. No de minimis limit is applied to capital receipts.

Depreciation

The purpose of depreciation charges is to allocate the value of assets recorded in the balance sheet to the periods and services which are expected to benefit from their use.

Land and Buildings are separate assets and shall be accounted for separately, even when they are acquired together. Depreciation applies to all Property, Plant and Equipment, whether held at historical cost or re-valued amount, with two exceptions:

- investment properties carried at fair value; and
- land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, ie quarries and landfill sites).

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie assets under construction).

Deprecation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer;
- infrastructure – straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The objective is to ensure that Property, Plant and Equipment is accurately and fairly included in the authority's balance sheet and that the Comprehensive Income and Expenditure Statement properly reflects the costs of using those assets over their individual lives, through depreciation charges. The requirement for componentisation for depreciation purposes only applies to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.

The Council has determined a de-minimis asset value of £1.9 million as a basis for componentising depreciation charges.

Depreciation is provided for on all fixed assets with a finite useful life, with charges (a full year's charge) commencing in the year after acquisition. Depreciation is calculated on the straight line method, using the following asset lives:

Property (excluding land)	Valuer's assessment of the useful life of the asset. Including componentisation.
Land	No charge is made
Infrastructure	25 years
Vehicles	Suitably qualified officer's assessment of the useful life of the asset
Equipment	Suitably qualified officer's assessment of the useful life of the asset

No depreciation charges are made for land, assets under construction and community assets. Depreciation charges on non-operational assets are charged to the Income and Expenditure Account as non-distributed costs.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Private Finance Initiative (PFI) and Similar Contracts

PFI and Similar Contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide services passes to the PFI contractor. The Council is deemed to control the services that are provided under its PFI scheme and, as ownership of the Property, Plant and Equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the fixed assets used under the contracts on the Balance Sheet.

The Council is party to one PFI contract, which also involves Cheshire West and Chester Council, in respect of Extra Care Housing which terminates in 2039.

The original recognition of these assets has been balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The Property, Plant and Equipment recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council. The amounts payable to the PFI operator each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Financing and Investment Income and Expenditure line on the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Financing and Investment Income and Expenditure line on the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI
- operator lifecycle replacement costs – recognised as Property, Plant and Equipment on the Balance Sheet.

Pooled Budgets

The Council registered a partnership arrangement under Section 31 of the Health Act 1999 to commission services to Adults with Learning Difficulties within Cheshire. The contributions to the partnership are in the following proportions:

Cheshire East Council	61%
Central & Eastern Cheshire PCT	39%

This agreement runs until 31 March 2011 at which point the partnership will be terminated and considerations will be made with regard to a one year agreement for 2011/12 and then beyond this around the GP Commissioning Consortia which will replace the Primary Care Trust from 2012/13 onwards.

Provisions

Provisions are made when the Council recognises that it has an obligation as a result of a past event, when it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year when the Council became aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they will be charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and, if no longer required, are reversed and credited back to the Comprehensive Income and Expenditure Statement. Where some or all of the payment required to settle an obligation is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled. Details relating to the Council's provisions are provided in Notes XX.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies and are split between usable and non-usable. Usable Reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use. Unusable reserves cannot be used to provide services, this category includes reserves that hold unrealised gains and losses (e.g. the Revaluation Reserve).

Resources set aside for specific purposes or to meet predicted liabilities are held as "earmarked reserves". The Council also sets aside sums as a more general reserve, called the General Fund, to cover the impact of unexpected events or emergencies or provide a working balance to help manage the effect of uneven cash flows. The Council seeks to maintain the General Fund at a level consistent with a detailed assessment of risk as set out in its Reserves' Strategy. This assessment is updated annually as part of the Council's Medium Term Financial Planning.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting process for tangible fixed assets (Revaluation Reserve and Capital Adjustment Account) and retirement benefits (Pension Reserve). These are in effect accounting reserves rather than cash reserves.

Revenue Expenditure funded from Capital Resources under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of Council Tax.

Single Status

Costs relating to 2010-11 pay have been included in the appropriate service line Costs relating to back pay for earlier years from 2006-07 to 2009-10 have been included in Other Operating Income and Expenditure. However, these costs have been transferred to an Equal Pay Back Pay Reserve until such time as the payments are made.

VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them. At the year end any amounts outstanding are represented by a debtor or creditor on the balance sheet.

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CHESHIRE EAST COUNCIL

REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of meeting:	**29 March 2011**
Report of:	**Head of Policy & Performance**
Title:	**Operational Procedures for Covert Surveillance – Regulation of Investigatory Powers Act 2000**

1.0 Report Summary

1.1 To provide assurance that Cheshire East Council is complying with the requirements for covert surveillance under the Regulation of Investigatory Powers Act, 2000, (RIPA).

1.2 RIPA is designed to control the use of surveillance to ensure that there has been a consideration of less intrusive options, that the necessity and proportionality of any surveillance has been assessed and that it has been properly authorised.

1.3 Key to the use of RIPA is that it has to be for the purpose of preventing or detecting crime or preventing disorder. Examples of its use in Cheshire East would be tackling serious crimes, such as housing benefit fraud, rogue traders and test purchases by Trading Standards.

1.4 The government is currently conducting a review of the use of RIPA and access to communications data, and there will be implications for the Authority in the administration of this.

2.0 Recommendations

2.1 That the Committee note the requirements of RIPA legislation and the actions in place to ensure that the Council complies with these requirements.

3.0 Reasons for Recommendations

3.1 It is best practice for Members to have involvement in the overall approach to RIPA and monitor the Authority's surveillance processes, culture and controls. At its meeting on 16th August, 2010, (in which the reviewed Policy and Procedures were approved) the Cabinet agreed that the Annual Report to Members should be submitted to this Committee. It had previously been submitted to Corporate Scrutiny Committee.

4.0 Wards affected

4.1 Potentially all.

5.0 Local Ward Members

5.1 Potentially all.

5.0 Policy Implications including Climate change and Health

6.0 N/a

7.0 Financial Implications (Authorised by the Borough Treasurer)

7.1 RIPA Policies and Procedures and the associated independent inspection regimes require the highest standards of professional competence from the Council's enforcement staff, as well as from managers who are authorised to approve activities under the policies. Consequently, the Compliance Unit and Services need to ensure that RIPA training takes place at frequent intervals.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 The Regulation of Investigatory Powers Act (2000) sets out processes which must be adhered to with regard to both surveillance and the acquisition and disclosure of communications data. The Regulation of Investigatory Powers (Communications Data) Order 2010 and the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010 came into force on 6th April, 2010, and both Orders are relevant to the policies to be approved.

The Office of the Surveillance Commissioner (OSC) oversees the use by local authorities of surveillance powers under the RIPA legislation and enables these authorities to improve their understanding and conduct of covert activities. The Chief Commissioner's Office carries out regular inspections, which take the form of interviews with senior management and operational staff at all levels, assessment of documentation relating to strategies, policies and procedures and detailed analysis of individual operations. Cheshire East Council was inspected on 11th May 2010. No recommendations were made, and the Inspector described the council's processes and documentation as being "of the highest order".

9.0 Risk Management

9.1 Without clear and robust policies and procedures in place, there would be a risk that officers would fail to comply with the relevant legislation and codes of practice. Consequently, complaints may be made against the authority by aggrieved persons, which may proceed to investigation by the independent tribunals set up by RIPA. The tribunals have the power to cancel authorisations, order the destruction of any records obtained in exercise of the powers conferred by RIPA and award compensation as they see fit.

10.0 Background

10.1 RIPA allows the use of covert surveillance by local authorities in those circumstances where the required information cannot be obtained by any other means. Use of RIPA seeks to ensure that councils only use covert surveillance where it is necessary for specific, legally prescribed purposes, and that the risk of infringing individual rights is kept to a minimum. By following the authorisation procedures set out in RIPA, Council Officers are ensuring they can demonstrate that the measures taken are necessary, proportionate and lawful.

10.2 RIPA requires a number of senior officers who have been trained to the appropriate level to be nominated as Authorising Officers. It is the responsibility of these officers to consider all RIPA applications and to grant or refuse authorisations, as appropriate.

10.3 <u>Central Record of Authorisations</u>

Under the Act, the Council must keep a detailed record of all authorisations, renewals, reviews, cancellations and rejections for inspection. This Central Record of Authorisations is maintained by the Compliance Team within Internal Audit, who are also responsible for related administrative functions. The Borough Solicitor has a monitoring role to review and sign off this Record on a quarterly basis.

10.4 In 2009/2010 only one RIPA application was authorised. In 2010/2011 to date, 8 applications have been authorised, 7 of which are related to Trading Standards' test purchasing. The powers of covert surveillance under RIPA can only be used in the prevention and detection of crime and disorder. In order to use covert surveillance, the Council must be able to demonstrate necessity (that less intrusive methods have been considered and then discounted) and proportionality. It should only be used as a last resort. The Senior Responsible Officer is the Borough Solicitor and there are currently seven Authorising Officers – all members of the Corporate Management Team. All Authorising Officers, as well as in excess of 100 members of staff, have received thorough in-house training in the use of RIPA.

10.5 <u>CCTV</u>

CCTV systems are normally not within the scope of RIPA since they are overt and not being used for a "specific operation or investigation". However, the protection afforded by RIPA is available when they are used for enforcement activities.

10.6 <u>Future issues</u>

The Government has conducted a review of the use of RIPA and access to communications data. The Protection of Freedoms Bill, which is currently going through Parliament, will require public bodies to obtain the approval of a magistrate before RIPA powers can be used, and it will also restrict the use of RIPA to cases where the offence under investigation carries a custodial sentence of six months or more. (There is an exception where RIPA is used in corroborating investigations into underage sales of alcohol and tobacco.) It is anticipated that further advice on how to apply the new regulations will be issued in 2012.

11.0 Recommendation

Audit and Governance Committee to:

- Note the arrangements in place to ensure that the Council ensures compliance with RIPA and operates best practice
- Consider any ongoing involvement in RIPA and any recommendations to feed into Cabinet

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

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CHESHIRE EAST COUNCIL

REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of meeting:	**29 March 2011**
Report of:	**Head of Policy & Performance**
Title:	**Business Continuity Update**

1.0 Report Summary

1.1 The Civil Contingencies Act 2004 requires that Local Authorities, amongst other organisations, are prepared to deliver key functions in an emergency. This report aims to provide assurance that Cheshire East Council has business continuity plans in place to provide critical services under a number of different emergency scenarios.

2.0 Recommendations

2.1 Audit and Governance Committee to note the requirements of the Civil Contingencies legislation and the actions in place to ensure that the Council complies with these requirements.

3.0 Reasons for Recommendations

3.1 Business continuity management is an essential element of risk management, helping to create a resilient organisation and one which is able to provide continuous service delivery and effective use of resources. Effective risk management can reduce the likelihood of an incident occurring, whilst business continuity planning can reduce the impact if it does occur. Because Audit & Governance Committee has a key role in providing an oversight of the effectiveness and embedding of risk management processes, it is considered good practice for this Committee to review business continuity arrangements as part of this, in order to gain assurance that the Authority is well prepared and able to continue with its service provision in the event of an emergency.

4.0 Wards affected

4.1 Potentially all.

5.0 Local Ward Members

5.1 Potentially all.

6.0 Policy Implications

6.1 The effects of climate change are likely to increase the instances of environmental emergencies such as heatwaves, drought and flooding, and it is important that the Council anticipates and prepares to respond to such events.

7.0 Financial Implications (Authorised by the Borough Treasurer)

7.1 Effective business continuity planning can lead to reduced costs by protecting assets, working more efficiently, assurance of third party providers of services (who may be required to demonstrate effective resilience as part of any tender), and lower insurance premiums, where the Council can demonstrate proactive management of continuity risks.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 As well as the requirement to be legally compliant, general principles of good governance require that the Council should identify risks which threaten its ability to achieve its strategic aims, and to operate its business, and put into place key controls in the form of business continuity plans to mitigate these risks.

9.0 Risk Management

9.1 Business Continuity planning is managed and coordinated by the Risk Team within Compliance. It is, therefore, an integral part of risk management within the Authority.

10.0 Background

10.1 The Civil Contingencies Act (2004) (CCA) provides the framework for Civil Protection in the UK, and places a number of duties on Local Authorities regarding preparation for and response to emergencies. As part of this, Cheshire East Council, as a Category 1 (front-line responder) is required to develop and maintain business continuity plans, so that key functions can continue to be delivered in an emergency. This also involves consideration of the resilience of those organisations on which the Council relies to maintain key services, including any third parties who provide services on its behalf.

10.2 As well as implementing Business Continuity Plans, the CCA also requires Local Authorities to promote and provide general business continuity management advice to commercial and voluntary organisations in the area. This duty aims to enable local businesses to better maintain critical elements of their service and recover more quickly should an incident arise, therefore lessening the economic and social impact on the local community.

10.3 As well as increased resilience, there are a number of benefits to having a structured and consistent continuity process in place. In addition to the financial benefits mentioned above, the ability to respond effectively and efficiently to internal and external events and maintain service provision through adversity should protect and enhance the reputation of the Council.

10.4 Business continuity requires senior management commitment and support and dedicated resource allocated within the Authority to ensure that plans are developed, maintained, reviewed and, most importantly, tested, so that they are fit for purpose. It is also necessary to build this into the change management process to ensure the implications of any change are fully considered prior to implementation, and that resilience is built into the project deliverables.

10.5 It is within the remit of the Corporate Risk Management Group (which comprises the Portfolio Holder for Policy and Performance, members of the Corporate Management Team and members of the Senior Management Team) 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.

10.6 The Risk Team liaise closely with the Joint Cheshire Emergency Planning Team and the Cheshire Local Resilience Forum to ensure that the Council is aware of and fully incorporated into the regional emergency and continuity planning processes. In conjunction with senior managers from key services, the teams recently participated in Exercise Watermark. This was a nationwide exercise, involving government departments, agencies, emergency responders and communities, to test the country's response to groundwater, surface water, reservoir, river and coastal flooding. This followed a recommendation from the Pitt Review, as a result of the floods in 2007.

10.7 There is also close liaison with the Authority's Climate Change Officer in identifying risks associated with climate change, and supporting the services in developing plans to respond to these risks.

10.8 <u>Developing plans</u>

10.8.1 It is necessary that plans are documented and available for use within any type of emergency incident. They should also include stand-by arrangements, including accommodation and specialist equipment, as well as IT systems and telecommunications. Consequently, these plans need to link in with other plans such as the IT Disaster Recovery Plan, Cheshire East Major Emergency Plan and the Emergency Rest Centre Plan.

10.8.2 A significant amount of planning was carried out at the inception of Cheshire East Council in response to the threatened flu pandemic. Also, services have been required to implement emergency and business continuity plans in response to the severe weather over the past two winters. Consequently, there is a good level of level of preparedness across the Council. Additionally, there is regular liaison with Cheshire West and Chester Council and Shared Services to ensure joint resilience.

