

Audit and Governance Committee

Agenda

Date: Tuesday, 31st January, 2012
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 period of 10 minutes is allocated for members of the public to address the meeting on any matter relevant to the work of the meeting. Individual members of the public may speak for up to 5 minutes but the Chairman or person presiding will decide how the period of time allocated for public speaking will be apportioned where there are a number of speakers. Members of the public are not required to give notice to use this facility. However, as a matter of courtesy, a period of 24 hours' notice is encouraged.

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

Contact: Paul Mountford, Democratic Services
Tel: 01270 686472
E-Mail: paul.mountford@cheshireeast.gov.uk

4. **Minutes of Previous meeting** (Pages 1 - 8)
To approve the minutes of the meeting held on 29th September 2011.
5. **Annual Audit Letter** (Pages 9 - 26)
To consider a summary of the Audit Commission findings from the 2010-11 audit.
6. **Audit Committee Update** (Pages 27 - 40)
To consider an update from the Audit Commission on progress in delivering their responsibilities.
7. **Audit Plan 2011-12** (Pages 41 - 64)
To receive and comment on the Audit Plan for 2011-12.
8. **Statement of Accounts for 2011-12: Progress Report** (Pages 65 - 70)
To consider progress with the preparation of the Statement of Accounts for 2011/12.
9. **Compliance with Data Protection Act 1998, Freedom of Information Act 2000 and Environmental Regulations 2004** (Pages 71 - 74)
To consider an update on how Cheshire East Council fulfils its obligations under Data Protection (DP) and Freedom of Information (FOI) legislation (including the Environmental Information Regulations).
10. **Annual Governance Statement (AGS) - 2011/12 Process and Update on 2010/11 Action Plan** (Pages 75 - 86)
To consider:
 1. a process for the production of the Annual Governance Statement for 2011-12; and
 2. progress against the 2010-11 Action Plan.
11. **Compliance with International Auditing Standards** (Pages 87 - 100)
To consider a report on compliance with international auditing standards which will form the basis of a written response to the Council's External Auditors.
12. **Internal Audit 2011/12 Interim Report** (Pages 101 - 110)
To update the Committee on progress against the Internal Audit Plan 2011/12, to report any revisions to the plan, and to summarise work during the second and third quarters of 2011/12.

13. **Risk Management Update Report** (Pages 111 - 118)

To provide a summary of the key corporate risks and risk management work undertaken since the previous meeting.

14. **Work Plan** (Pages 119 - 128)

To consider an updated Work Plan.

THERE ARE NO PART 2 ITEMS

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CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Thursday, 29th September, 2011 at Committee Suite 1,2 & 3,
Westfields, Middlewich Road, Sandbach CW11 1HZ

PRESENT

Councillor J Hammond (Chairman)
Councillor M Hardy (Vice-Chairman)

Councillors S Corcoran, R Fletcher, S Hogben, M J Simon, M J Weatherill
and P Hoyland (for Cllr Kolker)

In attendance

Councillor M Jones, Cabinet Member for Resources

Officers

Lisa Quinn, Director of Finance and Business Services
Julie Openshaw, Deputy Monitoring Officer
Joanne Wilcox, Corporate Finance Lead
Jon Robinson, Internal Audit
Neil Taylor, Internal Audit
Joanne Butler, Risk and Business Continuity Officer
Helen Gough, Customer Relations Manager
Paul Mountford, Democratic Services Officer
Chris Mann, Finance Manager
Alex Thompson, Strategy and Funding Finance Lead
Paul Goodwin, Places Finance Lead
Dominic Oakeshott, Adults and Children Finance Lead
Steve Wilcock, Performance and Capacity Finance Lead

Audit Commission

Judith Tench
Andrea Castling

Apologies

Councillors A Kolker, D Marren and A Moran

15 DECLARATIONS OF INTEREST

No interests were declared.

16 PUBLIC SPEAKING TIME/OPEN SESSION

There were no members of the public present.

17 MINUTES OF PREVIOUS MEETING

RESOLVED

That the minutes of the meeting of 30th June 2011 be approved as a correct record.

18 2010-11 ANNUAL GOVERNANCE REPORT

The Committee considered the Annual Governance Report for 2010-11 which was presented by Judith Tench and Andrea Castling of the Audit Commission.

The Annual Governance Report (AGR) summarised the findings from the 2010/11 Audit and identified the key issues considered by the Audit Commission before issuing their opinion on the Council's financial statements and its arrangements for securing economy, efficiency and effectiveness in the use of resources.

The AGR had concluded that the Council's financial statements as presented for audit had contained two material and a significant number of other errors. The Council needed to make further improvements to its arrangements for preparing accurate financial statements and responding to audit queries. A better quality assurance process would have corrected many of the items identified. The AGR had concluded that the Council had adequate arrangements in place to secure value for money, including effective arrangements for financial governance, planning and control.

The Officers commented that the problem was due in part to the incompatibility of information produced by different systems; this was being addressed. Arrangements were also in hand to improve monthly reporting for budget holders through the Oracle system; this would complement the existing monthly reporting arrangements to the Corporate Management Team and Cabinet.

Members sought advice from the Audit Commission on how to reduce the number of errors in the Council's Statement of Accounts in future. The Audit Commission advised that the Council should give itself more space and time within the closedown process. This would provide an opportunity to identify and correct errors at an earlier stage, which would enable the Commission to audit the accounts more quickly.

RESOLVED

That

(1) the Annual Governance Report for 2010-11 be received and noted;

- (2) the letter of representation set out as Appendix 3 to the Report be approved;
- (3) the final Statement of Accounts for 2010-11 be approved;
- (4) in future, Members of the Committee receive both the draft and the final set of financial statements at least one week before they are made public;
- (5) an abbreviated version of the accounts be produced for the benefit of members of the public; and
- (6) the Audit Commission's representatives be thanked and the Committee's appreciation be extended to those Officers involved in producing the statement of accounts and providing the recent training for Members.

19 ANNUAL GOVERNANCE STATEMENT (AGS) 2010/11

The Committee considered the Annual Governance Statement for 2010-11.

The Authority was required to prepare and publish an Annual Governance Statement to meet the statutory requirement set out in Regulation 4 of the Accounts and Audit Regulations. The purpose of the AGS process was to provide a continuous review of the organisation's governance arrangements so as to give assurance on the effectiveness of the processes and address identified weaknesses.

The Committee considered the results of the review as set out in Appendix A to the report and a list of actions to address any significant issues identified.

Members suggested a number of changes to the format of the action plan, such as carrying headings forward, which would make it easier to read.

RESOLVED

That the Annual Governance Statement for 2010-11 be approved.

20 INTERNAL AUDIT PLAN 2011/12 AND UPDATE REPORT

The Committee considered a report on progress against the Internal Audit Plan 2011-12, revisions to the plan and a summary of the work undertaken during the first quarter of 2011-12. Full details were set out in Appendix A to the report.

In some cases, the implementation dates for recommendations in the Appendix had been changed as a result of a change in management. Any

significant delays in implementing recommendations would be reported to the Committee.

RESOLVED

That

- (1) the issues identified in Appendix A to the report be noted; and
- (2) the approach identified to achieving adequate audit coverage in the remainder of 2011-12 be endorsed.

21 RISK MANAGEMENT UPDATE REPORT

The Committee considered a report summarising the key corporate risks and risk management work undertaken since the previous report.

Since the previous report, the overall risk ratings for KCR1 (Service Delivery Prioritisation), KCR11 (Opportunities) and KCR 12 (Long-term Planning) had been decreased. An emerging risk entitled Industrial Action had been added as KCR17 which dealt with the implications of industrial action for the delivery of critical services, and the contingency arrangements and business continuity plans in place to mitigate the impact.

It was noted that KCR10 (Workforce) remained unchanged since the previous report and that KCR15 (Reputation) was to be reviewed with the risk owner.

RESOLVED

That the report be noted.

22 ANNUAL REPORT OF CORPORATE COMPLAINTS AND LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REVIEW FOR THE YEAR ENDED 31ST MARCH 2011

The Committee considered a report summarising the complaints received by Cheshire East Council, and complaints about the Council dealt with by the Local Government Ombudsman, for the period 2010-11.

The Customer Relations Team had received 1,484 corporate complaints during the period. Adult Services had received 148 and Children's Services had received 50. The Council had also received 861 compliments and 247 suggestions.

The Local Government Ombudsman had received 111 enquires and complaints during the year, 50 of which had been forwarded to the Investigative Team for formal investigation. Of the 50 investigated, the Local Government Ombudsman had found that, in 95% of the cases, there

was no evidence of maladministration or injustice to the complainant. In 5% of the cases (6), Local Settlements were reached. None of these have been highlighted as a cause for concern.

Comparisons between Quarter 1, 2010/11 and Quarter 1, 2011/12 showed a reduction in the number of complaints received by the Council.

The Officers commented that even where no evidence of maladministration had been found, consideration was being given to whether lessons could be learned and services improved.

RESOLVED

That the report be noted.

23 BREACH OF THE COUNCIL'S CONTRACT PROCEDURE RULES

The Committee considered a report regarding a breach of the Council's Contract Procedure Rule.

The breach related to arrangements put in place for the collection of waste from Council premises in the former Crewe and Nantwich Borough Council. The review had concluded that poor practice had resulted in a procurement process that had breached Cheshire East Council's Contract Procedure Rules. Full details were set out in the report.

The required actions in response to the findings in the Internal Audit report were as follows:

1. a procurement exercise for the disposal of waste at Council premises should be undertaken;
2. a report should be presented to Audit & Governance Committee detailing the breach of Contract Procedure Rules and the steps taken to rectify this in line with the Constitution; and
3. the Council's Section 151 Officer and Monitoring Officer should consider whether it was appropriate for any further action to be taken in relation to the breach of Contract Procedure Rules.

An appropriate procurement exercise was now underway.

The S151 Officer and the Monitoring Officer did not propose to take any additional direct action, although lessons would need to be learned from the situation and the risk of wider breaches would have to be mitigated.

A number of additional actions were underway as outlined in the report.

Members were also asked to note that the Internal Audit Plan for 2011/12 included provision for reviewing the Council's procurement arrangements; this work was due to commence in the third quarter.

Councillor Marren, who had been unable to attend the meeting, had submitted comments on the matter which were reported to the Committee.

RESOLVED

That the report be noted.

24 WORK PLAN

The Committee considered an updated Work Plan.

To assist Members in reviewing the Work Plan, the report included details of specific areas of activity that could be included in the Plan.

Members noted that a number of changes had been made to the Work Plan since the previous meeting:

1. Reports had been included for this meeting on:
 - customer and Local Government Ombudsman complaints; and
 - Breach of contract procedure rules.
2. The Chairman's annual report to Council had been included in the unallocated section of the Work Plan.
3. The Business Continuity update had been withdrawn to enable consideration to be given to the content and frequency of future reports.
4. A final draft of the anti-fraud and corruption policy had been carried forward to the January 2012 agenda.
5. the process for the production of the Annual Governance Statement for 2011-12 would be reported to the January 2012 meeting.

Members noted that a report would be brought back on how the new Whistleblowing Policy was working.

A paper was circulated at the meeting with details of specific areas of audit and governance work which, it was suggested, individual Members of the Committee could become involved with as a means of developing specialist in-depth knowledge and expertise.

RESOLVED

That

- (1) the Work Plan, and the changes made to it since the last meeting, be noted;
- (2) the Chairman's annual report to Council be considered at the Committee's meeting in September 2012;
- (3) it be noted that the Work Plan will be resubmitted to the Committee periodically for further development and approval; and
- (4) individual Members of the Committee let the Officers know which areas of audit and governance work they would wish to become more involved with, prioritising their interests where appropriate.

The meeting commenced at 2.00 pm and concluded at 3.25 pm

Councillor J Hammond (Chairman)

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January 2012
Report of:	Director of Finance and Business Services
Subject/Title:	Annual Audit Letter
Portfolio Holder	Councillor Michael Jones (Resources)

1.0 Report Summary

- 1.1 The report summarises the Audit Commission findings from the 2010-11 audit.
- 1.2 The report comprises of two elements, the audit of the financial statements and the arrangements to secure value for money.

2.0 Recommendation

- 2.1 That Members receive and comment on the Annual Audit Letter 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 including – Carbon Reduction, Health

- 6.1 None.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

- 7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 None.

9.0 Risk Management

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

10.0 Background and Options

- 10.1 The report summarises the findings from the 2010-11 audit and includes comments on future challenges facing the Council.
- 10.2 The Audit Commission will be attending the meeting to answer any questions raised by members on the Annual Audit Letter.

11.0 Access to Information

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

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

Annual Audit Letter

Cheshire East Borough Council

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit which I carried out in accordance with the Audit Commission's Code of Audit Practice. It also includes comments on future challenges facing the Council.

