

Audit and Governance Committee

Agenda

Date:	Thursday, 27th June, 2013
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 disclosable pecuniary and non-pecuniary interests in any item on the agenda.

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

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

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

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

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

For requests for further information

Contact: Cherry Foreman

Tel: 01270 686463

E-Mail: cherry.foreman@cheshireeast.gov.uk with any apologies

4. **Minutes of Previous meeting** (Pages 1 - 8)

To approve the minutes of the meeting held on 28 March 2013.

5. **Internal Audit Annual Report 2012/13** (Pages 9 - 28)

To note the contents of Internal Audit's Annual Report for 2012/13.

6. **Draft Annual Governance Statement 2012/13** (Pages 29 - 54)

To consider the draft Annual Governance Statement for 2012/13.

7. **Draft Statement of Accounts 2012/13** (Pages 55 - 62)

To note the key issues raised within the draft Statement of Accounts for 2012/13.

8. **Annual Report on Risk Management** (Pages 63 - 96)

To review the Annual Report of the Corporate Risk Management Group and to endorse minor changes made to the Risk Management Policy for further consideration and approval by the Cabinet.

9. **Audit Committee Update** (Pages 97 - 110)

To consider an update from the external auditors, Grant Thornton, on progress in delivering their responsibilities.

10. **Public Sector Internal Audit Standards and Audit Charter - Update** (Pages 111 - 114)

To note the introduction of new audit standards, and the implications and further actions necessary to be compliant with them.

11. **Compliance with International Auditing Standards** (Pages 115 - 130)

To note the contents of this report which will form the basis of the written response to the Council's External Auditors.

12. **Compliance with Regulation of Investigatory Powers Act 2000** (Pages 131 - 134)

To note the findings of the report following the recent inspection by the Office of Surveillance Commissioners.

13. **Work Plan 2013/14** (Pages 135 - 144)

To consider the Work Plan for 2013/14, to note the changes made since it was last considered in March, and to determine any further amendments.

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CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Thursday, 28th March, 2013 at The Capesthorne Room - Town Hall,
Macclesfield SK10 1EA

PRESENT

Councillor J Hammond (Chairman)
Councillor L Brown (Vice-Chairman)

Councillors R Fletcher, M Hardy, S Hogben, A Kolker, W Livesley, L Roberts
and D Newton

In attendance

Councillor B Moran
Councillor P Raynes

Officers

Rachel Musson, Interim Chief Operating Officer
Mike Rowan, Interim Borough Solicitor
Chris Mann, Finance Manager
Vivienne Quayle, Head of Performance, Customer Services and Capacity
Joanne Butler, Performance and Risk Manager
Jon Robinson, Internal Audit
Neil Taylor, Internal Audit
Rachel Graves, Democratic Services

External Auditor – Grant Thornton

Judith Tench
Andrea Castling

The Chairman welcomed the Interim Chief Operating Officer,
Rachel Musson, to her first meeting of the Committee.

44 APOLOGIES FOR ABSENCE

Apologies were received from Councillors S Corcoran, D Marren and M Simon.

45 DECLARATIONS OF INTEREST

There were no declarations of interest.

46 PUBLIC SPEAKING TIME/OPEN SESSION

There were no members of the public present.

47 MINUTES OF PREVIOUS MEETING

RESOLVED:

That the minutes of the meeting held on 31 January 2013 be approved as a correct record.

48 CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT

The Committee considered a report which detailed the key findings identified during the External Auditor's certification process for 2011/12 specific grant income.

The report summarised the findings from the certification of 2011/12 claims. It included recommendations arising from the auditor's assessment of the Council's arrangements for preparing claims and returns and information on claims that were amended or qualified.

The report recognised the improvements in the process from 2010/11, and in particular, that all claims were submitted by the required date and all were audited by the audit deadline, and that there were fewer claims requiring amendments and qualifications in 2011/12.

The fees associated with the grant certification work in 2011/12 were £54,582.

RESOLVED:

That the Grants Certification Report be received.

49 EXTERNAL AUDIT PLAN 2012-13

The Committee considered a report which detailed the Audit Plan for the year ending 31 March 2013.

Grant Thornton had been appointed as the Council's independent external auditors by the Audit Commission. Their annual work programme was set in accordance with the Code of Audit Practice issued by the Audit Commission and included nationally prescribed and locally determined work.

The Audit Plan set out the work proposed to be undertaken for the audit of financial statements and the value for money conclusion. The Audit Plan also specified the level of audit fees.

The Audit Plan identified five challenges which the Council was facing:

- Financial Resilience
- Becoming a Strategic Council
- Commissioning and procurement
- Business planning and project management
- Capital planning and delivery

and outlined how these challenges would be reviewed as part of the audit.

Judith Tench and Andrea Castling were in attendance and spoke to the report.

It was agreed that that the emerging issues from the Audit Plan would be considered at the relevant Member/Officer groups.

RESOLVED:

That the Audit Plan for 2012-13, as set out in the Appendix to the Report, be received.

50 **INTERNAL AUDIT PLAN 2013/14**

The Committee considered the Internal Audit Plan for 2013/14.

All principal local authorities subject to the Accounts and Audit Regulations 2011 had to make provision for internal audit in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom.

In order to comply with the Code, a risk-based audit plan (Appendix A) had been prepared for the Committee's approval, but not direction.

There were a number of key themes emerging within the Plan, including:

- Change programmes – impact on control environment
- Programme and Project Management
- Public Health
- Governance and Assurance Framework – new delivery models

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

When a more detailed audit plan became available, it would be shared with the specialist Member groups appointed by the Committee.

It was noted that from 1 April 2013 new Public Sector Internal Audit Standards would come into force, which would supersede CIPFA's Code of Practice. Once guidance had been published, all aspects of service delivery would be reassessed to ensure that there was proper migration to the new requirements and audit documents would then be updated to reflect the revised obligations.

RESOLVED:

That the approach to internal audit planning be endorsed and the Internal Audit Plan 2013-14 be approved.

51 **AUDIT AND GOVERNANCE COMMITTEE SELF-ASSESSMENT**

The Committee considered a report on the results of a self-assessment of the effectiveness of the Audit and Governance Committee.

The results of the self-assessment were set out at Appendix A to the report. The report was generally favourable, although it recognised that the Committee's role in relation to external audit process could be developed further.

RESOLVED: That

- 1 the results of the self-assessment be noted, the Committee being satisfied that the self-assessment had been completed correctly; and

- 2 it be noted that the detailed outcome of the review of the system of Internal Audit will be considered by the Committee as part of the Annual Governance Statement (AGS) approval process.

52 WHISTLEBLOWING POLICY

The Committee considered a report which provided an update on the effectiveness of the Council's Whistleblowing Policy and a breakdown of the number of reports received during 2012/13.

It was important to regularly review the effectiveness of the Council's policy to ensure that it remained compliant with best practice and was effective in meeting its purpose. The current policy had been reviewed by Internal Audit to ensure that it had been developed in line with current best practice identified in *Whistleblowing Arrangement Code of Practice Publicly Available Specification 1998:2008* – produced by the British Standards Institute in conjunction with Public Concern at Work.

During 2012-13 six whistleblowing reports had been received by Internal Audit, of which three were investigated and resulted in remedial action being taken within the service in question.

A further review of the Policy would be carried out in 2013-14 and would include a survey of staff awareness and views on the arrangements.

RESOLVED:

That the report be noted and the proposed actions for the ongoing review of the Council's whistleblowing arrangements be endorsed.

53 RISK MANAGEMENT UPDATE REPORT

The Committee considered an update report on risk management.

In February 2013 Cabinet and the Corporate Management Team had undertaken a risk and opportunity workshop to review the key corporate risks in achieving the Council's objectives and outcomes. The workshop had included a refresher presentation on the principles of risk management, which had provoked discussions around risk appetite and the maturity of the Council in dealing with risk.

Risk maturity was the extent to which a robust risk management approach had been adopted and applied by management across the Council to identify, assess, decide on response to, and report on opportunities and threats that affected the achievements of the Council's objectives. The range of risk maturity started at 'risk naïve' through to 'risk enabled'. Cabinet and the Corporate Management Team agreed that the Council should strive to reach the level of maturity of 'risk managed' as a minimum standard. It was judged that the Council's present level was between 'risk aware' and 'risk defined'.

Using the Three Year Plan outcomes, priorities and draft objective, Cabinet and the Corporate Management Team had identified key risk and opportunities which could impinge on their delivery. Work had begun to properly articulate these risks

and update the key corporate risk register. The identified risks related to external, strategic and operational risk areas. The Committee was asked to identify one of these areas of risk to receive a briefing on at the next meeting.

Members asked about the Council being prepared for the changes arising from the Welfare Reform Act and it was agreed that the Risk Register from the Welfare Reform Working Group would be brought to the next meeting.

RESOLVED: That

- (1) the update report on risk management be noted;
- (2) Commissioning and Services Delivery Chains be identified as the risk for consideration at the next meeting of the Committee; and
- (3) the Welfare Reform Act Risk Register be brought to the next meeting

54 UPDATE ON PROGRAMME AND PROJECT MANAGEMENT AND OTHER COMPLIANCE ISSUES

The Committee received an update on programme and project management and other compliance issues.

There had been two previous action plan/progress reports to the Committee on this topic following findings of an internal review. In future this reporting would be covered by the Council's normal performance monitoring and reporting framework. Assurance on the robustness of the relevant systems and processes formed part of the overall governance framework of the Council, the effectiveness of which was reviewed as part of the Annual Governance Statement process.

It was noted that the Gateway Model was now in place to provide assurance and controlled start up of projects and involved the Executive Monitoring Board and Technical Enabler Group. Monthly meetings of these groups were held to review, challenge and give endorsement to all new major projects and programmes.

RESOLVED: That

- (1) it be noted that all the agreed actions have now been implemented or are in progress and on target to be implemented in the coming weeks.
- (2) it be noted that the new arrangements described will now fall under the Council's normal governance and performance monitoring and reporting framework.

55 COMPLIANCE WITH REGULATION OF INVESTIGATORY POWERS ACT (2000) (RIPA)

The Committee considered a report on the Council's compliance with the Regulation of Investigatory Powers Act 2000.

The Regulation of Investigatory Powers Act 2000 (RIPA) provided a regulatory framework to enable public authorities to obtain information through the use of certain covert investigatory techniques. The Protection of Freedoms Act 2012 required public authorities to acquire judicial approval to use covert surveillance

techniques. It also restricted the use of surveillance to the investigation of offences which attracted a custodial sentence of six months or more.

The Regulation of Investigatory Powers (Communications Data) Order 2010 set out which organisations could access communications data and for what purpose. The Council was limited to accessing only service users and subscriber data i.e. the 'who' 'when' and 'where' of a communication but not the actual content.

Since 1 April 2009 a total of 38 RIPA applications had been authorised and the Council had accessed communications data on 6 occasions. The surveillance was used in order to carry out its enforcement functions effectively e.g. benefit fraud, planning enforcement, licensing enforcement, trading standards, environmental health and community safety investigations.

Notification had been received from the Office of the Surveillance Commissioner, that the Council was to be inspected on 2 May 2013 and preparations were currently underway for this visit. A report would be submitted to the Committee outlining the Inspector's findings and recommendations.

RESOLVED:

That the contents of the report in respect of the numbers of applications, actions taken to update the Regulation of Investigatory Powers Act Policy and Procedures, the forthcoming visit by an Inspector from the Office of Surveillance Commissioner, and the current arrangements in place to ensure that the Council complies with the legislation be noted.

56 WORK PLAN 2012/13

The Committee considered the updated Work Plan.

The draft agenda for the June meeting had been included in the Work Plan, however, further discussion in the specialist Member/Officer groups was necessary in order to draft the Work Programme for 2013-14.

Discussion took place on the provision of training for Standards Hearings and if the agreed processes for dealing with complaints under the Members Code of Conduct should be reviewed. It was agreed that a report should be brought to the Committee.

It was also requested that the Committee receive a report on the insurance arrangements for elected members.

RESOLVED: That

- (1) the changes to the Work Plan since the last meeting be noted.
- (2) the Work Plan be amended to show the following additional items:
 - Issues around Standards Hearing
 - Commissioning and Service Delivery Chains Risk
 - Outcome of Member/Officer Group discussion on Work Programme
 - Insurance arrangements for elected members

- (3) it be noted that the Work Plan will be re-submitted to the Committee periodically for further development and approval.

The meeting commenced at 2.00 pm and concluded at 3.30 pm

Councillor J Hammond (Chairman)

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 27 June 2013
Report of: Head of Internal Audit
Title: Internal Audit Annual Report 2012/13
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

- 1.1 The purpose of the report is to provide the Audit and Governance Committee with an opinion on the overall adequacy and effectiveness of the Council's control environment for 2012/13.

2.0 Recommendation

- 2.1 To note the contents of Internal Audit's annual report for 2012/13.

3.0 Reasons for Recommendation

- 3.1 In order to comply with the Code of Practice for Internal Audit in Local Government in the United Kingdom, the Head of Internal Audit must provide a written annual report to those charged with governance timed to support the Annual Governance Statement (AGS).

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. The Head of Internal Audit post and a Senior Auditor post presently remain unfilled, pending the outcome of the Council's current ongoing Management Review.

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 of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

9.0 Risk Management

- 9.1 Failure to consider the effectiveness of the Council’s system of internal audit, and the Internal Audit opinion on the Council’s control environment, could result in non-compliance with the requirements of the Accounts and Audit Regulations 2011.

10.0 Background and Options

- 10.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council, via the Audit and Governance Committee, that these arrangements are in place and operating properly. The annual internal audit opinion informs the AGS. The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council’s objectives.
- 10.2 All principal local authorities subject to the Accounts and Audit Regulations 2011 must make provision for internal audit in accordance with the proper practices.
- 10.3 In order to comply with the Code, the Head of Internal Audit must provide a written report to those charged with governance timed to support the Annual Governance Statement. The primary purpose of the report, which is set out in Appendix A, is to provide an opinion on the overall adequacy and effectiveness of the Council’s control environment. The report has been written by the two Audit Managers, who currently cover the functions of the Head of Internal Audit.

11.0 Access to information

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

Name: Neil Taylor/Jon Robinson

Designation: Audit Manager

Tel No: 01270 686563/685864

Email: neil.taylor@cheshireeast.gov.uk
jon.robinson@cheshireeast.gov.uk



Internal Audit Annual Report 2012-13

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Internal Audit Annual Report 2012/13

1 Introduction

- 1.1 The Chartered Institute for Public Finance and Accountancy Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (The CIPFA Code) established the expected professional standards for internal audit in local government. This was the Code under which Internal Audit operated in 2012/13.
- 1.2 In accordance with the CIPFA Code, the Internal Audit Annual Report 2012/13 for Cheshire East contains the following:
- an opinion on the overall adequacy and effectiveness of the organisation's control environment (Section 2)
 - any qualifications to that opinion, together with the reasons for the qualification (Section 2)
 - a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies (Section 3)
 - any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (Section 4)

- comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets (Section 5)
- comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 6)

2 Opinion on the Control Environment

- 2.1 Internal Audit is required to form an annual opinion on the adequacy and effectiveness of the Council's internal control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified.
- 2.2 It should be noted that the assurances given by Internal Audit are never absolute because it is impossible to examine every activity and every transaction and, audit reviews are at a point in time. The most Internal Audit can provide is a reasonable assurance that there are no major weaknesses, or that the weaknesses identified have been addressed.

Internal Audit Annual Report 2012/13

- 2.3 During the course of 2012/13 Internal Audit identified, and was made aware of, a number of issues with regard to the adequacy and effectiveness of the Council's system of internal control. Although it is pleasing to note that a significant amount of work has been done in response to these issues, there is still some way to go to ensure that risk management and internal controls are fully embedded into the Council's operations and that governance arrangements provide assurance with regard to compliance.
- 2.4 It should be noted that the actions that Management has agreed to take in response to these issues will, if implemented satisfactorily, resolve them appropriately. The challenge going forward is the inherent risk of the breakdown in control especially where responsibilities and systems are changing in response to the Council's ambitious plan to transform service delivery and realise significant savings.

Opinion on the Control Environment

Therefore, in the opinion of the Head of Internal Audit, as represented currently by the two Audit Managers, the Council has, generally established an adequate framework of risk management, control and governance.

Evidence throughout 2012/13 would, however, indicate that although appropriate strategies and policies are in place and have been communicated, understanding, application and compliance is inconsistent across the organisation. Action has been, or is being taken to address the issues.

This opinion is based upon:

- the programme of audit reviews and in particular opinion based work undertaken during the year
- Management's response to advice and recommendations
- the AGS process
- The Council's Annual Report on its Risk Management Arrangements

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3 Summary of Audit Work 2012/13

- 3.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the organisation that these arrangements are in place and operating properly.
- 3.2 The provision of assurance is, therefore, the primary role for internal audit. This role requires the Head of Internal Audit (HIA) to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.
- 3.3 A risk based Internal Audit plan is produced each year to ensure that:
- the scale and breadth of audit activity is sufficient to allow the HIA to provide an independent and objective opinion to the Council on the control environment.
 - audit activity focuses on areas where assurance is most needed.
- 3.4 The plan is broadly split into two main areas as follows:
- those audits that deliver an opinion report on the risks and controls of the area under review and will inform the Annual Internal Audit Opinion.
 - work that will not deliver an opinion report but will help inform the Annual Internal Audit Opinion.
- 3.5 During 2012/13, interim reports on progress against the Internal Audit Plan were regularly brought to this Committee. A summary of the audit work carried out during the year and the relative outputs from that work is shown below on page 4.

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Summary of Audit Work from which the opinion is derived

Para Ref	Area	Description of Audit Work	Output
3.6 – 3.13	Assurance Work	Audits with formal assurance level	Audit Reports
3.14	Schools	Assessment against Schools Financial Value Standard	Audit Reports
3.15 – 3.18	Lyme Green	Investigation of issues re: proposed waste transfer station	Report and Action Plan Updates to Audit & Governance Committee
3.19 – 3.21	Supporting Corporate Governance	Support and contribution to production of the Annual Governance Statement, including assurance statements from Heads of Service	Annual Governance Statement, and supporting evidence
		Support and contribution to update reports from the Corporate Governance Group	Reports to Corporate Management Team
		Support and contribution to AGS Action Plan, Lyme Green Action Plan and Compliance with Contract Procedure Rules reports	Reports to Audit & Governance Committee
3.22 – 3.23	Risk Management	Support and Contribution to the Corporate Risk Management Group including update reports	Reports to Audit & Governance Committee
3.24 – 3.29	Counter Fraud	Review of Anti Fraud and Corruption arrangements	Report to Audit & Governance Committee
		National Fraud Initiative – co-ordination of matches and investigation work	Results published on Audit Commission secure website/update reports to Corporate Risk Management Group/Investigation Reports
		Investigations	Investigation Reports
3.30	Consultancy & Advice	Ad-hoc consultancy and advice provided to services	Various – reports etc.
3.31	Statutory Returns/ Grant Claims	Audit/assurance work on programme/project and subsequent report to statutory/funding body	Return/Claim sign off
3.32 – 3.36	Follow Up Audit Work	Targeted follow up of audit recommendations based on audit opinion/recommendation	Follow Up reports/action plans

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Assurance Work

- 3.6 During 2012/13, Internal Audit introduced a new report format, including for the first time, a formal audit assurance level. A summary of the reports produced during 2012/13 with the formal assurance level is included below (some of the audit reports are still at draft stage i.e. awaiting management comments):

Assurance Level	Audit Reports 2012/13
Good	0
Satisfactory	14
Limited	11
No	1

- 3.7 The assurance levels reported in the table above include a combination of opinions at a broad level for the Council as a whole (macro-level opinion, see 3.8 – 3.12) e.g. Housing Benefits, Procurement and opinions on individual business processes or activities within a single organisation, department or location (micro-level opinion, see 3.13) e.g. Social Care establishment, Library.

- 3.8 At the macro level, satisfactory assurance with regard to the risks identified within the terms of reference, has been given in all cases in 2012/13, except the following which have been given 'limited assurance', and are covered in the paragraphs 3.9 – 3.12, or interim Internal Audit reports previously reported to Committee:

- Procurement (detailed in report to Committee in September 2012)
- Duplicate Payments (as above)
- Purchase Cards (as above)
- Schemes of Delegation (Local and Financial) (para 3.9 - 3.11)
- Asset Registers/Inventories (para 3.12)

- 3.9 The Schemes of Delegation audit focussed on both local schemes (which set out sub delegations from the delegated functions contained in Officer Schemes of Delegations) and financial schemes (which documents approval limits for financial transactions).

- 3.10 The audit concluded that Schemes of Financial Delegation (SoFD) had all been brought up to date and published on the intranet by the end of July 2012. However, many have not



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been updated regularly since and some are still incomplete and/or inconsistent with system limits. The management response stated that SoFD were the subject of an ongoing review and that understandably, the structure would need to be revised as part of the current management review; briefings on SoFD to Extended and Corporate Management Teams were planned.

- 3.11 The audit concluded that Local Schemes of Delegation (LSoD) were inconsistent across the Council, in terms of the level to which they delegate, and recommended that all Constitutional delegations are delegated to Heads of Service, with further delegations set out in local service schemes. Subsequent to the report and management response, it has been agreed at Council (15th May) "that, in order to ensure that the Council's decision-making arrangements properly reflect the emerging officer structure under the management review, all existing delegations shall remain effective pending further review and shall accrue to the relevant post holders as appropriate, such arrangements to have effect until 1st September 2013".

- 3.12 The audit of Asset Registers/Inventories found that although basic requirements for maintaining inventories were contained in the Council's Finance Procedure Rules, there was a lack of detailed guidance on inventories and disposal of assets. It also found that generally inventories were well maintained and kept up to date in establishments but that this was not the case for corporate services. Recommendations have been made accordingly and a management response is awaited.

- 3.13 At the micro level, assurance in the majority of cases is limited because improvements are required in some or all of the following areas: cashing up procedures, authorisation of expenses, contract monitoring, and payments and the review of purchase card transactions. In many cases, this is as expected as, in the majority of instances, management were aware of control issues prior to the audit commencing. At the micro level, there has been one instance of 'no assurance' in 2012/13, which has been previously reported to Committee:

- Third Sector Payments (detailed in report to Committee in September 2012).

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Schools

- 3.14 During 2012/13, Internal Audit carried out an assessment against the School's Financial Value Standard (SFVS) at 9 (out of 139) schools in order to determine whether assurance could be placed upon the returns submitted by schools. The Department for Education require the Section 151 officer to sign off an Annual Assurance Statement confirming the number of School's SFVS self assessment returns received and also that there is an appropriate audit programme in place to provide adequate assurance over the standard of financial management, and the regularity and propriety of spending in schools. The review concluded that reasonable assurance could be placed on the SFVS returns submitted as an accurate representation of the financial management arrangements at Cheshire East schools.