10.8.3 It is, however, essential to review, update and test these plans on a regular basis, to ensure that the critical components of the plans are relevant and appropriate. There is also the need to have an effective education and awareness programme in place, to ensure that all staff are fully aware of the impact of an unforeseen event and their roles and responsibilities in a recovery situation. Accordingly, the Risk team is currently in discussion with all services to ensure that these actions are put into place.

11.0 Community resilience and support for local businesses

11.1 Work has been undertaken over recent months with the Emergency Planning Team and the Local Area Partnerships team in the development of Community Resilience Emergency Plans, so that communities are better prepared to respond to local incidents and can also complement the support and response provided centrally.

11.2 In order to provide support to local businesses, Cheshire East Council is a founder member of the Cheshire Continuity Forum, which was set up to provide a forum for local businesses to meet with the front-line responders in Cheshire (i.e. the Local Authorities, Police, Fire and Rescue, etc.) with the aim of sharing information and best practice in relation to business continuity. In addition, discussions are currently underway with the Cheshire East Economic Development Team to seek other opportunities to interact with and support the business and voluntary sectors in continuity planning.

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12.0 Recommendation

Audit and Governance Committee to:

- Note the arrangements in place to ensure that the Council ensures compliance with the Civil Contingencies Act (2004) in relation to business continuity planning and promotion.

13.0 Access to Information

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

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CHESHIRE EAST COUNCIL
REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of meeting:	**29 March 2011**
Report of:	**Head of Policy & Performance**
Title:	**Risk Management Update Report**

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 and risk management work undertaken since the last report so that it may undertake this oversight.

2.0 Decision Requested

2.1 The Audit and Governance Committee is requested to consider and review the update report on risk management which is for information.

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 N/A

6.0 Policy Implications

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

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 Attached at ***Appendix A*** is a summary of the Council's Key Corporate Risks and the net risk rating for each risk. The summary provides a 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.

10.3 At its meeting on 3 February 2011, the Corporate Risk Management Group discussed, considered and endorsed the risk ratings for the following key risks:-
Key Corporate Risk 1 – Service Delivery Prioritisation
Key Corporate Risk 11 – Opportunities
Key Corporate Risk 12 – Long-Term Planning
Key Corporate Risk 14 - Information, research & Business Intelligence
Key Corporate Risk 15 – Reputation
Key Corporate Risk 16 – External Environment

10.4 As detailed on ***Appendix A***, two of the key corporate risks, KCR3 Community Safety and KCR9 Education, have been recently assessed as having a 'Low' net risk rating. These two risks will be reviewed at the next meeting of the Corporate Risk Management Group and if the Group is happy with the ratings, these two risks may be removed from the Corporate Risk Register and monitored at Directorate Risk Register level.

10.4 The assessment methodology used to score the risks is attached at ***Appendix B*** to this report for information.

11.0 Other Work undertaken on Risk Management

11.1 Risk Appetite

The Corporate Risk Management Group (CRMG) received a report outlining a number of options as to how the Council may define and articulate its risk appetite to strengthen and further develop its existing risk management framework. The Group discussed the different options and agreed that a statement or statements defining the risk appetite should be included within the risk management strategy. As agreed by the Group, a similar report is being forwarded to the Corporate Management Team (CMT) for consideration.

11.2 Partnership Risks

Members of the Corporate Risk Management Group were requested to share a paper, detailing typical risk areas in relation to partnerships with colleagues working on partnerships within their respective Directorate. The risk areas highlighted included:-

- *Co-operation on shared key risks and joint risk registers*
- *Identifying risks from the perspective of the Council and from the perspective of the Partnership*
- *Imposition of targets – rather than negotiation of manageable targets*
- *Loss of control over staff and the service-but with retention of accountability*
- *Changing organisational priorities*
- *Contract requirements are not delivered*
- *Partnership standards not met*
- *Incompatible cultures*

At stake for all of the partners are:-

- *Service delivery*
- *Reputation*
- *Organisational objectives*
- *Investments of time, money, resources & expertise*

11.3 National Fraud Initiative (NFI)

The National Fraud Initiative (NFI) matches electronic data within and between participating bodies to prevent and detect fraud. At the last meeting of the CRMG, it was agreed that, in relation to the NFI, the Group will oversee:-

- the process for managing the data matching output, including how it is being considered and investigated
- the implementation of the actions necessary to reduce the Council's exposure to losses in the future

11.4 Service Planning and Risk Management

This year we have more closely integrated risk management into the objective-setting process, enabling the Council to manage its risks in a more consistent, uniform way. The Service Planning Template requests an accompanying risk review to support each service objective. Comprehensive risk management guidance and templates have been made available as part of the Service Planning Guidance. By integrating risk management with the Council's strategic planning process and individual service delivery plans we are able to monitor risks to achieving the Council's objectives, determine which risks have the most significant impact, and prioritise resource accordingly.

11.5 Risk Management Training and Workshops
The Risk and Business Continuity Team recently held risk management training sessions and workshops with the Places Directorate Senior Management Team, the Local Area Partnership Managers, and the ICT Strategy Senior Management Team. Further training sessions and workshops are planned with the Legal and Democratic Services Management Team, Senior Managers in the Adult, Community Health and Wellbeing Directorate and in the Children and Families Directorate. A point to note, from the workshops held to date, is that risks need to be properly articulated in order to clearly understand the cause of the risks and the impact on the achievement of the objectives. We need to be able to understand both the cause and the impact to be able to consider what action we can take to prevent the risk from occurring and what controls we can implement to reduce the likelihood of the risk happening and, possibly, reduce the impact on the objectives.

11.6 Centranet – Risk Management
A copy of the Corporate Risk Register and links to other useful risk management documents have now been added to the Centranet so that staff and Members are able to easily access risk documentation and contact details for assistance with any risk management issues.

12.0 Access to Information

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

Name: Vivienne Quayle
Designation: Head of Policy & Performance
Tel No: 01270 686859
Email: vivienne.quayle@cheshireeast.gov.uk

Key Corporate Risks Summary – March 2011

Risk Ref	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
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	↔	Review due April 11
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	↔	Reviewed March 11 no change to net risk rating– next review due Sept 11
KCR3	**Community Safety:** Risk that ineffective management of community safety causes poor perception and poor provision of safety, leading to an increase in crime and 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	4 Low	↓	The risk description around Community Safety has been amended to include 'crime'. The net risk rating has been reduced from 6 Medium to 4 Low. Additional actions now in place especially around sub-regional working and mainstreamed activity reduce the impact to 2 as any adverse impact would be fairly local (affecting only 2 or 3 wards) and be relatively short lived. Review due Sept 11
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	↔	Review due 18 Mar 11

Key Corporate Risks Summary – March 2011

Risk Ref	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
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	↔	Review due 18 Mar 2011
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	↔	Review due 18 Mar 2011
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	↔	Reviewed March 11 no change to net risk rating– next review due Jun 11
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	↔	Review due 15 Mar 2011

APPENDIX A

Key Corporate Risks Summary – March 2011

Risk Ref	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
KCR9	**Education:** Risk that we fail to manage and maintain effective working relationships with all educational settings, resulting in potentially increasing an inability to maintain educational standards or to intervene where necessary. This will impact on our ability to improve life opportunities for children and young people in Cheshire East.	Lorraine Butcher, Director of Children & Families	Cllr Hilda Gaddum	4 Low	↔	Newly articulated corporate risk for Education. Existing controls to manage this risk include strong relationships with Schools and Partners. Review due May 11
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	↔	Review due May 11
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	↔	Review due Apr 11
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	↔	Review due Jun 11
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	↔	Review due 21 Mar 11

Key Corporate Risks Summary – March 2011

Risk Ref	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
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**	↔	Review due Jun 11
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	**12 High**	↓	Net risk rescored from 16 to 12 after re-consideration of the likelihood of the risk occurring being reduced from a 4 to a 3. This is because the risk is actually articulated as "that consideration is not given and management action is not taken, to effectively maintain the reputation of the Council" – the existing mitigating actions clearly show that consideration is given and management action is taken and as such the likelihood is reduced to a 3.
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**	↔	Review due Apr 11

Scoring Chart for Risk

APPENDIX B

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 B

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

Risk Matrix – Likelihood and Impact

Likelihood				
Very Likely **4**	LOW	MEDIUM	HIGH	HIGH
Likely **3**	LOW	MEDIUM	MEDIUM	HIGH
Unlikely **2**	LOW	LOW	MEDIUM	MEDIUM
Very Unlikely **1**	LOW	LOW	LOW	LOW
Impact	Minor **1**	Significant **2**	Serious **3**	Major **4**

THE RISK MATRIX (With Scores)

4	8	12	16
3	6	9	12
2	4	6	8
1	2	3	4

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting:	29 March 2011
Report of:	Head of Policy and Performance
Title:	Internal Audit Plan 2011/12

1.0 Report Summary

1.1 The purpose of the report is for the Audit and Governance Committee to receive and approve the Internal Audit Plan for 2011/12.

2.0 Recommendation

2.1 That the approach to internal audit planning is endorsed and the Internal Audit Plan 2011/12 be approved.

3.0 Reasons for Recommendations

3.1 In accordance with the Code of Practice for Internal Audit in Local Government, the Internal Audit Plan is put to the Audit and Governance Committee for approval.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

6.1 None.

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 staffing levels in accordance with the plan produced. Changes in the current assumptions made with regard to schools and Shared Services may impact on the number of audit days required.

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 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.

10.2 In order to comply with the Code the Head of Internal Audit has prepared a risk-based audit plan (Appendix A) that is put to the Audit and Governance Committee for approval, but not direction. The legislation and Code of Practice specifically state that those charged with governance approve the Plan but that this is not in a directing role as the Head of Internal Audit retains the independence and balance of judgement to implement the plan based on their assessment of risk and requirements.

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

Appendix A

Report to Audit and Governance Committee
Internal Audit Plan 2011/12
29 March 2011

1.0 Purpose

1.1 The Accounts and Audit Regulations 2003 (as amended) state that Cheshire East Council must make provision for internal audit in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

1.2 In order to comply with the Code a risk-based audit plan for 2011/12 has been prepared, which is fixed for a period of no longer than twelve months, and is designed to implement the audit strategy.

1.3 In accordance with the Code, this plan is put to the Audit and Governance Committee for approval. In discharging this duty Members should consider whether the scale and breadth of activity is sufficient to allow Internal Audit to provide an independent and objective opinion to the Council on the control environment taking account of whether:

- the level of resources in any way limits the scope of internal audit, or prejudices the ability to deliver a service consistent with the Code.
- Internal Audit is sufficiently independent of the activities it audits.
- the level of non-assurance work does not impact on the core assurance work.

2.0 The Internal Audit Plan

2.1 The outcomes of the Council's risk management, performance management and other assurance processes have been used to determine the scale and breadth of potential audit areas for 2011/12. Furthermore, the Head of Internal Audit has consulted stakeholders (Corporate Management Team, Service Managers, Joint Officer Board, External Audit, Cheshire West and Chester Internal Audit) and a draft plan produced. The programme of work (as detailed in Appendix 1) outlines the assignments to be carried out, their respective priorities where applicable, and the estimated resources needed. The plan differentiates between assurance and other work.

2.2 It is anticipated that the outcomes from the Service Delivery Planning/Annual Governance Statement processes, when known, will be used to further define the programme of audit work. This approach will enable Internal Audit to focus work on the key risks facing the organisation and, consequently, provide assurance that these risks have been effectively managed.

2.3 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 Organisation's objectives. In order to achieve this, the

Internal Audit Section will carry out a comprehensive range of audits comprising a mix of risk based system auditing, regularity, contract and computer audit.

2.4 The plan includes an annual contingency of 100 days, for additional work that may arise over the period that could not have been reasonably foreseen when compiling the plan. There is also an annual contingency of 150 days for the provision of advice to departments in response to ad hoc requests. Such work supports the formulation of Internal Audit's opinion on the Council's governance, risk management and internal control arrangements.

A summary of audit coverage (in days) for 2011/12 is shown below:

	Planned	**Comments**
Total Available Days	**2174**	Maximum Days less leave, sickness and maternity leave.
Non Chargeable Days	444	Includes training, management, administration and service development.
Corporate Duties	100	Representation at corporate meetings, compliance with corporate initiatives. Supporting A&G Committee.
Supporting Corporate Governance	60	Supporting AGS process.
Fundamental Financial Systems	230	In agreement with External Audit.
Key Service & Departmental Systems	575	Adults, Children & Families, Places, Performance & Capacity.
Fundamental Corporate Areas	140	Strategic risks and other cross cutting reviews.
Partnerships	100	Strategic risks and strategic partnerships.
Anti Fraud and Corruption	250	Promotion & investigations.
Consultancy & Advice	150	Responding to ad hoc requests.
Contingency	100	
Follow up	25	Of outstanding recommendations.
Total	**2174**	

2.5 It should be noted that the plan is based on a number of assumptions regarding posts currently vacant/on hold. It is also based on assumptions regarding the audit of schools and Shared Services. The plan will, therefore be regularly reviewed and updated taking these issues into account along with the results of audit work, the risk management process, and any other factors that may affect the Council's priorities. It is anticipated that more detail relating to the programme of work re the assignments to be carried out, their respective priorities where applicable, and the estimated resources needed will be worked up when the outcomes from the Service Delivery Planning and Annual Governance Statement processes are made available. Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to the Audit and Governance Committee.

3.0 Key Themes/Messages within the Internal Audit Plan

3.1 The plan is split into six key areas. These are:

- work to support corporate governance
- fundamental financial systems
- key service and departmental systems
- fundamental corporate areas
- partnerships
- anti- fraud and corruption

In addition time is planned to provide advice and guidance on a responsive basis.

3.2 It has become clear from reviewing the authority's current position that there are a number of key drivers for establishing the audit plan and programme of work and included within the detailed plan is an recognition of these drivers which include:

- considered a strategic risk
- considered a key service risk
- significant in affecting the reputation of the Council
- significant in achieving Corporate Plan priorities
- significant in achieving effective ways of working (e.g. partnerships)
- high risk of fraud or irregularity
- high risk resulting from previous findings
- significant growth area
- high financial value/risk
- issues affecting successful inspection and action points arising from inspections.

3.3 In order to articulate the audit plan to staff, auditees and interested parties the overall emphasis for the year is as follows:

(1) supporting the service planning process

(2) preventing fraud and corruption and promoting ethics

(3) maximising working in partnerships e.g. risk management, performance etc.

(4) reviewing and challenging corporate risks.

4.0 Conclusion

4.1 The report supports an effective audit planning process, based on the risks to the Authority and in accordance with the Code of Practice for Internal Audit.