Work under the Code	Key findings
Audit opinion on the financial statements	<p>I issued an unqualified opinion on the Council's financial statements on 30 September 2011. The preparation of the Council's 2010/11 accounts was particularly challenging this year as a result of changes in reporting requirements due to the introduction of International Financial Reporting Standards (IFRS) and the upgrade of its major financial systems, including revenues and benefits. In response, the Council increased the capacity of the finance team to manage these changes.</p> <p>Although its IFRS timetable slipped the Council was largely successful in coping with this change. However the draft financial statements contained two material errors and a significant number of other errors. This resulted in a lot of extra work for both Council staff and auditors. I also did extra work to address weaknesses in controls over general ledger access and the revenues systems.</p> <p>The Council needs to improve its arrangements for preparing accurate accounts and returns if it is to avoid additional fees in the future. A more robust quality assurance process during the drafting of the financial statements could reduce the volume of errors. I made a number of recommendations in my Annual Governance Report (AGR) which have all been accepted.</p>
Arrangements to secure value for money	<p>I gave an unqualified value for money conclusion on 30 September 2011. The Council has proper arrangements in place to achieve economy, efficiency and effectiveness. The Council made significant progress in developing its arrangements in 2010/11. It is now better placed to closely monitor the delivery of its budget and planned savings for 2011/12. In August 2011 the Council published its new Business Planning process for 2012 – 2015. The plan is supported by the new performance management system. The Council is prioritising its resources within tighter budgets by achieving cost reductions and improving efficiency and productivity through the budget setting and challenge process</p> <p>The Council is facing additional budget pressures in 2011/12. Its mid year report forecasts service overspends of £16m. Redial actions are in hand and further plans are being developed to close this gap. Strong leadership and decisive action will continue to be necessary to ensure that in year financial pressures are managed effectively and that planned savings are fully delivered.</p>

Financial statements and internal control

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

The detailed findings from my audit of the Council are set out in my Annual Governance Report which I presented to the Audit and Governance Committee on 29 September 2011. The report is on the Council's website and can be found by following this link:

[Annual Governance Report](#)

	Key findings
Quality of financial statements	<p>The preparation of the 2010/11 accounts was particularly challenging due to the upgrade and replacement of four major financial systems and the introduction of new reporting requirements under IFRS. In preparation, the Council increased capacity within the Finance team. Although there was slippage in its timetable, the Council was largely successful in restating its financial statements to comply with the new requirements.</p> <p>The financial statements were prepared in line with the statutory deadline and presented for audit on 4 July as agreed at the June 2011 Audit & Governance Committee. My audit identified two material errors and 59 adjusted errors. This error rate resulted in considerable additional work for both the Finance and Audit teams, in order to meet the 30 September accounts deadline. It also delayed the certification of the Whole of Government Accounts return.</p> <p>Stronger quality assurance checks during the drafting of the accounts would improve the standard of the accounts presented for audit and reduce the number of accounts compilation errors.</p>
Weaknesses in internal control	<p>Towards the end of 2010/11, the Council implemented 3 major new revenues and benefits systems to replace 9 existing systems inherited from predecessor councils. During my audit of the financial statements, I found inconsistencies between the year end reports produced by the revenues ledgers used to support the preparation of the financial statements and two major grant claims. In addition, there were inconsistencies between the cash and refunds figures reported by the revenues ledgers and in the main financial ledger. As a result of the differences, I</p>

Key findings

carried out significant additional work in order to demonstrate that the figures in the accounts were materially accurate.

The Council also carried out a major upgrade of its main financial ledgers during which weaknesses in the operation of controls over access rights to the main accounting system were identified. Further work was undertaken by Internal Audit and my audit team in order to satisfy ourselves that these weaknesses did not lead to unauthorised access to financial information.

The Council is taking action to address these issues in 2011/12.

The following recommendations were made in my Annual Governance report to Members in September 2011.

Recommendations

R1 Quality of financial statements

- Council to strengthen its accounts quality assurance processes to ensure the draft financial statements are free from errors and internal inconsistencies

R2 Revenues reporting

- Council to implement monthly reconciliations for cash and refunds between the revenues ledgers and the main financial ledger
- Council to review consistency and accuracy of year end reports produced by the revenues ledgers

R3 Access controls

- Council to strengthen operation of access controls to main financial ledger

The weaknesses in controls and level of errors noted during my audit of the financial statements meant that additional work was undertaken over and above that assumed when setting the original fee for the audit. I have discussed and agreed an additional fee of £25,000 with the Director of Finance and Business Services, to cover some of the costs incurred by the extra work. The revised fee is set out in Appendix 1.

Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
The Council has proper arrangements in place to secure financial resilience.	<p>The Council has effective arrangements for managing financial risks and maintaining a stable financial position. The key elements of the Council's medium term financial plan are included within the annual budget report. This included a savings target of £7.7m for 2010/11. The Council revised its Sustainable Community Strategy and Corporate Plan and the corporate priorities set out in these documents were used to inform the budget cycle for 2011/12.</p> <p>During the year the Council experienced significant budget pressures particularly in Children's and Adults services. This led to further plans to deliver additional savings. At the year end, the net service overspend was £9.5m before taking account of under spends in other areas of £7.3m. The Council planned to repay £4.3m to general fund reserves during the year. This fell to £2.3m at the year end mainly because of the net service overspend. The reported closing balance on the general fund is £12.5m. This is higher than forecast during the 2011/12 budget setting round but does not fully cover the Council's assessed financial risk of £14.7m. By end of 2011/12, the Council plans to increase its general fund to £15m.</p>

Criterion	Key messages
<p>The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p>	<p>In July 2010, the business planning cycle for 2011/14 was launched. It aims to produce a single integrated business plan and budget setting out how the Council would achieve its objectives both in budgetary and service delivery terms. An efficiency group, comprising officers and members, was established to lead the process and to provide challenge around the Council's transformation programme.</p> <p>The Council is prioritising its resources within tighter budgets through its budget setting and challenge process. The 2010/11 budget included a number of proposals to improve efficiency and / or reduce costs. Additional financial pressures during 2010/11 required further action to contain costs and find extra savings of £10.5m. This was done through a combination of service redesign and short term measures.</p> <p>Delivery of the savings targets was monitored by the corporate management team on a weekly basis against remedial action plans drawn up by directorates. These processes operated throughout the year but it is difficult to clearly establish what proportion of the total savings delivered relates to efficiency projects as opposed to corrective action taken to manage the in year pressures. For 2011/12 the Council has implemented a traffic light system to report progress against agreed savings targets.</p> <p>The Council is proactive in reviewing its services and comparing performance and costs with other organisations. This approach is set out in the Council's VFM strategy. The Council has already identified gaps in available benchmarking data and is looking to develop service specific benchmarking.</p> <p>In August this year OFSTED reported on its inspection of the Council's Looked after Children and Safeguarding services. Overall, these services were assessed as adequate. The inspection team recognised the additional financial investment made by the Council. Action taken has resulted in improved performance and practice in most safeguarding areas.</p>
<p>Since issuing my report on the Value for Money conclusion, the Council has published its mid year financial report. It forecasts a £16m overspend in service budgets, before contingencies and other remedial actions, and a £2m reduction in the level of the general fund balance by the year end. I discuss the impact of the financial pressures facing the Council below.</p>	

Current and future challenges

Economic downturn and pressure on the public sector	<p>The economic downturn and reductions in Government funding are having a significant impact on local government. Central government funding for the Council is reducing by £11.2m over the next three years. However further changes, particularly in relation to schools funding and business rate allocations, could change this position significantly. Any further changes will be challenging as the Council anticipates that it will need to deliver savings of £29m over the same period. Plans are in place to deliver more for less in the future but growing demand for services particularly in Adults and Children's services is placing further pressure on the Council's finances.</p> <p>At the end of September 2011, the Council is forecasting a service overspend of £16m for 2011/12. Despite achieving £15.1m in savings during the first half of the year, there has been significant slippage in delivering savings across the Council.</p> <p>For 2011/12, the Council initially planned to increase its general fund balance to £15m by the year end. This would bring reserves back in line with the minimum level considered necessary to manage the Council's financial risks. If the current level of service overspends remains at £16m the closing general fund balance will fall to £10.5m. This will adversely impact on the Council's financial resilience and its ability to manage its finances.</p> <p>The Council has arrangements in place to identify financial pressures and develop and monitor the delivery of its savings plans but slippage in implementing planned savings this year will have a continuing impact on future financial years. Swift action will be required to implement long term solutions as well as the shorter term measures taken to manage the current year position.</p>
Joint arrangements / shared services	<p>Following local government re organisation in 2009, the Council shared 32 services with Cheshire West & Chester Council. Many of these were transitional arrangements and have since ended. Ten longer term shared service arrangements will continue into 2012. The councils are working together to develop separate legal entities for some services, for example, human resources. The main challenges are extending collaboration to include</p>



other local authorities, achieving further efficiencies and resolving some of the operational difficulties with the current arrangements.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Director of Finance & Business Services. I will present this letter at the Audit Committee in January 2012. The Council will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit fee letter	April 2010
Opinion audit plan	January 2011
Annual Governance Report	September 2011
Annual Audit Letter	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Judith Tench

District Auditor

November 2011

Appendix 1 - Fees

Scale fee	£397,500
Rebates: IFRS transition	-£22,297
Reduction in work due to stopping of CAA	-£12,750
Sub total	£362,453
Additional charge for extra work on Accounts	£20,000
Additional charge for extra work on WGA	£5,000
Total	£385,453

The following areas required significant additional audit work:

- Collection Fund
- Access controls to Oracle Financial Ledgers
- Checks on revised sets of financial statements
- WGA.

Appendix 2 - Glossary

Annual governance statement

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

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

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

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion

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



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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting: 31st January 2012
Report of: Director of Finance and Business Services
Subject/Title: Audit Committee Update
Portfolio Holder: Councillor Michael Jones (Resources)

1.0 Report Summary

- 1.1 The report provides the Audit Committee with an update from the Audit Commission on progress in delivering their responsibilities.

2.0 Recommendation

- 2.1 That Members receive and comment on the update report.

3.0 Reasons for Recommendation

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

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including – Carbon Reduction, Health

- 6.1 None.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

- 7.1 The report set out.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 None.

9.0 Risk Management

- 9.1 There is a risk that the Council will be unaware of key emerging national issues and developments which may be of interest to members if this report is not considered.

10.0 Background and Options

- 10.1 The report provides an update from the Audit Commission on progress in delivering their responsibilities as our external auditors. It includes an update on the externalisation of the Audit Practice.
- 10.2 The report also highlights key emerging national issues and developments which may be of interest to members.
- 10.3 The Audit Commission will be attending the meeting to answer any questions raised by members on this report.

11.0 Access to Information

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

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

Audit Committee Update

Cheshire East Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Judith Tench
District Auditor
January 2012

Progress Report

Financial statements

5 I have completed my initial audit risk assessment of your financial statements. Details of my assessment and planned work are set out in my Audit Plan which I presented at the January 2011/12 Audit & Governance Committee

VFM conclusion

6 My conclusion on the Council's arrangements is based on two criteria, specified by the Commission. These relate to the Council's 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 the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

7 In particular I will undertake work to review the Council's progress in:

- delivering its core budget and savings proposals, and
- realising planned savings and efficiencies from its policy proposals and service transformation plans.

Other Matters of Interest

2011/12 Final Accounts Workshops

8 We have invited your staff to a workshop that will help them to prepare your financial statements for 2011/12.

9 The closest event for Cheshire East Council is at Halton Borough Council in Widnes on 8 February 2012. Please contact Judith Tench, your District Auditor, if you have not received an invite to these workshops or if you would like to discuss the events in more detail.

Work in Progress

10 On 7 December 2011, the Audit Commission published 'Work in Progress - meeting local needs with lower work force costs'.

11 The report, launched jointly with the Local Government Association, is aimed at councils as employers and shows how local authorities across England are reducing their workforce costs, with some finding creative solutions.

12 Government funding for councils will shrink by over a quarter between 2011/12 and 2014/15. Councils will need to reduce their workforce costs substantially while still providing much needed services. To do this, councils will need to reassess what they do, how they do it, and what their priorities are. Those opting for major restructuring will take more time to realise savings.

13 So far some councils have cut their pay bill without losing jobs, but redundancies will become inevitable. In the past year an estimated 145,000 jobs have gone, and this figure will increase in the future. So far many redundancies have been voluntary, but the report warns that compulsory ones are set to rise.

14 The report is supported by a number of resources including:

- An agency worker expenditure comparison tool.
- A workforce expenditure tool which shows how much councils spend on staff as a proportion of net current expenditure, and how this has changed over time.
- Case studies which provide examples of different approaches councils to reducing pay costs while protecting valuable services.
- Benchmarking guidance.

Dealing with the economic downturn

15 On 17 November 2011 the Audit Commission published 'Tough Times - Councils' responses to a challenging financial climate'.

16 The report draws heavily on the expertise of the external auditors of each council and also includes new analysis of councils' budget data.

17 The key findings in the report are:

- Most councils are managing well in the face of unprecedented reductions to their income, but services have been affected and a small number of councils may struggle to balance their books;
- Although councils face a real terms loss of total income of £4.7 billion (7.5 per cent) in 2011/12, auditors felt nine out of ten councils are well prepared for this and are on track to deliver their budgets;
- To meet the future challenge of cuts in government funding, some elements of councils' cost-reducing strategies will have to change and many councils will face difficult decisions about how to meet their funding shortfall in the next few years; and
- Councils are not planning to make significant withdrawals from their reserves this year - some even plan to increase them.

18 The report recommends that councils use the Audit Commission's Value for Money profiles to see how their council compares to the national picture set out in this report, identify councils facing similar challenges, and learn from others' approaches.

Procurement Fraud in the Public Sector

19 The National Fraud Agency has recently issued a report on public sector procurement fraud which examines new approaches to reduce fraud risk and make processes both quicker and simpler.

20 The report acknowledges that procurement fraud is a complex problem. It covers a wide range of illegal activities from bid rigging during the pre-contract award phase through to false invoicing in the post-contract award phase. It can be perpetrated by those inside and outside an organisation.

21 The report includes a number of case studies and details a number of actions that can be taken both immediately and in the medium term.

Protecting the Public Purse 2011

22 In November 2011 the Audit Commission published 'Protecting the Public Purse 2011 - Fighting Fraud against Local Government.'

23 This report is based on the Audit Commission's annual fraud survey - which is still the sole source of evidence about the levels of detected fraud in Local Government and related bodies.

24 The report reveals that England's councils have succeeded in detecting £185 million worth of fraud, an improvement of 37 per cent on last year's figure of £135 million. This is equivalent to a year's funding for around 700 libraries or the wages of up to 11,000 care workers.

25 The key areas where fraud was detected are:

- housing benefits and council tax benefits fraud, which accounted for more than half of the total fraud losses detected by councils;
- false claims for student and single person council tax discounts - £22million; and
- procurement fraud, with 145 cases amounting to £14.6 million.