Lyme Green

- 3.15 The Audit and Governance Committee on 31st January 2012 resolved that "a thorough and robust investigation of all issues surrounding the expenditure incurred on the proposed waste transfer station at Lyme Green be added to the work plan; in particular to identify any governance

issues and whether all financial and contractual regulations have been complied with."

- 3.16 A special meeting of the Audit and Governance Committee was held on 14th June 2012 to consider the outcome of the review. The report considered management's compliance with established policies, procedures, laws and regulations particularly with regard to the use of assets and resources entrusted to it. In summary the review established that controls, procedures and policies had been compromised and identified the steps that needed to be taken to prevent a reoccurrence.
- 3.17 The Committee resolved, among other things, that the findings and recommendations of the Internal Audit review and the agreed Action Plan be noted and endorsed, and that progress reports against the identified actions in the Action Plan be submitted to the Committee on a quarterly basis. Progress reports were received by the Committee in September 2012 and January 2013 and a report that provided an update on programme and project management and other compliance issues was received in March 2013.

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3.18 “Issues and Actions arising from Lyme Green” was one of the significant governance issues identified in the Council’s Annual Governance Statement (AGS) for 2011/12. Progress against the actions in the AGS Action Plan were monitored throughout the year by the Corporate Governance Group and reported to the Audit and Governance Committee.

Supporting Corporate Governance

3.19 In accordance with Regulation 4 of the Accounts and Audit Regulations the Council is required to conduct a review at least once a year of the effectiveness of its governance arrangements and publish an Annual Governance Statement (AGS).

3.20 Internal Audit has assisted Management in the production of the Council’s AGS for 2012/13 by:

- collecting evidence for and production of the Annual Governance Statement
- contribution to and production of Audit & Governance Committee reports on AGS Action Plan, Lyme Green Action Plan, Delegated Decisions and Non compliances etc.

- Audit Manager representation on and contribution to the Corporate Governance Group (CGG) in order to advise on risk management, control, and governance issues that have been identified through audit work and ensure that the findings have been considered when determining the 2012/13 AGS action plan.
- Audit work in contribution to and production of CGG reports to Corporate Management Team

3.21 This report draws attention to issues that the Head of Internal Audit, as represented by the two Audit Managers, have been made aware of during the preparation of the Annual Governance Statement (see paragraphs 4.1 – 4.3).

Risk Management

3.22 Internal Audit has assisted in the Management of Risk through:

- Delivery of a risk based audit plan
- Audit Manager representation on and contribution to the Corporate Risk Management Group (CRMG) in order to



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advise on risk management, control, and governance issues that have been identified through audit work

3.23 Formal reports with regard to the risk management process are made throughout the year to Corporate Management Team, Cabinet and the Audit and Governance Committee. In accordance with the Annual Report on Risk Management from the Corporate Risk Management Group (June 2013 Agenda, Audit and Governance Committee):

- At the end of February, Cabinet and the Corporate Management Team (CMT) undertook a risk and opportunity workshop and began to review the key corporate risks to achieving the Council's objectives and outcomes. Work is presently underway to assess these risks and to record existing and future planned mitigating actions; these risks will then be prioritised accordingly and a risk heat map produced.
- Cabinet and CMT agreed that the Council should strive to consistently reach the level of maturity of risk managed (Enterprise approach to risk management developed and communicated, risk embedded in key processes. Active

engagement and risk based decision making), as a minimum standard. At present, the level of risk maturity for Cheshire East is judged to be between risk aware (Scattered silo based approach to risk management using standalone processes, reactive approach) and risk defined (Risk appetite defined. Strategy and policies in place and communicated. Some understanding and application but passive acceptance and compliance with reliance on risk registers) which gives a good foundation to further embed risk management and improve the quality of risk identification.

Counter Fraud

3.24 The anti-fraud and corruption arrangements were reviewed against the National Fraud Authority (NFA) document 'Fighting Fraud Locally: The Local Government Fraud Strategy (FFL)' and the findings reported to the Audit and Governance Committee (September 2012). The review identified a small number of improvement opportunities, the implementation of actions to address gaps with best practice are currently being monitored by the Fraud Member/Officer Group.



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- 3.25 A review of the Whistleblowing arrangements was carried out with the outcome, and a breakdown of the number of concerns raised, reported to Audit and Governance Committee in March 2013. In summary, the review concluded that there is clear evidence that the Council's Whistleblowing arrangements remain in line with best practice and, as such, no changes were proposed. It was, however, acknowledged that, in order to ensure that the arrangements remain effective, further review work would be carried out during 2013/14. This includes a survey of staff awareness of and views on the arrangements. The arrangements are currently being monitored by the Fraud Member/Officer Group.
- 3.26 The Member/Officer Fraud Sub Group continues to meet on a regular basis, to provide further detail to members on emerging fraud risks and anti fraud work carried out by Internal Audit.
- 3.27 During 2012/13, Internal Audit carried out a number of investigations across the Council with appropriate action taken where necessary and also provided support and

advice to investigations where management had appointed an Investigating Officer.

- 3.28 Internal Audit has produced a Fraud Risk Assessment, in consultation with the Performance and Risk Manager. This was endorsed by the Corporate Risk Management Group and will inform the proactive anti fraud work in the 2013/14 Internal Audit Plan.
- 3.29 Work has been undertaken on the National Fraud Initiative during the year including the coordination of data extracts leading up to the submission of data to the Audit Commission in October 2012. Since the release of the latest data matches in January 2013, Internal Audit has been coordinating and monitoring the investigations of matches by services, in addition to carrying out the investigations into a number of the Payroll and Creditors matches.

Consultancy and Advice

- 3.30 During the year Internal Audit provided advice to Management; such work was performed at the specific request of the organisation. The nature and scope of the

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engagements are generally aimed to improve governance, risk management and control and contribute to the overall opinion. e.g. Advice on new systems, application of Finance & Contract Procedure Rules etc.

Statutory Returns/Grant Claims

3.31 Internal Audit are sometimes required as stipulation of funding or similar, to carry out an audit/give assurance on the programme/project or aspects, thereof, and report back to the statutory/funding body e.g. Growing Places Fund, Bus Services Operators Grant etc.

Follow Up Audit Work

3.32 Throughout 2012/13, Internal Audit have performed various follow up exercises to ensure recommendations are being implemented. This is carried out in a number of different ways:

- Major pieces of audit work, such as the Lyme Green Report and the Annual Governance Statement have detailed action plans which are monitored and reported separately to the Committee.

- Investigations – the form of follow up is dependent on the nature of the investigation and the resultant recommendations e.g. follow up audit carried out on request of management.
- Formal assurance audits (see 3.33 - 3.36).

3.33 As previously reported to the Committee in January 2013, Internal Audit have further developed the follow up procedure for formal assurance reports, whereby managers self assess recommendations implemented. Dependent on resources, more detailed checks will be carried out on a sample of implemented recommendations. Audits with 'limited' or 'no' assurance are subject to more detailed follow ups. In addition, key systems audits such as Payroll, Accounts Payable, Council Tax etc. are carried out on an annual basis and recommendations are followed up as part of the next year's audit.

3.34 In May 2013, the Chief Operating Officer (COO) introduced a new process to monitor any outstanding actions for the Council; this includes recommendations from both Internal and External Audit. The Consolidated Action Plan (CAP) will be monitored on a monthly basis, with managers providing

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progress reports back on the implementation of actions assigned to them.

- 3.35 The process has been extremely useful in establishing the current status of Internal Audit actions. The following table shows the figures as at 1 May 2013; the majority of actions are being followed up now or in the coming months:

Status of Internal Audit Agreed Actions (at 1 May 2013)

Agreed Actions	Total	High	Medium
Implementation date not yet due	16	4	12
Internal Audit follow up either in progress or due in next quarter	59	10	49
Follow up response overdue or implementation date passed	14	2	12
Total Agreed Actions	89	16	73

- 3.36 There has been some slippage of actions, which are now overdue and these are being progressed through the normal follow up and escalation process.

Emerging Work

- 3.37 The following audits commenced during 2012/13, with work ongoing in the first quarter of 2013/14 and reports either issued or are due to be issued shortly:

- Assets – Project Management Arrangements
- Corporate Complaints
- External Inspections
- Foster Payments
- Freedom of Information
- Licensing
- Safer Recruitment
- Schools – various

Reliance placed on Work by Other Assurance Bodies

- 3.38 Assurance is placed on the work of the External Auditors, OFSTED, and other external bodies where appropriate. Work has begun on formally mapping the assurance



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framework of the Council as a whole, in order that the current range of assurances can be established and any areas where additional assurances are required can be identified.

4 Annual Governance Statement 2012/13

4.1 In compiling the AGS, significant issues that are considered to fall short of the expected standards are commented on in the Statement. Management has identified the following significant governance issues, further detail of which can be found in the draft 12/13 AGS:

- Management Structure and Organisational Culture
- Embedding Corporate Policies and Procedures and Ensuring Compliance

4.2 The AGS has an action plan to address these issues which includes actions already in place along with other planned actions. In a number of these areas, Internal Audit is already involved in ensuring that improvements are being implemented and time has been allocated in the 13/14 Audit Plan to review the other areas. In addition, progress

against the 12/13 AGS Action Plan will be monitored by Internal Audit and reported back to this Committee.

4.3 There are no outstanding significant control issues identified through the work of Internal Audit that require disclosure in the Council's 2012/13 Annual Governance Statement.

5 Internal Audit Performance

5.1 A summary comparison of the 12/13 Audit Plan with Actuals is shown on page 14 below (with comments on variances).

5.2 For the majority of 2012/13, Internal Audit reported to the Director of Finance & Business Services. Following recent changes as part of the Council's organisational redesign, Internal Audit now reports to the Head of Governance and Democratic Services. The Head of Internal Audit post and a Senior Auditor post presently remain unfilled, pending the outcome of the Council's current ongoing Management Review.

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Summary Comparison of Audit Plan 2012/13 and Actuals

Area of Plan	Plan	Actual	Comments on coverage
Corporate Governance/AGS	4%	6%	Higher than planned due to Internal Audit leading on a number of areas within Corporate Governance work programme.
Key Financial Systems	6%	11%	Higher number of days than planned. Included some testing of systems so that External Audit may place reliance on work for 11/12 audit.
Shared Services	12%	3%	Key systems work undertaken. Planned work on Separate Legal Entity (SLE) lower than planned as decision delayed.
Corporate Cross-Services	12%	18%	Higher than planned including including additional coverage on areas highlighted through AGS and Lyme Green work e.g. Procurement/Project Management/Schemes of Delegation
Children, Families & Adults	18%	20%	Broadly as planned.
Places & Organisational Capacity	9%	10%	Broadly as planned.
Partnerships	3%	1%	Lower than planned, although significant partnerships work included within AGS coverage.
Anti Fraud and Corruption	12%	16%	11% is proactive and 5% is reactive.
Special Project	0%	6%	Lyme Green work.
Consultancy & Advice	9%	9%	Management requests as planned.
Contingency	12%	0%	Full 12/13 contingency of 200 days used.
Follow Up	3%	0%	Follow up work is charged against the project in question. Coverage as planned. Future follow ups will link in with the new CAP process (see 3.34).
Total	100%	100%	

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

Performance Indicator	2012/13 Actual	2012/13 Target	2011/12 Actual	Comments
Percentage of Audits completed to user's satisfaction	94%	90%	90%	Above target. Any below average scores/feedback is looked at by Audit Managers.
Percentage of significant recommendations agreed	93%	85%	98%	Above target. New report format requires an explicit 'Yes' or 'No' against each action.
Productive Time (of Chargeable Days)	84%	80%	86%	Above target.
Draft report produced promptly (per Client Satisfaction Form)	90%	90%	85%	On target and positive improvement.

5.4 At the beginning of the year, a new report format with a formal audit opinion was introduced. Feedback on the format was sought via an additional client questionnaire with positive results received. Since the end of 2012/13, the wording and layout of the report has been reviewed within Internal Audit and further improvements made.

6 Compliance with the Code of Practice for Internal Audit

- 6.1 Regulation 6 of the Accounts and Audit Regulations 2011 requires relevant bodies to conduct an annual review of the effectiveness of its internal audit and for a committee of the body to consider the findings.
- 6.2 In accordance with the Regulations the performance of Internal Audit has been measured using the checklist appended to the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. (A separate assessment of the Audit Committee has been undertaken).
- 6.3 The review has concluded that, although there are areas for improvement, the internal audit service is being delivered to the required standard. This review contributes to the assurances received for the 2012/13 AGS and will be shared



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with members of the Committee as part of the AGS training workshop in September.

- 6.4 An action plan for improvement has been developed that is separate from the AGS action plan, as the latter should only include significant weaknesses. Consequently, the review has established that the opinion, contained within this report, may be relied upon as a source of evidence in the AGS.
- 6.5 In March 2013 the Audit and Governance Committee received the Audit Plan for Cheshire East Council from Grant Thornton. The results of interim audit work concluded that overall the Internal Audit service continues to provide an independent and satisfactory service to the Council and that the external auditors could take assurance from the services work in contributing to an effective internal control environment at the Council.

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 27 June 2013
Report of: Corporate Governance Group
Title: Draft Annual Governance Statement (AGS) 2012/13
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

- 1.1 The purpose of the report is for the Committee to consider the draft Annual Governance Statement 2012/13. The final version of the AGS will be brought to the Committee in September 2013.

2.0 Recommendation

- 2.1 That the Committee considers the draft Annual Governance Statement, as attached (Appendix A), and notes that the final version will be brought for approval by the Committee in September 2013.

3.0 Reasons for Recommendation

- 3.1 In accordance with the Accounts and Audit Regulations (2011), the Annual Governance Statement should be approved by Members of the Council meeting as a whole, or by a Committee, at the same time as the statement of accounts is approved, i.e. by 30 September 2013.
- 3.2 In the interests of best practice and early engagement, this draft of the Annual Governance Statement is brought to the Committee for information and comment from Members.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 None.

7.0 Financial Implications

- 7.1 No specific financial implications. The production of the AGS aligns with the production of the Annual Accounts and is published alongside the audited accounts (approved by end of September 2013).

8.0 Legal Implications

- 8.1 The production of the AGS is required by the Accounts and Audit Regulations (2011).

9.0 Risk Assessment

- 9.1 The Authority is required to prepare and publish an Annual Governance Statement to meet the statutory requirement set out in Regulation 4 of the Accounts and Audit Regulations (2011). Failure to do so could result in non-compliance with the requirements of the Regulations.

10.0 Background and Options

- 10.1 As previously reported to the Audit and Governance 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 (Delivering Good Governance in Local Government) and is necessary to meet the statutory requirement set out in Regulation 4 of the Accounts and Audit Regulations.
- 10.2 There is a strong correlation between effective governance and effective service delivery. The purpose of the AGS process is to provide a continuous review of the organisation's governance arrangements so as to give assurance on the effectiveness on the processes and/or to address identified weaknesses, supporting the continuous improvement of the Authority. This report and Appendix A are the results of that review.
- 10.3 The AGS has been considered by the Corporate Management Team with the collection of evidence for, and the drafting of the Annual Governance Statement being the responsibility of the Corporate Governance Group.
- 10.4 This year, further refinements to the process and the Statement have been introduced to improve the way the effectiveness of governance processes are reviewed and reflected, and to focus less on being a narrative about the governance framework. Particular attention has been paid to the guidance within the CIPFA Addendum for 2012/13 Annual Governance Statements to ensure the Statement is consistent with current best practice guidelines.

- 10.5 Once finalised, the AGS will be published on the Council's website, along with the Statement of Accounts, for members of the public, Members, Officers and other stakeholders to view.
- 10.6 The review of governance arrangements in place for 2012/13 has been informed by the work of Internal Audit and senior managers and also comments made by the External Auditors and other review agencies/inspectorates. The sources of assurance include:
- Assurance statements completed by Heads of Service, reflecting upon the application of governance processes and adequacy of controls within their areas of responsibility,
 - A self assessment against the Council's Code of Corporate Governance, undertaken by the Corporate Governance Group members, in order to demonstrate compliance with the Code.
 - Heads of Service have reviewed the significance of joint working arrangements in their areas of responsibility, and reported on the governance arrangements of those identified as highly significant.
 - Outcomes from external inspectorates and review agencies, including External Audit and Ofsted.
 - Internal Audit, through the annual and interim reports.
 - Directors and Managers assigned with the ownership of risks and delivery of services through the risk management process
 - The Section 151 Officer and the Monitoring Officer in meeting statutory responsibilities
- 10.7 In order that Members may discharge their duties, the Committee has received reports, information and training throughout the period under review including:
- Internal Audit Annual Report for 2012/13
 - Interim update reports from Internal Audit
 - Update reports and Annual Report on Risk Management
 - Member Officer group on Corporate Governance and the AGS
- 10.8 A workshop for Members that examines the draft AGS and supporting documentation will take place prior to the September Committee meeting.

- 10.9 Regular updates on progress on the AGS Action Plan will be brought to this Committee during 2013/14.

11.0 Access to information

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

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Designation: Interim Chief Operating Officer

Tel No: 01270 685882

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Cheshire East Council

DRAFT Annual Governance Statement 2012/13



Cheshire East Council – DRAFT Annual Governance Statement 2012/13

Foreword

The past year has been a challenging and demanding time for Cheshire East Council. Dealing with investigation into the Lyme Green development project, the weaknesses it exposed in our organisational culture and the senior management changes that resulted have had to be a priority for us.

As a publicly accountable body, we are responsible for ensuring that our business is conducted in accordance with the law and with proper ethical and professional standards, that public money is safeguarded and properly accounted for, and that our shrinking resources are used economically, efficiently and effectively. In the case of Lyme Green, we fell below those high standards of governance we expect. The actions taken to learn from the experience, and to make extensive improvements as a result, demonstrate the Council's commitment to maintaining those high standards.

This past year has also been an exceptionally busy period, in terms of making the changes needed to deliver the Council's ambitious service transformation plan. The Council's review of our management roles and responsibilities is the first element of this, as we move to put in place our new operating model as a Strategic Commissioning Council. This new structure and way of working is now becoming visible and will roll-out across the whole organisation by the end of 2013. This will pose some new governance challenges for us.

There are also many positives from the past year. In conducting the review to produce this Annual Governance Statement, we have been able to demonstrate, with assurance that work within the Council is generally

carried out to the high standards local people expect. Where there have been difficulties in meeting these, they have been dealt with appropriately and action has been taken to minimise the risk of it happening again.

Our Members and staff have high standards of conduct and behaviour. There are, occasionally, isolated exceptions, but we can be increasingly confident that our culture, values, and ways of working will reduce the opportunity for poor or inappropriate practice to occur, and increase the likelihood of detection if they do.

Despite the significant amount of change during 2012/13, the Council has finished the year in a stronger position than it started. 2013/14 and future years will bring new challenges, through different ways of working and delivering services as a Commissioning Council. Our role will grow to one of ensuring that our high standards of governance are shared with, and can be demonstrated by, the local organisations we partner with.

Kim Ryley
Interim Chief Executive
June 2013

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Section 1 - Cheshire East Council's Governance Framework

Scope of Responsibility

1. Cheshire East Council (CEC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
2. Cheshire East Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
3. In discharging this overall responsibility, Cheshire East Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and arrangements for the management of risk.
4. Cheshire East Council has approved and adopted a [Code of Corporate Governance](#), updated in October 2012, which is consistent with the principles and requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) Framework '[Delivering Good Governance in Local Government](#)'. A summary of the principles of the Code is shown in **Figure 1**.

Figure 1: Summary of the CIPFA/SOLACE Framework Principles



5. A summary of the Council's Code of Corporate Governance is described in **Figure 2**.

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Figure 2 - Summary of Cheshire East Council's Code of Corporate Governance

1) Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas	2) Members and officers working together to achieve a common purpose with clearly defined functions and roles	3) Promoting the values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour	4) Taking informed and transparent decisions which are subject to effective scrutiny and managing risks	5) Developing the capacity and capability of members and officers to be effective	6) Engaging with local people and other stakeholders to ensure robust public accountability
<u>1.1)</u> Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision, and its intended outcome for citizens and users	<u>2.1)</u> Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function	<u>3.1)</u> Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance	<u>4.1)</u> Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny	<u>5.1)</u> Making sure that members and officers have their skills, knowledge, experience and resources they need to perform well in their roles	<u>6.1)</u> Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountable relationships
<u>1.2)</u> Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning	<u>2.2)</u> Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard	<u>3.2)</u> Ensuring that organisational values are put into practice and are effective	<u>4.2)</u> Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs	<u>5.2)</u> Developing the capability of people with governance responsibilities and evaluating their performance as individuals and as a group	<u>6.2)</u> Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning
<u>1.3)</u> Ensuring that the authority makes best use of resources, that tax payers and service users receive excellent value for money, and the charge to tax payers to be affordable and reasonable	<u>2.3)</u> Ensuring relationships between the authority, its partners and the public are clear so that each knows what to expect of each other		<u>4.3)</u> Ensuring that an effective risk management system is in place	<u>5.3)</u> Encouraging new talent for membership of the authority so that best use can be made of individual's skills and resources in balancing continuity and renewal	<u>6.3)</u> Making best use of human resources by taking an active and planned approach to meet responsibility to staff
			<u>4.4)</u> Using their legal powers to the full benefit of the citizens and communities in their area		

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6. The Council undertakes an annual review of its governance arrangements to ensure continuing compliance with best practice as set out in the Framework.
7. This Annual Governance Statement (AGS) is that review and explains how the Council has complied with the Code and meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011, which requires all relevant bodies to prepare an Annual Governance Statement.