Internal Audit Plan 2011/12

Appendix 1

Audit Area	Drivers/Risks	Assessment Method	Outline of work	2011/12 Planned Audit Days	2010/11 Planned Audit Days
Maximum Resources Available			Based on a number of assumptions regarding the filling of vacant posts	**2639**	**3116**
Annual Leave, Bank Holidays, Sickness, Medical Absence, Maternity Leave			Outside the control of Internal Audit	465	709
Available Working Days			**82% of maximum available days**	**2174**	**2407**
Training, Management & Administration, Service Development			Non chargeable days to support employee development, continuous improvement in Internal Audit as well as day to day operations	444	493
Available Chargeable Days			**80% of available days**	**1730**	**1914**
Corporate Work External Audit liaison, Cheshire West and Chester Internal Audit liaison, supporting Audit and Governance Committee.			Primarily non- assurance work that enables the Section to identify changing risks and priorities of the Council. Helps to determine any amendments to the plan.	100	60
Available Audit Service Days			**94% of chargeable days**	**1630**	**1854**
Supporting Corporate Governance Annual Governance Statement, Corporate Governance Group.	Statutory requirement.	Statutory requirement.	Assurance work that enables Audit to advise the organisation that arrangements are in place and operating properly. Supporting the Governance Working Group and challenging assurance statements/self assessments made by management. Developing the AGS action plan	60	70
Fundamental Financial Systems Housing Benefits, NNDR, Council Tax, Cash Receipting, Treasury Management, General Ledger, Budget Monitoring follow-up.	Risk of material mis-statement of the Authority's Financial Statements.	Key mitigating controls. To be agreed with External Audit.	Audit of controls and accounting records, work that the Audit Commission can place reliance on. Assurance work that enables Audit to advise the organisation that arrangements are in place and operating properly. Extent of work to be determined with External Audit.	120	220
Fundamental Financial Systems – Shared Services Oracle R12 follow-up, Accounts Payable, Accounts Receivable, Payroll	Risk of material mis-statement of the Authority's Financial Statements.	Key mitigating controls. To be agreed with External Audit, CWaC Internal Audit and Shared Services Joint	As above.	110	- (Included in 220)

Internal Audit Plan 2011/12

Appendix 1

Audit Area	**Drivers/Risks**	**Assessment Method**	**Outline of work**	**2011/12 Planned Audit Days**	**2010/11 Planned Audit Days**
		Officer Board.			
Key Service & Departmental Systems	Key Departmental/ Service Risks.	- Budget Review - Previous Audit work - Materiality - AGS Action Plan	Departmental and service risk audits. Assurance work that enables Audit to advise the organisation that arrangements are in place and operating properly.		
Adults Care4CE – Supported Living Networks, HomeCare. Strategic Commissioning – Supporting People, Pooled Budget, Emergency Duty Team, Third Sector payments. Individual Commissioning – CRISS, PARIS, Personal Budgets, Empower Cards, Appointeeships. Health & Wellbeing – Establishments (new and follow-up), Parks and Open Spaces, Libraries Central Stores.	As above.	As above.	As above.	220	300 (People)
Children & Families Schools – FMSiS/successor framework issues, Whistleblowing/Complaints/Statement of Internal Control Procedures. Other – Direct Payments, YPLA Finance, Charges for Looked After Children, Foster Payments, Early Education Entitlement.	As above.	As above.	As above.	85	- (Included in People)
Places Environmental Services – Residual Waste Treatment (PFI). Safer & Stronger Communities – CCTV Contract, Emergency Planning (Shared	As above.	As above.	As above.	160	200

Internal Audit Plan 2011/12

Appendix 1

Audit Area	Drivers/Risks	Assessment Method	Outline of work	2011/12 Planned Audit Days	2010/11 Planned Audit Days
Service). Planning & Housing – Development Control, Section 106 Monies. Regeneration – Highways Maintenance Procurement, Transport Contracts, Tatton Park, Carbon Management Plan.					
Performance & Capacity HR & Organisational Development - Health & Safety. Policy & Performance – see *Fundamental Corporate Areas and Partnerships*. Treasury & Assets – Asset Management follow-up, ICT – Security/Assets/Commissioning/Governance, Procurement – Savings, Shared Services – Governance follow-up.	As above.	As above.	As above.	110	250
Fundamental Corporate Areas Strategic Risks (SR's) - Service Planning (SR 1), Budget Setting/Financial Management (SR 2), Equality (SR 6), Workforce (SR 10) – Pay Harmonisation, Long Term Planning (SR 12), Transformation (SR 13), Information & Business Intelligence (SR 14), Reputation (SR 15), External Environment (SR 16). Other Cross Cutting – Risk Management, Performance Management, Data Quality.	Strategic Risks.	- Strategic Risks - AGS Action Plan - Cross Cutting projects 11/12.	Assurance work on Strategic Risks and associated mitigating controls as well as other cross cutting areas. Enables Audit to advise the organisation that arrangements are in place and operating properly.	140	100
Partnerships Strategic Risks (SR's) - Community Safety (SR 3), Vulnerable Children (SR 4), Vulnerable Adults (SR 5), Partnerships (SR 7), Education (SR 9), Health (SR 8), Opportunities (SR 11). Other Strategic Partnerships.	Partnership Risks	- Strategic Risks - AGS process.	Assurance work on Strategic Risks involving Partnerships and associated mitigating controls. Enables Audit to advise the organisation that arrangements are in place and operating properly.	100	- (Included in P&C/ Corporate areas)

Internal Audit Plan 2011/12

Appendix 1

Audit Area	Drivers/Risks	Assessment Method	Outline of work	2011/12 Planned Audit Days	2010/11 Planned Audit Days
Anti Fraud and Corruption National Fraud Initiative, Staff Vetting – recruitment/existing staff, Abuse of Position – payments, new employees, Blue Badges, Housing and Council Tax Benefits, Procurement – Tender, Contract Award, Whistleblowing, Anti Money Laundering follow-up, Insurance Claims, Data Matching, Bribery Act 2010.	- Statutory requirement (NFI) - Fraud trends.	- 'Protecting the Public Purse' (Audit Commission). - 'Annual Fraud Indicator 2011' (The National Fraud Authority).	Includes work responsive to notifications under the anti-fraud and corruption policy; will inform opinion on the internal control environment. Pro- active work based on risk assessment including promotion of relevant policies and assessment of key controls.	250	330
Strategic Review				-	60
Responsive Work					
Consultancy & Advice			Where resources and skills exist, may contribute to the opinion that Internal Audit provides on the control environment.	150	174
Contingency			The plan needs to be flexible to be able to reflect changing risks and priorities. This could include non assurance work at the request of management.	100	100
Follow Up			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.	25	50
Planned Audit Service Work				**1630**	**1854**

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting:	29 March 2011
Report of:	Head of Policy and Performance and the Borough Solicitor
Title:	Update on Annual Governance Statement 2010/11

1.0 Report Summary

1.1 The purpose of this report is to update the Committee on the work being undertaken to produce the Annual Governance Statement for 2010/11.

2.0 Recommendation

2.1 That the Committee notes the progress towards the completion of the Annual Governance Statement.

3.0 Reasons for Recommendations

3.1 To ensure that the Committee are aware of the comprehensive approach to producing the Annual Governance Statement.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

6.1 None.

7.0 Financial Implications (Authorised by the Borough Treasurer)

7.1 No specific financial implications. The production of the AGS has been designed to align with the production of the Council's Financial Statements (draft by end June of each year) and will be published alongside the audited accounts (approved by end September). However, there are potential changes to the Account and Audit Regulations (see separate reports on Final Accounts and Work Plan) that, if agreed, would mean the Financial Statements would not require approval by the end of June.

8.0 Legal Implications (Authorised by the Borough Solicitor)

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

9.0 Risk Management

9.1 The process and success of Corporate Governance arrangements is part of the Authority's overall approach to managing risk.

10.0 Background and Options

10.1 At the November 2010 meeting of this Committee a report detailing the requirement to produce an Annual Governance Statement and the timetable for that process was endorsed.

10.2 The process and analysis required to produce the statement can be summarised as follows:

- Assessment against the Code of Corporate Governance
- Assessment of governance arrangements for significant partnerships
- Assessment of the effectiveness of mitigating actions for approved strategic risks
- Assessment of the effectiveness of the "Audit" Committee (in Cheshire East this is the Audit and Governance Committee)
- Head of Internal Audit opinion report (due in June 2011)
- Disclosure statement by each Head of Service (due in May 2011)
- Other judgements concluded by the Corporate Governance Group based on in-year work and review.

10.3 The above processes are all on target for completion by the due date as approved at the last meeting. Submissions for the aspects relating to the first three areas have been and are being received from relevant officers and are being collated and will be discussed at the next Corporate Governance officers meeting (late March 2011).

10.4 A review of the effectiveness of the Audit Committee has been undertaken by the Chairman, Vice Chairman and the Head of Policy & Performance and is included as a separate report to this Committee.

10.5 The remaining items are due for completion following the year end. The Corporate Governance officers will meet to review the submissions at each stage and recommend the Annual Governance Statement wording to the Audit and Governance Committee at its June meeting. It is anticipated that in advance of this meeting, a detailed session will be held for members where they will be presented with the evidence supporting the AGS.

10.6 Based on the findings arising and the content of the Annual Governance Statement an action plan will be drawn up to make improvements during 2011/12 and the emerging findings will also be used to influence the audit planning process and specific assignments undertaken.

11.0 Access to Information

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

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting:	29 March 2011
Report of:	Head of Policy and Performance
Title:	Audit Committee Self Assessment

1.0 Report Summary

1.0 The purpose of this report is to facilitate compliance with the requirements of the Accounts and Audit Regulations (2003 as amended) and, consequently, it advises Members on the results of a self assessment of the effectiveness of the Audit and Governance Committee using the CIPFA publication *'Audit Committees – Practical Guidance for Local Authorities (Appendix A)'*.

2.0 Decision Requested

2.1 That the Committee consider the self assessment and determine any required amendments.

2.2 That the Committee note that the detailed outcome of the review of the system of Internal Audit will be considered by the Audit and Governance Committee as part of the Annual Governance Statement (AGS) approval process.

3.0 Reasons for Recommendations

3.1 Regulation 6 of the Accounts and Audit Regulations 2003 (as amended) requires the authority to conduct an annual review of the effectiveness of its system of internal audit.

3.2 The effectiveness of the system of internal audit should include the effectiveness of the audit committee itself (to the extent that its work relates to internal audit), as well as the performance of the internal audit provider.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

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 As detailed in the report.

9.0 Risk Management

9.1 Failure to review and report on the Committee's effectiveness could result in improvement opportunities being missed and in non compliance with the Accounts and Audit Regulations 2003 (as amended).

9.2 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 The process for conducting the review of the effectiveness of the Council's system of internal audit, which was agreed with the Audit and Governance Committee in November 2010, includes a self - assessment against the following relevant internal audit standards:

- the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006
- Audit Committees – Practical Guidance for Local Authorities CIPFA

10.2 As with the AGS, the completion of the review of the system of internal audit will be carried out by the Corporate Governance Group with input from the Head of Policy and Performance. The detailed results of the overall review will then be reported to the Audit and Governance Committee for consideration as part of the AGS process. Prior to this it is important that Members are satisfied that the self- assessment of the Committee's effectiveness has been completed correctly.

10.3 The Committee is reminded that the contents of the External Auditor's report on Internal Audit's compliance with the Code for the year ended 31 March 2010 was considered by Members in September 2010.

11.0 Access to Information

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

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Tel No: 01270 685859
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Appendix A

Self-assessment Checklist – Measuring the Effectiveness of the Audit Committee

Issue	**Yes**	**No**	**Partial**	**Comment**
Terms of Reference				
Have the committee's terms of reference been approved by full council?	✔			Approved as part of Constitution.
Do the terms of reference follow the CIPFA model?	✔			Based on *Audit Committees – Practical Guidance for Local Authorities*, CIPFA 2005.
Internal Audit Process				
Does the committee approve the strategic audit approach and the annual programme?	✔			Internal Audit Strategy approved September 2009, with update in Nov 2010, audit plan approved May 2010 and March 2011.
Is the work of internal audit reviewed regularly?	✔			Annual Internal Audit Opinion report received in June 2010, Interim reports received in Sept 2010 and Jan 2011.
Are summaries of quality questionnaires from managers reviewed?			✔	Questionnaires in place for quarter 4 2010/11. Results of which will be reported in the Internal Audit Opinion report.
Is the annual report, from the head of audit, presented to the committee?	✔			Annually to support production of the Annual Governance Statement (AGS). Last reported in June 2010.
External Audit Process				
Are reports on the work of external audit and other inspection agencies presented to the committee?	✔			Annual Governance Report received Sep 10, Final Account Memorandum received Nov 10, Annual Audit Letter

Appendix A

Self-assessment Checklist – Measuring the Effectiveness of the Audit Committee

Issue	Yes	No	Partial	Comment
				Jan 11. Update report March 11.
Does the committee input into the external audit programme?	✔			The Committee received and commented on the external auditor's 2010/11 plan in January 2011. The plan set out the audit work in respect of the audit of financial statements and the value for money conclusion 2010/11.
Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?	✔			Following a verbal update on the implementation of agreed actions relating to the Audit Commission's Final Accounts Memorandum, Members requested a formal update report for the March 2011 Committee.
Does the committee take a role in overseeing: • Risk management strategies • Statement on Internal Control • Anti-fraud arrangements	 ✔ ✔ ✔			 Update reports Nov 10, & Jan 11. Approved Statement June 10, Approved Revised Code of Gov, process for production of AGS Nov 10, and update on AGS action plan Jan 11. Review of Strategy reported Jan 11.

Appendix A

Self-assessment Checklist – Measuring the Effectiveness of the Audit Committee

Issue	Yes	No	Partial	Comment
• Whistle-blowing strategies?	✔			Review of Strategy reported Nov 10.
Membership				
Has the membership of the committee been formally agreed and a quorum set?	✔			
Is the chair free of executive or scrutiny functions?		✔		The Chair, who is free of executive responsibilities, sits on the Appeals, Children's & Families Scrutiny, and Environment & Prosperity Scrutiny Committees. This issue will be reviewed following the elections in May 2011.
Are members sufficiently independent of the other key committees of the council?	✔			The number of Committee Members is such that should any conflict of interest arise, this would be declared and there is no risk to the independent or effective decision making within this Committee.
Have all members' skills and experiences been assessed and training given for identified gaps?	✔			The Committee considered training requirements against the Better Governance Forum recommendations in Sep 10 and training requirements are considered at each subsequent Committee as part of the Work Programme/Plan.

Appendix A

Self-assessment Checklist – Measuring the Effectiveness of the Audit Committee

Issue	Yes	No	Partial	Comment
				An induction session was delivered in June 2010 covering core functions re Internal & External Audit, Risk & Governance and Financial Statements, and a series of training sessions have, as a consequence of the above, been delivered around the IFRS, AGS, Risk and Customer Complaints. Further training is planned regarding performance management.
Can the committee access other committees as necessary?	✔			There is a minor point re part 2 reports in all committee and council papers meaning that, in theory, Members of the Committee do not have automatic rights of access to part 2 papers. This has not been an issue in the year and this policy is being reviewed by Members and the Democratic Services Team.
Does the committee meet regularly?	✔			
Are separate, private meetings held with the external auditor and the internal auditor?	✔			The External Auditor has met with the Chair as necessary.