26 The report found that counter-fraud professionals increasingly recognise abuse of personal budgets in adult social care as a fraud risk for councils and, in addition to the above, the National Fraud Authority estimates that housing tenancy fraud could cost up to £900 million each year.

27 The report concludes with a checklist that organisations may find it helpful to self-assess against. Covering a wide range of issues from procurement to recruitment, it will help provide Audit Committees with assurance over the arrangements in place.

28 In addition to the core report, there are separate briefings to specifically aid governors in schools and councillors in parish and town councils.

Localism Act 2011

29 On 15 November 2011 the Localism Bill received Royal Assent.

30 The Department for Communities and Local Government (DCLG) has published an updated plain English guide to the Localism Act to reflect the final legislation and this may be of interest to members of the Audit Committee.

31 Subject to commencement, key measures of the Act include:

- introducing a new general power of competence, giving councils freedom to work together to improve services and drive down costs. Councils are now free to do anything - provided they do not break other laws;
- giving communities the right to approve or veto - by way of a referendum - Council Tax increases higher than a limit determined by the Government.
- opening the door for the transfer of power to major cities to develop their areas, improve local services, and boost their local economies;
- abolishing the Standards Board;
- clarifying the rules on predetermination in order to free up councillors to express their opinions on issues of local importance without the fear of legal challenge;
- enabling councils to return to the committee system of governance, if they wish, regardless of their size;
- giving councils greater control over business rates. Councils will have the power to offer business rate discounts, which could help attract firms, investment and jobs;
- promoting openness regarding the pay of senior officers; and

- allowing councils to keep the rent they collect and use it locally to maintain social homes through the abolition of the housing revenue account.

32 Many of the measures in the Localism Act are expected to be in place by April 2012.

Openness and Accountability in Local Pay

33 The Localism Act referred to earlier requires local authority pay policies to be openly approved by democratically elected councillors.

34 On 17 November 2011 the Department for Communities and Local Government published guidance which sets out the requirements for councils to publish their remuneration arrangements and approve larger salary packages in an open session of the full council.

35 Pay policy statements must be in place by 31 March 2012 and Ministers explicitly say in the guidance that the pay vote ceiling should be set at £100,000.

36 There will be a requirement to publicly justify any big bonuses, above inflation annual pay rises, or hiring a person already in receipt of retirement or severance money and organisations should state in their pay policy statement whether or not they permit such practices.

For information:

Police Reform and Social Responsibility Act 2011

37 The Police Reform and Social Responsibility Act received Royal Assent on 15 September 2011.

38 This Act will abolish police authorities in England and Wales and replace them with directly elected police and crime commissioners.

39 The Act requires the police and crime commissioner for a policing area to hold the chief constable to account, while also safeguarding the chief constable's operational independence. A police and crime panel, established by the local authorities in a police area, will provide independent scrutiny of the police and crime commissioner.

40 The first elections of police and crime commissioners will take place on 15 November 2012 and police authorities will be abolished within a week of these elections. All staff and assets will transfer in the first instance to the office of the police and crime commissioner.

Key Considerations

41 The Audit & Governance Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council considered the Work in Progress and Tough Times reports and made appropriate use of the associated tools - vfm profiles, the workforce and agency worker expenditure tools?
- Has the Council used the single person discount comparator tool to compare its levels of council tax single person discount with the predicted level?
- Has the Council completed the fraud prevention checklist and, where appropriate, developed an action plan to address any weaknesses?
- Has the Council circulated the fraud briefing to all school governors?
- Has the Council circulated the DCLG's plain English guide to the Localism Act to all members?

Update on the externalisation of the Audit Practice

42 The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice.

43 The key points are:

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (i.e. four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private-sector providers the opportunity to bid.
- Bids are due in by mid-December 2011, with the contract awards planned for mid-February 2012, with formal Commission approval planned for late July 2012 following consultation.
- Appointments will start on 1 September 2012. As such, the Commission will extend the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The costs of this 'interim' audit role will be met by the Commission.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

44 A further update was provided in Eugene Sullivan's letter to clients of 10 November 2011. Thirteen potential providers have now been invited to tender following the initial pre-qualification stage.

45 Further details are available on the Audit Commission's website. We will continue to keep you updated on developments.

46 Against this background, the Audit Practice's focus remains:

- Fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

Contact Details

47 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor / Engagement Lead or Audit Manager.

48 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

Judith Tench

District Auditor

j-tench@audit-commission.gov.uk

Andrea Castling

Audit Manager

07966 399090

a-castling@audit-commission.gov.uk

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January 2012
Report of:	Director of Finance and Business Services
Subject/Title:	Audit Plan 2011-12
Portfolio Holder:	Councillor Michael Jones (Resources)

1.0 Report Summary

1.1 The Audit Plan for 2011-12 is set out in Appendix A.

2.0 Recommendation

2.1 That Members receive and comment on the Audit Plan for 2011-12.

3.0 Reasons for Recommendation

3.1 The Audit Plan sets out the work that the Audit Commission propose to undertake for the audit of financial statements and the value for money conclusion 2011-12.

4.0 Wards Affected

4.1 Not applicable.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications including – Carbon Reduction, Health

6.1 None.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

7.1 The Audit Plan sets out the audit work specified by the Audit Commission for the 2011-12 financial statements and the level of audit fees.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 None.

9.0 Risk Management

- 9.1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
- audit work specified by the Audit Commission for 2011-12;
 - current national risks relevant to the authorities local circumstances;
 - local risks.

10.0 Background and Options

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

11.0 Access to Information

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

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

Audit plan

Cheshire East Borough Council

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit.

It is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

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

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

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

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit & Governance Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

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

Identifying audit risks

I need to understand the Council to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

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

My audit planning is updated on a regular basis during the audit. If I identify any changes in my risk assessment as a result of this work, I will report my revised risk assessment to the Audit & Governance Committee.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements. As I set out in my Annual Audit Letter, the Council is facing a significant financial challenge and is working hard to delivery its financial plans and savings. I have set out the impact of this challenge on my risk assessment in the table below.

Table 1: **Significant risks**

Risk	Audit response
<p>In year financial pressures and their potential impact on reserves increases the risk of financial misreporting which may impact on the true and fair presentation of the financial statements. As a consequence I am also unable to rebut the presumption of fraud in income recognition.</p>	<p>I will review the effectiveness of management controls, such as financial reporting and monitoring, in place to reduce the risks of financial misreporting and fraud in income recognition. My review will consider the scope for management override of these controls.</p> <p>I will undertake extended testing on:</p> <ul style="list-style-type: none"> ■ Income and expenditure for over and under-statement respectively; and ■ Material journals for unusual transactions. <p>I will also review the:</p> <ul style="list-style-type: none"> ■ Application of accounting treatments used in preparing the accounts against the Council's stated accounting policies. ■ Financial out-turn for the year against the Council's MTFP and planned use of reserves.

Following on from last year's audit, I have identified three specific risk areas:

- Accounts Closedown: Based on discussions with officers, I understand that there will be changes within the finance team, but that continuity in key staff involved in accounts closedown and preparation will be maintained. I will continue to track the situation and consider the impact on my audit of the accounts
- Collection Fund: Officers are working to address the weaknesses I identified in reconciliation controls within the Council Tax and NNDR systems and the accuracy of year end reports. I will review the outcomes of this work and assess whether further audit work is required.

- Oracle Access controls: The Council is working jointly with Cheshire West & Chester Council to strengthen access controls over the main financial ledgers. Officers plan to carry out testing to provide assurance that there have been no inappropriate or unauthorised accesses to the financial ledger. I will seek to place reliance on this testing as part of my audit of the accounts.

Testing strategy

My audit involves testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

As part of my pre statements testing I will:

- Undertake testing to confirm the material financial systems and controls in operation at Cheshire East Council and the financial shared service.
- Update my knowledge of the Council's control environment, including IT controls.
- Review actions taken by the Council to address the weaknesses in controls around revenues systems and access rights to the main ledger that I identified as part of last year's audit.
- Review and re-perform internal audit work testing of the operation of controls.
- seek to place reliance on the work of other auditors and experts.

As part of our ongoing support, my team will meet with Finance staff to discuss technical issues. We will also agree with you a schedule of working papers required to support the entries in the accounting statements.

My post statements testing involves substantive tests of transactions and material account balances at year end. I will seek to maximise the work that I can do before you prepare your accounting statements. In particular I have considered areas which are more technically complex or higher risk. The main areas where I would like to undertake early testing is:

- In year material journals
- Investments – ownership.
- Year-end feeder system reconciliations
- Material accounting estimates

The nature and timing of my proposed work is as follows.

Table 2: **Proposed work**

	Review of internal audit work	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	General ledger NNDR Council Tax Housing Benefits Social care payments Foster Care payments			In year material journals Investments Material accounting estimates Year end Feeder system reconciliations
Final visit	Income from provision of social care	Pensions assets and liabilities – auditor to Cheshire Pension Fund	Pensions liabilities and assets – Hymans Robertson and our own consulting actuary Valuation of property, plant and equipment – District Valuer and our own consulting Valuer – Gerald Eve	All material accounts balances and amounts

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

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

My conclusion on the Council's arrangements is based on two criteria, specified by the Commission. These relate to the Council's 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 the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of risks

In considering the risks relevant to my value for money conclusion, I will update my understanding of your arrangements focussing on the areas set out in Table 3. I will use this work to identify whether there are any specific risks to my conclusion that I will need to address through further local work.

Table 3: Risk assessment

	Audit response
The Council fails to deliver its planned budget and savings proposals	Review of <ul style="list-style-type: none">■ robustness of underlying budget assumptions■ monitoring and reporting of core budget and savings proposals.
Planned changes in services do not effectively deliver anticipated efficiencies and /or savings	Undertake probes in People & Places directorates to assess arrangements for business case development, procurement, contract letting and monitoring arrangements.

Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	January to May 2012	Letter / report by exception
Opinion: receipt of accounts and supporting working papers	30 June 2012	N/A
Opinion: substantive testing	July to August 2012	Opinion on financial statements
Value for money conclusion	January to August 2012	VFM Conclusion
Present Annual Governance Report at the Audit Committee	September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

In addition to the planned outputs, I will provide progress reports to the Audit & Governance Committee.

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Judith Tench District Auditor	j-tench@audit-commission.gov.uk 07799 656646	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Andrea Castling Audit Manager	a-castling@audit-commission.gov.uk (Tel Mobile) 07966 399090	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Ivan Parkhill Team Leader	i-parkhill@audit-commission.gov.uk Tel 01270 685929	Supervision of on site team and key point of contact for Finance team

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

The Audit Commission employs four members who have disclosed relationships that might constitute a threat to auditor independence. I do not plan to use any of those staff on the Council's audit. If this situation changes, I will report the facts to you along with the safeguards I propose to put in place to reduce the potential threat.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

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

Fees

The fee for the audit is £341,750 set out in my letter of 20 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £358,650 which represents a 9.8 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have set the fee at £341,750, 5% per cent below the scale fee based on my assessment that there is a lower level of risk associated with the 2011/12 audit, as there are no planned changes to major financial systems or accounting treatments during this financial year.

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Finance and Business Services and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. My audit team meets regularly with officers to discuss various actions that could be taken to facilitate the accounts preparation and audit processes. We will continue to work with officers during the year to identify any further actions that can be taken.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£341,750	£385,453	after rebates of £35,047 and additional fee of £25,000
Certification of claims and returns	£97,994	£70,000 (current estimate)	
Non-audit work	n/a	n/a	
Total	£439,744	£455,453	

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements compared with 2010/11 has reduced and that:
 - internal controls are operating effectively;
 - I secure the co-operation of other auditors;
 - you will inform me of significant developments impacting on the audit.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Council provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
 - other information requested within agreed timescales;
 - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

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

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Council Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

Audit of the accounts

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

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

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

Auditing standards

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

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

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

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

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

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

Significance

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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

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



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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January 2012
Report of:	Director of Finance and Business Services
Subject/Title:	Statement of Accounts for 2011-12: Progress Report
Portfolio Holder:	Councillor Michael Jones (Resources)

1.0 Report Summary

- 1.1 This report provides Members with an update on progress on the preparation of the Statement of Accounts for 2011/12.

2.0 Recommendation

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

3.0 Reasons for Recommendation

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

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including – Carbon Reduction, Health

- 6.1 None.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

- 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 Audit Plan has identified the closure of accounts as a specific risk area. 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 Annual Audit Letter contains a number of recommendations to improve the closure of accounts process for 2011-12.
- 10.2 The finance team met with the Audit Commission to review the accounts and audit process in November and have agreed an improvement plan for 2011-12. The plan includes more detailed recommendations which have been incorporated into the Final Accounts Action Plan.
- 10.3 An update against the Final Accounts Action Plan is included in Appendix 1 of this report.

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 Action Plan

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

FINAL ACCOUNTS ACTION PLAN

Recommendation 1

The Council needs to strengthen its accounts quality assurance processes to ensure the draft financial statements are free from errors and internal inconsistencies.

Responsibility: Jo Wilcox

Date: Early June (in accordance with the Closure Timetable)

The Closure Timetable requires the draft financial statements to be completed by the 1st of June 2012, this will allow sufficient time for the accounts to be reviewed 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.

The Disclosure Checklist will be completed to ensure the accounts meet the requirements of the Code of Practice.

A detailed analytical review of the Income & Expenditure Account, Balance Sheet and significant notes will be completed prior to the audit.

The Audit and Governance Committee, 29 September 2011, agreed that individual Members would become more involved in specific areas of audit and governance work as a means of developing in-depth knowledge and expertise. Councillors Martin Hardy and Sam Corcoran have been assigned to the financial statements. Regular meetings will be held to discuss progress on the accounts and the closure timetable.

The draft accounts will be provided in early June to allow members to have sight of the accounts before they are presented for audit and to involve them in the quality control process.