The Purpose of the Governance Framework

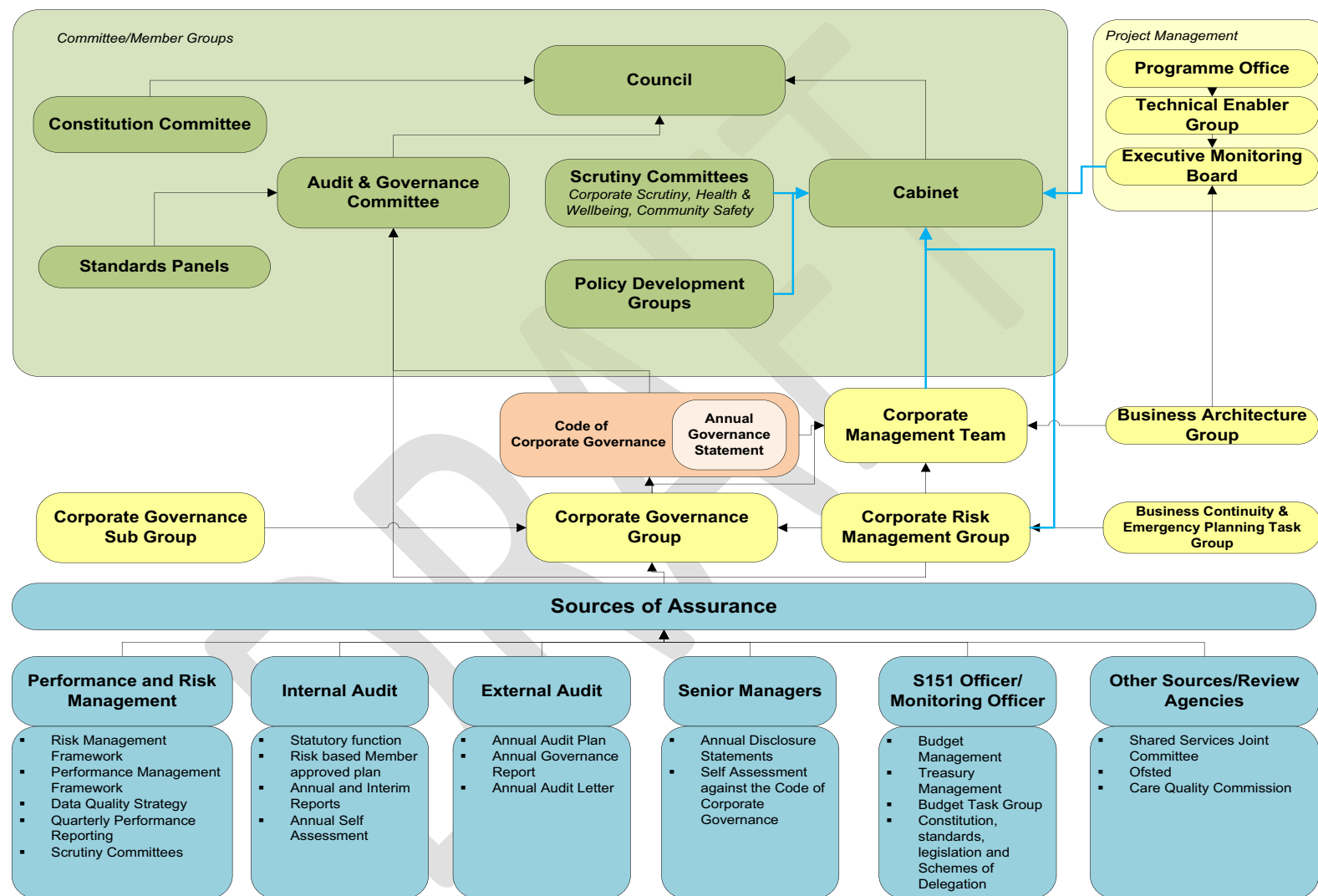
8. The Governance Framework comprises the systems, processes, cultures and values by which the Authority is directed and controlled and its activities through which it accounts to, engages and leads with the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
9. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.
10. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives; to evaluate the likelihood of those risks being realised; the impact should they be realised; and to manage them efficiently, effectively and economically.

The Governance Framework

11. The Governance Framework shown in **Figure 3** has been operating for the majority of the 2012/13 and was in place at 31st March 2013. Changes to the Framework during the year include the introduction of governance arrangements for Major Projects and Programmes in October 2012.
12. Six [Policy Development Groups](#) (PDGs) have been introduced in 2012/13 covering: Finance, Communities, Environment & Prosperity, Health & Adult Social Care, Corporate & Performance, and Children & Family Services.
13. The PDGs actively involve backbench Members on a cross-party basis, giving them a key role in the formulation of policy. They operate closely with scrutiny committees and the Cabinet, being informed by and informing the work of those bodies. The groups hold some meetings in private, particularly in the initial stages, but also meet in public to ensure open accountability for their decisions. The PDGs are being reviewed in June 2013.
14. [Scrutiny Committees](#) have been reviewed and refocused from six to three: Community Safety, Health & Wellbeing and Corporate Scrutiny.
15. The Standards Committee has been removed in line with the Localism Act 2011. The Authority continues to promote and maintain high standards of conduct by its Members, and has updated the Audit and Governance Committee's Terms of Reference to include responsibility for ethical standards and conduct issues. Up to three ad-hoc panels/sub-committees may be convened to consider different stages of alleged breaches of the Member Code of Conduct with membership drawn from the Audit and Governance Committee, plus a further five Members.

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Figure 3: Governance Framework as at 31st March 2013



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Section 2 - Review of Effectiveness

16. Cheshire East Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review process is co-ordinated by the Corporate Governance Group, and is informed by a variety of assurance sources.
17. It is important that the AGS is reported on both within the Authority, to the audit committee or other appropriate member body, and externally with the published accounts, to provide assurance that:
 - 17.1. governance arrangements are adequate and operating effectively in practice, or
 - 17.2. where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in future
18. We have reviewed the effectiveness of the Governance Framework as depicted in **Figure 2**. We have also highlighted where enhancements have been introduced during the year, or where opportunities for further improvement have been identified. In reviewing each principle we have identified the relevant sources of assurance.
19. The following paragraphs describe the sources of assurance as set out in **Figure 2**.
20. We have reviewed assurance statements completed by all Heads of Service responsible during 2012/13, and also assessed any partnership or other working arrangements with external partners, relating to their area of responsibility.
21. The assurance statements and review of Partnership Governance arrangements have been countersigned by the relevant Directors.
22. A self-assessment against the Council's Code of Corporate Governance has been carried out; work on this has been ongoing throughout 2012/13 by the Corporate Governance Group.
23. Assurance is also derived from the Head of Internal Audit's Annual Report for 2012/13. The Council has generally established an adequate framework of risk management, control and governance. Evidence throughout 2012/3 would however, indicate that although appropriate strategies and policies are in place and have been communicated, understanding, application and compliance are inconsistent across the organisation. Action has been, or is being taken to address the issues.
24. The Audit and Governance Committee plays a key role in the review of the effectiveness of the governance framework by seeking assurance on the adequacy of the Council's risk management, control and governance arrangements and monitoring the AGS action plan.
25. During 2012/13 the Council assessed the effectiveness of its internal audit by self assessing compliance with the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
26. A self-assessment of the Audit and Governance Committee was carried out by the Chair and Vice Chair in conjunction with the Audit Managers and reported to the Audit and Governance Committee in March 2013.
27. Our review is also informed by the reports, feedback and action plans of the External Auditors and other review agencies and

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Inspectorates. Grant Thornton became the Council's External Auditors on 1st September 2012.

Statement. This will inform the final version which is taken to the Audit and Governance Committee for approval in September 2013.

28. Each of the six principles of Cheshire East Council's Code of Corporate Governance, summarised in **Figure 2**, and is reviewed individually in the tables below. Actions for improvement have been identified. Where there has been a failure to reach the standards expected and further actions are ongoing/required, these issues have been included in the Significant Governance Issues and Action Plan 2012/13 (Section 4).
29. Many of the sources of assurance are referred to across more than one of the principles; a summarised list of the sources of assurance is provided at **Appendix A**.
30. A number of significant governance issues were identified in the Annual Governance Statement for 2011/12, including Issues and Actions arising from Lyme Green, and Awareness and Compliance with Council Policies and Procedures. Elements surrounding these issues still require improvement, and this year's Action Plan describes in further detail.
31. Progress on the 2011/12 improvement actions has been reported on throughout 2012/13. Sufficient progress has been made against the other issues not to be included in this year's action plan.
32. The process of preparing the AGS adds value to the corporate governance and internal framework of the Council. Both officer and Member involvement in the drafting process ensures that the document is robust and reflective of the Authority's governance and internal control arrangements for 2012/13.
33. The draft Annual Governance Statement will be presented to the Audit and Governance Committee on 27th June 2013 to provide an opportunity for Members to comment and feedback upon the

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Principle 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas.

This is what we've done during 2012/13:	The evidence of this is in:
<ul style="list-style-type: none"> Members have worked with Officers, to develop a clear vision of the Authority's purpose and intended outcomes for citizens and service users; these have been expressed in a variety of documents: <ul style="list-style-type: none"> The Sustainable Communities Strategy; "Ambition for All" 2012-25 sets out the collective vision for the area, and the priority actions which need to be addressed to achieve that vision. The Council's Three Year Plan setting out the strategic direction of the Council, its purpose and its main outcomes – approved by Council in February 2013. The Medium Term Financial Strategy 2013/16 sets out how the Council will meet its three-year priorities through major change programmes and transformation. The Budget Report 2013/16 confirms the proposals being put forward are deliverable and sustainable whilst managing continuing financial pressures and a 30% reduction in funding from Government as a result of national austerity measures. Service Plans are developed to express these plans at operational levels, and the Personal Development Review (PDR) process establishes individual objectives, all in support of delivering the outcomes initially expressed in either the Budget Report or the Service Plan. The Council ensures that users receive a high quality of service by measuring our performance, and publicly reporting our financial position. Services use a variety of performance measures to monitor the quality of service provision. Locally set performance indicators are monitored through the CorVu system and form part of the quarterly performance reports to Cabinet. We ensure the best use of resources for tax payers and services through the 2013/16 Business Planning process. A thorough financial challenge was carried out as part of the budget setting process, leading to a comprehensive change programme and other efficiencies. The Council's External Auditors issued a qualified Value for Money (VfM) opinion during 2012/13, in relation to the 2011/12 financial year. A small number of high level recommendations were agreed between the External Auditor and the interim Chief Executive which should improve the Council's arrangements. There are strong links between these and the recommendations made by Internal Audit in relation to the Lyme Green project investigation. These recommendations have been implemented, for example, by the introduction of the Project Management Framework, improvements to the Business Planning Process, setting of the Three Year Plan and the review and improvement of the Council's Performance Management Framework Council Tax was frozen again in 2012/13 and will be in 2013/14 and 2014/15. The Council has also introduced its own Council Tax Support Scheme, following abolition of Council Tax Benefits by the Government. The scheme began in April 2013 after public 	<ul style="list-style-type: none"> Sustainable Community Strategy Medium Term Financial Strategy Budget Report 2013/16 Service Plans PDRs Statement of Accounts 2012/13 Quarterly performance reports to Cabinet Consultation exercises Compliments and Complaints LGO Annual Report Cabinet reports on alternative service delivery models Council Tax Support Scheme

Cheshire East Council – DRAFT Annual Governance Statement 2012/13

Principle 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas.

This is what we've done during 2012/13:	The evidence of this is in:
<p>consultation in 2012/13.</p> <ul style="list-style-type: none"> Improved control of finances during 2012/13 has resulted in a small underspend for the year (per draft Outturn report). Spending pressures still remain in areas such as Adult Social Care, Waste and Leisure but these are being tackled by a number of remedial actions, including in some cases, alternative service delivery options. In addition, the capital programme has been subject to more rigorous review from both Officers and Cabinet members through a new project management system and a Gateway Approval system. The Council has continued to work with partners to deliver services, and over 2012/13 increased service delivery via external organisations. Examples of this include the approval of the Shared Service to become a Single Legal Entity, and the agreement of an operating partner for the Lyceum Theatre. The intention of these arrangements is to guarantee high quality service delivery at the best possible value to the local tax payer. Governance arrangements for existing key partnerships are in place and embedded. Examples include the Local Area Partnership, the Shared Service Back Office, and the Local Enterprise Partnership. As the Council moves to becoming a Commissioning Organisation, there is a need to make sure we are working with adequate and appropriate resource to support the governance of such arrangements. The new post of Chief Operating Officer is responsible for the design, planning and operation of all the 'core' business support functions which underpin the strategic commissioning framework of the Council, together with the monitoring, evaluation and reporting of the performance of all providers (including in-house service teams) used by the Council (and its partners where such provision is delivered on a joint or integrated basis), against the agreed outcomes for local people. They will also ensure sound democratic decision making, good governance, and openness/access to information. In addition, the Chief Operating Officer also undertakes the statutory role of Section 151 Officer. Financial Management arrangements continue to be compliant with CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010). Although there have been staffing changes at a senior level, there has been a Section 151, or authorised Deputy in place throughout the year. Use of the Council's Corporate Complaints procedure is monitored to identify the number of complaints received, and those escalated to the Local Government Ombudsmen. The Local Government Ombudsmen's Annual Review will be reported to the Audit and Governance Committee in September 2013. 	

Cheshire East Council – DRAFT Annual Governance Statement 2012/13

Principle 2 – Members and Officers working together to achieve a common purpose with clearly defined functions and roles.	
This is what we've done during 2012/13:	The evidence of this is in:
<ul style="list-style-type: none"> The Interim Chief Executive has introduced a new management structure, which will begin to take shape during 2013/14. This will see the Council become a commissioning organisation, working with alternative service delivery models and partners to deliver services, and signals an end to 'silo working', which was identified as one of the internal failings in the review of Lyme Green. Interim senior staffing arrangements have been introduced to minimise disruption following the departure of a number of senior officers. This initially involved the use of deputies to ensure compliance with statutory responsibilities such as Section 151 responsibilities, and the subsequent use of interim appointments to provide additional support. The interim appointment of a Monitoring Officer and the Chief Operating Officer has been supported by the first round of appointments to the new management structure. Cllr Michael Jones was appointed as Leader of the Council on 16th May 2012. Mr Kim Ryley has served as Interim Chief Executive during 2012/13; however a new permanent Chief Executive appointment was approved by Council on 7th May 2013 to take effect from August 2013, and new working relationships are already developing through valuable discussions and meetings. The Business Planning process is summarised in 2013/2016 Budget Report, which clearly sets out how resources will be matched against the delivery of priorities set out in the Council's Three Year Plan and major change programme. Section 2 of the Budget Report sets out the approach to delivering Financial Stability and a balanced budget over the medium term. Annex 7 of the report includes a comprehensive risk assessment used to underpin the Council's Reserves Strategy. All reports on decision making matters require input from the Section 151 Officer and the Monitoring Officer regarding the financial and legal implications respectively. Delegated Decisions and Non-Compliances (of Contract Procedure Rules) have been reviewed and approved at CMT during 2012/13. A report to Audit and Governance Committee on 27th September 2012 provided an initial update on the revised procedure. Subsequently the appropriate Member/Officer working group considered specific examples. In addition, the Internal Audit plan 2012/14 contains a review in this area. The Constitution published on 1st February 2013 was updated to include the requirement to report to Audit and Governance Committee on the number of non-compliance instances on a half yearly basis and the first of these report is scheduled for the 26th September 2013. Additional training on Procurement rules has been carried out, and all Schemes of Financial Delegation have been subject to review and were updated in July 2012. Further work on ensuring Schemes of Financial Delegation remain up to date as efficiently as possible 	<ul style="list-style-type: none"> Chief Executive report to Council 28/02/13 Cheshire East Council Constitution Council agenda, reports and minutes Compliance with Contract Procedure Rules report to Audit and Governance Committee

Cheshire East Council – DRAFT Annual Governance Statement 2012/13

Principle 2 – Members and Officers working together to achieve a common purpose with clearly defined functions and roles.	
This is what we've done during 2012/13:	The evidence of this is in:
<p>is ongoing. Schemes will need to be updated regularly as the Council moves into its new structure.</p> <ul style="list-style-type: none"> The Council is currently going through a management review as part of its transition to becoming a "Commissioning Council". This is significantly changing its management structure. In order to take account of this, the Council meeting on 15th May 2013 made a resolution to ensure that there would be no "gap" in terms of the officer delegation scheme, during the period of the restructure. The last set of general amendments were approved by Constitution Committee on 24th January and published 1st February 2013, but further amendments will be required following the meeting of Council on 15th May 2013. Section 38 of the Localism Act 2011 requires the authority to publish a Pay Policy Statement by 31st March on an annual basis. The purpose of the statement is to provide transparency with regard to the Council's approach to setting the pay of its employees. The Pay Policy in effect for 2012/13 was agreed by Council on 23rd February 2012 and the Policy for 2013/14 agreed by Council on 28th February 2013. A new Independent Remuneration Panel was appointed during 2012/13 and is reviewing the Members allowance scheme. A Partnerships Protocol, to inform and enable well governed relationships where the Council delivers services with external organisations was being drafted during 2012/13, however, this has been halted pending the outcome of the organisational redesign; the need for guidance to ensure we understand, introduce and comply with appropriate governance for new ways of working as a commissioning organisation has been recognised by the Corporate Governance Group and will be monitored closely during 2013/14. During 2012/13 the Council has improved its appraisal process and introduced a new set of Corporate Behaviours. This is a comprehensive framework with different levels appropriate for different grades of staff in the Council and now forms part of the appraisal discussion(s). It enables managers to focus on 'how' staff go about their job and the way they achieve their objectives rather than focusing on the achievement of objectives in isolation. The behaviours go hand in hand with the ASPIRE values to help create the very best culture for Cheshire East. 	

Cheshire East Council – DRAFT Annual Governance Statement 2012/13

Principle 3 – Promoting the values of the authority and demonstrating the values of good governance, through upholding high standards of conduct and behaviour.

This is what we've done during 2012/13:	The evidence of this is in:
<ul style="list-style-type: none"> The Authority's purpose and values are key to the Council's new Three Year Plan and the organisational redesign of the Council. The Council's ASPIRE values have been updated to outline how the Council will work under the new design: we take action with integrity; we respect and support each other; together we achieve excellence for people in Cheshire East The Employee Code of Conduct has been reviewed and updated and issued to all staff in June 2012. It is available on the Council's CEntranet site. The Authority adopted a new Member Code of Conduct on 19th July 2012, in line with the requirements of the Localism Act 2011. The Code is intended to ensure all Members observe the highest standards when carrying out their duties The Standards Committee met for the last time on 18th June 2012 and was formally decommissioned in November 2012. During 2012/13, under the old Code of Conduct, the Council dealt with twelve complaints (four Borough, eight Parish), the majority of which were completed before the new arrangements began, although four required further action post - 19th July 2012. Under the new Member Code of Conduct, periodic reports will be going to the Audit and Governance Committee, showing the number and outcome of complaints received. Decision notices from public meetings will be published in full on the Council's website. The Council's Data Protection Policy has been updated in line with the Information Commissioner's Office (ICO) undertaking. As part of the Heads of Service self-assessment, contributing to this statement, it was recognised that this change had not been immediately communicated to Officers through the usual channels, because of disruption caused by senior staff departure and reorganisation. Guidance is now being made available via CEntranet and will be highlighted via Team Talk and targeted email. There have been no problems identified as a result of the change not being communicated. The Council has a Whistleblowing Policy which has been reviewed during 2012/13 and remains in line with best practice. This review, along with details of reports received under the policy was reported to the Audit & Governance Committee (28th March 2013). 	<ul style="list-style-type: none"> Council's Three Year Plan Staff Code of Conduct New Code of Conduct for Members Data Protection Policy Whistleblowing Policy

Cheshire East Council – DRAFT Annual Governance Statement 2012/13

Principle 4 – Taking informed and transparent decisions which are subject to effective scrutiny and managing risks		
This is what we've done during 2012/13:		The evidence of this is in:
<ul style="list-style-type: none"> There is a Gateway model (as per the Constitution) in place to provide assurance and controlled start up of projects. This has been established since August 2012 and involves the Executive Monitoring Board (EMB) and Technical Enabler Group (TEG). Monthly meetings of these groups are now held to review, challenge and give endorsement for all new major projects and programmes. EMB also oversee the monthly monitoring of major projects and programmes as well as commission health checks, as required. There is a Corporate Programme Management Office (PMO) in place which monitors programmes and projects and provides guidance. It also runs and supports EMB/TEG. An external provider has been providing programme and project management training for Senior Responsible Owners and Project/Programme Managers. The training is mandatory for all officers who are accountable for programme/projects and/or are managing projects and/or are part of a project team. Annual reports on Corporate Complaints, Data Protection and Freedom of Information are presented to the Audit and Governance Committee. All Council payments over £500 are published on the Authority's website. The organisation's assurance arrangements are broadly compliant with the requirements of the CIPFA statement on the Role of the Head of Internal Audit, although the Head of Internal Audit post remained unfilled during 2012/13, due to the revision of the management structure. The Audit Managers reported directly to the s151 Officer, with a direct reporting line to the Chief Executive available. Internal Audit will move to the "Governance" section in the new management structure. A self assessment of compliance with the Code of Practice for Internal Audit in the United Kingdom 2006 was carried out during 2012/13. The review concluded that, although there are areas for improvement, the Internal Audit service is being delivered to the required standard. From 1st April 2013 the authority will need to demonstrate compliance with the Public Sector Internal Audit Standards. Opportunities for Internal Audit to collaborate with neighbouring authorities and partners continued to be explored during 2012/13. Member/Officer sub groups continued to be used to develop and support the work of the Audit and Governance Committee. A new Financial Reporting Centre has been launched during 2012/13 to provide self-serve access for managers to a consistent set of reports. The month-end processing timetable has been reviewed and accelerated to allow for reports to be published by the first Monday following the calendar month end. Further development work is planned to enhance the basic reports through inclusion of commitment data from interfaced systems. 		<ul style="list-style-type: none"> EMB/TEG Agendas and Reports Internal Audit Annual Report 2012/13 Audit and Governance Committee agendas and reports for 2012/13 Corporate Risk Management Group reports to the Audit and Governance Committee 2012/13. Ofsted report Council payments > £500

Cheshire East Council – DRAFT Annual Governance Statement 2012/13

Principle 4 – Taking informed and transparent decisions which are subject to effective scrutiny and managing risks	
This is what we've done during 2012/13:	The evidence of this is in:
<ul style="list-style-type: none"> On-line audit trails have been activated in Oracle and investment in interrogation software is planned to allow audit logs to be analysed and checked. A data quality issue has been recognised within Licensing, arising from problems in transferring data from other systems. We know that this has had an impact on the quality of the data which can be returned in the National Fraud Initiatives, and Internal Audit are carrying out a review to understand the wider impact of the data quality issue. An action plan will be agreed to progress the issues identified. The Council's arrangements for the protection of children were inspected by Ofsted in March 2013. Although the inspectors acknowledged that there were examples of good practice throughout services, there were a number of areas for improvement identified, and therefore the effectiveness of our arrangements was judged to be "Inadequate" overall. An action plan has been agreed with Ofsted and the Senior Leadership Team for Children's Services. The Council has a Corporate Risk Management Group which meets every two months and is chaired by the Portfolio Holder responsible for risk. The Group reports regularly to the Audit and Governance Committee on risk management. Cabinet and the Corporate Management Team (CMT) began to review the key corporate risks and risk register in late 12/13. Work on updating and prioritising the risks and the production of an accompanying action plan and heat map is continuing. Risk management was an integral part of the Council's service planning processes during 2012/13. There is a risk management section on the report template for all decision papers so that report writers may highlight the key risks associated with any decision making and guidance on risk management was made available for report writers and policy makers to assist with this. Cabinet and CMT have agreed that the Council should aim to achieve a consistent level of "risk managed" in terms risk maturity. Currently the level of risk maturity is judged to be between "risk aware" and "risk defined". Whilst this gives a good foundation, work is required to further embed risk management understanding and techniques, such as risk identification. The Council maintains a register of hospitality and declarations of interests. Officers and Members are required to complete an annual declaration. 	