Appendix A

Self-assessment Checklist – Measuring the Effectiveness of the Audit Committee

Issue	Yes	No	Partial	Comment
				Regular meetings with the Chair, Vice Chair and Internal Audit Management are scheduled quarterly.
Are meetings free and open without political influences being displayed?	✔			
Are decisions reached promptly?	✔			Any deviations from the Work Programme are discussed and agreed at each Committee.
Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	✔			
Does the committee have the benefit of attendance of appropriate officers at its meetings?	✔			Evidenced by Risk Owners/Managers presenting assurance sessions as determined by Committee.
Training				
Is induction training provided to members?	✔			See response regarding the assessment of members' skills and experiences.
Is more advanced training available as required?	✔			As above.
Administration				
Does the authority's s151 officer or deputy attend all meetings?		✔		The Section 151 officer attends the key meetings such as the approval of the Council's Financial Statements (with the deputy also attending). A finance officer representing the Section 151 Officer

Self-assessment Checklist – Measuring the Effectiveness of the Audit Committee

Issue	Yes	No	Partial	Comment
				does attend all meetings.
Are the key officers available to support the committee?	✔			

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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 29th March 2011
Report of: Borough Treasurer & Head of Assets
Subject/Title: Sale of County Hall

1.0 Report Summary

1.1 A report from the Audit Commission as external auditors of both Cheshire West & Chester and Chester East Council in respect of the sale of County Hall is attached as Annex 1.

2.0 Recommendation

2.1 That members receive and comment on the report.

3.0 Reasons for Recommendations

3.1 To ensure that members consider the issues and recommendations raised within the report.

4.0 Wards Affected

4.1 Not applicable.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

6.1 None.

7.0 Financial Implications (Authorised by the Borough Treasurer)

7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 The legal issues relating to the sale of County Hall, the views of the Audit Commission relating to compliance, and recommendations for the future, are described in the Audit Commission report.

9.0 Risk Management

9.1 The sale of County Hall, Chester was one of the first high profile decisions taken by the councils and lessons learnt from this experience must be used in future decision making.

10.0 Background and Options

10.1 Following local government reorganisation on 1 April 2009, County Hall, Chester was one of a number of properties that remained in joint ownership of Cheshire West and Cheshire East Councils. In March 2009 Chester University expressed an interest in acquiring County Hall from the two new councils.

10.2 Between May and October 2009 the two new councils negotiated the sale of County Hall to Chester University, while Cheshire West also completed the purchase of the HQ office development. In August 2009 the District Auditor received correspondence from local government electors and from a member of Cheshire West expressing concerns and asking questions regarding:-

- the apparent lack of public consultation;
- perceived absence of proper option appraisal and/or cost benefit analysis; and
- overall value for money.

10.3 The Audit Commission's Code of Practice 2010 requires auditors to give a conclusion as to whether they are satisfied that an audited body has made proper arrangements for securing economy, efficiency and effectiveness in the use of its resources. Following the questions raised and substantial coverage in the local press the Audit Commission undertook a review to test the arrangements that each council has put in place for securing value for money.

10.4 This a joint report to Cheshire West and Cheshire East Councils and looks at the actions of both councils in relation to the sale of County Hall. The report was considered at a meeting of the Audit and Governance Committee of Cheshire West and Chester Council on 1 March 2011.

10.5 The report provides information on the following matters:

- Introduction and background information
- Auditor's conclusions
- Decision to sell County Hall to Chester University
- Valuations and value for money considerations
- Reporting to Members
- Consultation
- Conclusions and Recommendations

11.0 Access to Information

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

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Sale of County Hall

Cheshire West & Chester Council and Cheshire East 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.

Contents

Executive Summary

Introduction

1 Local government reorganisation in Cheshire took effect on 1 April 2009. Two new unitary councils replaced Cheshire County Council and six district councils:

- Cheshire West and Chester Council (Cheshire West); and
- Cheshire East Council (Cheshire East).

2 Some properties owned by the former County Council transferred into joint ownership of Cheshire West and Cheshire East. County Hall in Chester was one such property. In March 2009 Chester University expressed an interest in acquiring County Hall from the two new councils.

3 HQ is a major new development close to County Hall, comprising office space with separate residential and hotel facilities. Cheshire West decided that HQ met their vision for modern, efficient and effective office accommodation, in a flagship development on a major gateway into Chester. Cheshire West explored the possibility of purchasing HQ alongside the negotiations to sell County Hall.

4 Between May and October 2009 the two new councils negotiated the sale of County Hall to Chester University, while Cheshire West also completed the purchase of the HQ office development. In August 2009, the District Auditor received correspondence from local government electors and from a member of Cheshire West expressing concern at how the transactions were being managed. In summary questions were asked about:

- apparent lack of public consultation;
- perceived absence of proper option appraisal and/or cost benefit analysis; and
- overall value for money.

There was also substantial coverage in the local press.

5 The Audit Commission's Code of Practice 2010 requires auditors to give a conclusion as to whether they are satisfied that an audited body has made proper arrangements for securing economy, efficiency and effectiveness in the use of its resources. It is the audited body's responsibility to put in place those arrangements and to ensure proper stewardship and governance.

6 In view of the exceptional and material nature of the County Hall and HQ transactions, which occurred soon after local government reorganisation, I have used them to test the arrangements that each council has put in place for securing value for money. In reaching my conclusions for 2009/10 in relation to Cheshire West and Cheshire East councils, I have considered how the sale of County Hall impacts on my assessments in three key areas:

- understanding of costs and performance in decision making;
- promoting and demonstrating the principles and values of good governance and engagement with stakeholder; and
- ensuring that assets are fit for purpose and provide value for money.

7 This is a joint report to Cheshire West and Cheshire East Councils - written by the external auditor of both bodies. It looks at the actions of both councils in relation to the sale of County Hall. However, it is important to recognise that the County Hall transaction could not have happened had Cheshire West not been able to purchase the HQ office building. A separate report has been issued to Cheshire West Council in relation to its purchase of HQ.

8 This review includes analysis of a substantial amount of documentation provided by both councils and interviews with a small number of key officers who led on the disposal of County Hall. My conclusions are based upon the evidence provided by both councils.

Conclusions

9 The opportunity to sell County Hall came much earlier than either council expected. It represented a good opportunity for them to review their accommodation strategies at an early stage. For Cheshire East it also represented significant income and the opportunity to reduce their ongoing liability for the building after their staff had moved out.

10 I am satisfied that the decision making processes of the two councils, taken together, followed a reasonable process. The evidence leads me to conclude that the sale of County Hall did represent value for money for council tax payers. The councils were eventually able to satisfy themselves that the sale of County Hall represented value for money, obtaining best consideration in the terms of Section 123 of the Local Government Act 1972.

11 The sale was one of the first high profile decisions taken by the councils. Both councils must now reflect on their experience of the sale of County Hall and learn the lessons. This will be important for the ongoing rationalisation of their property portfolios whether jointly owned or not.

12 I recognise that the pressures of operating in a fast-moving commercial environment can make the over-riding need to demonstrate proper governance and stewardship more difficult. It is inevitable that decisions need to be made quickly and it will not always be possible to align receipt of specialist advice and decision-making with formal meetings. In such circumstances it remains important that effective arrangements are put in place to update and report back through a council's formal decision-making processes. Against that background, I identify a number of procedural issues where, in my view, the need to act quickly was sometimes at the expense of proper processes and good governance.

13 I also identify areas where the two councils could have worked more closely together to complete the sale and share costs whilst still acting in the interests of their own organisations.

14 It is the councils' responsibility to ensure members understand the information presented and that the impact of any decisions they are asked to make are both reasonable and appropriate.

15 Against that background, I comment on the arrangements the councils had in place:

- to take the decision to sell County Hall to Chester University;
- for securing valuations and demonstrating value for money;
- for reporting to members; and
- for consultation with the public.

Deciding to sell County Hall to Chester University

16 The pressure to complete the negotiations with the University quickly, alongside Cheshire West's need to secure alternative accommodation, influenced their decision making process. Cheshire West was instrumental in forming proposals for the sale of County Hall and providing momentum for the sale. During the early stages only a small group of officers and members were involved. Cheshire East were involved mainly through discussions between the Council leaders and Chief Executives. Cheshire East were not actively involved until the first written offer was received on 16 June 2009. Cheshire West officers briefly considered refurbishment options for County Hall. But, on 24 June 2009, secured a decision from members to sell to the University in principle subject to detailed negotiations. These were delegated to the Director of Resources in consultation with the Finance Portfolio Holder.

17 Completing such complex transactions in such a short timescale was a significant achievement which enabled both councils and the University to achieve their vision. Cheshire West has taken an early opportunity to assist the regeneration of the Chester. Cheshire East has benefited from the income from the sale and removed their ongoing liabilities for an asset they no longer needed.

18 Cheshire East adopted a different approach and took more time to take the decision to sell. Their approach allowed the Cabinet to consider additional expert valuation and legal advice before committing to the decision to sell. Cheshire East Cabinet received reports in July and August 2009 before taking the final decision to sell County Hall on 22 September 2009. This was subject to some final negotiations delegated to the Borough Treasurer and Head of Assets, the Borough Solicitor and the Portfolio Holder (Procurement, Assets and Shared Services).

19 Cheshire West's early decision secured the interest of the University in the sale and Cheshire East's approach provided additional checks and balances. Cheshire East's separate legal advice and property valuations helped to demonstrate that the sale represented value for money and that both councils could meet the requirements of s123, LGA 1972. I am satisfied that the decision making processes of the two councils, taken together, followed a reasonable process.

Valuations and value for money considerations

20 When councils dispose of property it is usually through a sale on the open market. Whilst this is not mandatory, it is considered to be the best way to demonstrate that they have secured best value. When the University's offer of £10.75 million was received in June 2009, time constraints meant that there was insufficient time to market the property. The Councils jointly obtained a valuation from the Valuation Office Agency (VOA) to support the contention that the University's offer represented best value.

21 The VOA valuation was £4 to 6 million which was markedly less than the University offer. The VOA report also commented on the lack of an overage clause in the University offer, a key safeguard normally included in sales of public sector assets. (Clawback/overage provides a safeguard in a contract to allow the councils to recover a share of any profit that the University might make from a future re-sale.)The report was received on 23 June 2009, a day before the decision by Cheshire West to proceed with the sale to the University. The report was not available when officers at Cheshire West prepared their report supporting the sale for the Members.

22 Officers assure me that a verbal update was given to Members but this is not evidenced in the minutes of the meeting - as it was a confidential Part B item. Similarly, I understand Counsel's interim advice, received in consultation, was reported to Members verbally. Again, there is no record in the minutes of the 24 June meeting to support this. Furthermore Counsel's written opinion was not received until 13 July 2009. These are crucial pieces of information to support Members' decision and judgement that the sale achieved best value. Their consideration by members should have been evidenced.

23 A second valuation was commissioned by Cheshire East. The value contained in that valuer's draft report was shared with Cheshire West officers on 26 June 2009. Although it was a significantly higher value (then £10.2 million) than the VOA report, Cheshire West continued to rely on the VOA report to support securing best value and did not make their Counsel aware of the second valuation. In my view Counsel should have been made aware of this higher valuation before he provided written advice on 13 July 2009. In any event, Counsel should have been asked to reaffirm or revise his opinion once the second valuer's final report, containing a value of £10.6 million, was received from Cheshire East. Cheshire West officers have told me that they did consider going back to Counsel and decided not to do so. Their legal team has stated that they formed the judgement that this was unnecessary. They believed there was enough evidence to support the decision that the sale, when it took place, was at a price which satisfied the requirements of section 123 of the Local Government Act.

24 Until September 2009 the deal with the University included a clause that would have given them first refusal over whether to buy Castle Square Car Park for £1 million, in the event that the councils wanted to sell it before 2017. In July 2009 Cheshire East sought its own valuation of the car park to help it to determine whether to sell its share to Cheshire West for £0.5 million. It was valued at £3.2 million. A later joint valuation valued it at £2.3 million. Cheshire West officers have said that there was no possibility of the car park being sold. However, had the clause not been removed the Council may have found it difficult to show how any future sale (before 2017) satisfied the requirements of section 123. I also note that both the VOA and Counsel acting for Cheshire West appear to have misunderstood that aspect of the deal.

25 Cheshire West offered to share legal advisors with Cheshire East but they declined. Cheshire West shared their Counsel's opinion with Cheshire East in July 2009. Cheshire East sought independent legal advice and commercial property valuations, particularly in relation to the sale of the Castle Square car park, at all stages through the process. These were not always shared with Cheshire West. (In some cases this was because the advice was sought by Cheshire East for specific purposes and it would not have been appropriate to share.

26 Given that County Hall was in the joint ownership of the two councils they should have taken a more joined up approach to the disposal. Had the two councils worked more closely together and shared documentation including specialist advice the issues may have been resolved more quickly and professional costs saved.

Reporting to Members

27 Responsibility for ensuring that they have effective governance arrangements in place rests separately with Cheshire West and Cheshire East councils. It is also their responsibility to put in place systems of internal control to ensure the regularity and lawfulness of their transactions.

28 Effective reporting arrangements are an important part of any organisation's governance arrangements. Good quality information and clear, objective advice can significantly reduce the risk of taking decisions that fail to achieve their objectives or have serious unintended results.

29 Between June and December 2009, officers from both councils presented reports and updates for members covering a wide range of issues. After confidential information was leaked, in June 2009, Cheshire West officers made some oral reports to limit written information available. However evidence to support their assertions that oral reports were given is limited. In my view, more evidence of what information was shared with members to help inform their decision-making is required in order to demonstrate effective governance.

30 In relation to Cheshire West's reporting to members and member scrutiny, written reports should have been more detailed and better supported. In some respects reporting appeared to lack balance. Some details contained in reports that were deemed to be commercially sensitive were disclosed to the local press. I have not considered matters relating to these leaks in this report.

31 Cheshire East could have done more to ensure that members who were not on its Cabinet were kept informed. While the Cabinet reports of July, August and September were available to other members no specific reports were shared with the full Council.

Consultation

32 The level of public consultation over the sale of County Hall was limited. Councils have a statutory duty to involve local people (set out in Section 138 of the Local Government and Public Involvement in Health Act 2007). This duty covers one-off decisions as well as routine functions. Section 138 allows councils to use their discretion where, for example, an asset is not used in front line service delivery.

33 Cheshire West officers considered that the statutory duty to involve did not apply as County Hall was not used to deliver services to the public. They also contend that any responsibility to consult applied to both councils as the asset was jointly owned. In fact neither council engaged in a formal consultation process before the decision was made to sell the asset. The decision to sell a major public asset such as County Hall is likely to generate concerns in the local community. Cheshire West should have consulted on its sale. The planning process allowed opportunity for consultation over change of use but that is different from the sale itself.