Recommendation 2

Responsibility: Jo Wilcox

Date: Ongoing

The Council needs to implement monthly reconciliations for cash and refunds between the revenues ledgers and the main financial ledger and to review consistency and accuracy of year end reports produced by the revenues ledgers.

Monthly reconciliations are now taking place and regular meetings are held between accountancy staff and the revenues team to improve understanding of the process. Preliminary audit work has commenced on the collection fund and will be completed in February.

Recommendation 3

The Council needs to strengthen operation of access controls to the main financial ledger.

Work has been undertaken between Cheshire West and Chester Internal Audit section, Shared Services and Cheshire East Internal Audit section to address the risks around Oracle for segregation of duties, user access rights and the associated governance around them.

Assurance testing on the three high risk areas (new employees, supplier bank account amends and refunds issued) will be undertaken as part of the key financial audit work for 2011/12, as agreed with the Audit Commission.

Progress to Date

Accountability and Control
<ol style="list-style-type: none">1. A review of the 2010-11 closure process has been completed by Corporate Finance staff incorporating feedback from service finance staff. This has identified the main problems experienced and provides recommendations for improvements to the 2011-12 process. A briefing was held with finance staff on 10th November 2011 and meetings are held on a monthly basis with Corporate Finance staff and service finance co-ordinators to progress the recommendations.2. The roles and responsibilities and agreed contribution of each officer involved in accounts preparation has been agreed and communicated. Where input is required from services this will be reinforced by closure briefings to be held in February/March 2012.
Quality Assurance (QA)
<ol style="list-style-type: none">3. Work is ongoing with Asset Management to improve data quality relating to the asset register. A revaluation of Investment Properties and schools playing fields is required before 31st March 2012 and this is underway. Asset Management and Finance staff will undertake corroborative procedures on the results of the valuer's work for assurance that the results fully address the work specified.

<p>Working Papers and Audit Trails</p>

- | |
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| <p>4. Work is ongoing to improve the compilation of the financial information to complete the financial statements and the Revenue Outturn Form. A working group has been set up to review the reports and working papers and to ensure staff are fully trained and conversant with the procedures.</p> <p>5. Following positive comments by the auditors on the 2010-11 working papers the templates have now been updated ready for completion for the 2011-12 accounts.</p> |
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<p>Planning and Guidance</p>

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| <p>6. The Closure Timetable has been completed, finance staff have been assigned specific tasks and will be given additional training where required.</p> <p>7. Guidance notes have been prepared for specific areas such as the treatment of grants and capital accounting. Further guidance notes are being prepared following requests from service finance.</p> |
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<p>Other improvement areas</p>

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| <p>8. During autumn 2011 a bank reconciliation review project was launched, the key objective being to conduct a step-by-step review of the system configuration and business processes which impact on bank reconciliation, as well as of the reconciliation process itself. This is a joint project with Cheshire Shared Services and CWAC and is still ongoing. So far the review has covered 2 of the 3 bank accounts which have variances (Council Fund and Payables), with the Payroll bank account still to be reviewed. All issues on the Council Fund account are now fully understood, with technical solutions awaited. There are also two minor issues on the Payroll account which are likely to need a technical solution from Oracle. The Payables account review is proving rather more complex and time-consuming, but substantial progress has been made and we are optimistic that the issues will be fully understood and resolved before year end.</p> <p>9. The Data Management and Control team are continuing to improve reconciliation procedures and a project is underway to utilise the PARIS Cash Receipting system to improve the monitoring of income using Online Returns.</p> |
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<p>Working with the Audit Commission</p>

- | |
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| <p>10. The Corporate Finance team will continue to bring technical issues to the Audit Commission as they arise and identify areas of work for early work to reduce the pressure over the summer period.</p> |
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Training and Development

11. A training course was provided on Capital Accounting to 25 finance staff on the 21st November 2011. This was provided by two trainers from CIPFA FAN Advisory Services and proved to be very beneficial.
12. A member of the Corporate Finance Team attended the Final Accounts Workshop provided by the Audit Commission on 19 January 2012. Arrangements have also been made for several members of the team to attend the CIPFA 2011-12 Closure of Accounts Workshops in February 2012.

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January 2012
Report of:	Head of Performance, Customer Services and Capacity
Subject/Title:	Compliance with Data Protection Act 1998, Freedom of Information Act 2000 and Environmental Regulations 2004
Portfolio Holder:	Councillor Michael Jones (Resources)

1.0 Report Summary

- 1.1 This report provides an update on how Cheshire East Council fulfils its obligations under Data Protection (DP) and Freedom of Information (FOI) legislation (including the Environmental Information Regulations). It also highlights volumes of requests and current and future issues.

2.0 Recommendation

- 2.1 That the Committee note the arrangements in place to ensure compliance with the legislation.

3.0 Reasons for Recommendation

- 3.1 In order to form an opinion on the Council's compliance with this legislation, the Audit and Governance Committee needs to gain assurance that there are effective arrangements in place to fulfil FOI and DP requests and that future issues are being anticipated and effectively managed.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications including carbon reduction and health

- 6.1 Compliance with FOI, DP and other information legislation is integral to effective management of information within the Authority. FOI legislation and Environmental Information Regulations were enacted with the intention of making public bodies open and transparent, whilst DP legislation protects personal data from improper use. Given the sanctions for non-compliance, it is essential that all relative policies and procedures take account of these regulations.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

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

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 The legal implications arising from the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004 are outlined within this report, as are the measures in place to ensure compliance with them and the importance of ensuring compliance.

9.0 Risk Management

9.1 The impact on the Council of not complying with the legislation would be significant, as identified above in 7.1.

10.0 Background and Options

10.1 The number and complexity of requests continues to increase. The Council has received 1764 requests in the past 12 months – 1343 for FOI and 421 for DP. The sources of these were as follows:

Individuals	36%
Public Sector	26%
Commercial	17%
Press/Media	15%
Pressure Groups	4%
MP's/Councillors	2%

These requests related to the following Services/Directorates:

Finance	34%
Places	27%
People	23%
Performance, Capacity and Customer Services	8%
HR	5%
Legal and Democratic Services	3%

10.2 Freedom of Information Requests

FOI requests need to be responded to within the statutory timescale of 20 working days, and any recorded information held by the Council can be requested. Information may include electronic and paper records, handwritten notes, videos, photographs, e-mails and even diaries. This is very popular

legislation, and, if we fail to comply, there would be significant reputational damage. With the transparency agenda, the public have high expectations of the 'right to know', and a further reason for the implementation of the legislation was to provide information to stimulate the economy.

The Information Commissioner is responsible for upholding the right of access to official information held by public bodies, and there are various sanctions which he has the power to impose against public bodies for failure to comply. These include prosecution, both against public bodies and individuals, and service of enforcement notices, requiring specified steps to be taken or ceased. Failure to comply with a notice may be classed as a contempt of court, and enforced through the court system, and ultimately the Supreme Court.

Where a decision is made by the Council that information is exempt from release, a refusal notice is issued; in some cases the decision involves consideration of whether release or refusal best serves the public interest. Requestors have a right of internal appeal against the decision, followed by external appeal to the Information Commissioner if they remain unhappy with the outcome.

We cannot charge a fee for FOI requests, but can charge for the cost of photocopying and postage. We cannot charge for electronic information. However, if the request is a large and/or complex one and would result in 18 hours of officer time being spent to locate, collate and extract the information, then we can charge £450.00 + £25 per additional hour. Additionally, under the Re-use of Public Sector Information Regulations (2005), we are able to charge for information which is intended for re-use for commercial purposes, and on which we own the copyright.

The release of commercially sensitive information is an area which causes services some concern. The guidance from the Information Commissioner is that information about contracts (including price) should be released, as there is a strong public interest in how public money is spent. However, if to release information would cause commercial damage, and companies are able to present sound arguments outlining the damage which would be likely to ensue, we would consider withholding information.

Environmental Information Regulations

The Environmental Information Regulations are a separate set of regulations, akin to the Freedom of Information Act, and apply instead of the Freedom of Information Act to all information related to land or the environment, e.g. Planning and Land Charges. There is a presumption in favour of release of such information, and decisions not to release are difficult to uphold. Grounds for exemption of information from the requirement to disclose are slightly different to those under the Freedom of Information Act.

Protection of Freedoms Bill

Under Part 6 of the Protection of Freedoms Bill, which is currently progressing through Parliament, the Freedom of Information Act is expected to be extended to make councils provide datasets in a reusable format; this is to allow

businesses to more easily manipulate council data for commercial purposes. This is something the Council already does wherever possible.

Review of Freedom of Information Act

In the first quarter of 2012 the Parliamentary Justice Select Committee is embarking on the first post legislative scrutiny review of the Freedom of Information Act. This may result in amendments to the legislation.

10.3 Data Protection Subject Access Requests

Any request for personal information is classed as a Subject Access Request and we are able to charge the requestor £10. We have 40 calendar days in which to respond. These requests are frequently complex and time intensive. Many of these requests are for access to Social Care records.

A comprehensive Data Protection Training programme has recently been launched to ensure that all staff understand their responsibilities for the protection of data and are aware of the facilities available to support them.

In addition to the sanctions outlined in 10.2 above, monetary penalty notices up to £500,000 can be issued for a serious breach of the Data Protection Act, e.g. loss or inappropriate disclosure of personal data; these are effectively fines.

Secure transfer of electronic information

Secure methods of transmitting sensitive information are available to staff if needed. Government Connect (GCSx) allows local authorities to send secure e-mails to other local authorities and public body networks, e.g. Police and NHS. Voltage SecureMail can be used to send sensitive information to any third party or individual who is not connected to the GCSx network.

Information Sharing

Increasing numbers of areas within the Council share data with partner agencies, and advice is frequently sought from the Data Protection Officer. CEntranet pages are currently being developed to contain guidance for staff, based on the Data Sharing Code of Practice issues by the Information Commissioner. A register of agreements/protocols already in use within the Council is also being developed. Information Sharing will be of particular importance when Health Service colleagues are transferred to the Local Authority, and the Data Protection Officer will be involved in this initiative

11.0 Access to Information

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

Name: Sandra Smith

Designation: Customer Relations and Service Development Manager

Tel No: 01270 685865

E-mail: sandra.smith@cheshireeast.gov.uk

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 31st January 2012
Report of: Corporate Governance Group
Title: Annual Governance Statement (AGS) – 2011/12 Process and Update on 2010/11 Action Plan
Portfolio Holder: Councillor Michael Jones (Resources)

1.0 Report Summary

- 1.1 The purpose of this report is to:
- recommend a process for the production of the 2011/12 AGS.
 - provide an update on progress against the 2010/11 AGS Action Plan.

2.0 Recommendations

- 2.1 That the Committee

(1) consider and endorse the process for the production of the 2011/12 AGS; and

(2) note the progress against the 2010/11 AGS Action Plan.

3.0 Reasons for Recommendations

- 3.1 **2011/12 Process (Appendix A)** - the Accounts and Audit Regulations 2011 require the Council to produce an AGS and it is good practice to agree the process with Members in advance.

- 3.2 **2010/11 Action Plan (Appendix B)** – the AGS process provides a continuous review of the Authority's governance arrangements to give assurance on effectiveness of processes and/or to address identified weaknesses.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

7.1 No specific financial implications. The production of the AGS is designed to align with the production of the Council's Financial Statements (draft by end June) and will be published alongside the audited accounts (approved by end September).

8.0 Legal Implications

8.1 The production of the AGS is required by the Accounts and Audit Regulations and the process outlined is designed to meet this obligation.

9.0 Risk Assessment

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 As previously reported to the Committee, the Council is required to prepare and publish an Annual Governance Statement (AGS). This requirement was introduced by the revised CIPFA/SOLACE Good Governance Framework and is necessary to meet the statutory requirement set out in the Accounts and Audit Regulations.

11.0 Access to information

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

Name: Lisa Quinn

Designation: Director of Finance and Business Services

Tel No: 01270 686628

Email: lisa.quinn@cheshireeast.gov.uk

2011/12 AGS – Summary of Recommended Process

Overview:

This will be Cheshire East Council's third Annual Governance Statement and the recommended process, which follows best practice, remains broadly unchanged. However, it is anticipated, given the experience of previous years and embedding of processes, that the time and resource required to produce the AGS will reduce this year. In addition, based on feedback and review of previous Statements, it is aimed to make the AGS document more succinct and output focussed with a clear link to the Authority's Annual Report.