Cheshire East Council – DRAFT Annual Governance Statement 2012/13

Principle 5 – Developing the capacity and capability of Members and Officers to be effective	
This is what we've done during 2012/13:	The evidence of this is in:
<ul style="list-style-type: none"> The Council has a comprehensive Corporate Training Programme which continues to grow each year. We have also had significant uptake of our online courses through the Learning Lounge intranet site, which offers a wide range of courses including Health and Safety, Time Management, Project Management, Equalities and Diversity amongst others. Training across a range of issues is provided to all elected members each year. In early 2013, the Council began work on developing a comprehensive training programme for members around the topics of leadership, constructive working relationships and its new role as a commissioning Council for delivery in 2013/14. The introduction of the Policy Development Groups has helped to develop the capability of Members on a cross-party basis, giving them a key role in the formulation of policy. In addition, the use of Cabinet Support Members has been important in succession planning. We have invested in Oracle to further develop our online appraisal process and incorporate the new behaviours. All staff and managers (with online access) are required to complete their appraisal online and provide an assessment against the achievement of objectives, the corporate behaviours as well as an overall rating for the performance year. This will provide valuable management information about the overall performance levels across the Council and specific gaps /areas of development. Cheshire East is accredited as training employer, for example, by CIPFA, the Association of Accounting Technicians (AAT) and the Association of Chartered Certified Accountants (ACCA). Staff are professionally trained and qualified where necessary; for example, the Finance team as a whole includes 40 qualified or part qualified accountants and 25 qualified or part qualified accounting technicians. We also have 45 staff who are full or student members of the Institute of Revenues Rating and Valuation (IRRV). Core competencies identified as part of senior management review place appropriate emphasis on financial management skills and accountabilities. New pay structures/policies will incentivise improved financial management practice. Training provided as part of FRC launch and roll-out should enhance financial literacy/awareness amongst budget managers. Finance Policy Development Group provides new opportunity to develop and embed more focussed understanding amongst members of key financial issues. Regular 1:1 meetings with Finance Portfolio Holder and programme of benchmarking activity/collaboration with other authorities provide opportunities for member development and learning. A series of staff road shows were run during the winter involving around 1500 members of staff in a range of venues across the borough. Entitled "Shaping our future together" the purpose of the road shows was to inform and engage staff around the new era in local government, the challenges and choices ahead and to discuss and explore the new deal for staff. The road shows provided valuable feedback and insights into how staff felt about the new deal and our transformational journey and this has helped shape our approach to effectively managing and embedding the required change. 	<ul style="list-style-type: none"> Corporate Training Programme Personal Development Review framework Policy Development Groups

Cheshire East Council – DRAFT Annual Governance Statement 2012/13

Principle 6 – Engaging with local people and other stakeholders to ensure robust public accountability.	
This is what we've done during 2012/13:	The evidence of this is in:
<ul style="list-style-type: none"> The Scrutiny Function has been revised, and now comprises three committees instead of six; Corporate Scrutiny, Community Safety and the Health and Wellbeing Board. The Health and Wellbeing Board was in shadow operation during 2012/13, and went 'live' at the start of April 2013. Relationships and processes are still developing between the Health and Wellbeing Board and Scrutiny Committee. The newly introduced Community Safety Scrutiny Committee reviews the work of the Community Safety Partnership. It will also need to develop relationships and processes. Six policy development groups have been introduced covering the following areas; Finance, Communities, Environment and Prosperity, Health and Adult Social Care, Corporate and Performance, and Children and Family's Services. The groups actively involve backbench Members on a cross-party basis, giving them a key role in the formulation of policy. They operate closely with both scrutiny committees and the Cabinet, being informed by and informing the work of those bodies. The groups hold some meetings in private, but also meet in public to ensure open accountability for their decisions. The Policy Development Groups are due to be reviewed in June 2013. The People's Panel has continued to meet over the course of 2012/13. The Panel meets monthly and provides a platform for employees to share their views, ideas, information and influence key decisions. The Council launched a 'Media Hub' on the Council's Intranet Page during 2012/13. This provides a central point of contact between the Council's Communications Team, and anyone interested in the work of the authority; residents, media, businesses and partners. It provides quick links to the latest news from the authority and our social media channels; YouTube, Flickr, Twitter accounts and Facebook. "Cheshire East Direct" was launched in April 2013, as a weekly email available to staff, members, and residents, providing an update on the Council's news. A number of Consultation exercises have been carried out, most extensively on the Local Plan to provide the widest possible opportunity for engagement with local people and other stakeholders. Consultation opportunities are generally advertised via the Council's website and provide an opportunity to invite public opinion and inform decisions on service delivery. Public engagement continues to be a priority of the Council and is maintained through the use of the Citizens Panel. The panel affords the Council an opportunity to engage with a representative group of citizens across the Borough. The panel, 'Influence Cheshire East' (ICE) continues to grow and now has over 3,000 members. The Spring Survey 2012 had a 64% completion rate. Results were published in October 2012 and included specific findings/outcomes on Libraries, Food Waste Collection and Health and Wellbeing. Results and analysis have been used and will continue to be used to inform and evaluate the Council's three year plan outcomes. 	<ul style="list-style-type: none"> Scrutiny Committee agendas and reports Policy Development Groups Media Hub Cheshire East Direct Consultations on www.cheshireeast.gov.uk Influence Cheshire East

Cheshire East Council – DRAFT Annual Governance Statement 2012/13

Section 3 – Emerging governance issues

34. There are a number of emerging issues with the potential, if not well managed, to become significant governance issues. These are summarised below, and will be monitored by the Corporate Governance Group during 2013/14, and escalated to Corporate Management Team and/or Audit and Governance Committee as necessary.
- Unprecedented pace of change currently within the Council, including:
 - Challenges of being a Commissioning Council – establishing needs assessment, commissioning plan etc.
 - High staff turnover – maintaining effective governance arrangements during transition period, particularly around statutory roles and functions
 - Alternative service delivery models – governance arrangements, roles and responsibilities etc.
 - Constitution – will require maintaining and updating to reflect changing organisational structure and new ways of working.
 - Government's Spending Review announcement due on 26th June 2013 will set the level of spending from April 2015 onwards. There is a significant risk of this resulting in further financial pressures for this organisation.

Cheshire East Council – DRAFT Annual Governance Statement 2012/13

Section 4 - Significant governance issues and Action Plan 2012/13

35. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.
36. There are a number of issues that require attention and development over the course of the next year. These are listed in the table below; "Significant Governance Issues and Action Plan 2012/13".
37. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Leader of the Council	Chief Executive
Dated:	

Cheshire East Council – DRAFT Annual Governance Statement 2012/13

Significant Governance Issues and Action Plan 2012/13

Ref	Improvement Area	Actions required	Responsibility	Target date
1	Management Structure & Organisational Culture			
	<p>Weaknesses in the Council's organisational culture, which were a product of separate professional "silos" in the Council's management structure. These have sometimes caused confusion, poor decision making, and inefficiency, because it was not always clear who had authority to act and who was accountable ultimately for the success or failure of particular initiatives.</p> <p>See: Cabinet Report 4th February 2013</p>	<p>Move to new 'Strategic Commissioning' Operating Model</p> <p>Implement new management structure</p>	Chief Executive	September 2013
2	Embedding Corporate Policies and Procedures and Ensuring Compliance			
	<p>The Council has a significant number of corporate policies and procedures, which have been mapped by the Corporate Governance Group.</p> <p>There is insufficient evidence from the various assurance sources that all Council policies and procedures are currently embedded amongst Officers. With minimal resources, monitoring to ensure compliance with policies and procedures is currently limited.</p>	Map Council's Assurance Framework and review to ensure adequate coverage in ensuring compliance.	Chief Executive	September 2013

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Appendix A: Sources of Assurance

- [Code of Corporate Governance](#)
- [Sustainable Community Strategy: “Ambition for All”](#)
- [Budget Report 2013/16](#)
- [Medium Term Financial Strategy 2013/16](#)
- [Constitution \(February 2013\)](#)
- Quarterly Performance Reports to Cabinet
- [Internal Audit Annual Plan 2012/13](#)
- Internal Audit Annual Report 2012/13 (June 2013)
- [External Audit Annual Audit Letter 2011/12](#)
- [Pay Policy 2012/13](#)
- [Committee Agendas, Reports and Minutes 2012/13](#)
- Audit and Governance [Committee Terms of Reference](#) and [work plan 2012/13](#)
- Audit and Governance Committee Annual Report 2012/13 (September 2013)
- [Audit and Governance Committee Self Assessment 2012/13](#)
- Annual Report on Risk Management 2012/13 (June 2013)
- [Consultation exercises](#)
- [Compliments and complaints](#)
- Local Government Ombudsmen Annual Report (September 2013)
- [Code of Conduct for Members](#)
- Staff Code of Conduct
- Whistleblowing Policy
- Data Protection Policy
- [Ofsted Report – Local Authority arrangements for the protection of young children](#)
- [Council payments >£500](#)
- [Cheshire East Council Media Hub](#)

CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 27 June 2013
Report of: Interim Chief Operating Officer
Subject/Title: Draft Statement of Accounts 2012/13
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

- 1.1 This report provides members with an overview of the key issues within the draft 2012/13 Statement of Accounts.

2.0 Recommendation

- 2.1 That members note the key issues within the draft 2012/13 Statement of Accounts.

3.0 Reasons for Recommendations

- 3.1 The Accounts and Audit Regulations 2011 require this Committee to approve the Accounts after the external audit is completed before the deadline of 30 September 2013. However, it is considered important that this Committee receives an overview of the key issues within the draft 2012/13 Statement of Accounts prior to the audit.

4. 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

- 7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 The Regulations and best practice guidance necessitating this report are set out elsewhere in this report.

9.0 Risk Management

- 9.1 The Local Government Act 2003 and the Local Government and Housing Act 1989 require the Statement of Accounts to be produced in line with recommended accounting practices. Failure to do so could result in a qualification of the accounts and an adverse impact on the Council's reputation.

10.0 Background and Options

- 10.1 The Statement of Accounts for 2012/13 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). In 2012/13 there have been no significant changes in the Code's requirements which affect Cheshire East Council and therefore no change to the Authority's accounting policies or the format of the accounts.
- 10.2 The Cabinet received a report on the Final Outturn Review of Performance on 21 June 2013. The headline outturn position was an underspend of £0.3m against the approved revenue budget. The 0.3m underspend comprised of an overspend by Directorates of 1.8m offset by an underspend of £2.1m on contingencies and central budgets.
- 10.3 The report identified significant improvements to the service outturn position since the Third Quarter Report. The budget for 2012/13 included a planned use of reserves of £7.3m; the impact on reserves at final outturn was an increase of £7.6m to £19m.
- 10.4 The increase in General Reserves provides the Council with greater flexibility to invest. This is an improvement on the position of the last two years where reserves have only been adequate to cover risks. At March 2012 the Council was placed in the bottom third compared to other all purpose authorities unallocated reserves as a percentage of net expenditure, but performance in 2012/2013 is now expected to place the Council considerably above average
- 10.5 The Council continues to demonstrate a healthy balance sheet, with net assets of £238.6m, (£377.9m at 31 March 2012), a reduction of £139.3m. In the main this is as a result of an increase in the pension liability of £71.1m and a reduction in Non Current Assets, (i.e., Fixed Assets) of £71m.
- 10.6 The Council's external auditors are Grant Thornton. The audit will commence on 1 July and is expected to be completed by mid

September. Members will receive a report from the auditors on 26 September 2013 which will give an opinion on the accounts. The final audited Statement of Accounts are required to be approved by this committee by the deadline of 30 September.

- 10.7 The following sections describe the significant issues within each of the main financial statements. A full version of the draft Statement of Accounts will be made available on the website by 30 June 2013.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

- 10.8 This statement reflects the sum of all income, expenditure, gains and losses incurred by the Council during 2012/13 and explains how the balance sheet position has changed since 2011/12. The statement shows a net deficit on Provision of Services of £62.9m in 2012/13.

Summarised Comprehensive Income and Expenditure Statement	2012-13			2011-12
	Spend £000	Income £000	Total £000	Total £000
Expenditure on Services	713,221	(285,858)	427,363	412,770
Corporate and Democratic Core	8,858	(5,387)	3,471	4,877
Non-distributed Costs	4,897	(69)	4,828	5,039
Cost of Services	726,976	(291,314)	435,662	422,686
Other Operating Income & Expenditure	41,027	(1,484)	39,543	37,283
Financing and Invt Income and Expenditure	20,213	(2,000)	18,213	3,949
Taxation and Non-Specific Grant Income	0	(430,524)	(430,524)	(411,581)
(Surplus)/Deficit on Services	788,216	(725,322)	62,894	52,337
Surplus on Revaluation of Assets/Invts	0	0	6,611	(12,992)
(Surplus)/Deficit on Pensions	0	0	69,826	84,614
Total	0	0	139,331	123,959

- 10.9 It should be noted that the Comprehensive Income and Expenditure Statement shows the Council's financial position in accordance with accounting practice rather than the actual charges and credits made according to statute. This means that the costs include notional charges for items such as depreciation, impairment and IAS19 pension charges.

- 10.10 The format of the statement is based on Service Reporting Code of Practice (SeRCOP) which defines how expenditure and income should be categorised. The aim of this analysis is to ensure all authorities are reporting data consistently to assist comparison between Councils.

10.11 In order to convert the balances shown into amounts to be charged or credited against Council Tax in year, a number of adjustments are made in the Movement in Reserves Statement.

MOVEMENT IN RESERVES STATEMENT

10.12 This statement exists to allocate all the surpluses or deficits contained in the Comprehensive Income and Expenditure Statement against the appropriate reserves in the Council's Accounts. It removes all the balances that are not chargeable against the General Fund and allocates them to other reserves bringing the charge to the General Fund back to the position reported to Members as part of the outturn.

10.13 The main accounting adjustments made are to reverse out pension adjustments, depreciation, impairment charges and capital grants as well as introducing charges for the minimum debt repayments.

Summarised Movement in Reserves Statement	General Fund £000	Earmarked Reserves £000	Other Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Opening Balance 1/4/12	11,381	23,301	26,103	317,122	377,907
Surplus / (Deficit) on Services	(62,894)	0	0	0	(62,894)
Other Expenditure and Income	0	0	0	(74,195)	(74,195)
Accounting Adjustments	69,805	0	(14,256)	(55,549)	0
Transfer to Earmarked Reserves	644	(1,390)	746	0	0
Closing Balance 31/3/13	18,936	21,911	12,593	187,378	240,818

BALANCE SHEET

10.14 The balance sheet position as at 31 March 2013 shows a decrease in net assets of £139.3m.

Summarised Balance Sheet	31 March 2013 £000	31 March 2012 £000	Change £000
Non-Current (Fixed) Assets	811,800	882,859	(71,059)
Long Term Investments and Debtors	28,146	24,115	4,031
Long Term Assets	839,946	906,974	(67,028)
Debtors	48,178	52,292	(4,114)
Cash & Cash Equivalents	32,688	34,592	(1,904)
Short Term Investments	11,490	3,687	7,803
Other Current Assets	1,569	9,996	(8,427)
Current Assets	93,925	100,567	(6,642)
Short Term Creditors	(93,230)	(102,094)	8,864
Short Term Borrowing	(6,075)	(5,521)	(554)
Provisions	(7,323)	(6,039)	(1,284)
Current Liabilities	(106,628)	(113,654)	7,026
Long Term Borrowing	(127,777)	(128,880)	1,103
Net Pension Liability	(431,324)	(360,242)	(71,082)
Other Long Term Liabilities	(29,566)	(26,858)	(2,708)
Long Term Liabilities	(588,667)	(515,980)	(72,687)
Net Assets	238,576	377,907	(139,331)
Usable Reserves	53,440	60,785	(7,345)
Unusable Reserves	185,136	317,122	(131,986)
Total Reserves	238,576	377,907	(139,331)

Pensions

10.15 One of the most significant changes on the balance sheet relates to the Pensions deficit. The £431m net pensions liability at 31 March 2013 represents an increase of 20% from the previous year (£360m at 31 March 2012). In common with most local authorities, the increase in the net liability was primarily due to the Actuary's financial assumptions (e.g. inflation estimates) being less favourable at 31 March 2013 than at 31 March 2012. Although the actual investment return on pension assets during 2012/13 was higher than expected at the start of the year, it was not enough to fully offset the increase in the liability.

10.16 It is important to note that this does not represent an immediate call on Council's reserves. The Council's actual liability is reviewed every three years as part of the triennial valuation of the Pension Fund and an investment strategy is determined which aims to recover the deficit over a stated period (currently 20 years).

Property, Plant and Equipment

- 10.17 Property, Plant and Equipment Assets have decreased by £72m as a result of property disposals or transfers and the annual revaluation exercise.
- 10.18 During 2012/13 the Council transferred assets valued at £3.9m to Town and Parish Councils under the devolution policy, these included:
- Bollington Civic Hall & Library ~ £1.901m
 - Disley Community Centre and Library ~ £0.480m
 - Nantwich Civic Hall ~ £0.701m
 - Alsager Civic Hall ~ £0.413m
- 10.19 Knutsford and Eaton Bank High Schools converted to academy status during 2012/13 with assets totalling £24.908m and the playing fields for All Hallows Academy were also removed from the Council's asset register.
- 10.20 Sales of the Council's land and buildings during 2012/13 resulted in capital receipts totalling £10.548m. These included the sale of Pym's Lane Crewe for £3.750m, the sale of the former Oaklands School site for £1.605m, Ludford School site £0.692m and part of the farms estate £2,828m. The total net book value of the assets disposed of amounted to £16m.
- 10.21 In 2012/13 the Council commenced a five year rolling programme to value the Council's assets, 24% of the assets that are due to be re-valued in the next five years were carried out as part of the 2012/13 revaluation process. The valuation exercise resulted in a number of impairments mainly due to the change in valuation basis from Depreciated Replacement Cost (DRC) to Existing Use Value (EUV).
- 10.22 The major changes have affected Corporate Buildings including Macclesfield Town Hall and Delamere House with downward valuations of £6.985m, Libraries £7.036m with the two largest reductions being at Macclesfield Library £1.387m and Crewe Library £0.932m, Schools £2.624m and Adults Care Facilities £4.018m.

Capital Reserves

- 10.23 Following an in-year review of the balance sheet, undertaken by Treasury Advisors - Arlingclose, the Council decided to use existing capital reserves to finance capital expenditure which has taken place in previous years and has been met from borrowing. The application of £15.6m of capital reserve has been used to repay borrowing for assets purchased after 2008 and this will reduce the level of revenue provision required for the repayment of debt in 2013/2014 and future years. Capital receipts received in year of £11.6m were fully utilised to fund

the capital programme. The balance on the reserve as at 31 March 2013 is £1m.

Earmarked Reserves

10.24 The strategy to reduce the number of separate Earmarked Reserves has been completed, the slight increase in value of £0.947m in 2012/2013 coming from the carry forward of unspent balances identified for specific investment proposals.

Debt Provision

10.25 Total debt outstanding (excluding local taxation) is £5.2m of which £2.7m is over 6 months old. A bad debt provision of £2.9m is available to meet potential write-offs.

Borrowing and Investments

10.26 The Councils capital financing requirement (CFR) currently exceeds the amounts actually borrowed with the shortfall being funded from cash balances. Borrowing is currently being repaid at a rate of £5.5m per year which means the gap between the CFR and actual borrowing is increasing which exposes the Council to interest rate risk in the future if cash balances were to fall and borrowing had to be taken at prevailing rates at the time. To reduce exposure to interest rate risk and prevent excessive use of internal resources a new loan of £5m was taken in 2012/13 to replace most of the maturing debt.

10.27 In accordance with the Treasury Management Strategy the Council sought to finance its capital expenditure through the use of its own existing cash balances rather than through the raising of long term loans. The benefits of this are twofold; firstly by reducing the amount of cash balances held by the Council it reduces the credit risk and secondly, the interest foregone on the cash balances use to finance capital expenditure payments was less than the amount of interest payable on any new loans that would have been raised.

10.28 The net investment income received in 2012/13 was £567k, which was favourable compared to the initial budget target of £300k. Average cash balances available in the year for investment were £83.8m and the total average interest rate received in the year was 0.74%. The Bank of England base rate remained at 0.50% for the full year.

11.0 Access to Information

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

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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of meeting: 27 June 2013
Report of: Kim Ryley, Interim Chief Executive
Title: Annual Report on Risk Management from the Corporate Risk Management Group
Portfolio Holder: Councillor David Brown

1.0 Report Summary

- 1.1 This is the annual report of the Corporate Risk Management Group to the Audit and Governance Committee. 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. This report records the work of the Corporate Risk Management Group for the year in reviewing the development, maintenance and implementation of the Council's risk management framework, including monitoring and reporting arrangements. The report covers the financial year from 1 April 2012 to 31 March 2013 and includes any significant issues up to the date of the preparation of the report.

2.0 Decision Requested

- 2.1 The Audit and Governance Committee is requested to consider and review the annual report of the Corporate Risk Management Group which is for information and discussion.
- 2.2 Part of the work of the Group included an annual review of the Risk Management Policy, although the Policy remained fit for a purpose a number of minor amendments have been made to strengthen the Policy. The Audit and Governance Committee is requested to endorse the minor changes made to the Risk Management Policy (as attached at **Appendix A**) as a result of the annual review, for onward approval by Cabinet.

3.0 Reasons for Recommendations

- 3.1 Risk management is central to good governance and effective strategic management. Cheshire East Council is publicly accountable and must be able to demonstrate effective management of the kinds of risks which threaten the achievement of its strategic objectives, the effectiveness of its operations, the reliability of its financial reporting, and the security and value of its assets. Risk Management provides a structured, consistent and continuous process across the whole of Cheshire East Council for identifying, assessing, deciding on responses to, and reporting on opportunities and threats that affect the achievement of the Council's 3 Year Plan objectives and outcomes.
- 3.2 Being able to demonstrate effective systems for managing risks is a critical step in producing supportable statements of internal control for annual reporting purposes. The benefit of a strong risk management framework from a governance viewpoint is that it gives a greater level of confidence that management have properly and adequately fulfilled their responsibility in operating an effective system of internal control. This in turn gives confidence to both Members and staff to support a higher appetite for risk, at a time when major change is necessary and desirable. In order to form an opinion on the effective operation 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, the work of the Corporate Risk Management Group helps to provide assurance of this.

4.0 Wards Affected

4.1 All

5.0 Local Ward Members

5.1 N/A

6.0 Policy Implications

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

7.0 Financial Implications

7.1 None in relation to this report, a risk around financial control is included as a corporate risk on the corporate risk register.

8.0 Legal Implications

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 framework (which includes the role and work of the Corporate Risk Management Group) is operating effectively.