34 I acknowledge that some Cheshire West councillors arranged events and opportunities to engage with the public. For example, Chester Conservative Councillors hosted a public meeting on 24 August 2009; the Head of facilities and Asset management attended the City Community Forum on 21 September 2009. In addition Cheshire West Council provided some opportunity for public involvement. While these opportunities did provide a forum for public debate they did not take place until after the decision to sell was made.

35 It is for each council to decide what steps it considers appropriate to satisfy the requirements of s138. However Cheshire West should have anticipated the public reaction to the proposed sale. Consultation over major decisions is regarded as good practice. Both councils could have done more to involve local people in the decision.

36 A decision that parallels the sale of County Hall – and creates as much public interest - may not arise again for some time. However, both councils should remain open to involving local people early in decision-making processes. This will help avoid the risk of local people feeling disenfranchised.

Final comments

37 The issues set out in this report were initially shared with officers in July 2010. During 2010/11 both councils have introduced new procedures to enable members to have access to more detailed plans, reports and specialist advice where appropriate. For example:

- Cheshire West's redevelopment of Northgate where members can arrange, with the legal team, to see supporting papers. However to protect the commercial confidentiality of certain aspects of the project the details are not available for members to take away.
- Cheshire East Council now has a robust policy of engagement with non-Cabinet Members, primarily through regular consultation with Overview & Scrutiny Committees and Scrutiny Chairmen, but also through the involvement of individual Members in specific projects. The Council's Asset Challenge programme has involved detailed consultation with Members and has been the subject of regular updates to the Corporate Overview & Scrutiny Committee. Non-Cabinet members are included on the working group developing the strategy for the transfer of assets in accordance with the Council's agenda for local service delivery. The Council also regularly consults with local members in respect of its long term regeneration proposals for major centres such as Crewe, Macclesfield and Congleton.

38 During 2010 there are good examples of the progress the councils have made in working together. These include:

- the judicial review relating to the waste PFI contract. This is being done jointly with shared legal advisors;
- ongoing development and plans for the future of shared services; and
- agreement over the disaggregation of fixed assets without the need to go to arbitration, (subject to agreement by members in February 2011).

These examples demonstrate how both councils are taking action to address the issues raised by this report.

39 My recommendations are summarised in the agreed Action Plan at Appendix 1.

Detailed report

A brief history

40 Local government reorganisation in Cheshire took effect in April 2009. It replaced Cheshire County Council and six district councils with two new unitary councils:

- Cheshire West and Chester Council (Cheshire West); and
- Cheshire East Council (Cheshire East).

41 Properties owned by the former authorities transferred to one of the new councils or into joint ownership of Cheshire West and Cheshire East. Others were declared surplus to requirements. County Hall is in Chester and therefore within Cheshire West - it was one of the jointly owned properties. The Property Transfer Agreement, (dated 31 March 2009), records County Hall's capital value as £5 million as at April 2009. (Annual running costs estimated at £1.27 million.)

42 From April 2009 more than 500 Cheshire East employees continued to work at County Hall. But Cheshire East wanted to relocate those staff to offices within its own boundary during 2009/10. This would have left Cheshire West as the principal occupier of County Hall, with Cheshire East having to meet almost half of its running costs, despite no longer using the building.

43 Chester University apparently first expressed an interest in purchasing County Hall during March 2009. Cheshire West led the negotiations with the University during April and May. At that stage both councils had good reason to give the proposal serious consideration. In both cases the disposal of County Hall meant that the councils could move forward with their own asset management plans faster than would otherwise be possible.

- For Cheshire East it was also an opportunity to shed the £0.5 million annual costs of its residual interest in County Hall. They would receive no value against these costs once their staff moved out in February 2010.
- For Cheshire West it was an early opportunity to realise its preferred accommodation strategy and to support its wider ambitions for the new council.

44 It is clear from an early stage that Cheshire West's senior management believed that the Council's long term office accommodation should be modern and open-plan. They felt that modern and fit for purpose accommodation would help to speed up cultural change and improve efficiency. They also judged that County Hall, in its current state, failed to meet their requirements.

45 During this period Cheshire West identified the new HQ development as a suitable alternative site to County Hall, in the event that sale to the University went ahead. HQ is a new development close to County Hall. It includes 82,000 square feet of open-plan office space on six floors, residential apartments and a hotel.

46 Between May and October 2009 the two councils negotiated the sale of County Hall to Chester University for £10.3 million.

47 This detailed report considers the involvement of both councils in the sale of County Hall. It covers:
- the decision to sell County Hall to Chester University;
- securing valuations and value for money;
- reporting to members; and
- consultation with the public.

Deciding to sell County Hall to Chester University

48 This section of the report considers:
- initial discussions with Chester University; and
- consideration of options for County Hall.

49 County Hall was one of the assets shared with Cheshire East as part of the Property Transfer Agreement signed as part of the local government re-organisation process. To that end each council had a 50 per cent stake in the value and its management. Given that the building is in Chester its future use was always going to be directed by Cheshire West - with the agreement of Cheshire East.

50 Cheshire West officers say that the University Vice-Chancellor first expressed an interest in County Hall in March 2009, although it is unclear when or to whom that approach was made. A local agent acting for the University then entered into discussions with Cheshire West's Head of Facilities and Asset Management, who led negotiations for both councils, before making a written offer for County Hall on 21 May 2009. During this phase only a small group of officers and members were aware of these discussions. Cheshire East was kept informed of developments through communication at Chief Executive and member levels. Information was also shared with Cheshire East's Assets Manager.

51 On 16 June 2009 the University's agent presented Heads of Terms to Cheshire West's Head of Facilities and Asset Management based upon:
- a price of £10.75 million for County Hall (including its Riverside Car Park and Annexe), the Lower Car Park and a ten year lease of 70 spaces on Castle Square Car Park;
- an option to buy Castle Square Car Park for £1 million in the event that the councils should decide to sell their freehold interest before June 2017. Cheshire West officers have stressed that there was no intention to sell Castle Square to the University at any stage and that their over-riding objective was to secure the best price - then £10.75 million - for assets in the main part of the deal; and

- exchange of contracts on or before 30 June 2009.

52 Cheshire East became actively involved after this first written offer was received. Pressure for a prompt exchange of contracts and for the councils to effect a staged withdrawal from County Hall by June 2010 was linked to the University's desire to be in-situ for the 2010/11 academic year. The University stated that failure to meet this timescale would lead it to withdraw its offer and pursue other options. A swift sale was also attractive to Cheshire West because it wanted to complete the purchase of HQ and accelerate its organisational development. Cheshire East was attracted to an early sale to curtail its liability for County Hall costs and to progress its wider asset management strategy.

53 Cheshire West's assessment of County Hall was that it was not capable of providing modern, open-plan office accommodation without major capital investment. In his 24 June 2009 report to the Executive the Head of Facilities & Asset Management stated that:

> **The sale of County Hall will mean that modern, efficient and effective accommodation can be sought for Cheshire West and Chester that will drive forward the transformation of the organisation.**

54 The report goes on to discuss the option of refurbishing County Hall and sets out the likely costs. During the transitional period Cheshire County Council commissioned some work to examine how County Hall could be re-designed to make it into modern office accommodation. The report states that:

- it would cost in the region of £12 million - £15 million;
- Cheshire West would need to pay Cheshire East for its share of the building; and
- it would take a minimum of 3 years to develop.

55 The report also goes on to comment upon the wider opportunities the sale of County Hall represents. For example:

- enabling significant cultural change to happen more quickly and with it greater efficiencies in terms of identity and costs;
- to establish the University giving it a city centre presence and a positive position within the sector; and
- as a catalyst for the Council to rationalise its city centre presence and perhaps dispose of other accommodation earlier.

56 Cheshire West officers had held tentative discussions with local agents about County Hall's development potential in early 2009. The 24 June report to the Executive states that:

> **Opportunities for sale were discussed with Cheshire East, national commercial agents, known developers and some hotel operators, including Hilton, over the past few months. Some tentative interest was shown but deliverability, timescale and even values were at best uncertain.**

57 That conclusion was supported when a valuer, who was engaged at a later stage by Cheshire East, advised that:

> **….sale to a developer is seen as extremely unlikely in the current climate….the market for the property is therefore considered extremely thin….**

58 It is clear from 24 June 2009 Executive report that Cheshire West gave some consideration to the costs of remaining in County Hall before asking members to make the decision to sell. These included complete refurbishment of County Hall for continued use as headquarters for the Council. The Council's option appraisal process is considered in more detail in our separate report to Cheshire West Council on its purchase of HQ.

59 On 24 June 2009 Cheshire West's Executive agreed the sale of County Hall to Chester University 'under the broad terms outlined in the report'. Council officers believe this early decision was a necessary signal of intent to provide reassurance to the University. The approval was still subject to detailed negotiations, responsibility for which was delegated to the Director of Resources in consultation with the Finance Portfolio Holder.

60 In July 2009 Cheshire East's Cabinet agreed in principle:

> **…. that there may be merit in the sale of County Hall. However, considerable further effort needs to be made in order to satisfy them that their obligation under Section 123 of the Local Government Act 1972 will be met if the current offer is accepted.**

They did not approve the sale until 22 September 2009. Like Cheshire West, their approval was subject to final negotiations delegated to the Borough Treasurer and Head of Assets, the Borough Solicitor and the Portfolio Holder (Procurement Assets and Shared Services).

61 Following negotiations between the two councils and the University the sale was agreed in October 2009. Before taking the final decision Cheshire East officers took further valuation and legal advice. Cheshire West officers continued to rely on the delegated authority from 24 June 2009. More details of the final agreement are set out in paragraphs 99 to 104.

Conclusions

62 The opportunity to sell County Hall came much earlier than either council expected. It represented a good opportunity for them to review their accommodation strategies at an early stage. For Cheshire East it also represented significant income and the opportunity to reduce their ongoing liability for the building after their staff had moved out.

63 The pressure to complete the negotiations with the University quickly, alongside Cheshire West's need to secure alternative accommodation influenced the decision making process. Cheshire West members took the decision to sell on 24 June 2009. Cheshire East members adopted a different approach taking time to consider expert valuation and legal advice before committing to the decision to sell in September 2009. Taken together the Councils adopted a reasonable process setting aside the initial ambitious timescales to ensure good decisions were made.

Valuations and value for money considerations

64 This section of the report considers the approach of both councils to:

- valuing County Hall;
- ensuring their decisions represented value for money; and
- making effective use of legal and valuation experts.

65 County Hall was valued at £5 million for the purposes of local government reorganisation. This was based on a valuation provided by the Valuation Office Agency (VOA) in October 2008.

66 Section 123 of the Local Government Act 1972 permits local authorities to dispose of property in any manner they wish, subject to a requirement to secure the best consideration that can reasonably be obtained. Any disposal for less than best consideration must be within the terms of the Local Government Act 1972: General Disposal Consent (England) 2003 or be the subject of a specific consent by the Secretary of State. Marketing a property for sale is not a legal requirement. However it is usually key to demonstrating best consideration. Particular care is required where a property is disposed of without marketing. In summary, councils need to be able to show that they consider value for money issues when taking decisions.

67 County Hall was not on the market when the University's £10.75 million offer was received. When the formal offer was made in June 2009, timing constraints also meant there was no time to market the property. Taken together these two issues led Cheshire West and Cheshire East councils to seek a joint updated valuation from the VOA (on 5 June 2009). In addition, Cheshire East acted alone in seeking a second valuation from a private sector valuer on 9 June 2009 'to give a 'commercial' perspective on the value'.

68 The VOA's valuation report was dated 23 June 2009 - the day before Cheshire West members were due to consider the proposal to sell County Hall. The VOA concluded:

- in respect of market value:

  > **"in my opinion, the property has a current market value of between £4 million and £6 million"; and**

- with regard to the University's offer:

  > **"The only concern is that the transaction has no provision for overage/clawback……. I would strongly recommend that any sale incorporates claw back provisions covering recovery of a share of any 'profit' made on onward sale…. In the event that reasonable clawback provisions can be agreed with the purchaser….we are willing to report that this is a satisfactory transaction for the Council to enter into and that 'best consideration' has been achieved in accordance with Section 123, Local Government Act 1972."**

69 The VOA report also says "I understand that… the 'put option' has now been removed and replaced by a right of pre-emption and any sale must be at market value at the time of the sale". The reference to market value was an incorrect understanding of the pre-emption clause, which would have entitled the University to purchase Castle Square Car Park for £1 million, without reference to its then market value, in the event that the councils decided to sell it.

70 The terms of the University's offer for County Hall were reported to Cheshire West's Executive on 24 June 2009. The report by the Head of Facilities & Asset Management was drafted before the VOA's final valuation was received on 23 June and was not then supported by written legal advice. There is no evidence that the VOA advice was provided at the meeting. Legal advice obtained from Counsel in conference was apparently reported verbally, but the Minutes contain no reference to it.

71 The VOA's conclusion regarding best consideration was a key element of officers' recommendation to the Executive that it should approve the sale. The officers' written report made no reference to clawback or overage, despite the VOA 'strongly recommending' that any sale include clawback provisions, nor do Minutes of the meeting record it being discussed. (Clawback/overage provides a safeguard in a contract to allow the councils to recover a share of any profit that the University might make from a future re-sale.)

72 On 24 June 2009, Cheshire West's Executive decided that:

> **"the disposal of County Hall to Chester University under the broad terms outlined in the report be agreed**
>
> **the Director of Resources, in consultation with the Finance Portfolio Holder be given delegated authority to agree other terms, finalise details of the transaction and complete the sale."**

73 The terms then included:

- a price of £10.75 million for County Hall (including its Riverside Car Park and Annexe), the Lower Car Park and a ten year lease of 70 spaces on Castle Square Car Park; and
- a £1 million option for the University to buy Castle Square Car Park should it be offered for sale within seven years.

74 The Executive report also outlined Cheshire West's intention to buy-out Cheshire East's interest in Castle Square Car Park for £0.5 million. During this review, Cheshire West officers have stressed that, by June 2009, there was no intention to sell Castle Square Car Park to the University. Their intention being to turn the square into public open space at some stage in the future. Cheshire West's objective throughout was to secure the best price for assets in the main part of the deal. Regardless of the notional apportionment between the Car Park and County Hall, Cheshire East would have received half the value of the whole site.

75 As stated previously, Cheshire West officers believe this early decision was a necessary signal of intent to provide reassurance to the University. The decision was, however, taken without final written legal advice being available to members.

76 On 26 June 2009 Cheshire East received a draft report from its commercial valuer. This valued County Hall at £10.2 million - £4.2 million above the VOA's reported range, and £550,000 below the University's offer. Cheshire West were made aware of this valuation on 26 June (two days after the Executive decision to sell), when officers from both councils met to clarify issues regarding the University's offer and to consider a way forward.

77 Both councils sought separate independent legal advice on the terms of the sale and compliance with Section 123 of the Local Government Act 1972. I understand that Cheshire West proposed that the councils should share legal experts, but that Cheshire East declined to do so on 11 June 2009.