	Activity	Output	Responsibility	Planned Timescale
1	Assessment of governance arrangements for significant partnerships.	Internal Audit Report	Head of Internal Audit	Ongoing – March 2012
2	Assessment of the effectiveness of mitigating actions for approved strategic risks.	Internal Audit Report	Head of Internal Audit	Ongoing – March 2012
3	Self Assessment against the Code of Corporate Governance.	Self Assessment	Corporate Governance Group	March 2012
4	Self Assessment of Internal Audit against the CIPFA Code of Practice.	Self Assessment	Head of Internal Audit	March 2012
5	Assessment of the effectiveness of the Audit & Governance Committee.	Committee Report	Chair & Vice Chair of A&G Committee /Head of Internal Audit	27/3/12
6	Disclosure Statements by Heads of Service.	Disclosure Statements	Heads of Service	April/May 2012
7	Consider other sources of assurance i.e. External Audit reports, other inspection reports, Corporate Risk Management Group etc.	Various reports	Corporate Governance Group	April/May 2012
8	Head of Internal Audit opinion report.	Committee Report	Head of Internal Audit	28/6/12
9	Produce draft AGS.	Draft AGS/Committee Report	Corporate Governance Group	28/6/12
10	Provide detailed supporting evidence to Members and consider any new findings/feedback on draft AGS.	Evidence Packs	Corporate Governance Group	July -Sept 2012
11	Produce final AGS for approval by Members.	AGS/Committee Report	Corporate Governance Group	27/9/12

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2010/11 AGS Action Plan – Progress at January 2012

1	Issue: Responding to the new policy agenda freedoms since the reduction in the inspection regime and national performance reporting regimes			
Area: During 2010/11, the new coalition Government has set in place plans to reform local government audit, inspection and monitoring arrangements, including the abolition of the Audit Commission, the Comprehensive Area Assessment and Local Area Agreements. The challenge for Cheshire East is how to respond to the greater freedoms to report and monitor performance.				
<p>Action: Put in place robust business planning process including full policy context to ensure that submissions for service delivery are made within an overall policy framework.</p> <p>Put in place a framework for producing policy briefings, reviewing parliamentary business, communicating with MPs and interpreting/influencing national policy.</p> <p>Use the service planning process, cabinet/CMT away days and the business planning cycle to set performance indicators and outcomes and provide a performance management service to capture the key date and issues to provide cabinet, CMT, all members with information on performance outcomes and appropriate intervention.</p>		<p>Responsibility: Head of Policy & Performance/ Director Of Finance and Business Services (Cabinet and CMT to provide input)</p> <p>Head of Policy & Performance</p> <p>Head of Policy & Performance</p>	<p>Target Date: September 2011</p> <p>October 2011</p> <p>August 2011</p>	<p>Progress as at January 2012: A new business planning process was instigated for 2011/12 and continuing into 2012/13. This integrated the financial, prioritisation and service imperatives and will be approved in February 2012 as one document encompassing the authority's budget and business plan.</p> <p>Regular policy briefings have been in place throughout the financial year 2012/12 and a number of key policies have been thoroughly reviewed and communicated. This includes the Localism Act 2011 and the Welfare Reform Bill (not yet an Act as at Jan 2012).</p> <p>Regular quarterly performance reporting is in place and in addition, a series of informal reporting mechanisms to CMT and informal cabinet on a monthly basis. A new Leader/Chief Executive challenge process has been put in place to discuss financial and performance targets, achievements and to drive improvements. These are chaired by the Leader of the Council and attendees include the relevant Director and portfolio holder.</p>

2010/11 AGS Action Plan – Progress at January 2012

1	Issue (continued): Responding to the new policy agenda freedoms since the reduction in the inspection regime and national performance reporting regimes			
Area (continued): During 2010/11, the new coalition Government has set in place plans to reform local government audit, inspection and monitoring arrangements, including the abolition of the Audit Commission, the Comprehensive Area Assessment and Local Area Agreements. The challenge for Cheshire East is how to respond to the greater freedoms to report and monitor performance.				
Action (continued): Generate action plans, intelligence and information to support the implementation of the key new acts of parliament.		Responsibility (continued): Head of Policy & Performance	Target Date (continued): On going (and specific to each key act)	Progress as at January 2012 (continued): This has been achieved through the policy briefings and presentations. In addition, the R & I team have produced key research analysis and implemented a new data observatory on a sub regional basis (DORIC). The Joint Strategic Needs Assessment (JSNA) has also been refreshed.
2	Issue: Financial Management			
Area: There are a number of areas e.g. Adult Social Care, ICT Shared Service where significant overspends were identified. These were managed and the challenge going forward is to further enhance the process to ensure mitigating actions are in place as soon as possible.				
Action: Building on progress during 2010/11, a range of actions have been put in place to address budget pressures in the specific areas highlighted, as well as improving general standards of financial and out-turn management. Adult Social Care <ul style="list-style-type: none"> ▪ Detailed activity and trend analysis has been used to re-baseline the budget, with a significant increase in resources approved as part of the 2011/12 budget. ▪ Activity based costing introduced to 		Responsibility: Director Of Finance and Business Services/CMT	Target Date: On going	Progress as at January 2012: Budget pressures continue during 2011/12, although the impact is predominantly from temporary one off items, leaving the underlying base budget broadly balanced. Adult Social Care The forecast outturn at the three quarter review anticipates an overspend for the year of £4.1m, which includes the Department striving to cover, in the main, the costs of voluntary redundancies of £2.0m, managing delays in decisions to implement and rationalise the buildings estate

2010/11 AGS Action Plan – Progress at January 2012

2	Issue (continued): Financial Management			
Area (continued): There are a number of areas e.g. Adult Social Care, ICT Shared Service where significant overspends were identified. These were managed and the challenge going forward is to further enhance the process to ensure mitigating actions are in place as soon as possible.				
<p>Action (continued): Adult Social Care (continued) support future budget monitoring and projection of care costs.</p> <ul style="list-style-type: none"> ▪ Dedicated financial support to Local Independent Living Teams. ▪ Adults Financials Programme initiated to rationalise and simplify financial aspects of care management, including payment and collection of client contributions. 	<p>Responsibility (continued): Director Of Finance and Business Services/CMT</p>	<p>Target Date (continued): On going</p>	<p>Progress as at January 2012 (continued): Adult Social Care (continued) across Care4CE of £1.0m, delays achieving the transport review savings of approximately £0.5m and attempting to implement cross cutting savings of £0.6m.</p> <p>There are a number of extensive underlying pressures being managed, in part due to the rapidly ageing population, including care cost pressures, continued double funding of both Care4CE and direct payments, individuals requiring residential and nursing care following the depletion of their financial capital and inflationary pressures in our care homes that the Service is managing to contain within the overall budget envelope.</p> <p>A review of Client Finance is in hand, working with Internal Audit to help improve the control environment, and provide better financial control. A steering group overseeing this work is chaired by the Director of Children, Families and Adults.</p> <p>The Director is implementing a full needs-based budget exercise for 2012/13, replicating the process started in 2011/12 for Children and</p>	

2010/11 AGS Action Plan – Progress at January 2012

2	Issue (continued): Financial Management			
Area (continued): There are a number of areas e.g. Adult Social Care, ICT Shared Service where significant overspends were identified. These were managed and the challenge going forward is to further enhance the process to ensure mitigating actions are in place as soon as possible.				
Action (continued): General <ul style="list-style-type: none"> ▪ Improvements to financial compliance, reporting and guidance being taken forward as part of the corporate Business Management Review programme. ▪ On-going impact of 2010/11 out-turn being analysed to assess implications for forward planning, including the need to find permanent savings where temporary mitigation has been used to balance 2010/11 position. 		Responsibility (continued): Director Of Finance and Business Services/CMT	Target Date (continued): On going	Progress as at January 2012 (continued): General A pilot group of thirty managers has been identified for an initial roll-out phase in early February, prior to full roll out during March. Regular compliance reports are now being produced, focused particularly on P2P processes. The 'No PO, No Pay' policy has been enforced since 1 Jan 2012. The 2012/13 Business Planning proposals include a number of growth requests to address on-going outturn issues and undeliverable savings targets e.g. Children & Families – Teachers Pensions commitments (£2m), Demand pressures in Adults (£3m), H&WB Inherited pressures (£0.5m), Non-delivery of cross-cutting savings (£1.3m).
3	Issue: Review of Constitution			
Area: This is a key improvement in governance arrangements to ensure clear allocation of responsibilities, effective decision making and modern procurement practices.				
Action: The Constitution Committee continues to review the Council's Constitution on an ongoing basis. The committee's work plan		Responsibility: Borough Solicitor and Monitoring Officer	Target Date: April 2012	Progress as at January 2012: The Constitution Committee has considered a number of reports and made recommendations to full Council in relation to :-

2010/11 AGS Action Plan – Progress at January 2012

3	Issue (continued): Review of Constitution			
Area (continued): This is a key improvement in governance arrangements to ensure clear allocation of responsibilities, effective decision making and modern procurement practices.				
<p>Action (continued): sets out that the following areas will be reviewed this civic year.</p> <ul style="list-style-type: none"> ▪ Executive and Cabinet Procedure Rules ▪ Contract Procedure Rules ▪ Terms of Reference for Overview and Scrutiny Committees ▪ Scrutiny Procedure Rules ▪ Staff Employment Procedure Rules ▪ Scheme of Delegation ▪ Urgency Provisions ▪ Policy and Budget Framework ▪ Size and Layout of the Constitution ▪ Finance Procedure Rules 	<p>Responsibility (continued): Borough Solicitor and Monitoring Officer</p>	<p>Target Date (continued): April 2012</p>	<p>Progress as at January 2012 (continued): The Constitution Committee has considered a number of reports and made recommendations to full Council in relation to :-</p> <ul style="list-style-type: none"> • Executive and Cabinet Procedure Rules • Contract Procedure Rules • Terms of Reference for Overview and Scrutiny Committees • Officer Scheme of Delegation (Phase1) • Urgency Provisions • Finance Procedure Rules • Members Access to Confidential Reports • Questions to Council <p>And the Constitution has been updated accordingly.</p> <p>Arrangements are in hand to review the Policy and Budget Framework and to consider the implications of the Localism Act 2011 in terms of changes in Governance arrangements. It is anticipated that a cross party working group will review the options and make recommendations to the Council. The Council must also review its Member Code of Conduct and set up appropriate procedures to investigate and review complaints, as required by the Localism Act by July 2012.</p>	

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January 2012
Report of:	Director of Finance and Business Services
Subject/Title:	Compliance with International Auditing Standards
Portfolio Holder:	Councillor Michael Jones (Resources)

1.0 Report Summary

- 1.1 In order to comply with International Standards on Auditing (UK and Ireland) the Council's External Auditors (Audit Commission) require an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risk of fraud and the internal control that management has established to mitigate the risk (ISA 240).
- 1.2 The Audit Commission also require an understanding of how those charged with governance gain assurance that all relevant laws and regulations have been complied with (ISA 250) and how management assess the Council's ability to continue as a going concern (ISA 570).
- 1.3 The Audit and Governance Committee is the committee 'charged with governance' and this report has, therefore, been drafted in order to assist both the Chairman and the Director of Finance and Business Services in formally responding to the Audit Commission.

2.0 Recommendation

- 2.1 That the Committee
 - (1) note the content of this report; and
 - (2) note that 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 Director of Finance and Business Services.

3.0 Reasons for Recommendations

- 3.1 The Council's officers are responsible for establishing and implementing arrangements to counter fraud and corruption and ensuring the Council's operations are conducted in accordance with laws and regulations. In order for the Council's anti fraud and compliance objectives to be achieved it is important that the Audit and Governance Committee actively oversee management arrangements

including considering the potential for override of controls or other inappropriate influence over the financial reporting process.

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

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

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

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

8.0 Legal Implications (Authorised by the Borough Solicitor)

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

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

9.0 Risk Assessment

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

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

Both of which may materially affect the financial statements.

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

10.0 Background and Options

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

- 1) Exercising oversight of Management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error
 - identifying and responding to risks of fraud in the Council
 - communicating views on business practice and ethical behaviour to employees
 - communicating the processes for identifying and responding to fraud or error to those charged with governance
- 2) Awareness of any breaches of internal control during 2011-12.
- 3) How assurance is gained that all relevant laws and regulations have been complied with during 2011-12
- 4) Whether there is any potential litigation or claims that would affect the financial statements.
- 5) Whether a preliminary assessment of the going concern assumption has been carried out.

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

11.0 Access to Information

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

Name: Lisa Quinn

Designation: Director of Finance and Business Services

Tel No: 01270 686628

Email: lisa.quinn@cheshireeast.gov.uk

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1.0 **Management Processes**

Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud or error

- 1.1 The Council's risk management process has identified the "Risk that the Council fails to manage expenditure within budget and maintain an adequate level of reserves, thereby threatening financial stability and service continuity and preventing the achievement of corporate objectives" as a Strategic Risk. This risk recognizes that the Council could be exposed to losses or unplanned expenditure, as a result of the misappropriation of assets and/or fraudulent financial reporting as well as other causes/triggers. Following the identification and assessment of mitigating controls and future planned actions/contingency the risk has been measured as high in recognition of the fact that although a number of controls have been strengthened, the overall economic situation and scale of organisational change continues to present a challenging climate.
- 1.2 This risk has been reviewed during the year through one to one discussions with the manager of this risk, which is the Finance Manager. The review date for this risk is decided at each review meeting and the risk has been revisited during the year accordingly and at least quarterly. At each risk review the risk stewardship template is forwarded for discussion and comment by the risk owner, the Director of Finance and Business Services, with the risk strategic lead which is the Portfolio Holder for Resources. Any comments received from the risk owner and strategic risk lead are updated on the risk stewardship template and risk register accordingly. This risk is a key corporate risk and as such is reviewed by the Corporate Risk Management Group and included in the risk update reports to the Corporate Management Team, Cabinet and the Audit and Governance Committee. Details of this risk are also held on the key corporate risk register which is available to view by all Members on the Centranet and has recently been communicated to all Scrutiny Committee Chairs.
- 1.3 The Internal Audit Plan for 2011/12 is designed to allow Internal Audit to offer an opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes. The plan has been developed using the following areas of audit activity:
- Supporting Corporate Governance
 - Fundamental financial systems
 - Key Service and Departmental Systems
 - Fundamental Corporate Areas
 - Partnerships
 - Counter Fraud & Probity

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

- 1.4 A programme of audits continues to be carried out in accordance with the plan that was approved by the Audit & Governance Committee in March 2011.
- 1.5 The work includes the Council's fundamental financial systems in order to gain assurance that the systems of financial control are in place and operating effectively. The fundamental systems (those that could give rise to material mis-statements) and key controls have been agreed with External Audit in order that they may rely on the work of Internal Audit. Internal Audit continues to undertake testing (examining whether the control has operated effectively throughout 2011/12) on the controls. In this way Management can get reasonable assurance with regard to the potential for override of management controls or other inappropriate influence over the financial reporting process.
- 1.6 A review of the closure of accounts processes has been carried out and incorporates the recommendations and findings of external audit. Work has continued during 2011/12 to improve bank and systems reconciliations and to strengthen closure processes. The timetable for the 2011/12 closure incorporates a quality checking process to provide assurance on the financial statements.
- 1.7 The introduction of International Financial Reporting Standards (IFRS) has required the finance team to receive additional training in complex areas and this continues to develop as improved processes relating to areas such as asset valuations and the treatment of leases, are embedded.
- 1.8 As part of the Annual Governance Statement process for 2011/12 the Directors, Heads of Service and Managers will be required to sign off on the adequacy of controls within their service areas/directorate via disclosure statements.