9.2 The content of this report aims to mitigate the following risks:-

Key Risks
That Cheshire East Council fails to properly develop, implement and demonstrate an effective risk management framework
That Cheshire East Council fails to apply its risk management policy consistently across the Council
That Cheshire East Council fails to recognise risk or make correct decisions to tolerate, treat, transfer or terminate risk due to poor risk management

10.0 Background

10.1 Corporate Risk Management Group Membership

10.1.1 Membership of the Corporate Risk Management Group for 2012-13 was as follows:-

Cllr David Brown, Portfolio Holder for Policy & Performance (in the Chair)
 Vivienne Quayle, Head of Policy & Performance
 Julie Davies, HR Strategy & Policy Manager
 David Upton, Organisational Change Manager
 Peter Hartwell, Head of Safer & Stronger Communities
 Christine Mann, Finance Manager
 Jackie Gray, Shared Services Manager
 Juliet Blackburn, Performance & Partnerships Manager
 Sue Crompton, Performance Standards and Information Manager (Adult Services)

Diane Taylor, Partnerships & Planning Manager (Children & Families)
Catriona Thompson, Head of ICT Security
Julie Openshaw, Legal Team Leader (Places, Regulatory and Compliance)
Jon Robinson, Audit Manager
Joanne Butler, Performance and Risk Manager

10.1.2 Membership of the Group is reviewed annually as part of the self review of effectiveness and as and when required during the year if there are any leavers or role changes. As a result of the self-assessment, for 2013-14, membership of the Group will be revised to include a balanced mix of Commissioner and Provider roles so that the Corporate Risk Management Group has sufficient understanding of the Council.

10.2 Corporate Risk Management Group Meetings

10.2.1 Meetings of the Corporate Risk Management Group to consider risk management took place on:-

- 11 May 2012
- 20 July 2012
- 28 September 2012
- 16 November 2012
- 4 January 2013
- 15 March 2013

10.2.2 Attendance at the Corporate Risk Management Group meetings averaged 71% over the 6 meetings.

10.3 Corporate Risk Management Group Terms of Reference

10.3.1 The Group's Terms of Reference were maintained during the year, some minor amendments to the responsibilities and updates to membership were made on an ongoing basis. A formal review of the Terms of Reference was undertaken as part of the Group's self-review of effectiveness and was found to be adequate and fit for purpose.

10.4 Risk Management Policy

10.4.1 Cheshire East Council is required to ensure that it maintains a sound system of internal control. As part of the work of the Corporate Risk Management Group, the following key principles of effective risk management have been applied.

Effective risk management:

- covers all risks - governance, management, quality, reputation and financial, however it is focused on the most important key risks
- produces a balanced portfolio of risk exposure
- is based on a clearly articulated policy and approach
- requires regular monitoring and review, giving rise to action where appropriate
- needs to be managed by an identified individual and involve the demonstrable commitment of senior officers and members
- is integrated into normal business processes and aligned to the strategic objectives of the Council

10.4.2 The Corporate Risk Management Group reviewed and updated the Council's Risk Management Policy at its meeting on 11 May 2012. The updated Risk Management Policy was approved by Cabinet at its meeting on 20 August 2012. It was agreed that the Risk Management Policy be reviewed on an annual basis and so was reviewed by the Group at the meeting held on 23 May 2013. The outcome of the review was that although the Policy remained fit for purpose a number of minor amendments could be made to strengthen the Policy. The amendments are highlighted for ease of reference in the attached copy of the Policy at **Appendix A** to this report.

10.4.3 **Audit and Governance Committee is requested to endorse the minor changes made to the Risk Management Policy** as a result of the annual review, for onward approval by Cabinet.

10.5 Key Corporate Risks – Threats and Opportunities

10.5.1 At each meeting during the year, the Audit and Governance Committee received a risk management update from the Corporate Risk Management Group, including an overview of the key corporate risks, corresponding risk ratings and the direction of travel of risks.

10.5.2 During the year, the Corporate Risk Management Group considered and discussed the Council's key corporate risks to ensure that risks were assessed consistently across the Council and to monitor the implementation of actions to mitigate the risks to acceptable levels. A number of risks were added to and removed from the key corporate risk register during the year.

10.5.3 At the end of February, Cabinet and the Corporate Management Team (CMT) undertook a risk and opportunity workshop and began to review the key corporate risks to achieving the Council's objectives and outcomes. The workshop included a refresher presentation on the principles of risk management. This included a reminder that the definition of risk concerns possible future events (both threats and opportunities) which may adversely, or beneficially, affect the Council's ability to achieve its objectives. Corporate risk summary descriptions and risk ownership have been assigned, as attached at **Appendix B** to this report for information, and work is presently underway to assess these risks and to record existing and future planned mitigating actions; these risks will then be prioritised accordingly and a risk "heat map" produced.

10.5.4 The presentation provoked discussion around risk appetite and the maturity of the Council in dealing with risk. Cabinet and CMT agreed that the Council should strive to consistently reach the level of maturity of risk managed, as a minimum standard. At present, the level of risk maturity for Cheshire East is judged to be between risk aware and risk defined which gives a good foundation to further embed risk management and improve the quality of risk identification.

Risk Naive	Risk Aware	Risk Defined	Risk Managed	Risk Enabled
No formal approach or processes developed for risk management, avoidance and lack of engagement.	Scattered silo based approach to risk management using standalone processes, reactive approach.	Risk appetite defined. Strategy and policies in place and communicated. Some understanding and application but passive acceptance and compliance with reliance on risk registers.	Enterprise approach to risk management developed and communicated, risk embedded in key processes. Active engagement and risk based decision making.	Risk management and internal controls fully embedded into the operations. Regular review and improvement of risk processes, fully committed to risk management and confident risk taking.

10.5.5 The Audit & Governance Committee requested that it receive a short briefing at each meeting from the Risk Owners / Managers of the highest key corporate risks. (For this purpose, short briefing means attending the meeting and being able to talk through the risk stewardship template to explain the risk and controls.) The most up to date version of the

risk stewardship template for corporate risk 11, Commissioning and Service Delivery Chain Risk is attached at **Appendix C** to this report for discussion with the Risk Owner/Risk Manager during the Audit and Governance Committee meeting.

10.6 Significant and Cross-cutting Risks

10.6.1 The Corporate Risk Management Group provides a medium for ensuring that significant and cross-cutting operational risks that may affect the achievement of the Council's objectives are escalated and reviewed alongside the Corporate Risk Register. Significant and cross-cutting risks identified by the Group during the year included the following risk titles:-

- Information Assurance
- ICT Dependency
- Carbon Reduction

10.6.2 *Bribery Act 2010*: During the year, the Corporate Risk Management Group also considered a formal assessment of where the Council perceives that it is at higher or lower risk of being susceptible to bribery, and any further actions required in its approach to managing bribery risk. In accordance with the Bribery Act 2010, the Council has adopted risk-based approach to managing bribery risks which will be reviewed on an annual basis. Bribery is a criminal offence and as an organisation Cheshire East Council is committed to the prevention, deterrence and detection of bribery. The findings of the assessment were that there are no areas of the business at high risk of bribery, and no areas for high level concern with regard to the four key offences under the act. There were some areas where the impact of the risk was considered to be high but in these cases the assessment was that it was unlikely that this risk would materialise, which resulted in a medium risk assessment rating. No further specific improvement to controls were highlighted as necessary as a result of the bribery risk-assessment.

10.6.3 At the last meeting of the Audit and Governance Committee, Members asked about the Council being prepared for the changes arising from the Welfare Reform Act. It was agreed that the risk register from the Welfare Reform Working Group would be brought to the next meeting. This is attached at **Appendix D** to this report for information.

10.7 Specialist Risk Areas – Insurance and National Fraud Initiative

10.7.1 The Insurance Team gave a briefing to the Corporate Risk Management Group on claims and the insurance fund. It was thought that an analysis of claim volumes and trends over the previous two financial years could help to focus and direct resources. Robust risk management was seen as vital in safeguarding both the insurance fund and the Council's reputation with insurers. The most significant area of insurance claims was covered under the Council's Public Liability policy. This includes Highways related 'trips and slips', 'pothole' damage claims as well as the normally more complicated and long-tailed 'Abuse' & 'Failure to Remove' related insurance claims.

10.7.2 The Group was informed that it was becoming apparent that the current economic conditions were impacting on the level and type of claims being notified to the Council. Current financial pressure on all Council Services to work within reduced budget provision represents both a potential financial and reputational risk to the Council in terms of increasing claim volumes as services are streamlined, re-defined and resource levels reduced. Emerging risks and trends were around cyber risk and child abuse claims.

10.7.3 During the year the Corporate Risk Management Group also received updates from the Internal Audit Team on the progress and findings of the national fraud initiative. This included information on identified errors / frauds from the exercise and areas of risk that recommendations had been made to improve controls.

10.8 Risk Management Framework Improvements

10.8.1 In order to strengthen the risk management framework and to support staff with integrating risk management into normal business processes, the Group agreed and published the following guidance on risk management on the Centranet:-

- Risk management guidance for report writers
- Self-challenge questions for report writers
- Risk management guidance for policy makers
- Self-challenge questions for policy makers

10.8.2 The Performance and Risk Manager has been working alongside the Programme Management Office to provide advice and guidance on risk management, as part of the Council's new project and programme management methodology. A number of workshops have been held with Project Management Teams to identify and articulate project risks. Risk registers are included as part of the standard templates for project managers and advice and guidance on risk management has been given through the technical enablers group (TEG) and in the project management handbook.

10.8.3 Risk register templates are also included as part of the standard planning documentation for Business Units, as part of the 3 year planning for unit areas. Advice and guidance on this has been made available on the Centranet for managers and staff.

10.8.4 Weaker areas of the risk management framework identified for the Corporate Risk Management Group to action with Managers over the next year include:-

- strengthening of the Council's cultural understanding that risk management is about effectively managing risks that could affect the achievement of the Council's objectives and is concerned with identifying not only threats to success but also opportunities for benefits.
- ensuring that objectives are clearly articulated and are continually referred back to, as these are the foundation in determining which risks are relevant, and the level of impact associated with each threat or opportunity
- whilst there had been some improvement over the last year in the use of operational risk registers and better quality risk definitions, work was still required on capturing the mitigating action and controls so that risks could be properly scored and the most significant risks escalated accordingly through the Corporate Risk Management Group. It is likely that this will need strengthening further this year as completed Business Unit Plans are reviewed.
- further work needs to be undertaken to agree an overview of the risk exposure that the business areas face, and to determine a risk appetite level for each business area or significant project including both a statistical guide and a qualitative high level statement of risk preferences.

10.8.5 An annual self-review of effectiveness was undertaken by the Group through means of a general discussion and use of a proforma questionnaire for assessment. The overall opinion of the self-assessment review was that whilst the Corporate Risk Management Group worked effectively as a Group, potential enhancements to ensure that the Group was sufficiently outward facing were identified and an action plan had been drafted accordingly, these actions continue to be undertaken.

11.0 Corporate Risk Management Group Summary

11.1 The purpose of the Corporate Risk Management Group is to assist the Council with the management of risks to achieving its strategic priorities and service delivery by reviewing all matters concerning the development, maintenance and implementation of the Council's risk management framework, including monitoring and reporting arrangements. The work of the

Corporate Risk Management Group over the year has assisted and demonstrated improvements to the Council's risk management framework, but there are further developments to be made to progress the level of risk maturity of the Council.

- 11.2 It is important that risk management is not seen as a burden to the Council, the benefits of a high level of risk maturity are that internally it promotes good management by encouraging consistent and systematic management behaviour to identify and assess risk and take advantage of opportunities. Active risk management means that projects and initiatives are better managed and unnecessary opportunistic risks are avoided. A consistency of approach, owing to an embedded risk management framework, will promote and facilitate better cross-functional working between administrative support and service functions within the Council. Consequentially, it adds value by improving communication and raising a greater awareness of projects, initiatives and activity.

12.0 Access to Information

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

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CHESHIRE EAST COUNCIL - RISK MANAGEMENT POLICY

1.0 Introduction

- 1.1 A risk is concerned with a threat or a possible future event which will adversely or beneficially affect Cheshire East Council's ability to achieve its objectives. It is typically assessed using two dimensions, one of which is the impact of the threat or hazard. This represents the consequence of the threat or hazard on the Council's objectives. The second dimension is the frequency or likelihood of the risk occurring, this represents the probability of the threat or hazard happening.
- 1.2 Risk management is the process that informs strategic development through the identification and treatment of risk such that, objectives are more likely to be achieved, damaging actions or events are avoided or minimised and opportunities maximised.

2.0 Purpose

- 2.1 This risk management policy forms part of Cheshire East Council's internal control and corporate governance arrangements. The purpose of this policy is to clearly outline the council's commitment to risk management, describe the objectives of risk management and provide a framework for embedding risk management across the organisation, with defined roles and responsibilities and a structured process. Through the implementation and embedding of an effective risk management framework, Cheshire East Council will ensure that it is better placed to manage its performance, achieve its corporate objectives and provide an enhanced level of service to the community.
- 2.2 The following key principles outline the Council's approach to risk management and internal control:
- Council and Cabinet have responsibility for overseeing risk management within the council as a whole
 - an open and receptive approach to understanding the challenges of risk management is adopted by Cabinet and Council
 - the Chief Executive and the Corporate Management Team support, advise and implement policies approved by Cabinet and Council
 - the Council makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks
 - there will be a range of appetites and tolerance levels for different risks which will vary over time but these will be approved and communicated appropriately
 - the Corporate Management Team and Operational Management Team are responsible for encouraging good risk management practice within their Business Areas
 - key risk scores and indicators of levels of risk are identified and closely monitored on a regular basis.

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3.0 Commitment to Risk Management

- 3.1 Cheshire East Council is committed to adopting best practice in the identification, evaluation and cost effective control of risks to ensure that they are reduced to an acceptable level or eliminated, and also maximise opportunities to achieve the council's objectives and deliver core services. It is acknowledged that some risks will always exist and will never be eliminated.
- 3.2 All officers must understand the nature of the risk and accept responsibility for risks associated with their area of work, including an understanding of how reputation value for the Council is added or

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lost. In doing this they will receive the necessary support, assistance and commitment from senior management and Members.

- 3.3 The council's risk management objectives are a long term commitment and an inherent part of good management and governance practices. The objectives need the full support of Members and active participation of managers.

4.0 Benefits of Good Risk Management

- 4.1 Good risk management increases the probability of success, and reduces both the probability of failure and uncertainty of achieving Cheshire East Council's overall objectives.



5.0 Objectives of the Risk Management Approach

- 5.1 The six key objectives of the approach to risk management are to:

- Embed risk management into the ethos, culture, policies and practices of the council.
- Ensure the council successfully manages risks and opportunities at all levels – strategic, operational, programme, project and partnership.
- Manage risk in accordance with all statutory and best practice requirements.
- Ensure that risk management is a key and effective contributor to Corporate Governance and the Annual Governance Statement.
- Ensure that risk management helps to secure efficient and effective arrangements to identify and achieve successful local and national priority outcomes.
- Embed an effective business continuity management framework to provide continuous service delivery in the event of an emergency.

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- 5.2 These objectives will be achieved by:

Annual Report on Risk Management from the CRMG – Appendix A

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- Establishing a risk management framework and risk management handbook for employees and Members.
- Clearly defining the roles, responsibilities and reporting lines within the council for risk management.
- Ensuring there is appropriate leadership and monitoring of corporate risks and key corporate project risks.
- Risk management being an integral part of and included in the council's processes, policies and documents, including service and project planning, writing reports and considering decisions.
- Providing advice, guidance, suitable information and training on risk management to employees and Members.
- Maintaining a hierarchy of risk registers, that are regularly reviewed and monitored, to demonstrate the management of risks linked to the council's business, corporate and operational objectives and to working in partnership. Working in collaboration with partners to ensure a joint successful approach to the management of risks.
- Using national and best practice guidelines on risk management and engaging in relevant risk management forums and benchmarking exercises to identify further opportunities for improvement in our approach to risk management.
- Providing opportunities for shared learning on risk management across the council and with other authorities, partners and stakeholders where appropriate.
- Heads of Service **and Corporate Managers** completing statements as to the effectiveness, or otherwise, of their systems for identifying, monitoring and managing corporate and operational risks.
- Ensuring that internal audit coverage is driven by a deep understanding of the risks, challenges and opportunities facing the Council. Some of the risks will be unique to individual services; others will be common to all services and other Authorities, giving opportunities for benchmarking.
- Preparing and testing contingency plans to secure business continuity where there is a potential for an event to have a major impact upon the council's ability to function.
- Identifying and seizing opportunities which risk management provides for the organisation.

6.0 Our Approach

6.1 It is essential that a single risk management approach be utilised at all levels throughout the authority. By effectively managing our risks and opportunities, which is all part of good governance, we will be in a stronger position to deliver our objectives, provide improved services to the public, work better as a partner with other organisations and achieve value for money. The council has closely integrated risk management into its planning and objective-setting process, enabling it to manage its risks in a more consistent, uniform way.

6.2 By integrating risk management with the council's strategic planning process and individual **business unit** plans we are able to monitor risks to achieving the objectives, determine which risks have the most significant impact, and prioritise resource accordingly. This approach to risk management will inform the council's business processes, including:-

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- Strategic planning
- Financial planning
- **Business unit** planning
- Policy making and review
- **Commissioning**

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Annual Report on Risk Management from the CRMG – Appendix A

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- **Provider delivery**
- Performance management
- Project management
- Partnership working
- Internal Audit planning

- 6.3 For those with responsibility for achieving objectives, responsibility also lies in identifying and assessing risks and opportunities; developing and implementing controls and warning mechanisms; and reviewing and reporting on progress. The identified risks and relevant control measures will be recorded on the council's risk registers and will be monitored, reported and reviewed by the Corporate Risk Management Group.
- 6.4 Some objectives could be reliant upon external groups that the authority may work with, such as other organisations, partners, contractors etc. This partnership working could affect the achievement of an objective and therefore the risk management process will be incorporated into the way the council works within these partnerships through Partnership Protocols.
- 6.5 The management of risk will become an integral part of corporate policy decisions and the initiation of major projects, which will include a statement on risk to help inform the decision making process.
- 6.6 This will assist Members and Officers to ensure that new risks are detected and managed, by providing more detail on the process for managing risk, where each stage builds upon the other and provides basic practical guidance on how to identify, assess and treat risks, and monitor their progress. To assist with this approach to risk management and to ensure consistency across the authority, a risk management handbook will be prepared, reviewed on an annual basis and reported to the Audit and Governance Committee for approval and adoption.

7.0 Risk Appetite

- 7.1 Understanding and setting a clear risk appetite level is essential to achieving an effective risk management framework and should be done before managers consider how to treat risks. Establishing and articulating the risk tolerance level helps to ensure that consideration in the way management, Cabinet and Council respond to risk is consistent and that there is a shared vision for managing risk. There are risks for which the Council is custodian on behalf of the public and the environment, where tolerance levels may be very low, and there may be risks with choices about investment in projects, research and delivery roles, where risk taking may be encouraged.
- 7.2 Cheshire East Council recognises that in pursuit of its objectives it may choose to accept an increased degree of risk. The council will establish and articulate risk tolerance levels for the differing areas of its business. Where the council chooses to accept an increased level of risk it will do so, subject always to ensuring that the potential benefits and risks are fully understood before developments are authorised, and that sensible measures to mitigate risk are established.

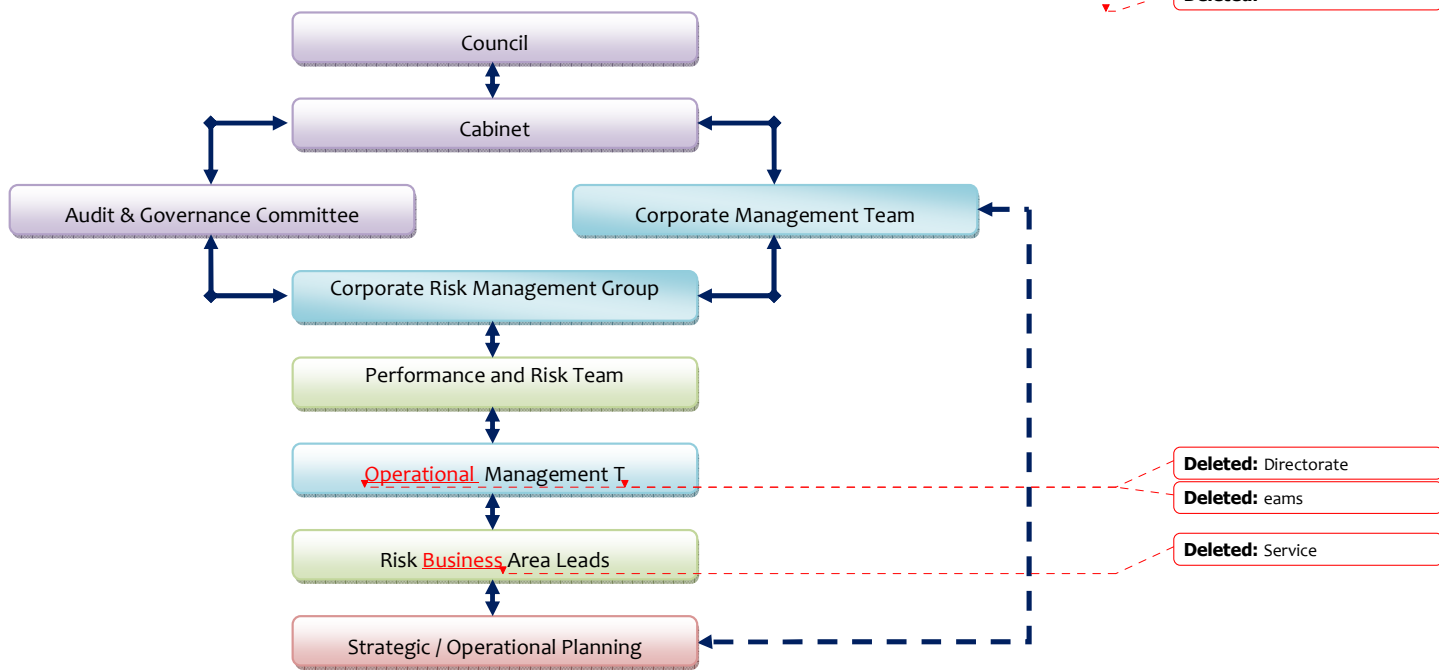
8.0 Roles and Responsibilities

- 8.1 Responsibility for risk management should run throughout the authority. Clear identification of roles and responsibilities ensure the successful adoption of risk management and demonstrate that it is embedded in the culture of the organisation. Everyone has a role to play in the risk management process. The council's reporting lines framework is shown on the diagram below:

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Annual Report on Risk Management from the CRMG – Appendix A



8.2 A summary of the roles and responsibilities of groups and individuals in relation to risk management is given in the table below:-

Individual or Group	Summary of Role & Responsibilities
Council	Monitors, receives reports and assurance on risk management activity and management of corporate and significant risks. Approves risk appetite / tolerance levels. Approves the risk management and business continuity policies. Approves public statements on internal control and provides assurance on risk management to the public.
Cabinet	Oversees the effective management of risk throughout the council, ensuring officers develop and implement an all encompassing approach to risk management. Responsible for identifying new corporate risks. Monitor the content of the key corporate and significant risk registers and comment on mitigation as appropriate. Ensure that risks are fully considered when making decisions. Consider and endorse the risk management policy and risk appetite / tolerance levels for ratification by Council.
Audit and Governance Committee	Provide independent assurance on the effectiveness of the risk management framework and associated control environment, and independent scrutiny of the council's financial performance. Hold Members and officers to account to consider mitigating action for risks and how appropriate / effective it is. Receive regular reports on the management of the top council risks.