78 Counsel's opinion obtained by Cheshire East on 10 July 2009 raised numerous issues in light of the VOA report and commercial valuer's draft report, concluding that:

> **The Council cannot be satisfied on the current evidence that the proposed sale of their interests in County Hall and the car park would result in their obtaining a consideration for those interests which is the best that can reasonably be obtained.**

It was not shared with Cheshire West.

79 Counsel's opinion obtained by Cheshire West, dated 13 July 2009, stated that:

- Cheshire West could obtain an expert assessment of the open market value of County Hall without actually putting the property on the market;
- in respect of the VOA report, "the value is said to lie within a range of between £4 million and £6 million, figures which lie well below the bid of £10.75 million from the University of Chester"; and
- the councils should follow the VOA advice in respect of clawback.

80 Counsel acting for Cheshire West's overall conclusion was:

> **"that if the councils follow (VOA) advice there is little risk of a legal challenge to the proposed disposal succeeding on the grounds of non-compliance with section 123(2) of the 1972 Act."**

81 That Counsel's opinion made no reference to the second valuation of County Hall being obtained by Cheshire East. Although still in draft, it was known by Cheshire West officers to include a significantly higher valuation more than two weeks prior to Counsel's opinion being finalised. In my view Cheshire West officers should have alerted Counsel to the existence of Cheshire East's markedly different valuation or ensured his advice was revisited or reaffirmed at a later stage. Cheshire West officers have told me that they did consider going back to Counsel and decided not to do so. Their legal team has stated that they formed the judgement that this was unnecessary. They believed there was enough evidence to support the decision that the sale, when it took place, was at a price which satisfied the requirements of section 123 of the Local Government Act, and that further advice would not be necessary, as value for money criteria had been satisfied.

82 Some elements of Counsel's advice to Cheshire West were anticipated in the 24 June 2009 report to its Executive, based on discussions to that point in time. However, the fact that Counsel's opinion was not received until 13 July 2009 meant that officers could not reflect all aspects of his advice in the report or at the meeting. For example, Counsel's opinion stated that:

- "The decision-making body within each of the Councils will need to consider the merits of making a decision to dispose of the land now" (ie as opposed for waiting for the property market to improve). Counsel did not suggest that this consideration presented any legal obstacle to sale. However, the fact remains that the decision on 24 June was taken without Cheshire West members actively considering a relevant consideration identified by Counsel;
- "the officer's report to Committee would be able to explain why it would not be sensible for CWCC to seek to occupy the whole of County Hall, because that would necessitate relocating staff from other premises in the City who are, and could remain, suitably accommodated elsewhere." In this instance, it is unclear how Counsel's understanding of the case for sale reconciles with that made in the 24 June 2009 Executive report ("Moving from County Hall would be a catalyst for the Council to rationalise their city centre presence and perhaps realise other receipts earlier"); and
- "The proposed transaction would also include the grant of a right of pre-emption enabling the University to purchase the freehold of Castle Square at market value at the time of sale." Again the reference to market value was an incorrect understanding of the pre-emption clause, which entitled the University to purchase the car park for £1 million, without reference to its then market value, in the event that the councils decided to sell (see paragraph 69).

83 These matters were not revisited after the 24 June 2009 decision to sell County Hall. However, had the pre-emption clause been retained the councils might have found it difficult to satisfy the requirements of s123 if they had sold Castle Square before July 2017. Cheshire West shared its Counsel's opinion with Cheshire East on 20 July 2009.

84 In contrast to Cheshire West Executive's earlier decision, Cheshire East Cabinet took more time to consider the additional legal and valuation advice available to them. On 14 July 2009 an officer report to Cheshire East Cabinet recommended the sale of County Hall to the University and transfer of Castle Square Car Park to Cheshire West. The report was written before Counsel's advice was received on 10 July. However, the Cabinet considered the Counsel's opinion, which was circulated prior to the meeting, and agreed in principle to a sale:

- resolving that 'considerable further effort' was required to satisfy them that Section 123 of the Local Government Act would be met by accepting the current offer from the University; and

- requesting detailed advice about the timing of a sale (given the downturn in the property market) to help them decide if County Hall should be marketed.

85 On 22 July 2009 Cheshire East received the final report on the commercial valuation of County Hall. This second valuation was used to supplement the jointly commissioned VOA report received on 23 June. The final commercial valuation was £10.6 million, marginally below the University's offer. Unlike the VOA report, the commercial valuer did not provide a view on whether the University's offer represented best consideration. But they did provide assurance about the reasonableness of proceeding with the sale in the context of the downturn in the property market. In late August, (or early September), the report was shared with Cheshire West who were reassured that, notwithstanding the substantial difference from the VOA figure, it provided further evidence that the then deal with the University was reasonable.

86 On 23 July 2009 Cheshire East also received a separate valuation of Castle Square Car Park to help it determine whether to sell its share to Cheshire West for £0.5 million. The report, by the same private sector valuer who produced the second County Hall report, valued the car park at £3.2 million 'based upon the existing use of Castle Square as a car park'. Based on that figure Cheshire East's share would be worth £1.6 million. When presented with this valuation Cheshire West withdrew its offer to buy Cheshire East's share of the car park.

87 Cheshire East asked for a second Counsel's opinion. Having considered the final commercial valuation report and supporting information Counsel concluded on 27 July 2009 that:

- subject to securing a suitable overage clause, the University's offer of £10.75 million represented best consideration for County Hall. Counsel's earlier concerns, which included the reasonableness of the timing of the proposed sale, had been mitigated; and
- in light of the marked difference between the £0.5 million offered for Castle Square Car Park and the £1.6 million implied by the private sector valuer, the Car Park transfer should be separated out from the County Hall deal.

88 Cheshire East Cabinet approved County Hall for disposal on 11 August 2009, but still conditional upon:

- officers securing an overage provision; and
- Castle Square Car Park being separated out from the main sale and subject to further valuation.

89 The two councils jointly commissioned another valuation of the car park by a different private sector valuer. In September 2009 the car park was valued at £2.3 million on the assumption that "the property is for surface car parking and that public car parking on a charging basis would be permitted. Should this not be the case, then this would have a material impact on the valuation of the site".

90 At that stage, the valuations for the car park ranged from £2.3 million to £3.2 million - compared to:

- the £1 million pre-emption value then incorporated in the deal with the University; and
- the £0.5 million offered by Cheshire West to buy-out Cheshire East's interest. This was separate to negotiations with the University and would have been a distinct transaction between the two councils, reflecting Cheshire West's then intention to retain Castle Square for the long term as public open space.

91 During September 2009 the issues surrounding the valuation of the car park and its proposed inclusion in the sale of County Hall led to its removal from the deal. Cheshire West did not buy-out Cheshire East's interest and Castle Square Car Park remains in the joint ownership of both councils. The pre-emption clause was also removed from the deal with the University.

92 Cheshire West officers have told me that, other than in the very early stages of the negotiations, they had no intention of selling Castle Square Car Park (paragraph 74). However, had the clause not been removed the Council may have found it difficult to show how any future sale (before 2017) satisfied the requirements of section 123. I also note that both the VOA and Counsel acting for Cheshire West appear to have misunderstood this aspect of the deal.

93 Withdrawal of the ten year lease of parking spaces on Castle Square and of the right of pre-emption for the University to purchase the Car Park prompted the University to reduce its offer to £10 million. While that still exceeded the VOA valuation, it was now less than the commercial valuation of County Hall at £10.6 million, calling into question whether the new offer represented best consideration.

94 Cheshire West's view was that best consideration would still be achieved because the VOA valuation was at most £6 million and the Council had legal advice that it could rely upon the VOA's report. I have already said that I think the Council should have made Counsel aware of the alternative valuation obtained by Cheshire East once they became aware of it on 26 June. I am not qualified to make a judgement on which of the VOA and private sector valuations is most reliable, but I do think there were grounds for more caution. My view is reinforced by:

- the opinion expressed by Counsel to Cheshire East that "Chester University is not a commercial organisation. It is likely that Chester University will have applied for some form of grant funding for this purchase, and that either they, or the funder (or both) have received advice that the site is worth at least the amount they have offered";
- the University's subsequent public statement that it "bought County Hall in Chester for what has been professionally estimated to be the current market value" [i.e. £10.3 million]; and

- Cheshire West's own statement that "In those negotiations [with the University] a value in the region of £11m was sought as an initial target identified as being a value that the council would consider from our own professional teams. This was based upon our own internal assessment of the market place and other opportunities."

95 Cheshire East continued to consider the car park issue. Their re-negotiations with the University resulted in a revised offer of £10.3 million based on a longer, 33 year lease of 70 car park spaces on Castle Square Car Park. That was less than the £10.75 million offer that Cheshire West had negotiated for a shorter ten year lease. However, the pre-emption right over Castle Square Car Park had also been withdrawn.

96 Cheshire East Cabinet received a third report from its officers on 22 September 2009. This report provided Cheshire East members with assurance that the revised deal represented best consideration. They agreed to the sale.

97 If, as Cheshire West have stated, there was no possibility that the Car Park would be sold to the University, then the revised deal negotiated by Cheshire East was arguably not as good as that negotiated previously by Cheshire West. However, the University may have attached some value to the pre-emption right to purchase the Car Park at less than market value in the future, however remote that possibility might have been. On 25 September Cheshire East officers requested a further report from private sector valuers to confirm that £10.3 million represented the market value of the assets in the revised deal. That was received on 6 October and stated that "We are of the opinion that the consideration of £10,300,000…. represents market value of the asset as at the relevant valuation date".

98 Cheshire West officers continued to rely upon the Executive approval granted on 24 June 2009. It is understood that the Council leader and deputy leader received regular briefings throughout the sale process, but there was no reference back to the Executive and no formal record of these discussions.

99 One final complication arose in late October 2009 as the deal moved towards completion. A condition of grant funding sought by the University to help fund the purchase, meant that it requested that the sale take place in two stages.

- Stage One - the sale of County Hall for £8.275 million, to take place by 30 October 2009. This would enable Cheshire West to complete on the HQ transaction at that date.
- Stage Two - the option to purchase the County Hall Annexe and the Riverside and Lower Car Parks for £2 million during December 2009.

100 The councils obtained verbal confirmation from the North West Development Agency that the grant funding situation was as the University had outlined and that its application was likely to be successful. However, no written assurance was forthcoming. Instead the councils sought to mitigate the risk introduced by the staged sale in three other ways.

- The £8.275 million payable for Stage One ensured that the University overpaid for the assets in question, giving it an incentive to complete on Stage Two to redress the balance.
- Car parking and access, which the University would need to make County Hall viable, were included in Stage Two to provide a further incentive for completion.
- Assets included in Stage Two were capable of being developed independently by the councils in the event that the University should not complete.

101 Before agreeing to the staged sale Cheshire East obtained:

- a final valuation from commercial valuers - stage one assets were valued at
  £7.6 million - stage two assets valued at £3 million; and
- a third Counsel's opinion to test that the staged sale did not compromise the achievement of best consideration.

102 The final deal contained an overage provision, consistent with the VOA's recommendation and both councils' legal advice. Cheshire West's officers were satisfied that the risk of the University selling-on County Hall was low, but still negotiated an overage clause that would have entitled the councils to a tapering percentage of any 'profit' realised by the University if it re-sold County Hall within ten years - reducing from 100 per cent in 2010 to 10 per cent in 2019. Cheshire East were concerned to secure an increased percentage in later years and so negotiated a revised clause which entitles the councils to 50 per cent of any profit (25 per cent each) that the University might realise should it sell County Hall within 15 years.

103 Under the terms of the deal the councils:

- paid rent of £40,000 per month to the University for the remainder of their occupation of County Hall, reducing as they effected a staged vacation; and
- would have incurred a penalty of £37,500 per week in the event that they failed to adhere to agreed milestones for a phased handover, but those milestones were met and no charge levied.

104 Both stages of the sale of County Hall were completed - the first on 30 October and the second on 4 December 2009. A combined capital receipt of £10.275 million was shared between Cheshire West and Cheshire East. The final £25,000 followed in 2010 once other legal requirements had been fulfilled.

Conclusions

105 The University initially targeted exchange of contracts by the end of June 2009. The councils appear to have, together, followed a reasonable and proper process to satisfy themselves that the sale represented best consideration (under s123 of the LGA 1972). However the approach taken by the two councils was quite different.

106 For Cheshire West, I have some concerns regarding:

- how it handled aspects of its own legal advice;
- its continued reliance upon the VOA valuation of County Hall in the knowledge that there was a second, markedly different valuation available; and
- its handling of certain matters in respect of Castle Square Car Park.

107 Cheshire East took a more measured approach to the decision to sell County Hall. Their referrals for further legal advice and commercial property valuations incurred some additional costs. But, their more measured approach helped to demonstrate that, together, the councils followed a reasonable process to eventually satisfy themselves that the sale of County Hall represented value for money for council tax payers and met their obligations under s123, LGA 1972.

108 The councils jointly commissioned the VOA valuation and some other documentation was shared, such as Cheshire West's Counsel's opinion and, eventually, the second valuation report obtained by Cheshire East. However, the councils could have worked together more closely had they agreed to share legal and other expert advice where appropriate. Given that County Hall was in the joint ownership of the two councils they should have taken a more joined up approach to the disposal - despite the fact that they had different drivers for the sale. This may have led to quicker resolution of issues and reduced overall costs in terms of staff time and specialist advice.

109 The sale was one of the first high profile decisions taken by the councils. Both councils must now reflect on their experience of the sale of County Hall and learn any lessons. This will be important for the ongoing rationalisation of their property portfolios whether jointly owned or not.

Recommendation

R1 Cheshire West should ensure that legal and other advice is obtained on a timely basis. This advice should be properly considered and used to support and inform member decision-making.

R2 Both Councils should consider sharing specialist advice where appropriate in the future.

R3 Both councils should review the approach to the sale of County Hall to identify any lessons that can be learned for future decision-making and the ongoing rationalisation of their property portfolios.

Reporting to members

110 This section of the report considers:
- the importance of effective governance arrangements;
- how key roles and responsibilities were discharged; and
- the effectiveness of reporting to Cheshire West and Cheshire East councils.

111 Responsibility for ensuring that they have effective governance arrangements in place rests with Cheshire West and Cheshire East councils. It is also their responsibility to put in place systems of internal control to ensure the regularity and lawfulness of their transactions.

112 The Audit Commission defines corporate governance as:

> **the framework of accountability, to users, stakeholders and the wider community, within which organisations take decisions and lead and control their functions to achieve their objectives.**

Cheshire West

113 The proposed sale of County Hall and acquisition of HQ were first reported to Cheshire West's Executive on 24 June 2009. The two transactions were covered by separate reports. Both reports were considered in the private part of the meeting because of their commercial confidentiality. This is common practice in local authorities and in accordance with the Local Government Act 1972.