Identifying and responding to risks of fraud in the Council

- 1.9 The Council ensures that the standards of conduct expected of staff are defined and communicated through, for example, Codes of Conduct, an Anti-Fraud and Corruption Policy and the Whistleblowing Policy. Such policies, together with the Councils Constitution, prescribe the arrangements that ensure suspected cases of fraud and corruption are reported promptly to the appropriate person for further investigation.
- 1.10 The Council's Anti Fraud and Corruption Strategy states that Cheshire East Council's members and employees are positively encouraged to raise concerns regarding fraud and corruption, immaterial of seniority, rank or status, in the knowledge that such concerns will be taken

seriously and wherever possible, treated in confidence and properly investigated.

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

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

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

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

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

- 1.14 The Council ensures that any allegations received in any way, including by anonymous letters or telephone calls are taken seriously and investigated in an appropriate manner.

- 1.15 Under the National Fraud Initiative (NFI) the Council supplies sets of data from information systems such as benefits, pay and pensions and suppliers. NFI then cross matches this data to identify potential inaccuracies and fraud which the Council then investigates.

- 1.16 Work by internal audit – See above. Furthermore, internal auditors are personally responsible for applying due professional care which includes being alert to the possibility of intentional wrongdoing, errors

and omissions and failure to comply with management policy and conflicts of interest.

- 1.17 All allegations of fraud are reported to Internal Audit even if it is not necessary for them to investigate. This informs the opinion on the control environment and Internal Audit's work programme. At the request of Management Internal Audit may assist with the investigation of suspected fraud ensuring that any local investigations are undertaken thoroughly, consistently and impartially or by requesting assurance that Management have taken action to reduce the likelihood of re-occurrence.
- 1.18 In line with the Anti Fraud and Corruption Strategy the Borough Solicitor will, in consultation with the appropriate Chief Officer, decide whether any matter under investigation should be recommended for referral to the Police or the appropriate enforcement agency. Internal Audit has made 4 formal referrals to the Police during this financial year.
- 1.19 Cheshire East actively pursues those committing Benefit Fraud offences by issuing Cautions (verbal reprimand), Administrative Penalties (30% of the overpayment in addition to any overpaid monies) and in the most serious cases taking Criminal proceedings through the Courts (a sentence from the Courts, a Criminal Record and liability for the stolen monies). The Benefit Fraud Team is responsible for all benefit fraud investigations and prosecutions. The Benefits Anti Fraud and Corruption Strategy, which deals specifically with welfare benefits issues, is complimentary to the main Anti Fraud Strategy. The benefits service strategy is supplemented by the Benefits Fraud Sanction Policy. This policy outlines the criteria used to determine which sanctions may be applicable if a case is proven by the Investigation Team. Benefit Fraud Sanctions from 01/04/2011 to 31/12/2011 include 23 cautions, 20 Administrative Penalties and 28 prosecutions.
- 1.20 In addition to a confidential reporting procedure the benefit investigation team also operate a separate hotline, for use by members of the public. The freephone number is 0800 389 2787. Referrals may also be made from the national fraud hotline managed by central government. These hotlines are publicised in relevant council literature as well as targeted media campaigns.
- 1.21 In May 2011 work done by Cheshire East Council in clamping down on potential council tax fraud was held up by the Communities Secretary Eric Pickles as best practice. The single person discount audit, which started in August 2010, was carried out by Northgate a company specialising in this area. The audit, using Experian credit data, found nearly 2000 people had wrongly claimed. It cost the Council £80,000 but will result in £500,000 extra income every year.

- 1.22 A no Purchase Order/No pay policy became effective on 1 January 2012 whereby invoices without a valid Council Purchase Order (PO) are now being returned to suppliers. The aim is to improve internal control and ensure that a Purchase Order is raised before any goods or services are purchased.
- 1.23 The Audit Commission's document 'Protecting the Public Purse 2011' (PPP 2011) identified criminals targeting councils and other public organisations in an attempt to redirect payments intended for legitimate creditors such as large construction companies as an emerging risk. The fraudsters gather the details about key creditors from the information that councils now publish on their websites. In the 2010/11 Audit Commission survey, councils reported several detected frauds of this type amounting to some £7 million. The report goes on to say that although the fraudsters continue to target local public bodies they have become increasingly successful at preventing these frauds by applying sound internal controls. They have prevented about £20 million of such attempted fraud.
- 1.24 The Council was issued with an early warning of the risk by the National Anti- Fraud Network and sought assurance with regard to the robustness of controls designed to prevent the fraud. Internal Audit followed this up by testing the mitigating controls as part of key systems testing in early 2011.

Communication to employees of views on business practice and ethical behaviour

- 1.25 All employees are governed by the Council's Financial and Contract Procedure Rules. They are required to follow the standards set out in the Code of Conduct, which is issued to all staff along with their Contract of Employment. Employees who consider other employees to be guilty of misconduct must report this to their line manager or raise it through one of the other available procedures. Employees are further governed by the Council's HR Policies (Disciplinary Procedure etc), which are issued to all staff. The Codes are communicated via briefings, training and are available on the Council's intranet and internet.
- 1.26 The role that employees are expected to play in the Council's framework of internal control is included in staff induction procedures by their line manager and then subsequently through corporate induction training, as appropriate.
- 1.27 The Anti Fraud & Corruption Policy states that Cheshire East Council expects its employees to comply with codes of practice or other relevant professional obligations issued by professional bodies of which they may be members. Furthermore it reminds employees that they must comply with Section 117 of the Local Government Act 1972 which requires any interests in contracts that have been proposed to

be entered into by the Council to be declared. The Legislation also prohibits the acceptance of fees or rewards other than by means of proper remuneration.

- 1.28 Employees must register any interests they may have in the departmental register recording Declarations of Interests.
- 1.29 All offers of gifts and hospitality, regardless of whether the offer was accepted or declined, must be recorded in the departmental register. Such registers are reviewed by the appropriate departmental management team on a regular basis and a record kept of such review.

Communication to those charged with governance on the processes for identifying and responding to fraud and possible breaches of internal control

- 1.30 Internal Audit Management provides a written report to the Audit & Governance Committee to support the Annual Governance Statement. The report includes an opinion on the overall adequacy and effectiveness of the Council's control environment, and a summary of the audit work from which the opinion is derived including counter fraud, probity and investigations work.
- 1.31 In addition to the annual report, Internal Audit provides the Committee with interim audit reports during the course of the year. The audit reports address emerging issues in respect of the whole range of areas to be covered in the annual report.
- 1.32 The Audit and Governance Committee work programme includes various update reports with regard to anti fraud and corruption. The Committee was advised, in January 2011, on the content of the Council's Anti- Fraud and Corruption Strategy and developments in best practice. As part of ongoing efforts to ensure that the systems and procedures in place within the Council remained relevant and met best practice the Anti-Fraud and Corruption arrangements were reviewed against the guidance issued by CIPFA in the publication "*Managing the Risk of Fraud – Actions to Counter the Risk of Fraud- Red Book 2*". A report in June 2011 advised the Committee of the findings of the review. Work is on-going to exploit improvement opportunities.
- 1.33 The Committee noted and endorsed, a revised Whistleblowing Policy in June 2011 following a review of the existing document against the *Whistleblowing Arrangements Code of Practice Publicly Available Specification 1998:2008*.
- 1.34 Where it becomes apparent that a Service has failed to comply with Council's Contract Procedure Rules, the Chief Officer or designated representative must issue a report outlining the reason for the non compliance and the steps taken to prevent a re-occurrence. The report

must be submitted to the Director of Finance and Business Services and the Borough Solicitor before being reported to the Audit and Governance Committee. In September 2011 the Committee received a report that noted the arrangements in place for the collection of waste from Council premises in the former Crewe and Nantwich Borough Council area, and concluded that poor practice has resulted in a procurement process that breached the Council's Contract Procedure Rules. The report included the steps taken to prevent a re-occurrence.

- 1.35 In accordance with the Internal Audit Plan for 2011/12 a review of Procurement has commenced in quarter 4. This review will include the approaches to reduce fraud risk outlined in the National Fraud Authority report on public sector procurement.

2.0 Breaches of Internal Control

- 2.1 From the work undertaken by Internal Audit during 2011/12, there is no evidence to suggest any impact on the 2011/12 Financial Statements. The adequacy and effectiveness of the Council's control environment will be considered as part of the annual reporting and presentation of audit opinion.

- 2.2 As part of the Annual Governance Statement process for 2011/12 the Directors, Heads of Service and Managers will be required to sign off on the adequacy of controls within their service areas/directorate via disclosure statements. This information will be made available to the Committee as part of the AGS approval process.

- 2.3 An Officer Group consisting of senior officers from Legal, Procurement, Audit and Democratic Services have produced revised Finance and Contract Procedure Rules together with associated guidance in order to make them more accessible and useable.

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

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

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

- Co-ordination of functions, staff and management matters – the Chief Executive (Head of Paid Service)
- Financial administration, probity and propriety – the Director of Finance and Business Services (Section 151 Officer)

- Legality and administration – Borough Solicitor (Monitoring Officer).
- 3.3 Internal Audit's annual plan contains a programme of work that includes reviews of compliance with policies, procedures, laws and regulations. In addition, work is carried out by Scrutiny Committees, External Audit and other inspection agencies.
- 3.4 Regular meetings are held with the finance management team and the Director of Finance and Business Services to consider accounting treatments and areas of high financial risk which could give rise to fraud, mis-statement or legality issues. Examples of these include Academy transfers, Tatton Park Developments and treatment of Special Expenses which have been subject to senior management and member scrutiny.
- 3.5 As part of the Annual Governance Statement process for 2011/12 the Directors, Heads of Service and Managers will be required to report instances of irregularity, fraud or misappropriation and issues that have attracted significant public interest including litigation or claims within their service areas/directorate via disclosure statements. This information will be made available to the Committee as part of the AGS approval process.
- 4.0 Whether there is any potential litigation or claims that would affect the financial statements.**
- 4.1 As part of the closure of the accounts the Director of Finance and Business Services (Section 151 Officer) will assess the adequacy of financial reserves and provisions for known and contingent liabilities arising from current or potential future litigation and claims. The nature and impact of such claims are disclosed in the notes to the accounts.
- 4.2 Directors and Heads of Service are required to notify the Director of Finance and Business Services of any significant control issues which may result in litigation or claims against the Council as part of their annual disclosure statement.
- 5.0 Assessment of the going concern assumption**
- 5.1 The concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Accounts prepared under the Code of Practice on Local Authority Accounting assume that a local authority's services will continue to operate for the foreseeable future.
- 5.2 Section 25 of the Local Government Act 2003 requires the Director of Finance to report to the Council when considering the budget and level of Council Tax. This report deals with the robustness of the estimates

and the adequacy of reserves allowed for in the budget proposals, so members will have authoritative advice available to them when they make their decisions.

- 5.3 As part of the approval process for the Statement of Accounts the Director of Finance and Business Services will provide assurance regarding the key risks, policies and concepts applicable to the accounts and any such disclosures that are necessary to present fairly the financial position of the Council at its year end.

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 31st January 2012
Report of: Head of Internal Audit
Title: Internal Audit 2011/12 Interim Report
Portfolio Holder: Councillor Michael Jones (Resources)

1.0 Report Summary

1.1 The purpose of the report at Appendix 1 is to update the Audit and Governance Committee on progress against the Internal Audit Plan 2011/12, any revisions to the plan and to summarise work during the second and third quarters of 2011/12.

2.0 Recommendation

2.1 That the Committee note the issues identified, endorse the approach to achieving adequate audit coverage in the remainder of 2011/12 and discuss future audit issues and ways of working as appropriate.

3.0 Reasons for Recommendation

3.1 This interim report addresses emerging issues in respect of the whole range of areas to be covered in the annual report, due in June 2012.

4.0 Wards Affected

4.1 All wards.

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications

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

8.0 Legal Implications

- 8.1 The requirement for an Internal Audit function is either explicit or implied in legislation with s151 of the Local Government Act 1972 requiring Councils to “make arrangements for the proper administration of their financial affairs” and the Accounts and Audit Regulations 2011 requiring a relevant body to “undertake an adequate and effective internal audit ...”

9.0 Risk Assessment

- 9.1 The Authority is required to maintain an adequate and effective system of internal audit in accordance with Regulation 6 of the Accounts and Audit Regulations 2011. Failure to consider the effectiveness of its system of internal audit, and the opinion on Council’s control environment, could result in non-compliance with the requirements of the Regulations.

10.0 Background and Options

- 10.1 The Code of Practice for Internal Audit in Local Government in the United Kingdom states that, “in addition to the annual report”, the Head of Internal Audit “should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 10.2 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council, via the Audit and Governance Committee, that these arrangements are in place and operating properly. The annual internal audit opinion informs the Annual Governance Statement. The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council’s objectives.

11.0 Access to information

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

Name: Jon Robinson/Neil Taylor
Designation: Audit Manager
Tel No: 01270 685684/686563
Email: jon.robinson@cheshireeast.gov.uk
neil.taylor@cheshireeast.gov.uk

Internal Audit 2011/12 Interim Report

1 Introduction

1.1 The Internal Audit Plan for 2011/12 was approved by the Audit and Governance Committee on 29 March 2011. At the last Audit and Governance Committee on 29th September, an update was given on the first quarter of 2011/12. This update will cover the following:

- Audit Work carried out in Quarters 2 & 3, and comparison of Plan vs. Actuals
- Emerging issues in 2011/12
- Internal Audit performance
- Internal Audit developments
- Priorities for Quarter 4

2 Audit Work carried out in Quarters 2 & 3

2.1 During the period 1st July to 31st December 2011, progress against the high priority areas of the 2011/12 Audit Plan has continued. During the period, Internal Audit completed 2010/11 key systems work and introduced a new Internal Audit Reporting Protocol. The 'improvement and compliance' role of Internal Audit has developed further, leading to more work assisting management in improving the control framework.