Annual Report on Risk Management from the CRMG – Appendix A

Individual or Group	Summary of Role & Responsibilities
Scrutiny Committee	Reviews the portfolios, Cabinet and organisational performance as a whole. Ensure that officers and Members discharge their responsibilities effectively and efficiently including the identification and management of risks.
Portfolio Holder - Lead	Take a strategic lead for risk management in the council, from a Member's perspective, promoting and supporting the development and implementation of the risk management policy and ensuring that Members take risk management into account when making decisions.
Corporate Management Team (CMT)	Responsible for identifying new corporate risks. Gain an understanding and promote the risk management process and benefits, oversee the implementation of the risk management policy and agree any inputs and resources required supporting the work corporately. Manage strategic and cross-cutting risks. Report to elected members on the management of risks. Monitor and consider the mitigating actions for significant new and emerging corporate and operational risks as escalated and reported by the Corporate Risk Management Group.
Operational Management Team (OMT)	Ensure that risks are managed effectively in each business area in accordance with the risk management policy and procedure. Nominate and support a risk management representative to represent the OMT on the CRMG and identify risk business area leads.. Identify, analyse and prioritise risks as part of the business planning process. Determine risk management action plans and delegate responsibility and control. Act as filter groups, identify and approve the top council risks, escalating emerging risks where these could have a significant and strategic impact. Consider risk as regular agenda items at OMT meetings reviewing the risk registers and monitoring progress.
Corporate Risk Management Group (CRMG)	Assist the Council with the management of risks to achieving its strategic priorities and service delivery by reviewing all matters concerning the development, maintenance and implementation of the council's risk management framework, including monitoring and reporting arrangements. Identify and communicate risk management issues to Corporate Management Team (CMT), Operational Management Team (OMT) and business units.
Internal Audit	Challenge and test the risk management process, including the identification and evaluation of risk and provide independent assurance to officers and Members on the effectiveness of the risk management framework and internal controls. The audit coverage is driven by a deep understanding of the risks, challenges and opportunities facing the Council. Some of the risks are unique to individual services; others will be common to all services and other Authorities, giving opportunities for benchmarking. The programme of work is planned annually but constantly reviewed to ensure it remains up to date and appropriate and encompasses a wide range of financial and non-financial risks. The audits are creative, thoughtful and useful pieces of work. They provide robust assurance and offer pragmatic ideas for development.

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Annual Report on Risk Management from the CRMG – Appendix A

Individual or Group	Summary of Role & Responsibilities
External Audit	External audit provides feedback to the Audit and Governance Committee on the operation of the internal financial controls reviewed as part of the annual audit.
Section 151 Officer	Ensure that the risk management processes are considered as specified in the Finance Procedure Rules.
Performance and Risk Team	The business planning and performance management process is used to set objectives, agree action plans, and allocate resources. Progress and performance towards meeting business plan objectives is monitored regularly, including the control and operational actions to mitigate risk. Receive all the approved top risks from local registers, senior management meetings and governance committees. Act as filters to eliminate duplicates and help with consistency. Collates and coordinates a comprehensive report for presentation to CRMG. Reports back to local level, OMT, CMT, Cabinet, Council, Audit & Governance Committee, Scrutiny Committee and Corporate Governance Group. Facilitate regular meetings of Risk Business Area Leads. Share good practice and provide professional support, guidance and training across the council on risk management. Maintain the council's corporate and significant risk registers and the risk management system.
Managers	The business planning and budgeting process is used to set objectives, agree action plans, and allocate resources. Identify, analyse and prioritise risks as part of the business planning process. Progress and performance towards meeting business plan objectives is monitored regularly. Ensure that risk is managed effectively in their service area in accordance with the risk management policy and procedure. Produce, test and maintain Service Continuity Plans. Promote risk management and establish training requirements within service areas. Manage significant risks on a daily basis and report on mitigation.
Risk Business Area Leads	Support the Business Unit Teams in maintaining local risk registers. Remind risk owners when risk update reports are required. Provide details of the top risks to the Performance and Risk Team. Liaise with OMT risk representatives to ensure operational and strategic risks are properly managed. Coordinate with the Performance and Risk Team and other Risk Business Area Leads to ensure that risks affecting all services are managed cohesively. Align risk registers with relevant partners.
Programme and Project Managers	Ensure that we are capable of delivering major and complex programmes and projects across many of our business areas and are key to achieving the council's objectives. Identify, analyse and prioritise project risks as part of the project management process. Ensure that project risks are managed effectively, throughout the life of the project, in accordance with the risk management policy and procedure. Report on mitigation and effectiveness and escalate project risks that could impact on the achievement of other business unit objectives and corporate objectives.
Other specialist risk support services:	Advise Corporate and Operational Management Teams on policies, procedures and implications of strategic and operational risk decisions.
• Insurance	Ensure that risk management is embedded into business planning,

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Annual Report on Risk Management from the CRMG – Appendix A

Individual or Group	Summary of Role & Responsibilities
<ul style="list-style-type: none"> Health & Safety Climate Change Legal Emergency Planning Human Resources Environmental Communications & Media Relations 	<p>operational and performance processes, <u>this includes business continuity and emergency planning</u>. Seek to develop a shared and consistent corporate approach to risk management so that the council can demonstrate a clear systematic assessment and control of risk. Protect and manage risks to employees and public, Council reputation and financial values.</p> <p><u>Provide support in the coordination and implementation of the testing of business continuity plans. Liaise with the Cheshire Local Resilience Forum, to ensure that the Council is aware of and fully incorporated into the regional emergency and continuity planning processes. Lead in the promotion of business continuity planning to local businesses and voluntary organisations</u></p>
Officers	Manage risk effectively in their roles, liaising with <u>other</u> managers to assess areas of risk and identify new or changing risks.

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Deleted: Emergency Planning Team - Provide training, support, guidance and advice, as well relevant templates and documentation to aid the planning process.

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9.0 Internal Control

9.1 The system of internal control incorporates risk management. This system encompasses a number of elements that together facilitate an effective and efficient operation, enabling the council to respond to a variety of operational, financial and commercial risks. These elements include:-

a. Policies and procedures

Attached to significant risks are a series of policies that underpin the internal control process. The policies are approved by Cabinet and Council and implemented and communicated by senior management to staff. Written procedures support the policies where appropriate.

b. Quarterly reporting

Comprehensive quarterly reporting is designed to monitor key risks and their controls. Decisions to rectify problems are made at regular meetings of the Corporate Management Team and Cabinet if appropriate.

c. Business Continuity

The business continuity process is essentially risk management applied to the whole organisation and its ability to continue with its service provision in the event of a catastrophic event. The council has therefore developed a complimentary policy to the Risk Management Policy on Business Continuity to address this important aspect of risk management and is attached as **Appendix 1** to this Policy.

d. Anti-Fraud and Corruption

The council has an anti-fraud and corruption strategy, which directs the council towards ensuring a professional and ethical approach to combating fraud. As part of the council's anti-fraud and corruption framework, the council also has an anti-money laundering policy, which directs the council towards ensuring a professional approach to combating money laundering.

e. Whistleblowing

Cheshire East Council is committed to the highest possible standards of openness, probity and accountability. Employees, Members, contractors, suppliers to or consultants with, the authority are often the first to realise that something wrong may be happening within. The Whistleblowing

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Annual Report on Risk Management from the CRMG – Appendix A

Protocol is intended to help those who have concerns over any potential wrong-doing within the council.

f. *Audit, Inspectorate and Accreditation reports.*

The Council makes reference to and acts upon the results of the work of the internal and external auditors and on information and recommendations received from other Council feedback mechanisms, including inspectorates, professional bodies and accreditation bodies.

10.0 Document History

Version	Date	Approved by	Minute Ref
V1	17 May 2011 7 June 2011 30 June 2011 5 Sept 2011	Corporate Risk Management Group Corporate Management Team Audit & Governance Committee Cabinet	minute para 39.2 minute Item 5 minute para 10 minute 53
V2	11 May 2012 12 June 2012 28 June 2012 20 Aug 2012	Corporate Risk Management Group Corporate Management Team Audit & Governance Committee Cabinet	minute para 7.1 minute item minute para 60 (2) minute 49
V3	23 May 2013 4 June 2013 27 June 2013 19 August 2013	Corporate Risk Management Group Corporate Management Team Audit & Governance Committee Cabinet	

Risk Management Policy - Appendix 1

CHESHIRE EAST COUNCIL - BUSINESS CONTINUITY STRATEGY

1.0 Purpose

1.1 The purpose of this strategy is to clearly outline the Council's commitment to business continuity planning and its links to risk management. In addition it defines and clarifies roles and responsibilities.

2.0 Background and Requirements

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

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Annual Report on Risk Management from the CRMG – Appendix A

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

2.3 Business continuity management (BCM) is a planned process aimed at managing the many and varied operational risks inherent in the day-day activities involved in delivering services, and, therefore, it is an essential element of risk management, helping to create a resilient organisation and one which is able to provide continuous service delivery and effective use of resources. Effective risk management can reduce the likelihood of an incident occurring, whilst business continuity planning can reduce the impact if it does occur. As well as increased resilience, there are many benefits to having a structured and consistent BCM process in place:

- Credibility – protecting and enhancing the reputation of Cheshire East Borough Council.
- Supporting corporate governance and the requirement to produce an Annual Governance Statement
- Reduced costs – protecting assets, working more efficiently, reducing recovery cost, assurance of third party providers of services (who may be required to demonstrate effective resilience as part of any tender for business), lower insurance premiums, where the Council can demonstrate proactive management of continuity risks.

3.0 Objective of the Strategy

3.1 The objective of this strategy is to set out the requirement for Cheshire East Council to take steps to ensure that, in the event of a service interruption, essential services will be maintained and normal services restored as soon as possible. To ensure that this happens, the Council **and its service providers** must have in place robust business continuity and service recovery plans that are regularly reviewed and tested. In addition, the Council will promote and provide business continuity advice to local businesses and voluntary organisations, in order to ensure, in conjunction with the Joint Cheshire Emergency Planning Service, that the Cheshire East region is well prepared for any unforeseen events.

4.0 Implementation and Responsibilities

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

4.2 **B**usiness continuity is an essential element of risk management, **and as such is** managed as part of the Cheshire East Risk Management Policy, **r**esponsibility for its delivery will be incorporated into the roles outlined in the Risk Management Policy.

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Deleted: Members and Portfolio Holder Strategic Lead – ensure an effective Business Continuity Policy is in place.¶

¶ **Cabinet** – receive monitoring reports and annual report on the progress of Business Continuity within the Council.¶

¶ **Audit and Governance Committee** – provide independent assurance of the adequacy and effectiveness of the Council's resilience as part of the Risk Management framework.¶

¶ **Directors and Chief Officers** – ensure the production, communication, review and testing of Business Continuity plans for their Directorate/Services and ensure all staff are fully aware of these plans.¶

¶ **Corporate Risk Management Group** – monitor the progress and status of business continuity planning and the Council's level of resilience. Report quarterly to the Corporate Management Team, Cabinet and the Audit and Governance Committee.¶

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Annual Report on Risk Management from the CRMG – Appendix A

5.0 **Developing Plans**

5.1 **Understanding the operation** – Business impact analyses (BIA) need to take place to identify and agree critical processes or services and the potential damage or loss that may be caused to the Council and the community as a result of a disruption. A BIA must consider the minimum level of staffing, skills and resources required to enable essential services to continue operating at a minimum acceptable level. Following this, risk assessments must be undertaken to identify internal and external threats to the Council, the likelihood of these occurring, and therefore the potential impact.

5.2 **Strategies** – strategies must be developed to offset the identified risks, e.g. eliminate single points of failure, implement better controls, etc.

5.3 **Developing and implementing plans** – these must be documented and available for use within any type of emergency incident. They must also include ‘stand-by’ arrangements, including accommodation and specialist equipment, as well as **information technology** systems and telecommunications. They need to tie in with plans already in place, such as the Cheshire East Council Major Emergency Plan and the Emergency Rest Centre Plan.

5.4 **Building and embedding a BCM culture** – there is a need to have an effective education and awareness programme in place to ensure that all staff are fully aware of the impact of an unforeseen event, and their roles and responsibilities in a recovery situation.

5.5 **Exercising, maintenance and audit** – there must be a regular testing programme in place within **Business Units**, to ensure that the critical components of the plans are exercised.

6.0 **Review**

6.1 This strategy will be reviewed on an annual basis alongside the review of the risk management policy.

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Directors	Ensure that risks are managed effectively in each service area in accordance with the risk management policy and procedure. Nominate and support a risk management representative to represent the Directorate on the CRMG and identify risk service area leads within the Directorate. Identify, analyse and prioritise directorate risks as part of the business planning process. Determine risk management action plans and delegate responsibility and control. Act as filter groups, identify and approve the top council risks, escalating emerging risks where these could have a significant and strategic impact. Consider risk as regular agenda items at DMT meetings reviewing the Directorate risk registers and monitoring progress.
Service Heads and Managers	The business planning and budgeting process is used to set objectives, agree action plans, and allocate resources. Identify, analyse and prioritise service risks as part of the business planning process. Progress and performance towards meeting business plan objectives is monitored regularly. Ensure that risk is managed effectively in their service area in accordance with the risk management policy and procedure. Produce, test and maintain Service Continuity Plans. Promote risk management and establish training requirements within service areas. Manage significant risks on a daily basis and report on mitigation.

Page 10: [2] Deleted **Jo Butler** **20/05/13 15:19:00**

Emergency Planning Team - Provide training, support, guidance and advice, as well relevant templates and documentation to aid the planning process. Provide support in the coordination and implementation of testing. Liaise with the Cheshire Local Resilience Forum, to ensure that the Council is aware of and fully incorporated into the regional emergency and continuity planning processes. Lead in the promotion of business continuity planning to local businesses and voluntary organisations

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Internal Audit

Provide an independent assessment of the robustness, or otherwise, of the Business Continuity Plans within Services.

Other members of staff

Ensure that they are fully aware of the Business Continuity Plans for their particular area of work, and take proactive steps to improve resilience wherever possible

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Agreed Risk Manager
CR1	Threat	Political Environment: That development and changes as a result of government policy and reviews compromise the Council's ability to deliver, preventing the achievement of all or some of our objectives and outcomes (E.g. the welfare reform may create financial hardship for some residents resulting in negative community impacts and unexpected increase in demand for Council services)	Chief Executive	Leader of the Council	Exec Director of Strategic Commissioning
CR2	Opportunity	Managing Expectations: Opportunity to ensure that there is a mutual understanding and recognition of responsibilities between the people of Cheshire East and the Council, preventing an expectations gap between expected and actual Council service delivery; such that we influence our Communities to become more self-reliant, reduce unnecessary demand, and improve public perception of the Council's effectiveness in its aim to best serve the people of Cheshire East and be a leading, commissioning and responsible Council.	Exec Director of Strategic Commissioning	Deputy Leader & Strategic Communities Portfolio Holder	Head of Resilient Local Communities
CR3	Threat	Strategic Leadership and Management: Risk that a number of interlinked change factors result in ineffective strategic leadership and management arrangements in place meaning there is no clear and consistent understanding of our business for staff, members and partners. This reduces our ability to achieve all of our priorities, objectives and outcomes. These factors include: <ul style="list-style-type: none"> ➤ management restructure ➤ incoming new Chief Executive and other senior appointments ➤ scale of delivery on substantial change programmes 	Chief Executive	Leader of the Council	Head of Organisational Development
CR4	Threat	Financial Control: Risk that the Council fails to manage expenditure within budget, due to inaccurate financial planning in both the short term and longer term and/or ineffective financial control leading to a failure to maintain an adequate level of reserves, thereby threatening financial stability and service continuity and preventing the achievement of Cheshire East's objectives and outcomes.	Chief Operating Officer	Finance Portfolio Holder	Finance Manager

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Agreed Risk Manager
CR5	Opportunity	External Funding: Opportunity that the Council identifies, bids for, or captures new alternative sources of external funding or income, or aligns other public sector local expenditure (such as by the NHS) to create added public value and increases its ability to achieve its objectives and outcomes.	Chief Operating Officer	Finance Portfolio Holder	Finance Manager
CR6	Opportunity	Evidenced Decision Making: Opportunity to more effectively utilise information and business intelligence to properly and adequately take into account supplementary evidence and public need, resulting in a better ability to apply evidence based decision making, and strengthening our ability to effectively and efficiently reshape our commissioning approach to deliver services more innovatively to best serve the people of Cheshire East and achieve our intended outcomes.	Chief Operating Officer	Deputy Leader & Strategic Communities Portfolio Holder	Head of Commercial Strategy, Business Innovation, & Performance
CR7	Threat	Reputation: Risk that consideration is not given and management action is not taken, to effectively maintain the reputation of the Council, leading to a loss of public confidence, threatening the stability of the Council and our ability to meet the corporate priorities.	Chief Executive	Leader of the Council	Communications and Media Relations Manager
CR8	Opportunity	Public Sector Effort: Opportunity to ensure that a consensus approach and joint strategic planning by several Council partners reduces duplication of effort and ensures best use of resources in varying geographic areas, such that efforts are not contradictory and/or do not leave gaps and we maximise public resources such that the Council and its partners are better able to achieve intended objectives and outcomes.	Chief Executive	Leader of the Council	Exec Director of Strategic Commissioning

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Agreed Risk Manager
CR9	Threat	<p>Workforce: Risk that the fast pace of change in the Council results in poorly managed change and a de-motivated, disengaged and poor performing workforce which prevents the Council from achieving all its objectives and priorities and fails to be a leading Council.</p> <p>The poorly managed change gives rise to:-</p> <ul style="list-style-type: none"> ➤ disconnect as roles and responsibilities change and settle ➤ increased pressure on staff to improve their skills and knowledge ➤ overstretched staff capacity ➤ increase in staff stress and sickness levels ➤ loss of productivity ➤ loss of key staff, skills and knowledge 	Chief Executive	Performance Portfolio Holder	Head of HR & Organisational Development
CR10	Threat	<p>Contract, Project and Programme Management Skills: Risk that the Council does not have a sufficiently number of skilled and knowledgeable staff managing contracts, projects and programmes, such that they fail to deliver expected outcomes and/or within budgeted costs and/or within expected timescales and/or fail to comply with contract agreements. This will affect the Council's ability to achieve all of its priorities and outcomes, realise agreed savings to ensure better value for money, and may have a detrimental effect on the Council's reputation for failing to deliver on our promises.</p>	Chief Operating Officer	Performance Portfolio Holder	Head of HR & Organisational Development

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Agreed Risk Manager
CR11	Threat	<p>Commissioning and Service Delivery Chains: Risk that as the Council moves into a more active “market making” role, it will progressively form complex and more fragmented supply chains for both back office and front line services (i.e. outsourcing, contracted suppliers and providers, shared service delivery, joint ventures, private finance initiatives and partnership working) increasing the materialisation of commissioning and service delivery chain risks which would prevent the Council from achieving its planned objectives, priorities and outcomes. Examples of these risks include:-</p> <ul style="list-style-type: none"> ➤ inappropriate, ineffective and inefficient provider commissioning ➤ failure to meet/deliver service expectations/standards ➤ supplier/partner financial failure ➤ increase in supplier incidents, non-compliance ➤ tension between profit motives and public sector ethos ➤ budget overruns ➤ increase in systematic risks in increasingly shared services 	Chief Executive	Corporate Policy Portfolio Holder	Executive Director of Strategic Commissioning
CR12	Opportunity	<p>Local Development Plan – Housing: Opportunity to ensure that the local development plan is developed to meet housing demand such that we are able to provide the right type of housing and development sites in the right places and are able to stimulate growth in the local economy, provide adequate housing and are able to meet the needs of Cheshire East residents. This will reduce risks to our vulnerable residents, homelessness and assist with the management of wider health, wellbeing and community safety issues such that the Council is better able to achieve its outcomes.</p>	Director of Economic Growth and Prosperity	Prosperity and Economic Regeneration Portfolio Holder	Strategic Planning and Housing Manager
CR13	Threat	<p>Public Health and Wellbeing: Risk that there is a lack of understanding of the Council’s statutory and other new responsibilities for Public Health services and activity, such that we are unable to commission effectively or to embed and ensure that public health is central to Council activity, threatening our ability to protect or improve the health of the population, the consequences of which would be that the Council would be unable to achieve its intended outcome that local people live well and for longer.</p>	Chief Executive	Health and Adult Social Care Portfolio Holder	Director of Public Health

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Agreed Risk Manager
CR14	Threat	Business Planning –Resource: Risk that we have not planned the resource required to deliver our significant projects, to be delivered over a relatively short period of time, causing overreliance on internal support services (e.g. Assets, Insurance, Legal, Procurement, ICT) and insufficient resource and capacity to deliver, resulting in increased costs, failure to deliver priority projects, business operational issues and an inability to achieve the Council’s intended objectives and outcomes.	Chief Operating Officer	Performance Portfolio Holder	Head of Commercial Strategy, Business Innovation, & Performance
CR15	Threat	Protection of Children and Young People: Risk that social workers do not always consider cases of children possibly at risk of harm carefully enough, such that there is poor recognition of risk, and decisions and actions to find out more about their situations are either not taken at all, or not taken quickly enough. This may result in children and young people being unprotected and at potential risk of harm thus impacting upon our ability to deliver the outcome of local people living well and for longer.	Executive Director of Strategic Commissioning	Children and Family Services Portfolio Holder	Head of Early Intervention & Prevention
CR16	Opportunity	Intervention: Opportunity to take co-ordinated intervention between internal and external partners resulting in fewer young people and families being escalated up the levels of need, fewer children and young people ending up in the criminal justice system and care, resulting in a decrease in exponential spend. This will have a positive impact on financial resources, public safety, health & wellbeing, positive contributions to society and successful transition to adulthood such that it will aid the achievement of the corporate outcomes for 2013-16.	Executive Director of Strategic Commissioning	Children and Family Services Portfolio Holder	Head of Early Intervention & Prevention
CR17	Threat	Vulnerable Care: The risk of sufficient, quality placements/care packages not being available leaving vulnerable children and adults without safe and stable accommodation such that some may not be effectively safeguarded impacting upon our ability to deliver the outcome of local people living well and for longer, as well as to Government intervention continuing beyond the reasonable period to show good progress with required service improvements.	Executive Director of Strategic Commissioning	Health and Adult Social Care Portfolio Holder	Director of Adult Social Care and Independent Living