114 Although the reports were rightly restricted and considered in private session, due to commercial confidentiality considerations, details of both transactions featured in the Chester Chronicle on 25 June 2009. The article began "Key players were last night discussing secret plans to sell County Hall to Chester University for an estimated £10 million with council staff relocating to the new HQ building across the road." If this release of restricted information was attributable to a councillor, it could constitute a breach of the Code of Conduct for Members (set out in Cheshire West's Constitution). Cheshire West has not investigated this 'leak' and it has not been considered as part of this review.

115 The reports presented to the Executive on 24 June 2009 were brief. This is perhaps surprising given their significance. The report relating to the proposed sale of County Hall makes a number of unduly positive statements. These statements were not always supported by the evidence available and suggest that the preparatory work was not as thorough as it should have been.

For example, the report:

- states that "This sale will also represent excellent value for money at the price of £10.75m". The VOA's report actually states that "In the absence of the property being offered for sale on the open market, it is not possible for us to state absolutely that this is the 'best price reasonably obtainable'. We can, however, confirm that…. in our opinion the consideration is not likely to be significantly exceeded in a disposal to any other purchaser". (Although not then known to officers of Cheshire West, the second valuation commissioned by Cheshire East subsequently also showed the position to be less clear-cut.) The VOA also stated that the deal represented best consideration provided that reasonable clawback/overage provisions are agreed. The VOA's report was available before the Executive met however the overage issue is not referred to in the minutes, although we are told that it was included in a verbal update;
- states that "It would be worth paying Cheshire East £500,000 to acquire sole ownership (of Castle Square Car Park)". The car park was subsequently valued at £3.2m and £2.3m by two independent valuers (paragraphs 86 and 89); and
- refers to both councils benefiting from "a rent free period of about 10 months". The University was then expected to pay only a five percent deposit, with completion in summer 2010. In that context, the benefits of a rent free period appear to be over stated.

116 On 24 June 2009 Cheshire West's Executive agreed:

- the disposal of County Hall to Chester University under the broad terms outlined in the report; and
- the Director of Resources in consultation with the Finance Portfolio Holder be given delegated authority to agree other terms, finalise details of the transaction and complete the sale.

117 Following the Executive decision of 24 June 2009 there were a number of other briefings and associated reports to Cheshire West members relating to County Hall and HQ.

- The Council leader and deputy leader received regular updates as part of their weekly briefings.
- Officers provided briefings to the Labour and Liberal Democrat groups during July 2009.
- "New Office Accommodation" was voluntarily included on the agenda for the first meeting of the Cheshire West's Corporate Select Panel on 13 July. The Panel's terms of reference include:

> **….review and scrutinise the Council and the Executive's work ensuring that the Council is using its resources effectively….**

- The Panel considered both County Hall and HQ. But this was again in closed session and no agenda papers were prepared in view of the earlier leak. The minutes record that:

> **The Corporate Select Panel support the decisions made by the Executive in relation to the future use of County Hall and new office accommodation, subject to receipt of detailed financial information supporting the move.**

- At the Full Council meeting on 23 July an opposition motion relating to the sale of County Hall was referred without debate to the Executive (where it was discussed on 17 September). However, the Council Leader answered questions from Labour and Liberal Democrat councillors in relation to County Hall and HQ.
- A second opposition motion, requesting that the earlier decisions to sell County Hall and purchase HQ be revisited and subject to public consultation, was discussed in Full Council on 23 September. The motion was defeated by 47 to 12 with 3 abstentions.
- On 29 October, the day before the sale of County Hall was completed, an Officer Decision Notice was signed by the Chief Executive. This was needed because of the staged sale of County Hall agreed in late October. Because the contracts had to be signed by 30 October, the issue could not be referred back to the Executive at its next meeting on 4 November. The Decision Notice outlined changes to the deal since 24 June 2009, including the overage clause. It also included a brief reference to the second valuation obtained by Cheshire East, without citing any figures. It was counter-signed by the Council Leader and Chairman of Overview and Scrutiny Committee and agreed, by email, by the Portfolio Holder for Finance. The Notice required that a report of the decision be made available to all Council members.

118 Cheshire West officers have explained that they had expected to report back formally to the Executive in July 2009 once the deal had been agreed. But the negotiations did not proceed smoothly. Faced with the unexpected delays and the need for commercial confidentiality following the earlier leak, it was not until December 2009 that the full facts were reported back to the Executive. On 9 December the Executive received a report entitled Progress on property rationalisation. This report was considered in the public part of the meeting and outlined the final terms of the completed transactions for County Hall.

Cheshire East

119 The first report to Cheshire East's Cabinet on the proposed sale of County Hall was on 14 July 2009. While quite brief, it is balanced and refers to the risks associated with the timing of a sale during a down turn. It also refers to the need to include an overage/clawback provision in the terms of sale. The timing of their report meant that it reflected the VOA valuation report and their commercial valuer's draft report. Before the meeting officers sought Counsel's advice on the issue of achieving best consideration. Officers briefed members on that advice during the meeting. Having considered the facts in the report and the Counsel's advice the Cabinet:

- Agreed in principle that there may be merit in the sale of County Hall. However, considerable further effort needed to be made in order to satisfy them that their obligation under Section 123 of the Local Government Act 1972 would be met if the current offer was accepted.
- Concluded that in order to progress the sale Members considered that it may be necessary to market the property, to satisfy their legal obligations under Section 123. In order to assist Members officers were asked to secure detailed advice about the timing of a sale.

120 Cheshire East Cabinet received a second, more detailed report on 11 August. This report summarised the final VOA and commercial valuation reports, alongside Cheshire East's second Counsel's opinion. It also specifically considered the timing of any sale in the context of the property market. Cabinet agreed:

- that negotiations for the potential sale of County Hall to Chester University should proceed subject to the inclusion of an overage provision;
- that the possible transfer of the Council's interest in Castle Square Car Park be dealt with as a separate transaction;
- that an independent valuation of the car park be obtained jointly with Cheshire West and Chester Borough Council; and
- to delegate the further negotiations for both transactions to the Borough Treasurer and Head of Assets and the Borough Solicitor in consultation with the Leader of the Council.

121 A third report was considered by the Cabinet, as a matter of urgent business, on 22 September 2009. This report dealt with the complications arising from the separate valuation of Castle Square Car Park.

122 Whilst Cheshire East's Cabinet members did receive those regular, formal reports, more could have been done to keep other members abreast of developments.

123 In common with Cheshire West, the timing of the next Cabinet meeting on 3 November meant that an Urgent Decision record was required when the staged sale issue arose in late October. Cheshire East officers took final legal and valuation advice before drafting the decision notice. The notice was signed by the Chief Executive and copied to leading members, before being made available to all members of the Council.

Conclusions

124 In any fast moving situation it is inevitable that decisions need to be made quickly. It will not always be possible to align receipt of specialist advice and/or decision-making with formal meetings. In such circumstances it remains important that effective arrangements are put in place to update and report back through a council's formal decision-making processes.

125 It is the councils' responsibility to ensure members understand the information presented and that the impact of any decisions they are asked to make are both reasonable and appropriate.

126 Effective reporting arrangements are an important part of any organisations' governance arrangements. Good quality information and clear, objective advice can significantly reduce the risk of taking decisions that fail to achieve their objectives or have serious unintended results. Between June and December 2009, officers from both councils presented reports and updates for members covering a wide range of issues. After the leak, in June 2009, Cheshire West officers made some oral reports to limit written information available.

127 In relation to Cheshire West's reporting to members and member scrutiny, written reports should have been more detailed and better supported. In some respects reporting appeared to lack balance. Some details contained in reports that were deemed to be commercially sensitive were disclosed to the local press.

128 Cheshire East could have done more to ensure that members who were not on its Cabinet were kept informed.

Recommendation

R4 Remind Cheshire West members of the requirements of the Code of Conduct in relation to disclosure of information.

R5 Cheshire West should ensure that reports relating to key decisions provide sufficient detail and are balanced in their consideration of issues.

Consultation

129 This section of the report considers:

- the overall duty for local authorities to involve local people; and
- the approach to consultation taken in relation to the sale of County Hall.

130 The 'statutory duty to involve' arises from Section 138 of the Local Government and Public Involvement in Health Act 2007 which states that:

> **Where a best value authority considers it appropriate for representatives of local persons… to be involved in the exercise of any of its functions by being:**
>
> **(a) provided with information about the exercise of the function,**
>
> **(b) consulted about the exercise of the function, or**
>
> **(c) involved in another way,**
>
> **it must take such steps as it considers appropriate to secure that such representatives are involved in the exercise of the function in that way.**

131 The duty is meant to cover significant one-off decisions as well as routine functions. Cheshire West officers have suggested that because County Hall was jointly owned, any obligation to consult over its sale would apply equally to both councils. In fact neither council consulted formally on the decision to sell County Hall. Whilst that might have been appropriate for Cheshire East, it appears less so for Cheshire West because County Hall (a well known civic landmark) is located in the Council's area and its continued use into the future was an option for that Council.

132 Some opposition councillors and members of the public complained of a lack of consultation about Cheshire West's decisions to purchase HQ and sell County Hall. They drew attention to the Council's Corporate Asset Management Plan 2009/2011 which states:

> **"From April 2009 a new statutory duty to involve will require local authorities and others to inform, consult and involve local people in their functions and activities, including asset management."**

133 Cheshire West should have anticipated the public reaction to the sale of County Hall. The decision to sell a major civic asset is always likely to generate concerns within the local community.

134 Cheshire West officers did not see the need to consult over the sale of County Hall. Section 138 affords councils that discretion where an asset is not used for delivering front line services. However, consultation over major decisions is regarded as good practice. Councils who perform well in this area consult on key spending decisions where appropriate.

135 However, there were some opportunities for public involvement. For example:

- Chester Conservative Councillors hosted a public meeting on 24 August 2009 'concerning the university plans for county hall'. The Council Leader and the University Vice-Chancellor answered questions at the meeting.
- On 21 September 2009 the Head of facilities and Asset management attended the City Community Forum. He presented on the relocation of the council's headquarters.
- The University's planning application for County Hall to be used as a non-residential institution generated almost 100 letters of objection. That consultation over the University's proposed change of use of County Hall was, however, distinct from the Council's decision to sell.
- Members of the public took the opportunity to address the Council at its meeting on 23 September 2009.
- But other such opportunities afforded by the Council were not taken up. For example, at the Executive meeting on 17 September 2009 no member of the public took the opportunity to ask questions. Likewise no questions were asked at the full council meeting on 23 July 2009.

136 However, in each case the opportunities for the public to ask questions came after Cheshire West Executive had decided to sell County Hall and acquire HQ. There was no opportunity for public involvement before those decisions were taken. Also, had the sale proceeded to the expected timescale it would have been complete before the planning process took place and before some of those other opportunities were offered.

Conclusions

137 A decision that parallels the sale of County Hall – and creates as much public interest - may not arise again for some time. However, both councils should remain open to involving local people early in decision-making processes. This will help avoid of the risk of local people feeling disenfranchised.

Recommendation

R6 Each Council's Consultation Strategy should include proper consideration of circumstances where they will consult and involve local people in meaningful ways.

Appendix 1 Action Plan

Recommendations	
Recommendation 1	
Cheshire West should ensure that legal and other advice is obtained on a timely basis. This advice should be properly considered and used to support and inform member decision-making.	
Responsibility	Head of Legal and Democratic Services
Priority	High
Date	Implemented
Comments	This advice was taken in this instance, and for all major decisions, and is always factored into decision making processes on timely basis as part of the project plan. Whilst in this instance it was not documented in written reports to members but updated verbally, both in the Executive and with appropriate members in terms of the delegation, should such fast moving circumstances occur in the future, written records of this will be maintained on file.
Recommendation 2	
Cheshire West should consider sharing specialist advice where appropriate in the future.	
Responsibility	Director of Resources/Head of Legal and Democratic Services
Priority	High
Date	With immediate effect.
Comments	Cheshire West and Chester Council will continue to share professional advice in relation to joint projects with Cheshire East Council.
Recommendation 2	
Cheshire East should consider sharing specialist advice where appropriate in the future.	
Responsibility	Borough Treasurer and Head of Assets
Priority	Agreed
Date	Immediate/Ongoing
Comments	Cheshire East Council undertakes to share specials advice where appropriate in relation to the management of those assets held jointly with Cheshire West under the terms of the Property Transfer Agreement dated 31 March 2009.

Recommendation 3	
Cheshire West should review the approach to the sale of County Hall to identify any lessons that can be learned for future decision-making and the ongoing rationalisation of their property portfolios.	
Responsibility	Director of Resources
Priority	Medium
Date	Implemented
Comments	This has happened with a number of examples in support eg shared services operations, property transfer agreements finalising asset allocations from LGR and avoiding arbitration.

Recommendation 3	
Cheshire East should review the approach to the sale of County Hall to identify any lessons that can be learned for future decision-making and the ongoing rationalisation of their property portfolios.	
Responsibility	Borough Treasurer and Head of Assets
Priority	Agreed
Date	April 2011
Comments	It is proposed that the Property Transfer & Balance Sheet Group ask the Assets Manager (CE) and the Head of Facilities & Assets (CW) to jointly review the approach to the sale of County Hall in order to formally identify the lessons to be learnt by both parties. The Property Transfer & Balance Sheet Group will then consider and submit the findings to both Council's Executives for approval.

Recommendation 4	
Remind Cheshire West members of the requirements of the Code of Conduct in relation to disclosure of information.	
Responsibility	Head of Legal and Democratic Services
Priority	Low
Date	March 2011
Comments	

Recommendation 5	
Cheshire West should ensure that reports relating to key decisions provide sufficient detail and are balanced in their consideration of issues.	
Responsibility	Director of Resources/Head of Facilities and Asset Management
Priority	Medium
Date	Implemented
Comments	The Council has many examples of detailed reports in support of decisions taken in the first two years. The fast moving circumstances are explained in the report and it is not envisaged that this kind of scenario is likely to reoccur. Should that happen, the appropriate level of detail will be included.

Recommendation 6	
Cheshire West Council's Consultation Strategy should include proper consideration of circumstances where they will consult and involve local people in meaningful ways.	
Responsibility	Head of Policy, Performance and Partnerships
Priority	Medium
Date	Implemented
Comments	The Council's consultation strategy does include these circumstances in detail. Cheshire West can demonstrate many successful examples of this.

Recommendation 6	
Cheshire East Council's Consultation Strategy should include proper consideration of circumstances where they will consult and involve local people in meaningful ways.	
Responsibility	Borough Treasurer and Head of Assets
Priority	Agreed
Date	April 2011
Comment	It is proposed that the issue of consultation and how best to involve local people early in the decision making process for those issues which create significant public interest should form part of the review proposed under R3 above.

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting:	29 March 2011
Report of:	Head of Policy & Performance
Title:	Work Plan

1.0 Report Summary

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

2.0 Decision Requested

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 January 2011
- 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

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.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 The Work Plan must take account of the requirements of the Accounts and Audit Regulations 2003 (as amended) whilst acknowledging the changes proposed by the Department for Communities and Local Government (DCLG) in the consultation document 'Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended'.