2.2 There continued to be a large amount of unplanned and resource intensive investigations work. Management has also requested Internal Audit to undertake work that could not have been reasonably foreseen when compiling the plan. This audit work, for which there is time in the plan (under 'Contingency'), assists management in the discharge of their duties.

2.3 A comparison of the 2011/12 Audit Plan with Actuals to date is shown below (with comments on variances). Further detail of key work carried out in Quarters 2 and 3 is provided in Appendix A.

Summary Comparison of Audit Plan 2011/12 and Cumulative Quarter 3 Actuals

Area of Plan	Plan Split	Actual Q1-3 Split	Comments on coverage
Supporting Corporate Governance	4%	3%	As planned.

Internal Audit 2011/12 Interim Report

Area of Plan	Plan Split	Actual Q1-3 Split	Comments on coverage
<i>This includes work on the Local Code of Corporate Governance and the Annual Governance Statement (AGS)</i>			
Fundamental Financial Systems (including Shared Services) <i>Core system 'key control' work on systems such as: Payroll, Debtors, Creditors, Cash Receipting, Treasury Management, Housing Benefits, Council Tax, National Non-Domestic Rates (NNDR).</i>	14%	25%	Higher than planned due to: <ul style="list-style-type: none"> ▪ 2010/11 key system work overlapping into 2011/12. ▪ Additional work on Oracle accesses, which External Audit placed reliance on for 2010/11 accounts. ▪ Revenues and Benefits new systems.
Key Service and Departmental Systems <i>Departmental and service risk audits. Adults, Community, Health & Wellbeing/Children & Families/ Places/Performance & Capacity</i>	35%	41%	Broadly as planned.
Fundamental Corporate Areas <i>Assurance work on Strategic Risks and associated mitigating controls as well as other cross cutting area.</i>	9%	2%	This area was scheduled for Q3 and Q4, so is lower than planned.
Partnerships <i>Assurance work on Strategic Risks involving Partnerships and associated mitigating controls.</i>	6%	1%	This area was scheduled for Q3 and Q4, so is lower than planned.
Counter Fraud and Probity <i>Response to notifications under the anti-fraud and corruption policy informing opinion on the internal control environment. Pro- active work based on risk assessment including promotion of relevant policies and assessment of key controls. Includes administration of National Fraud Initiative (NFI), Staff Vetting, Contract Award etc.</i>	15%	18%	Although close to planned overall, reactive work is currently far higher than planned, at the expense of proactive work.
Consultancy and Advice <i>Where resources and skills exist, may contribute to the opinion that Internal Audit provides on the control environment.</i>	9%	10%	Some additional requests from management.
Contingency	6%	0%	All Contingency days used.
Follow up work	2%	0%	This is a priority for Q4; normal follow up is six months post final

Internal Audit 2011/12 Interim Report

Area of Plan	Plan Split	Actual Q1-3 Split	Comments on coverage
			report so coverage concentrated towards end of year.
Total	100%	100%	

3 Emerging Issues 2011/12

3.1 Work is on-going in the following areas in order to ensure that risks identified in 2011/12 are being adequately managed. These areas will be considered as part of the Annual Governance Statement process and may be included in the Head of Internal Audit's annual report:

- Procurement processes – including the approaches to reduce fraud risk outlined in the National Fraud Authority report on public sector procurement.
- School's Financial Value Standard – develop, in conjunction with Finance colleagues, a means by which the new standard can be used to gain assurance that effective financial management is in place in schools.
- Consider and address the emerging issues detailed in recent national publications relating to fraud in the public sector, such as the Audit Commission's 'Protecting the Public Purse 2011'.
- Internal Audit will continue to support Management in implementing the AGS Action Plan by challenging the declarations made in the self assessment process and by auditing some of the arrangements in detail such as the business planning process and the Council's Financial Management arrangements, particularly in Adult Social Care.
- Consider the implications of the Audit Commission's Annual Audit Letter.

4 Internal Audit Performance

4.1 During the period, audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised of a mix of risk based auditing, regularity, ICT audit, investigations and the provision of advice to officers.

4.2 A number of vacancies are held in the Section, including the Internal Audit Manager, which is subject to the Authority's current recruitment freeze. The Internal Audit establishment was reduced to reflect the significant savings required as part of the 2011/12 budget settlement.

Internal Audit 2011/12 Interim Report

4.3 Internal Audit has a number of Performance Indicators that are measured and reported on:

Performance Indicator	2011/12 Cumulative				Comments
	Target	Actual Q1	Actual Q2	Actual Q3	
Percentage of Audits completed to user's satisfaction	100%	95%	90%	85%	Currently below target. This indicator is based on certain scores from the Client Questionnaire that Managers receive on completion of an audit project. Questionnaire scores are generally high. Further client feedback will be sought from Managers at the end of 2011/12.
Percentage of significant (high and medium) recommendations agreed	100%	100%	100%	100%	Currently on target. The new report format (see Section 5) will prompt Managers to agree (or not) each recommendation.
Productive Time (of Chargeable Days)	80%	86%	86%	86%	Currently ahead of target.
Average number of working days between end of fieldwork to issue of draft report	15 days	22 days	19 days	18 days	Currently below target, although improving. There are a large number of factors affecting this indicator including how 'end of fieldwork' is defined, auditors working on a number of jobs at a any one time, number of part time audit staff etc. The Client Questionnaire also captures feedback from management on the promptness of the draft report (current average score of 8, out of 10). This will be reviewed in Q4 – see 4.4.

4.4 In addition to the above Performance Indicators, it is intended to measure the following:

- Percentage of significant (high and medium) recommendations implemented.

Measurement of this PI has been delayed due to audit software issues, as the current system does not easily produce the data for this indicator. However, work on this will be a priority in Quarter 4, in addition to a general review of all current PI's.

4.5 The annual self assessment of Internal Audit will take place during Quarter 4 and will feed into the 2011/12 AGS process.

Internal Audit 2011/12 Interim Report

5 Internal Audit Developments

- 5.1 As reported to the last Audit and Governance Committee, a report has now been circulated (November 2011) to all senior managers, covering two new developments:
- Introduction of an 'Audit Opinion' and other changes to the Audit Report, and
 - Audit Reporting Protocol.
- 5.2 The introduction of a formal opinion for each audit review will be extremely useful both in interim reporting during the year and also in building up to the overall annual audit opinion, as it will enable a clear summary of the results of audit reviews during and at the end of the year. The reporting software has now been updated and the first reports with formal opinions will be issued in February 2012.
- 5.3 The Audit Reporting Protocol sets out the expected end-to-end audit reporting process for an audit review, including Management responses, the reminder/escalation process and follow up of recommendations.

6 Priorities for Quarter 4

- 6.1 The following areas are considered high priority for the final quarter of 2011/12 and resources will be allocated accordingly:
- Introduction of new report format.
 - Development, with key stakeholders, and production of the 2012/13 Audit Plan.
 - Focus on Recommendations Implemented PI and review of existing PI's.
 - Key Shared Services Systems work, in partnership with Cheshire West and Chester Internal Audit team.
 - Procurement audit.
 - Work supporting 2011/12 Annual Governance Statement
 - Development of Partnerships Protocol, to include review of Strategic Partnerships.
 - Internal Audit Self Assessment for 2011/12.
 - Work supporting management in improving/developing controls within systems e.g. lean reviews.

Internal Audit 2011/12 Interim Report

- Proactive anti fraud work taking into account lessons learned from recent investigations and emerging risks detailed in 'Protecting the Public Purse 2011'.
- Continue to provide advice and support to managers in Adult Services with regards to the ongoing review of Client Finance.
- Develop and pilot, in conjunction with Finance colleagues, an assurance framework for the new School's Financial Value Standard.

Internal Audit 2011/12 Interim Report – Key Work in Quarters 2 & 3

Area	Key Work in Quarters 2 & 3
Supporting Corporate Governance	Production of 2010/11 AGS and associated Member training.
Fundamental Financial Systems (including Shared Services)	Completion of and reporting on 2010/11 systems work, including new systems for Housing Benefits, Council Tax and NNDR. Joint review (with CWaC Internal Audit) of Oracle accesses which External Audit placed reliance on for 2010/11 accounts.
Key Service and Departmental Systems	<p><u>Adult, Community, Health & Wellbeing</u> Congleton Supported Living Network – review of the management of client finances. Appointeeships – continued support/advice provided to the project group and additional work in supporting managers in Adult Services. Continued support to Client Finance Review within Adult Services.</p> <p><u>Children & Families</u> Schools Financial Values Standard – identification/review of new requirements. Initial meetings held with Finance staff to develop appropriate assurance framework. Emergency Duty Team – an audit of the controls around expenditure in this area is ongoing.</p> <p><u>Places</u> Reviews of Tatton Park, Emergency Planning and Transport Contracts completed. Advice on control framework within new Highways Maintenance contract.</p> <p><u>Performance & Capacity</u> ICT Shared Services audits (in partnership with CWaC Internal Audit) including ICT Demand and Performance Management, ICT assets and ICT Disaster Recovery.</p>
Fundamental Corporate Areas	Strategic Risks review (ongoing). Performance Management system implementation review.
Partnerships	Strategic Risks review (ongoing).
Counter Fraud and Probity	Review of the Bribery Act 2010 to determine the implications of the act being introduced. A number of investigations into suspected fraud/theft have been conducted with referrals to Cheshire Police having been made on four occasions.
Consultancy and Advice	Ad-hoc work; specific larger projects include 'Think Twice' monitoring and joint work (with CWaC and Warrington BC) on Connexions.
Contingency	The Contingency allocation of days for 2011/12 has been used on unplanned work.
Follow up work	Ad-hoc follow up work in period. Will be prioritised in Quarter 4.

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 31st January 2012
Report of: Strategic Director Places and Organisational Capacity
Title: Risk Management Update Report
Portfolio Holder: Councillor David Brown (Performance and Capacity)

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 Recommendation

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 Recommendation

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 including carbon reduction and health

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

7.0 Financial Implications (Authorised by the Borough Treasurer)

7.1 None

8.0 Legal Implications (Authorised by the Borough Solicitor)

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

9.0 Risk Management

9.1 This report relates to overall risk management; the Audit and Governance Committee should know about the most significant risks facing the Council and be assured that the risk management process is working effectively.

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. A summary of the Council's Key Corporate Risks is provided below:

Risk Ref	Risk Title	Risk Owner	Strategic Lead	Net Risk Rating	Direction of Travel
KCR1	Service Delivery Prioritisation	Erika Wenzel	Cllr Wesley Fitzgerald	6 Medium	↓
KCR2	Financial Control	Lisa Quinn	Cllr Michael Jones	12 High	↔
KCR3	Community Safety	John Nicholson	Cllr Rachel Bailey	4 Low	↓
KCR4	Vulnerable Children	Lorraine Butcher	Cllr Hilda Gaddum	12 High	↔
KCR5	Vulnerable Adults	Lorraine Butcher	Cllr Roland Domleo	12 High	↔
KCR6	Equality Gap	Lorraine Butcher	Cllr R Domleo/Cllr H Gaddum/Cllr D Brown/Cllr Clowes	12 High	↑
KCR7	Partnerships	John Nicholson	Cllr David Brown	6 Medium	↔
KCR8	Health Partnerships	Lorraine Butcher	Cllr Janet Clowes	12 High	↔
KCR9	Education	Lorraine Butcher	Cllr Hilda Gaddum	9 Medium	↑
KCR10	Workforce	Paul Bradshaw	Cllr Peter Mason	12 High	↔
KCR11	Opportunities	Erika Wenzel	Cllr Wesley Fitzgerald	4 Low	↔
KCR12	Long-Term Planning	Erika Wenzel	Cllr David Brown	6 Medium	↓
KCR13	Organisational Change	Erika Wenzel	Cllr Wesley Fitzgerald	8 Medium	↓
KCR14	Information, Research Business Intelligence	John Nicholson	Cllr David Brown	12 High	↔
KCR15	Reputation	John Nicholson	Cllr David Brown	9 Medium	↓
KCR16	External Environment	Erika Wenzel	Cllr Wesley Fitzgerald	12 High	↔
KCR17	Industrial Action	Paul Bradshaw	Cllr Peter Mason	12 High	Removed

10.2 Since the previous risk management update report to the Audit and Governance Committee changes have been made to the ratings for the following key corporate risks:

KCR6 Equality Gap

“Risk that we fail to adequately recognise community difference and/or address the specific needs of our communities. Or to take the most appropriate action that would address the equality gap within these communities, leading to us not improving life opportunities and health and well being for all.”

The overall net risk rating increased from a 9 Medium Risk to a 12 High Risk at the end of September and remained at 12 High Risk at the review undertaken at the beginning of January. This was due to the net likelihood rating increasing from a 3 to a 4, very likely, as the focus through specific resource had reduced and capacity through services generally to undertake equality work was reduced (although confidence had increased). It is thought that the likelihood of this risk will decrease once the statutory duty to publish our equality objectives by April 2012 has been met.

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”

The likelihood and impact of the risk being realised after taking account of the existing controls in place to mitigate this increased from a 2 to 3 giving an overall net risk rating of 9 Medium Risk. Although these controls are in place and having an effect, the number of schools converting to academy status and reduction of other control measures has the potential to further reduce the Authority’s influence with schools. This could restrict our ability to intervene and prevent schools falling below expected standards. In addition, further in year announcements from the Government/DFE (e.g. Teaching Schools) have required area assessment of the levels of risk. If standards in schools drop this could then have an impact on our ability to be an excellent council, and could reduce achievement and life opportunities for some students.