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Agreed Risk Manager
CR18	Threat	<p>Legal: The rate of change and different delivery models may mean doing things quickly without recognising and/or acting accordingly to prevent a significant challenge to a decision, or a compensation trend emerges diverting significant financial and non financial resources into possibly lengthy legal disputes and impacting upon the Council's ability to achieve its key outcomes.</p> <p>Examples include:</p> <ul style="list-style-type: none"> ➤ inappropriate procurement of goods and services ➤ no proper consultation undertaken or findings acted upon ➤ no equality impact assessment undertaken or findings acted upon 	Chief Operating Officer	Leader of the Council	Head of Legal Services and Monitoring Officer
CR19	Threat	<p>Fraud Risk: Risk that the Council fails to have proper, adequate, effective and efficient management arrangements, policies and procedures in place to mitigate the risk of fraud such that public money is misappropriated. This would result in a loss of funds to the Council, have a detrimental effect on services users, a negative impact on the Council's ability to achieve all of its priorities, value for money, and may have a negative impact on the Council's reputation.</p>	Chief Operating Officer	Finance Portfolio Holder	Finance Manager

Risk Ref: Corporate Risk 11 (13-14)		Date template updated: 14 June 2013	
Cross reference the risk to the Corporate and Service Delivery Plan Objective to which it relates, only key risks that require monitoring will be recorded in the Corporate / Significant Risk Register.			
Corporate Priorities / Service Delivery Objective / Project Objective :		Risk to all Council Plan Outcomes – <ol style="list-style-type: none"> 1. OUR LOCAL COMMUNITIES ARE STRONG AND SUPPORTIVE 2. CHESHIRE EAST HAS A GROWING AND RESILIENT ECONOMY 3. PEOPLE HAVE THE LIFE SKILLS AND EDUCATION THEY NEED TO THRIVE 4. CHESHIRE EAST IS A GREEN AND SUSTAINABLE PLACE 5. LOCAL PEOPLE LIVE WELL AND FOR LONGER ❖ BE A LEADING, COMMISSIONING & RESPONSIBLE COUNCIL	
Risk description should include the cause of the impact and the consequence to the objective which might arise.			
Identified Risk Description: Commissioning and Service Delivery Chains: Risk that as the Council moves into a more active “market making” role, it will progressively form complex and more fragmented supply chains for both back office and front line services (i.e. outsourcing, contracted suppliers and providers, shared service delivery, joint ventures, private finance initiatives and partnership working) increasing the materialisation of commissioning and service delivery chain risks which would prevent the Council from achieving its planned objectives, priorities and outcomes. Examples of these risks include:- <ul style="list-style-type: none"> ➤ inappropriate, ineffective and inefficient provider commissioning ➤ failure to meet/deliver service expectations/standards ➤ supplier/partner financial failure ➤ increase in supplier incidents, non-compliance ➤ tension between profit motives and public sector ethos ➤ budget overruns ➤ increase in systematic risks in increasingly shared services 			
Risk Comments: This risk has interdependencies with a number of other risks:- <ul style="list-style-type: none"> • CR3 Strategic Leadership and Management • CR4 Financial Control • CR6 Evidenced Decision Making • CR7 Reputation 		<ul style="list-style-type: none"> • CR8 Public Sector Effort • CR9 Workforce • CR10 Contract, Project and Programme Management Skills • CR14 Business Planning - Resource • CR18 Legal • CR19 Fraud Risk 	
Who owns and is accountable for the risk? Risk Owner: Kim Ryley, Interim Chief Executive		Who is responsible for taking forward the actions? Risk Managed by: Lorraine Butcher, Executive Director of Strategic Commissioning	
Strategic Lead: Cllr Paul Findlow, Corporate Policy Portfolio Holder		Is the risk new, enduring, dying or re-emerging? Risk Status: New	
Assess the combined risk of the likelihood and impact of the risk being realised before taking account of any controls in place to manage the risk. This is the gross risk score.		Likelihood 4	x Impact 4
		= Gross Risk Score 16	
What controls are already in place to mitigate the risk? Controls could consist of authorisation and approval processes, governance arrangements and monitoring processes, physical controls, segregation of duties, organisational, personnel, management and supervisory controls or arithmetic and accounting controls. Where is the evidence for these controls kept?			
Existing Controls and Evidence: Constitution and Procedures We have established and embedded Contract Procedure Rules under Section E of the Constitution and a Procurement Strategy and Guidance on the Centranet and CE Website. Our collaborative, consortium and partnership arrangements are subject to all UK and EU procurement			

legislation and must also follow the Finance and Contract Procedure Rules at Section F of the Constitution.

Corporate Procurement Team

We have a small core team of procurement professionals that

- provide advice, guidance and training on procurement & related matters
- support services with procurements over £75,000
- facilitate collaborative procurements with other Councils
- create, maintain and implement procurement and commodity strategies
- procure and facilitate the management of Corporate Contracts

Our tendering processes ensure that the organisations we do business with comply with our requirements e.g. sustainability, business ethics, health and safety, etc.

As part of our procurement processes we undertake limited financial health checks on the organisations we do business with.

Finance Team

Our Finance Team support effective delivery of the Council's reform by providing professional financial advice on commissioning and service delivery.

- Finance Leads/Service Accountants attend all DMT/SMT meetings and provide regular advice to Budget managers on a one-to-one basis

Legal Team

Our Legal Team provide legal and procedural advice to support the Council in furthering its corporate aims and priorities in commissioning and service delivery.

Insurance Team

Our Insurance Team give advice when requested re specific contracts, partnerships or delivery models.

Training and Development

The procurement team deliver training inputs to support compliant procurement. These are provided through the Learning Lounge and the Corporate Training Programme and predominately feature technical advice on procurements under £75K. Bespoke training and support is also offered to teams / services to support key projects/ initiatives that require procurement activity.

Shared Services

We have a Shared Service approach in place with Cheshire West and Chester (CWAC) Council for back office, transactional HR, Finance and ICT operations.

- Shared Service legal agreements in place
- governance operating through Shared Services Joint Committee and Joint Officer Board (JOB)
- JOB Terms of Reference revised to provide for Client Board and Separate Legal Entity (SLE) Executive to assist development of SLE
- business planning approach linked to client's objectives and allocation of resources

Contract Management

Dedicated leads for contracts in adults commissioning and children commissioning. These oversee contract work and progress procurement (e.g. score bids, moderation, phasing in and out of providers).

These contract managers undertake performance monitoring and contract compliance work.

Commissioners

We have a small team of skilled commissioners that commission for Children, Families and Adults over the life course (pre-birth to death and continuing support needs).

We also have some strategic client capacity linked into the key Highways Contract (as the commissioning programme expands support around commissioning will likewise need to flex accompanying commissioning demands.)

Assess the combined risk of the likelihood and impact of the risk being realised after taking account of the existing controls in place to manage the risk. This is the net risk score – as it is now.

Likelihood

3

x Impact

4

= Net Risk Score

12

Is the net risk now acceptable or not? Are there further reasonable controls or planned actions you can take to manage the risk down to an acceptable level? If not, consider the need for a contingency plan for what will happen if the risk is realised. Members of the Corporate Risk Management Group are responsible for ensuring that actions proposed to mitigate corporate and significant operational risks are sufficient and proportional to the risk identified.

Future Planned Actions / Contingency:

- Staffing review - An essential opportunity is to ensure that commissioning and contract management skills are not only available but are positioned so that views are heard with respect and create activity.
- Ensure that staff and Members understand our own capabilities in managing the service delivery chain, whilst individual procurement and decisions on the make-up and management of the service delivery chain should be on a case-by-case basis, the Council must inform these decisions with an understanding of how well it is equipped to increase involvement and interactions with the service delivery chain, and also how well equipped our providers and suppliers are to manage service delivery chains.
- Management review of procurement.
- Currently re-shaping to position for a strengthened and consistent approach to performance management of contracts and of provider management.
- Strengthen current procedures and governance arrangements to ensure that the authority considers carefully before it passes crucial responsibilities to third parties, whether it has the right skills and experience available to make that relationship a success.
- Review and strengthen our due diligence process to understand precisely which dependencies have been outsourced, and, understand the importance, sensitivities and urgency of such dependencies. This review will include subjective due diligence which enables a top level overview of all the opportunities, threats, strengths and weaknesses and enables decisions as to whether or not to proceed.
- We will also assess the achievability of our exit strategy as all relationships will need to change, at some time in the future, and for a whole variety of reasons.
- The Council will implement its updated performance management framework and monitoring arrangements, which reflect its changed operating model. This includes a focus on achievement of outcomes, financial performance, and delivery of key projects and programmes. It will monitor performance of both internally and externally delivered services, and should therefore be able to identify delivery issues with new supply chains, so that mitigating action can be taken.

Next Review Date:

6 weeks (26 July 2013)

Some risks require weekly or monthly monitoring, others will only need to be revisited following the proposed date for the completion of the planned action.

The reason for monitoring key risks is to create an early warning system; risk registers should be regularly reviewed and amended. Questions asked during monitoring are: Is the risk still relevant? Is there any movement in the net risk score? Are the controls still in place and operating effectively? Has anything occurred which may change its impact and/or likelihood? Have any significant control failures or weaknesses occurred since the risk was last monitored? Is the risk increasing - do I need to devise more controls? Is the risk decreasing - can I relax existing controls?

Monitoring Arrangements:

Key Risk Indicators to be considered:-

- Number of complaints re service standards
- Budget overruns

- Supplier failures
- Legal challenges
- Internal procedural non-compliance

Predict the combined risk of the likelihood and impact of the risk being realised after taking account of the existing and planned controls in place to manage the risk. This is the target risk score.

Likelihood

3

x Impact

4

= Target Score

12

Comments

14 JUNE 13: The likelihood of this risk at present is a 3 'likely' and has a number of interdependencies with other corporate risks. We are working on strengthening our corporate infrastructure in order to become more strategic and commissioning and the staffing review plays an important role in this. The impact of this risk if it were to fully materialise would have a critical impact on the achievement of our corporate objectives and so is presently a 4, giving an overall risk rating of 12 'High Risk'.

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Risk Ref	Risk Description	Agreed Risk Owner	Gross Score (without controls)			Existing Controls & Evidence	Net Score (as it is now)			Future Issues	Expected Score (after actions & issues)		
			Likelihood	Impact	Total Score		Likelihood	Impact	Total Score		Likelihood	Impact	Total Score
			L	I	Lx I		L	I	Lx I		L	I	Lx I
Welfare Reform Act: Objective Local Council Tax Discount Scheme To deliver own local council tax benefit scheme that comes in at less than 11% of the current costs (equates to 2.5m savings) by Jan 2013. This must be an approved scheme otherwise a default scheme will be imposed. (Note - we are unable to change costs re pensioners)													
WR1	Risk that consultation on the scheme is ineffective due to unachievable timescales and/or inadequate consultation periods and/or poor publicity, leaving the Council open to challenge and delays to scheme approval such that the Council has to deliver the default scheme.	Chris Mann, Finance Manager	4	4	16	Consultation completed on 21 Oct, went to Scrutiny, CMT, Informal Cabinet and was finalised by full Council by 13 Dec.	1	4	4	CE News did not go to every household so consultation not as wide as thought (about 85%). Gov acknowledge tight timescales.	1	4	4
WR2	Risk that the results of the consultation are negative (e.g. EIA findings), leading to a rework of the scheme resulting in delays, possible non approval, or cost issue due to timing and resulting in default scheme implementation.	Chris Mann, Finance Manager	4	4	16	Option 1 favoured in Consultation with small amendments	1	2	2	Will need to potentially repeat if year 2 scheme changes, depending on the degree of change	1	2	2
WR3	Risk that the scheme is not approved by full Council or that there are changes made by Council that result in delays to the scheme approval and/or that changes are different than the original scheme details that were consulted upon. This would leave the Council open to challenge and delays to scheme approval such that the Council has to deliver the default scheme.	Chris Mann, Finance Manager	4	4	16	Approved by full Council	1	4	4	Need to consider issues for year 2 and whether scheme needs to be changed. If so, will need to allow sufficient time for design, consult (if major changes) and receive approval of full Council	1	4	4
WR4	Risk that the Council is unable to identify a scheme that meets the savings required resulting in non approval of the scheme such that the Council has to deliver the default scheme.	Chris Mann, Finance Manager	4	4	16	The 2 scheme options identified for consultation meet the savings required.	1	4	4	Again, reconsider each year.	1	4	4
WR5	Risk that caseload increases due to economic pressures resulting in an inability to deliver the savings due to increased demand. (This will result in extra cost to the Council and additional financial burden.)	Chris Mann, Finance Manager	4	4	16	The 2 scheme options identified for consultation include some contingency for anticipated take up.	2	4	8	Will need to plan for year 2 scheme depending on budget allocated/additional savings to be met.	2	4	8
WR6	Risk that there is poor intelligence available to determine the caseloads which results in inaccurate modelling undermining the adequacy of the proposed scheme such that the scheme does not make the required savings. (This will result in extra cost to the Council and additional financial burden.)	Chris Mann, Finance Manager	4	4	16	Intelligence is available and has been used to work up the 2 scheme options out for consultation. The modelling has identified the required savings.	1	4	4	Less likely now we are live and have the software and modelling tools	1	4	4
WR7	No ability to change the scheme during the year results in inflexibility to meet demand changes and achieve savings target. (This may result in extra cost to the Council and additional financial burden.)	Chris Mann, Finance Manager	4	4	16	Intelligence is available and has been used to work up the 2 scheme options out for consultation. The modelling has identified the required savings.	1	4	4	Will remain year on year	1	4	4

Risk Ref	Risk Description	Agreed Risk Owner	Gross Score (without controls)			Existing Controls & Evidence	Net Score (as it is now)			Future Issues	Expected Score (after actions & issues)		
			Likelihood	Impact	Total Score		Likelihood	Impact	Total Score		Likelihood	Impact	Total Score
			L	I	Lx I		L	I	Lx I		L	I	Lx I
WR8	Staff retention issues may result in skills and knowledge loss leading to difficulties in implementing the scheme and delivery.	Chris Mann, Finance Manager	2	2	4	There are agency staff available should we fail to retain staff.	2	2	4	May increase the likelihood with uncertainty around job security for Benefits staff	2	2	4
WR9	Information system failure or inadequacies within the system delay or prevent implementation of the scheme.	Chris Mann, Finance Manager	4	4	16	Software delivered.	1	4	4		1	4	4
WR10	Risk that residents do not pay Council Tax resulting in increased costs and loss of revenue to the Council such that we are unable to achieve the required savings within the scheme.	Chris Mann, Finance Manager	3	1	3	Collection processes are in place which automatically issue reminders. Option to pay over 12 instalments to spread the impact was included with the demands.	3	1	3		3	1	3
WR11	Risk that the present scheme modelled does not meet the eligibility criteria for new pot of money from government such that we are unable to draw down money from the pot without remodelling the scheme. This would lead to difficulties in implementing the scheme due to consultation and approval timescales issues.	Chris Mann, Finance Manager	4	4	16	The transitional scheme was for one year only and would have left a large shortfall. Decision made not to go for this & keep the planned scheme.	1	3	3		1	3	3
Welfare Reform Act: Objective Social Fund: To develop and implement a “community care grant and crisis loans” scheme (to be named) with clear eligibility criteria to ensure we meet real critical need which is based on vouchers, goods or services wherever possible (and reduce the risk of fraud or misappropriation of funding), within the available resource of £600k by April 2013													
WR12	Risk that due to short timescales that we are unable to procure a non-cash scheme such that we are unable to reduce the risk of scheme abuse.	Chris Mann, Finance Manager	4	4	16	Decision made to award grants initially until the level of demand is understood fully.	1	4	4	Decision to be made on whether to continue via grants or undertake a full procurement	1	4	4
WR13	Unknown demand results in incorrect staff resource leading to difficulties in implementing and delivering the scheme.	Chris Mann, Finance Manager	4	4	16	Central administration to within one team used to high daily turnover of requests for financial assistance, advice on the scheme shared for all Council staff so can signpost and advise where there is likely to be genuine demand and advise customers who are not likely to be successful to avoid applying, information being shared with key stakeholders who provide advice to customers. Demand is appearing to be less than anticipated	2	4	8	Monitoring workloads and review, issues with lack of job security for Benefits staff	2	4	8
WR14	Unknown demand results in resource being spent too early in the scheme such that we are unable to meet critical need over the full year.	Chris Mann, Finance Manager	4	4	16	No detailed breakdown by month on demand, other than 6-monthly data from DWP indicating possibly 48% in first half of the financial year. Benefits used to managing a fixed budget DHP and reviewing expenditure monthly and history of not exceeding budget	1	4	4	Monitoring workloads and review with revised guidance on the spend to influence decision makers. Policy will include clause to say awards cannot be made if budget not available, will look to other discretionary funds which may be better utilised to meet demand	1	4	4

Annual Report on Risk Management from the Corporate Risk Management Group - Appendix D

Risk Ref	Risk Description	Agreed Risk Owner	Gross Score (without controls)			Existing Controls & Evidence	Net Score (as it is now)			Future Issues	Expected Score (after actions & issues)		
			Likelihood	Impact	Total Score		Likelihood	Impact	Total Score		Likelihood	Impact	Total Score
			L	I	Lx I		L	I	Lx I		L	I	Lx I
WR15	We do not develop clear criteria for granting funds such that funds are spent to early in the scheme and we are unable to meet real critical need over the full year.	Chris Mann, Finance Manager	4	4	16	Clear criteria agreed and scheme approved by Informal Cabinet. Guidance on Council's Website	1	4	4	Regular monitoring and reviews to be undertaken. Budget not yet announced for 2015/16	1	4	4
WR16	Risk that we do not maximise the opportunities presented through clear partnership working such that it leads to a duplication of funding and effort so that we do not fund critical need and increase the risk of misappropriation of funding.	Chris Mann, Finance Manager	4	3	12	Cross departmental working group established to identify potential duplication of effort and to plan communications. Continuing to meet monthly now live to review and identify any issues	1	3	3	Regular monitoring and reviews to be undertaken	1	3	3
WR17	Risk that design of the scheme is not properly thought through and takes adequate account of information systems and potential bottlenecks in the payment system such that we are unable to make payments in a timely manner and are unable to meet critical need.	Chris Mann, Finance Manager	4	3	12	Treated as high priority work within benefits and document management system handles the work flow. Benefits staff have access to DWP data so can verify claims immediately.	1	3	3	Regular monitoring and reviews to be undertaken	1	3	3
WR18 **	Risk that we do not consult adequately and undertake an equality impact assessment such that we cannot evidence that we have designed a fit for purpose scheme which meets critical need and the scheme is open to challenge which prevents implementation or impacts upon delivery.	Chris Mann, Finance Manager	3	3	9	Scheme is now live and feedback being monitored. Is a regular item with various liaison and stakeholder meetings to seek feedback.	1	3	3	Regular reviews to be undertaken	1	3	3
WR19	Risk that the results of the equality impact assessment are unlawful, leading to a rework of the scheme resulting in delays, possible non approval, or cost issue due to timing and resulting in non implementation by April 2013.	Chris Mann, Finance Manager	3	3	9	EIA is developed and meeting held with Stakeholders to explore issues	1	3	3	Regular reviews to be undertaken	1	3	3
WR20 **	Risk that we do not manage public expectations such that demand for the scheme is greater than resource and leads to reputational damage to the Council and we are unable to meet real critical need.	Chris Mann, Finance Manager	4	4	16	Data was very limited from DWP but we are monitoring weekly and meeting demand for those qualifying for assistance under the scheme.	1	4	4	Review demand once scheme launched and revise communications plan if needed	1	4	4

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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	27 June 2013
Report of:	Interim Chief Operating Officer
Subject/Title:	Audit Committee Update
Portfolio Holder:	Councillor Peter Raynes

1.0 Report Summary

- 1.1 The report provides the Audit and Governance Committee with an update from the external auditors, Grant Thornton on progress in delivering their responsibilities.

2.0 Recommendation

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

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

- 7.1 As covered in the report.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 There are no specific legal issues associated with this report.

9.0 Risk Management

- 9.1 There is a risk that the Council will be unaware of progress against the audit plan and emerging issues and developments which may be of relevance if this report is not considered.

10.0 Background and Options

- 10.1 The report provides an update from Grant Thornton on progress in delivering their responsibilities as our external auditors.
- 10.2 The report also highlights emerging issues and developments which may be of relevance to Cheshire East.
- 10.3 The report includes a number of challenge questions in respect of those emerging issues which the Committee may wish to consider.
- 10.4 The Audit Manager from Grant Thornton 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:

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Audit Committee Update for Cheshire East Council

Year ended 31 March 2013

27 June 2013

Judith Tench

Engagement Lead

T 0161 214 6369

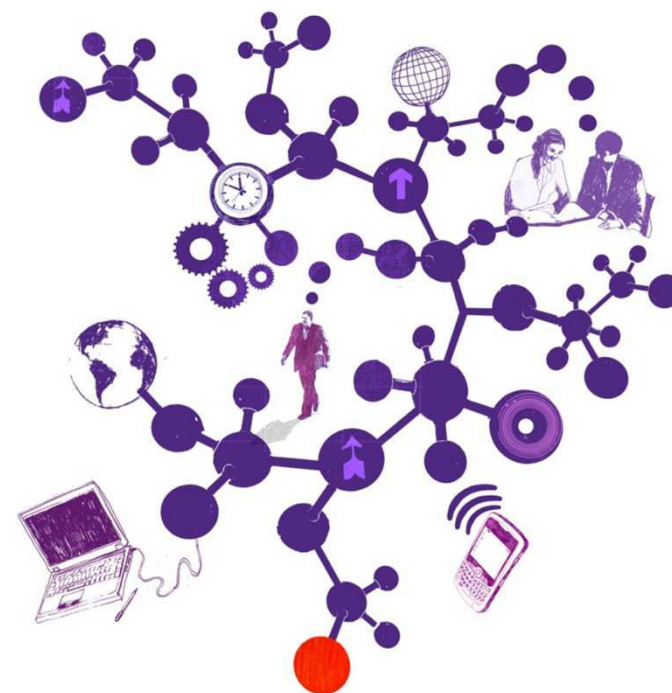
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Unitary Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager using the contact details on the front of this report.

Progress at 27 June 2013

Work	Planned date	Complete?	Comments
2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on Council's 2012-13 financial statements.	March 2013	Y	Plan agreed 28 March 2013
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	February/March 2013	Y	The Audit Plan, including detailed findings from the interim accounts audit was presented to the Audit Committee on 28 March 2013.
2012-13 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	1 July	N	The draft accounts are due on 30 June and final accounts audit work on these accounts starts on 1 July. The on site audit team and field work starts in mid July.