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

9.2 A comprehensive Work Plan is necessary to ensure that the Committee fulfils its responsibilities.

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 January 2011:

- A report has been included on the March Agenda in order that External Audit can update Members on progress against the 2010/11 Audit Plan and the associated risk assessment which must be updated during the course of the audit.

- Following a verbal update on the implementation of agreed actions relating to the Audit Commission's Final Accounts Memorandum, Members requested a formal update report. Consequently, a report is included on the agenda to provide Members with assurance that issues have been, or are being addressed.

- Revisions to the Risk Management & Business Continuity Strategy were delayed last quarter because the focus had been on developing a comprehensive Corporate Risk Register and integrating and aligning risk management into the Council's business planning process. Review work on the existing Risk Management Strategy has highlighted areas that the Council may wish to strengthen if it is to further develop its existing risk management framework. An example of this is the definition and articulation of the Council's risk appetite or risk tolerance level. Consideration as to how the Council wishes to strengthen the framework needs to be undertaken, and agreed, before the existing Risk Management Strategy is revised. Business Continuity forms part of the Risk Management Strategy and so will be integral to the Strategy update which is now anticipated for the June Committee.

- Given the proposal to revise and consolidate the Accounts and Audit Regulations 2003 (as detailed below) the Annual Governance Statement (AGS) report has been amended to acknowledge the progress made in reviewing the Council's current governance arrangements together with how the proposed changes may impact on the process.

- 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' has been carried forward to the June agenda. Work on Fraud Risk has, however, continued throughout the quarter. This includes meeting the requirements of the National Fraud Initiative (NFI), developing a Fraud Risk Assessment using the Audit Commission publication 'Protecting the Public Purse' and the National Fraud Authority annual assessment and initial analysis of the Council's arrangements using the CIPFA Fraud Evaluation Diagnostic Tool (FRED1).

- As previously reported, an updated Whistleblowing Policy has been produced by Internal Audit and is currently nearing the end of the consultation process. The policy has been approved by the Borough Solicitor and HR Strategy Manager and was scheduled to be reviewed by trade unions w/c 21 March 2011 which was unfortunately too late to allow presentation at this meeting.

- Regulation 6 of the Accounts and Audit Regulations 2003 (as amended) requires the authority to conduct an annual review of the effectiveness of the system of internal audit. As previously agreed the 2010/11 review includes a self-assessment – using the CIPFA document “measuring the effectiveness of the Audit Committee”. A report has been included on the March Agenda in order that Members are satisfied that the self assessment of the Committee’s effectiveness has been completed correctly.

- a presentation on reputational risk management has been included for March 2011 at the Committee’s request.

- a training session on performance management has been included for June 2011 at the Committee’s request.

10.2 Furthermore, the Committee is asked to note that the Work Plan acknowledges the current requirements of the Accounts and Audit Regulations 2003 (as amended) together with the changes proposed by the DCLG as detailed in the consultation document 'Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended'. The impact of the most significant changes on the Work Plan can be summarised as follows:

- Following the consultation and any resulting changes, the new regulations (cited as the Accounts and Audit Regulations 2011) will come into force on 31 March 2011. It is, therefore, anticipated that they will apply to the 2010/11 year end accounts.

- In respect of the approval and publication of the annual accounts, Members will not now be required to approve the unaudited accounts by the 30 June. The responsible financial officer (Borough Treasurer and Head of Assets) will still be required to certify that the accounts are a true and fair view by this date and Members will be required to continue to approve the audited accounts by the end of September. This new proposal will bring local authorities in line with the process for approving company accounts in addition to allowing further time to close the accounts, which will be beneficial as this is the first year of financially reporting under International Financial Reporting Standards (IFRS).

- Although not explicit in the consultation document this could have an impact on the approval process for the AGS. This is because the Council has previously been required to include the AGS document in the approval process of the Statement of Accounts, the statutory deadline for which was the end of June from the 2005/6 financial year. (*Source: The CIPFA Finance Advisory Network document THE ANNUAL GOVERNANCE STATEMENT Meeting the* *requirements of the Accounts and Audit Regulations 2003, Incorporating Accounts and Audit (Amendment) (England) Regulations 2006 Rough Guide for Practitioners With effect from 2007/8).*

- Furthermore, the Code of Practice for Internal Audit in Local Government in the United Kingdom requires the Head of Internal Audit to provide the Committee with an Annual Report and Presentation of Audit Opinion that is timed to support the Annual Governance Statement.

- The Statement on Internal Control (Annual Governance Statement) is no longer to be published as part of the Statement of Accounts. The statement will accompany the published accounts, to make it clear that it is not part of the accounts.

- The current regulations require the council to annually review the effectiveness of its *system of internal audit*. Clarification has previously been sought on the meaning of the term *'system of internal audit'*, as opposed to a review of the effectiveness of the internal audit function. DCLG now recognises the confusion and proposes to clarify the requirement by requiring an annual review of the effectiveness of internal audit.

11.0 Access to Information

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

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Appendix A

Committee Date/Agenda Item	**Notes**
25 January 2011	
Annual Audit Letter	The key issues arising from the External Auditors' work on the 2009/10 audit were considered.
Opinion Plan	The Committee considered 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.
2010/11 Opinion Audit – Changes You Can Expect to See	The Committee noted changes in the delivery of the Council's 2010/11 financial statements audit following the clarification and changes to the International Standards on Auditing (ISAs).
Update on IFRS	The Committee noted the progress made on the IFRS Action Plan.
Compliance with International Auditing Standards	The Committee considered a report setting out a response to a request from the Council's External Auditors, the Audit Commission, for information regarding management arrangements for identifying and reporting the risk of fraud and complying with relevant laws and regulations.
Risk Management update report	Members received an update on the risk management framework and the key corporate risks.
Freedom of Information and Data Protection	This report provided Members with an update on FOI and DP issues including volumes of requests and trends.
Internal Audit Update	The Committee considered a report which detailed progress against the Internal Audit Plan 2010/11, revisions to the plan and work undertaken during the period September – December 2010.
AGS Action Plan	The Committee noted the progress made in implementing the (AGS) action plan for 2009/10.
Counter Fraud Corruption	The Committee considered a report regarding proposed amendments to the Council's Anti-Fraud and Corruption Strategy, which had been reviewed against best practice.

Committee Date/Agenda Item	**Notes**
Work Plan	The Committee noted the changes to the programme of meetings and agenda items.
Customer Complaints	The Committee received 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 the new system.
29 March 2011	
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.
Progress Report	A report that updates Members on progress against the 2010/11 External Audit Plan and the associated risk assessment which must be updated during the course of the audit.
Final Accounts Memorandum – Action Plan	A report to provide Members with assurance that the issues contained within the Audit Commission’s Final Accounts Memorandum have been, or are being addressed
Regulation of Investigatory Powers Act (RIPA)	To provide assurance that Cheshire East Council is complying with the requirements for covert surveillance under the Regulation of Investigatory Powers Act, 2000, (RIPA).
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.
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

Appendix A

Committee Date/Agenda Item	Notes
	directing) the plan.
AGS update	The report will note the progress made in reviewing the Council's governance arrangements. The results of the review will be reported to the Audit and Governance Committee via the AGS. It will also cover the proposal to revise and consolidate the Accounts and Audit Regulations 2003.
Audit Committee self assessment	Regulation 6 of the Accounts and Audit Regulations 2003 (as amended) requires the authority to conduct an annual review of the effectiveness of its system of internal audit. As agreed the 2010/11 review includes a self-assessment – using the CIPFA document "measuring the effectiveness of the Audit Committee"
Work Plan	A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities. *a presentation on reputational risk management has been included at the Committee's request.*
30 June 2011	**Standing Agenda Items**
Whistleblowing Policy	A revised Whistleblowing Policy has been developed in line with the report presented to the November 2010 meeting. This document will be put before the Committee before formal approval and adoption.
Risk Management Strategy & Business Continuity Strategy	In considering the effectiveness of the Authority's risk management arrangements the Committee must be aware of the Risk Management Strategy and any proposed changes to it.
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.
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.

Appendix A

Committee Date/Agenda Item	Notes
Anti Fraud & Corruption Policy	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.
Work Plan	A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
	Additional agenda items in order to comply with the requirements of the Accounts and Audit Regulations 2003 (as amended).
Internal Audit Annual Report	The Internal Audit Annual Report for 10/11 provides an opinion on the overall adequacy and effectiveness of the Council's control environment. This is timed to support the production of the AGS.
Annual Governance Statement (AGS)	The Committee will be asked to approve the AGS the purpose of which is to provide a continuous review of the Council's governance arrangements to give assurance on the effectiveness of the processes and/or to address identified weaknesses.
Draft Statement of Accounts	The Committee will be asked to approve the Draft Statement of Accounts 2010-2011 in order to comply with the Accounts and Audit Regulations and increase public confidence in the objectivity and fairness of the Statements.
	Additional agenda items subject to the Accounts and Audit Regulations 2011 taking effect from 31.03.11.
Internal Audit Annual Report	It is anticipated that the Committee will receive the Internal Audit Annual Report for 10/11. Clarification needs to be sought with regard to whether this satisfies CIPFA's recommendation that the report is timed to support the production of the AGS.
Annual Governance Statement (AGS)	The Committee may, subject to sector specific advice, be asked to approve the AGS. Clarification needs to be sought with regard to whether this satisfies CIPFA's recommendation that the AGS document is included in the approval process for the Statement of Accounts.

Appendix A

Committee Date/Agenda Item	**Notes**
Draft Statement of Accounts	If the changes are adopted it is proposed that a summary presentation focusing on the key information and issues be presented. The Draft Statement of Accounts would be made available to Members who wished to see them following the meeting. *a training session on performance management has been included for June 2011 at the Committee's request*
29 September 2011 Annual Governance Report, Auditors' report on Financial Statements and Value for Money conclusion.	**Standing Agenda Items** The Committee will receive the 2010/11 Annual Governance Report produced by the External Auditor. The External Auditors will present a report on the findings, conclusions and recommendations of the audit work undertaken on the financial statements and an assessment of how well the Council manages its resources to deliver Value for Money giving an opinion on whether: • the accounts presented fairly the financial position of the authority and its expenditure and income for the year in question; and • the accounts have been prepared properly in accordance with relevant legislation and applicable accounting standards.
Statement of Accounts	The Committee will be asked to approve the final Statement of Accounts for 2010/11.
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 for 11/12. It enables the Committee to monitor Internal Audit's performance.

Appendix A

Committee Date/Agenda Item	**Notes**
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.
Annual Governance Statement 2011/12	The Accounts and Audit Regulations require the production of an Annual Governance Statement. It is good practice to agree the process to establish the statement for 11/12 with Members in advance.
Work Plan	A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
	Additional agenda items in order to comply with the requirements of the Accounts and Audit Regulations 2003 (as amended.)
AGS	If the changes to the Accounts and Audit Regulations 2003 (as amended) are not adopted it is proposed that a report is presented to the Committee that looks at whether the Statement is still current in relation to its formal approval (addressing the delay between approval of the AGS in June and publication in September).
	Additional agenda items subject to the Accounts and Audit Regulations 2011 taking effect from 31.03.11
Internal Audit Annual Report	The Committee may, subject to sector specific advice, receive the Internal Audit Annual Report for 10/11.
Annual Governance Statement (AGS)	The Committee may, subject to sector specific advice, be asked to approve the AGS.
31 January 2012	
Final accounts memorandum	This report provides the Council with the detailed messages from the audit of the 2010/11 main financial statements, with the aim of helping the Council to improve the quality of its financial statements further in future years.

Appendix A

Committee Date/Agenda Item	Notes
Annual Audit Letter	The purpose of preparing and issuing annual audit letters is to communicate to the audited body and external stakeholders, including members of the public, the key issues arising from the External Auditors' work, which they consider should be brought to the attention of the Council. The annual audit letter covers the work carried out since the previous annual audit letter was issued.
Opinion Plan	The Plan identifies the work that is planned by the External Auditor to give an opinion on the Council's Financial Statements for the financial year 2011/12.
AGS Action Plan	The Committee will be asked to note the progress made in implementing the Annual Governance Statement (AGS) action plan for 2010/11. Failure to consider and monitor the AGS action plan could result in agreed improvements to the governance arrangements not being implemented.
Freedom of Information and Data Protection	This report provided Members with an update on FOI and DP issues including volumes of requests and trends
Compliance with International Auditing Standards	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: 1) Management processes in relation to: • undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud • identifying and responding to risks of fraud in the organisation • communication to employees of views on business practice and ethical behavior • communication to those charged with governance the processes for identifying and responding to fraud 2) How the Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control

Committee Date/Agenda Item	Notes
	3) How the Committee is made aware of actual, suspected or alleged frauds 4) How it gains assurance that all relevant laws and regulations have been complied with.
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.
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.
Work Plan	A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
27 March 2012	
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 2012/13	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.
Audit Committee self assessment	The Committee will be asked to agree the self-assessment – using the CIPFA document "measuring the effectiveness of the Audit Committee".
Risk Management Update	The Risk Management function will report on whether best practice is being followed in the management of

Committee Date/Agenda Item	**Notes**
	risk and how new risks are identified and existing risks are changing.
Business Continuity Update	The Committee will be made aware of how the authority manages its own contingency and business recovery plans.
Regulation of Investigatory Powers Act (RIPA)	To provide assurance that Cheshire East Council is complying with the requirements for covert surveillance under the Regulation of Investigatory Powers Act, 2000, (RIPA).
Anti Fraud & Corruption	The Anti–Fraud and Corruption Strategy includes a series of measures designed to prevent any attempted fraudulent or corrupt act and the steps to be taken if such an act occurs. Periodically Internal Audit should assure the Committee that the measures prescribed by the Strategy are operating effectively.
Governance	The Council's Management is responsible for the governance arrangements (including the system of internal control). Periodically, Management should assure the 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.
Whistleblowing	The Whistleblowing Policy includes a series of measures designed to encourage staff to raise concerns and the steps to be taken to investigate such concerns. Periodically Management should assure the Committee that the policy is operating effectively
Work Plan	A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
Unallocated	**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.**
Internal Audit Terms of Reference	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'*

Appendix A

Committee Date/Agenda Item	**Notes**
Internal Audit Strategy	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'* **It should be noted that the following items may, subject to requirement, be presented to the Committee.**
Code of Corporate Governance	The Committee is responsible for developing the Council's Code of Corporate Governance which is used as a basis for self-assessment, continuous improvement and as a contributor to producing the AGS. Hence it needs to approve any proposed changes to it.
Customer Complaints	The Committee is charged with seeking assurance that customer complaint arrangements are robust.
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 representatives on outside bodies.
Anti-Money Laundering	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. Periodically Management could assure the Committee that the measures prescribed by the Policy are operating effectively.
Treasury Management	CIPFA's Code of Practice requires that members are tasked with treasury management responsibilities, including scrutiny of the treasury management function.

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