KCR13 Organisational Change

“Risk that we fail to manage and address the scale of change to effectively and efficiently shape our services, deliver essential benefits and savings, resulting in a possible loss of continual improvement and a possible inability to deliver our key corporate objectives”

The definition and title of this risk have been updated to reflect current thinking. After consideration of the mitigating action including the implementation of a lean business improvement programme to deliver improvement and efficiencies in chosen business areas, the likelihood of this risk materialising has reduced from a 3 very likely to a 2 likely. This has resulted in a decrease to the overall net score from 12 High Risk to 8 Medium Risk.

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

The overall net risk rating for this risk decreased between September and January from 12 High Risk and currently remains at 9 Medium Risk. The likelihood of this risk was reduced as the Communications and Media Team had been able

confidence, threatening the stability of the Council and our ability to deliver the corporate objectives.”

to demonstrate the consideration and mitigation of issues which could have had a severe impact on the reputation of the Council.

- 10.3 As expected, the key corporate risk 17 entitled Industrial Action materialised as an issue at the end of November and so was removed as a risk from the key corporate risk register. Contingency arrangements and business continuity plans in place mitigated the impact of this risk as it became an issue. This will be monitored as it may re-emerge as a risk again at a later date.
- 10.4 For information, risks reviewed during this period that remained within the previous rating are as follows:-
- KCR2 Financial Control
 - KCR4 Vulnerable Children – Whilst the overall risk rating has not changed, the likelihood has decreased within the rating of 3 (very likely) to the lower end of the 3 (as reflected on the heat map). This is because a lot of the controls in place can be evidenced through the results of the Ofsted inspections.
 - KCR5 Vulnerable Adults
 - KCR8 Health Partnerships
 - KCR11 Opportunities
 - KCR16 External Environment
- 10.5 For ease of reference a risk heat map showing the direction of travel for the risks from September 2011 to January 2012 is attached at **Appendix A** to this report.
- 10.6 The assessment methodology used to score the risks is also attached at **Appendix B** to this report for consistency and information purposes.

11.0 Other Work undertaken on Risk Management

- 11.1 Work is being undertaken by the Corporate Risk Management Group to identify significant cross-cutting risks and collate these on a register. Examples of these risks are around succession planning, technological opportunities, carbon reduction, data protection and freedom of information.
- 11.2 A briefing was given to the Scrutiny Chairmen’s Group on the use of risk management as a tool to inform Committee work programmes.
- 11.3 Work is being undertaken to ensure that risk assessment is an integral part in the development of our Business Plan and to assist individual services in identifying, analysing and prioritising service risks on local risk registers as part of the service planning process.

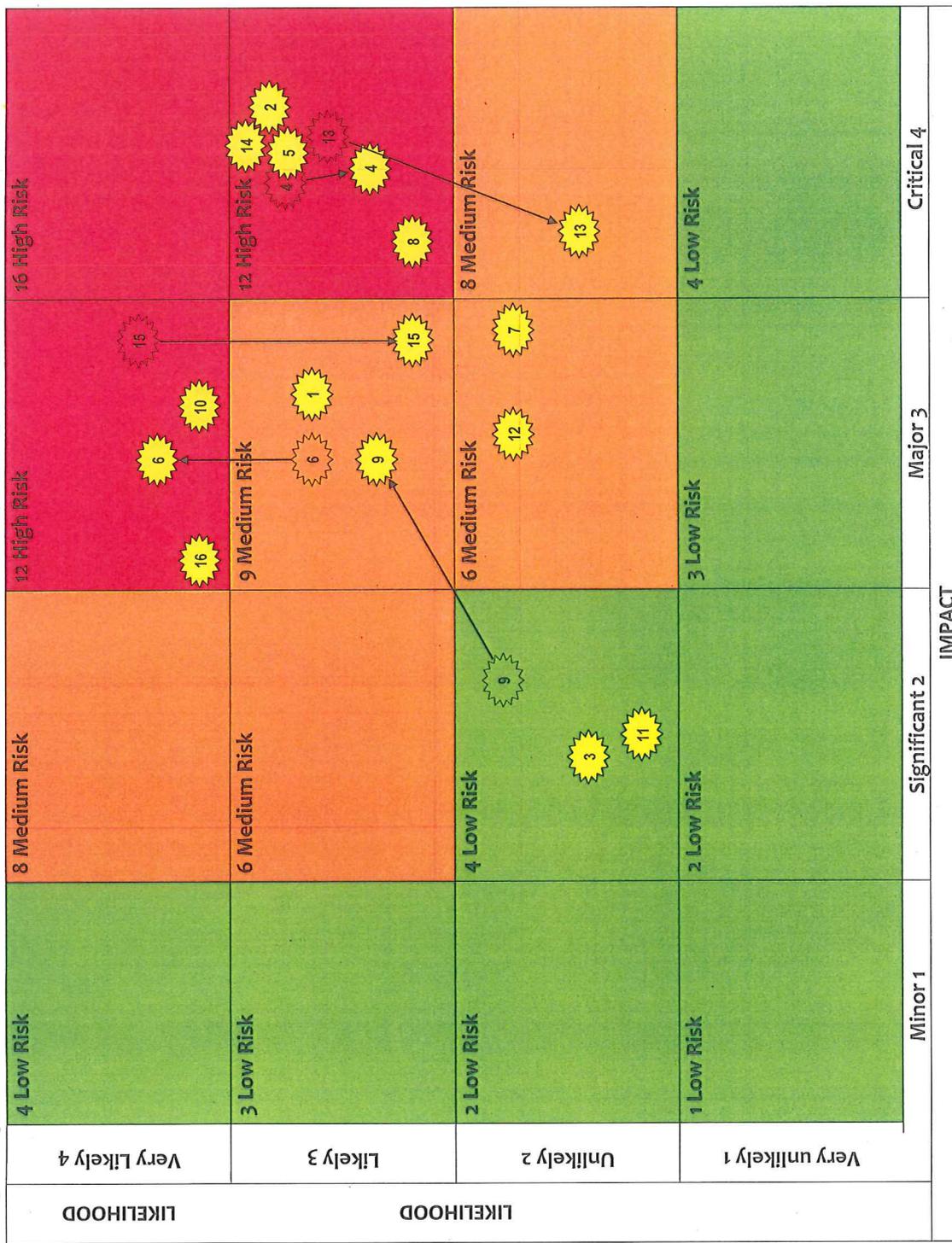
12.0 Access to Information

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

Name: Vivienne Quayle
Designation: Head of Performance, Customer Services and Capacity
Tel No: 01270 686859
Email: vivienne.quayle@cheshireeast.gov.uk

Cheshire East Council
Key Corporate Risk – Directional Heat Map (Sept 2011 to Jan 2012)

Key Corporate Risks	
2	Financial Control
4	Vulnerable Children
5	Vulnerable Adults
6	Equality Gap
8	Health Partnerships
10	Workforce
14	Information, Research & Business Intelligence
16	External Environment
1	Service Delivery Prioritisation
7	Partnerships
9	Education
12	Long-Term Planning
13	Organisational Change
15	Reputation
3	Community Safety
11	Opportunities



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

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31 st January 2012
Report of:	Director of Finance and Business Services
Subject/Title:	Work Plan
Portfolio Holder:	Councillor Michael Jones (Resources)

1.0 Report Summary

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

2.0 Recommendation

2.1 That the Committee

(1) consider the Work Plan and determine any required amendments;

(2) note the changes made to the Plan since it was last discussed in September 2011; and

(3) 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 Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

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

8.1 The Work Plan must take account of the requirements of the Accounts and Audit Regulations 2011.

9.0 Risk Assessment

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

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

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 September 2011:

- Final accounts memorandum – this report, which contains the detailed messages from the audit of the 2010/11 main financial statements, has been discussed with officers. A summary of the

findings from the 2010/11 audit is included in the Annual Audit Letter.

- A progress report regarding the 2011-12 Closure of Accounts has been included on the Agenda in order to provide assurance that the issues contained within the Audit Commission's Annual Governance Report have been, or are being addressed.
- Anti Fraud & Corruption – the outcomes of a review of the Strategy and the measures designed to prevent fraud will be reported to the March Committee.
- The Chairman's Annual Report will be included in the September 2012 agenda.
- Business Continuity update – an end of year report will be presented to the Committee in March.

11.0 Access to Information

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

Name: Lisa Quinn

Designation: Director of Finance and Business Services

Tel No: 01270 686628

Email: lisa.quinn@cheshireeast.gov.uk

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Committee Date/Agenda Item	Notes
<p>29 September 2011</p> <p>Annual Governance Report, Auditors' report on Financial Statements and Value for Money conclusion.</p> <p>AGS (2010/11)</p> <p>Internal Audit Update</p> <p>Risk Management Update</p> <p>Customer Complaints</p> <p>Breach of Contract Procedure Rules</p> <p>Work Plan</p>	<p>The Committee considered and noted the Annual Governance Report which summarised the findings from the 2010/11 audit.</p> <p>The Committee approved the Statement of Accounts for 2010-11</p> <p>The Committee approved 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.</p> <p>The Committee considered a report on progress against the Internal Audit Plan 2011-12 and resolved that the report be noted and the approach identified to achieving adequate audit coverage in the remainder of 2011-12 be endorsed.</p> <p>The Committee noted a report summarising the key corporate risks and risk management work undertaken since the previous report.</p> <p>The Committee noted a report summarising the complaints received by Cheshire East Council, and complaints about the Council dealt with by the Local Government Ombudsman, for the period 2010-11.</p> <p>The Committee noted a report outlining the reasons for the non-compliance and the steps taken to prevent a re-occurrence.</p> <p>The Committee noted the Work Plan and agreed that individual Members would become more involved in specific areas of audit and governance work as a means of developing in-depth knowledge and expertise.</p>
<p>31 January 2012</p> <p>Annual Audit Letter</p>	<p>The purpose of preparing and issuing annual audit letters is to communicate to the audited body and external stakeholders, including members of the public,</p>

Committee Date/Agenda Item	Notes
	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.
Audit Committee Update	The purpose of this paper is to provide the Audit Committee with a report on progress in delivering the external auditors responsibilities. It includes an update on the externalisation of the Audit Practice. This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee.
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.
2011-12 Closure of Accounts – Progress Report	A report to provide Members with assurance that the issues contained within the Audit Commission's Annual Governance Report have been, or are being addressed
Annual Governance Statement 2011/12 AGS Action Plan	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 2011/12 with Members in advance. 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	<p>In order to comply with a number of International Standards on Auditing, external audit are required to obtain the Audit Committee's understanding of the following:</p> <p>1) Management processes in relation to:</p> <ul style="list-style-type: none"> • undertaking an assessment of the risk that the financial statements may be materially mis-

Committee Date/Agenda Item	Notes
<p>Internal Audit Update</p> <p>Risk Management Update</p> <p>Work Plan</p>	<p>stated due to fraud or error</p> <ul style="list-style-type: none"> • identifying and responding to risks of fraud in the Council • communication to employees of views on business practice and ethical behavior • communication to those charged with governance the processes for identifying and responding to fraud <p>2) How the Committee oversees management processes for identifying and responding to the risk of fraud and possible breaches of internal control</p> <p>3) How it gains assurance that all relevant laws and regulations have been complied with.</p> <p>4) Whether an assessment of the going concern assumption has been carried out.</p> <p>The purpose of this report is to facilitate compliance with the requirements of the Code of Practice for Internal Audit and, consequently, it provides Members with emerging issues in respect of the whole range of areas to be covered in the formal annual report. It enables the Committee to monitor Internal Audit's performance.</p> <p>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.</p> <p>A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.</p>
<p>27 March 2012</p> <p>Grants Report to those charged with Governance</p>	<p>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.</p>

Committee Date/Agenda Item	Notes
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 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.

Committee Date/Agenda Item	Notes
Work Plan	A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
<p data-bbox="226 414 582 548">Unallocated</p> <p data-bbox="226 548 582 728">Internal Audit Terms of Reference</p> <p data-bbox="226 728 582 1064">Internal Audit Strategy</p> <p data-bbox="226 1064 582 1332">Code of Corporate Governance</p> <p data-bbox="226 1332 582 1579">Insurance</p> <p data-bbox="226 1579 582 2020">Anti-Money Laundering</p>	<p data-bbox="582 414 1396 548">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.</p> <p data-bbox="582 548 1396 728">The terms of reference for Internal Audit will be amended and put to the Committee for approval following publication of CIPFA's <i>'The Role of the Head of Internal Audit in Local Government'</i></p> <p data-bbox="582 728 1396 929">A revised Internal Audit Strategy will be put to the Committee for approval, but not direction, following publication of CIPFA's <i>'The Role of the Head of Internal Audit in Local Government'</i></p> <p data-bbox="582 929 1396 1064">It should be noted that the following items may, subject to requirement, be presented to the Committee.</p> <p data-bbox="582 1064 1396 1332">The Committee is responsible for developing the Council's Code of Corporate Governance which is used as a basis for self-assessment, continuous improvement and as a contributor to producing the AGS. Hence it needs to approve any proposed changes to it.</p> <p data-bbox="582 1332 1396 1579">The Committee is responsible for overseeing and agreeing the arrangements for Members to be indemnified for and insured against risks and liabilities arising from the performance of their duties as Members of the Council, and as the Council's representatives on outside bodies.</p> <p data-bbox="582 1579 1396 2020">The Council is required to have procedures in place for the detection and disclosure of incidents of suspected money laundering and terrorism financing. This Policy aims to establish prudent and responsible anti-money laundering controls and reporting arrangements designed to detect and avoid involvement in the offences described in Regulations. The Policy is considered by the Committee before approval by Cabinet. Hence it needs to be made aware of and endorse any changes to the Policy.</p>

Committee Date/Agenda Item	Notes
Treasury Management	Periodically Management could assure the Committee that the measures prescribed by the Policy are operating effectively. CIPFA's Code of Practice requires that members are tasked with treasury management responsibilities, including scrutiny of the treasury management function.