Progress at 27 June 2013 continued

Work	Planned date	Complete?	Comments
Other areas of work : Housing Benefit Audit 2012/13	June to October 2013	N	The signed Housing Benefit return was provided for audit on 25 April 2013, in advance of the DWP deadline of 30 April 2013. The DWP sets out that audited claims are due by 30 November 2013. We will be following the audit processes set out by the Audit Commission in order to certify the claim
NNDR audit	July 2013	N	The draft NNDR claim is due to be produced for audit by 28 June and we plan to audit the claim during July.
Teacher's Pension audit	TBA	N	Audit to be coordinated with Cheshire West & Chester Council auditor

Emerging issues and developments

Accounting and audit issues

LAAP Bulletin 96: Closure of the 2012/13 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued [LAAP Bulletin 96](#). The bulletin provides further guidance and clarification to complement CIPFA's 2012/13 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- a reminder that authorities should tailor CIPFA's example financial statements to meet their own reporting needs in order to give a true and fair view of their own financial position and performance
- the need for billing and precepting authorities to disclose their share of non-domestic rate appeals liabilities that transferred to them on 1 April 2013
- the revised disclosure format for dedicated schools grant
- accounting for carbon reduction commitment (CRC) energy efficiency scheme assets
- accounting for the transfer of public health reform in 2013/14.

Challenge question:

- Has your Head of Finance reviewed the guidance and assessed the potential impact for your financial statements?

Accounting for Schools in Local Authorities

CIPFA/LASAAC has issued a [technical alert](#) on accounting for schools. There are no changes planned for the 2013/14 Code. The alert refers to the issues that were consulted on for the 2013/14 Code and draws attention to the need for CIPFA/LASAAC to consider the impact of IFRS 10: 'Consolidated Financial Statements' on school accounting which is due to be adopted in the 2014/15 Code.

The technical alert recommends 'local authorities set out clearly in their 2012/13 and 2013/14 financial statements, in the summary of significant accounting policies, their approach to accounting for maintained schools' income, expenditure, assets, liabilities and reserves. These accounting policies need to be consistently applied throughout the complete set of financial statements'.

Challenge questions:

- Do your accounting policies set out clearly your approach to accounting for maintained schools?
- Do your financial statements apply these accounting policies consistently?

Emerging issues and developments

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2013/14. The main changes to the Code include:

- amendments for the requirements of the localisation of business rates in England
- amendments to how 'other comprehensive income' is presented in the Comprehensive Income and Expenditure Statement. These changes follow the June 2011 amendments to IAS 1 Presentation of Financial Statements.
- amendments to how authorities should account for the cost of employees. This is as a result of the June 2011 amendments to IAS 19 Employee Benefits and include amendments to the classification, recognition, measurement and disclosure of local authority pension costs. This is accounted for as a prior period adjustment which means that the figures for previous years will need to be restated.
- clarifications and improvements of the Code as a result of the CIPFA/LASAAC post-implementation review of IFRS on issues such as:
 - the recognition and measurement of property, plant and equipment – in particular, paragraph 4.1.2.35 of the Code now requires items within a class of property, plant and equipment to be revalued simultaneously. The Code does permit a class of assets to be revalued on a rolling basis provided the revaluation is completed within a short period and provided the revaluations are kept up to date.
 - leases and lease-type arrangements (for example where lease rentals are charged at peppercorn rents)
 - service concession (PFI/PPP) arrangements in relation to assets under construction and intangible assets
 - the recognition of non-current assets held for sale
- amendments relating to deferred tax which may be applicable to authorities with group accounts. These follow amendments to IAS 12 Income Taxes issued in December 2010.

The Code also notes that guidance on the adoption of IFRS 13 Fair Value accounting and on accounting for schools has been deferred to the 2014/15 Code.

Challenge questions:

- Is your Head of Finance aware of the changes to the 2013/14 Code and assessed the potential impact?
- In particular, has your Head of Finance consulted:
 - your actuary to ensure you will have the information you need to restate amounts relating to pensions from previous years
 - your valuer to ensure that your revaluation programme complies with the new requirements for property, plant and equipment?

Emerging issues and developments

Accounting and audit issues

Internal audit – practice case studies

The NAO and the Institute of Internal Auditors have released a [set of case studies](#), available on the NAO website, illustrating some of the key principles of effective internal auditing, taken from a range of public and private sector organisations (including British Telecom, Department for Work and Pensions, EDF). These cover the following areas:

- applying internal audit resources
- scope of internal audit
- auditing projects
- the relationship with the audit committee
- risk-based internal audit
- evaluating internal audit

Examples of the practical advice these case studies provide are:

- 'ensure that the internal audit function has the right development practices and the right mix of people'
- 'internal audit must check its own performance'
- 'look at the range and depth of assurance that is being provided to management from other assurance providers within the organisation: this will reduce the duplication and free up resources to provide deeper assurance in other areas'
- 'make sure that internal audit's work is aligned to management's view of risk: the function may be focussing on the wrong issues if it does not understand management's risk priorities'
- 'review whether senior management and the business share the same view of risk – highlight where differences occur to ensure that the right risks and controls are targeted in the audit plan'
- 'consider carrying out a benchmarking review with a similar sized organisation in the same industry sector to compare and contrast approaches to internal audit and resourcing'

Challenge question:

- How can you drive more organisational value from internal audit?

Emerging issues and developments

Local government guidance

Governance statements

The National Audit Office has published ['Fact Sheet: Governance Statements: good practice observations from our audits'](#) providing: insight and commentary on the first year of Governance Statement reporting observations on good practice “challenge questions” for those whose role it is to oversee and scrutinise an organisation’s Governance Statement.

Challenge questions:

- How do you plan to make your Annual Governance Statement be more transparent and relevant to your authority?
- Have you used the challenge questions in the fact sheet to help inform your review of the Annual Governance Statement?

Emerging issues and developments

Local government guidance

Openness and transparency on personal interests - A guide for councillors

In March, DCLG published '[Openness and transparency on personal interests - A guide for councillors](#)'.

This guide provides guidance to councillors about how to be open and transparent about their personal interests now that new standards arrangements have been introduced by the Localism Act 2011.

Challenge question:

- What has your authority done to improve awareness of openness and transparency requirements for councillors?



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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 27 June 2013
Report of: Audit Managers
Title: Update on Public Sector Internal Audit Standards (PSIAS) and Audit Charter
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

- 1.1 The purpose of the report is to inform the Audit and Governance Committee of the new Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 and for the Committee to note the implications and further actions necessary to meet compliance with the PSIAS, including the development of an Audit Charter.

2.0 Recommendation

- 2.1 That the Committee:
- notes the introduction of the new Public Sector Internal Audit Standards (PSIAS)
 - notes the implications and further actions necessary to meet compliance with the new Standards, including the development of the Audit Charter, and that further updates will be brought to the Committee accordingly.

3.0 Reasons for Recommendation

- 3.1 The new Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013. The Authority needs to comply with the Standards, and the relevant CIPFA/IIA Application Note, in order to satisfy proper internal audit practices.
- 3.2 CIPFA guidance recognises that not all elements of the PSIAS will be in place from 1 April 2013 and that certain areas within the Standards will require further discussion and agreement with senior management and Members.
- 3.3 In addition to the introduction of an Audit Charter, the adoption of the PSIAS will likely require amendments to the Constitution and the Audit and Governance Committee Terms of Reference.

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 There are no direct financial implications arising from this report.

8.0 Legal Implications

8.1 The Accounts and Audit Regulations 2011 require the Council to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with *proper practices* in relation to internal control'. The PSIAS and the relevant CIPFA/IIA Application Note constitute *proper practices* as set out in the Regulations.

9.0 Risk Management

9.1 The PSIAS require Internal Audit to evaluate the effectiveness and contribute to the improvement of risk management processes. Failure to carry out "an adequate and effective audit..." as described in 8.1, could result in non-compliance with the Accounts and Audit Regulations 2011.

10.0 Background and Options

Background

10.1 Up until 1 April 2013, organisations within the UK Public Sector were covered by a variety of different audit standards. Within Local Government, those standards were set by the Chartered Institute of Public Finance and Accountancy (CIPFA) and set out in the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

10.2 A collaboration between CIPFA and the Institute of Internal Auditors (IIA) has led to an agreement between the relevant internal audit standard setters to develop a set of internal audit standards applicable to all areas of the UK Public Sector.

10.3 With effect from 1 April 2013, the PSIAS apply to all UK Public Sector internal audit service providers.

Purpose and content of Public Sector Internal Audit Standards (PSIAS)

- 10.4 The PSIAS have been developed to create consistency in the practice of internal audit across the public sector and establish the basis for quality assurance across the sector.
- 10.5 The purpose of the Standards is to:
- Define the nature of internal auditing in the UK public sector
 - Set basic principles for carrying out internal audit in the UK public sector
 - Establish a framework for providing internal audit services that add value to the organisation, leading to improved organisational processes and operations
 - Establish the basis for the evaluation of internal audit performance and to promote continuous improvement.
- 10.6 The Standards consist of three component parts:
- Definition of internal audit
 - Code of ethics
 - A series of 'attribute' and 'performance' standards

Comparison with CIPFA Code of Practice and main changes

- 10.7 The new PSIAS are not considered to be fundamentally different from the CIPFA Code of Practice. However, there are some key variances, which are highlighted below:
- 10.8 There is a requirement for an **Internal Audit Charter** which formally defines the purpose, authority and responsibility of the internal audit activity. A Charter is currently being drafted and will be discussed with senior management and Members when complete.
- 10.9 **Organisational Independence** – to ensure independence and transparency, the PSIAS prescribe organisational independence as being effectively achieved when the Head of Internal Audit reports functionally to the 'board' (see 10.10 below).
- 10.10 The terms **Board** and **Senior Management** within the PSIAS need to be interpreted in the context of governance arrangements within Cheshire East Council. The 'board' is defined in the PSIAS, as:

The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or trustees). If such a group does

not exist, the 'board' may refer to the head of the organisation. 'Board' may refer to an audit committee to which the governing body has delegated certain functions.

- 10.11 The term **Chief Audit Executive (CAE)** is used within the PSIAS and refers to the Head of Internal Audit, or equivalent within the organisation.
- 10.12 **Quality review and improvement programme** – the Chief Internal Auditor must develop and maintain a formal quality assurance and improvement programme that covers all aspects of the internal audit activity. This programme must include both internal and external assessments. External assessments must be conducted at least every five years by a qualified, independent assessor or assessment team from outside of the organisation.
- 10.13 Within the PSIAS, there are certain requirements that the CIPFA/IIA Application Note recognises may be unusual for the public sector i.e. the implication that the 'board' (potentially the Audit and Governance Committee within this Council) would approve the remuneration of the CAE. CIPFA guidance suggests that within the public sector, as a minimum, feedback from the chair of the audit committee should be sought for the performance appraisal of the CAE. Requirements such as these will need further consideration by senior management and Members as to how the Council will comply with the new Standards.

Current compliance with the new Standards

- 10.14 As stated in 10.7, the new PSIAS are not considered to be fundamentally different to the CIPFA Code of Practice. As part of the Council's annual review of the effectiveness of its internal audit, and as reported in the Internal Audit Annual Report 2012/13 to this Committee, the internal audit service is being delivered to the required standard, with some areas for improvement.
- 10.15 It has been recognised that both the Internal Audit Terms of Reference and the Internal Audit Strategy now need updating. In accordance with the new Standards, an Audit Charter is currently being drafted and will replace both the Terms of Reference and the Strategy. Key aspects of the Charter will be dependent on the outcome of the current Management Review and Internal Audit reporting lines within the new structure, which is under development.

11.0 Access to information

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

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting: 27 June 2013

Report of: Interim Chief Operating Officer

Title: Compliance with International Auditing Standards

Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

- 1.1 In order to comply with International Standards on Auditing (UK and Ireland) the Council's External Auditors (Grant Thornton) require an understanding of how the Audit and Governance Committee gains assurance over management processes in place to prevent and detect fraud and to ensure compliance with law and regulation.
- 1.2 This report has, therefore, been drafted in order to assist the Chairman in formally responding to Grant Thornton.

2.0 Recommendation

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

3.0 Reasons for Recommendations

- 3.1 The Council's officers are responsible for establishing and implementing arrangements to counter fraud and corruption and ensure that 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 Council's External Auditors require an understanding of:
 - management processes and arrangements for identifying and reporting the risk of fraud and complying with relevant laws and regulations
 - how the Audit and Governance Committee gains assurance of these processes and arrangements

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

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

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 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) How the Audit and Governance Committee oversee management's processes in relation to:
 - carrying out an assessment of the risk that the financial statements may be materially misstated due to fraud or error
 - identifying and responding to risks of breaches of internal control
 - identifying and responding to risks of fraud in the organization
 - communicating to employees its views on appropriate business practice and ethical behaviour
 - 2) Knowledge of any actual, suspected or alleged frauds
 - 3) How the Audit and Governance Committee gain assurance that all relevant laws and regulations have been complied with
 - 4) Is the Committee aware of any actual or potential litigation claims that would affect the financial statements
 - 5) How the Committee has satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements.
- 10.2 The 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:

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1.0 How the Audit and Governance Committee oversee Management's Processes in relation to:

- **carrying out an assessment of the risk that the financial statements may be materially misstated due to fraud or error**

1.1 Risk Management processes, control systems and governance arrangements can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position, they can, however, help reduce the likelihood of such events occurring, enable the early identification of such issues and determine the most appropriate way of responding. The Corporate Risk Management Group, the Corporate Governance Group, Finance and Audit (Internal & External) have played a vital part in advising the Audit and Governance Committee of the arrangements that are in place to manage such risks, whether they are operating properly and the action taken to ensure any shortcomings are rectified promptly.

1.2 Throughout 2012/13 the Council's risk management process has identified the following as a Strategic Risk "Financial Control: Risk that the Council fails to manage expenditure within budget, due to inaccurate financial planning in both the short term and longer term and/or ineffective financial control leading to a failure to maintain an adequate level of reserves, thereby threatening financial stability and service continuity and preventing the achievement of Cheshire East's objectives and outcomes". As part of this process it is recognised that the causes of ineffective financial control could be:-

- weaknesses in the corporate governance framework
- culture, skills and competences
- non-compliance
- breakdown of key systems and processes
- weaknesses in the anti-fraud and corruption mechanisms

1.3 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 factors outside the Council's control remain significant and the impact on corporate objectives if this risk materialised will always be critical.

1.4 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 Interim Chief Executive, with the risk strategic lead which is the Finance Portfolio Holder. Any comments received from the risk owner

and strategic risk lead are recorded 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.

- 1.5 The Audit and Governance Committee receive a risk management update from the Corporate Risk Management Group throughout the year. This includes an overview of the key corporate risks, corresponding risk ratings and the direction of travel of risks.
- 1.6 Furthermore, the Audit & Governance Committee request a short briefing at each meeting from the Risk Owners / Managers of the highest key corporate risks. (For this purpose, short briefing means attending the meeting and being able to talk through the risk stewardship template to explain the risk and controls). The following summarises the position with regard to the Financial Control risk:
 - June 2012 - The most up to date version of the risk stewardship template was made available for discussion with the Risk Owner
 - September 2012 – The Committee received the risk stewardship template that had been updated following the previous meeting
 - January 2013 - The Committee received the risk stewardship template that had been updated following the previous meeting
- 1.7 In the External Audit Plan (January 2012) the District Auditor identified the following significant risk relevant to the audit of the Council's Financial Statements:

“In year financial pressures and their potential impact on reserves increased the risk of financial misreporting which may impact on the true and fair presentation of the financial statements”.
- 1.8 In September 2012 the District Auditor presented the Annual Governance Report to the Audit & Governance Committee outlining the findings of the audit of the Council's 2011/12 Financial Statements. The report indicated that the District Auditor had reviewed the effectiveness of management controls in place to reduce the risks of financial misreporting and fraud in income recognition concluding that testing did not find any material errors.
- 1.9 Following the Audit Committee in September 2012 the District Auditor issued an unqualified opinion on the Council's 2011/12 financial statements included in the Council's Statement of Accounts.
- 1.10 In January 2013 the Audit and Governance Committee considered a progress report on the preparation of the Statement of Accounts for 2012/13 and it was noted that the Annual Audit Letter (AAL) for 2011/12 reported that the Council has significantly improved its closure

of accounts process. The accounts presented for audit contained no material errors and far fewer other errors than in previous years. Supporting audit trails and working papers were also much better. The AAL also reported that the finance team had implemented the recommendations from the last two audits including important improvements to their quality assurance arrangements. This had all helped to reduce the number of errors identified during the audit and improve the overall quality of the accounts.

- 1.11 The finance team met with the auditors in October 2012 to discuss specific aspects of the closure of accounts process and also highlight new areas to consider for 2012/13. The clear message from the auditors was that the finance team now need to ensure that the improvements become embedded in its way of working.

- **identifying and responding to the risk of breaches of internal control**

- 1.12 Internal Audit plays a vital part in advising the Committee that risk management, control and corporate governance arrangements are in place and operating properly. The Committee receives and considers the annual internal audit opinion, which informs the Annual Governance Statement (AGS), and interim reports which provide assurance with regard to the adequacy of the Council's system of internal control and the action taken to ensure any shortcomings are rectified promptly.

- 1.13 The Internal Audit Plan for 2012/13 was designed to allow Internal Audit to offer such an opinion. The plan was developed using the following areas of audit activity:

- Supporting Corporate Governance
- Fundamental Financial Systems
- Shared Services
- Corporate Cross Cutting Services
- Key Service and Departmental Systems
- Partnerships
- Anti Fraud and Corruption
- Improvement and Compliance

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

- 1.14 A programme of audits has been carried out in accordance with the plan that was approved by the Audit & Governance Committee in March 2012. The work included 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 were

agreed with External Audit in order that they may rely on the work of Internal Audit.

1.15 Internal Audit has undertaken testing on the controls by examining whether the control operated effectively throughout 2012/13. In this way the Council can get reasonable assurance with regard to the potential for override of management controls or other inappropriate influence over the financial reporting process. The outcome of each audit assignment is reported to management in order to:

- give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment
- prompt management to implement the agreed actions for change leading to improvement in the control environment and performance
- provide a formal record of points arising from the audit, and where appropriate, of the agreements reached with management, together with appropriate timescales

1.16 Interim reports on progress against and revisions to the 2012/13 Internal Audit Plan, together with a summary of work undertaken were received by the Audit and Governance Committee in September 2012 and January 2013. The reports provided the Committee with an overview of the Council's response to internal audit activity to ensure any shortcomings in the system of internal control are rectified promptly. In June 2013 the Audit and Governance Committee will receive Internal Audit's annual opinion on the overall adequacy and effectiveness of the Council's control environment for 2012/13.

1.17 The interim report to Committee in January 2013 included the following summary of the reports produced by Internal Audit in the first three quarters of 2012/13:

Assurance Level	Audit Reports Issued 2012/13 Quarter 1-3
Good	0
Satisfactory	13
Limited	9
No	1

1.18 The assurance levels reported in the table above include a combination of opinions at a broad level for the Council as a whole (macro-level opinion) and opinions on individual business processes (micro level). At the macro level, satisfactory assurance, with regard to the risks identified within the terms of reference, has been given in all cases, except the following which were given limited assurance, and were subject to further consideration within the report:

- Procurement
- Duplicate Payments
- Purchase Cards

- 1.19 The Council is required (Accounts and Audit Regulations) to prepare and publish an Annual Governance Statement (AGS). The purpose of the AGS is to ensure a continuous review of the Council's governance arrangements, to give assurance on the effectiveness of the arrangements and/or to address identified weaknesses.
- 1.20 The AGS is considered by the Corporate Management Team with the collection of evidence for, and the drafting of it being the responsibility of the Corporate Governance Group. The review of governance arrangements in place is informed by the work of Internal Audit and senior managers and also comments made by the External Auditors and other review agencies/inspectors. Sources of assurance include the Directors, Heads of Service and senior managers signing off on the adequacy of controls within their service areas/directorate via disclosure statements. The disclosures are made available to and considered by the Audit and Governance Committee in order that Members may discharge their duties with regard to approving the AGS.
- 1.21 During the year the Council's Contract Procedure Rules were amended and a revised procedure relating to non compliance was introduced. The revised procedure stipulates that the Chief Officer must complete a non-compliance form outlining the reasons for the non-compliance and the steps taken to prevent a re-occurrence. The Chief Officer is then required to submit the form for sign off to the s151 Officer and Monitoring Officer. A report is made to the Audit and Governance Committee, at least on a half yearly basis, setting out the number of non-compliance instances in the previous period, broken down by Service, and a description of exceptional instances.
- 1.22 In September 2012 the Committee received details of the operation of the recently introduced revised procedure for Delegated Decisions to waive Contract Procedure Rules and Non-Compliances with Contract Procedure Rules and an update of those decisions, in order to see whether procedures are being complied with. A Member/Officer working group of the Committee was also invited to consider specific examples of delegated decisions and non-compliance.
- **identifying and responding to risks of fraud in the Council.**
- 1.23 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 Strategy and the Whistleblowing Policy. Such policies, together with the Council's Constitution, prescribe the arrangements that ensure suspected cases of fraud and corruption are reported promptly to the appropriate person for further investigation.
- 1.24 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.

- 1.25 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.
- 1.26 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 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
- 1.27 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.
- 1.28 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.
- 1.29 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. 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.

- 1.30 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 has taken action to reduce the likelihood of re-occurrence.
- 1.31 The Internal Audit Reports to Committee include details of Counter Fraud Work undertaken in accordance with the plan. During 2012/13 the Committee has been updated on the arrangements relating to:
- The National Fraud Initiative
 - a draft Fraud Risk Assessment that is currently being shared with managers in order to identify any additional risks and also to document the controls in place to mitigate the risks of fraud
 - where Internal Audit has assisted management in carrying out a small number of investigations into potential financial irregularities
- 1.32 The Committee was also advised, in September 2012, of the outcomes of an Internal Audit review of the Council's anti-fraud and corruption arrangements against the National Fraud Authority (NFA) document 'Fighting Fraud Locally: The Local Government Fraud Strategy (FFL)' and work is currently ongoing to exploit improvement opportunities.
- 1.33 In March 2013 the Committee was provided with an update on the effectiveness of the Council's Whistleblowing Policy and a breakdown of the number of reports received during 2012/13.
- 1.34 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. Five groups were established covering Corporate Governance & AGS, Risk Management, Fraud Management, Financial Statements and Audit. Meetings of the groups are scheduled in accordance with the Committee timetable. The groups receive briefings on relevant agenda items, issues raised by internal and external auditors, the Corporate Governance Group and the Corporate Risk Management Group as well as training on the more complex matters put before the Committee and discussions
- 1.35 During 2012/13 the Fraud Group considered the Council's arrangements to counter fraud and corruption, proper practice, measures designed to prevent any attempted fraudulent or corrupt act and the steps taken if such an act occurs, as well as measures designed to encourage staff to raise concerns and the steps taken to investigate such concerns. Discussions included Benefit Fraud.
- 1.36 Cheshire East actively pursues those committing Benefit Fraud offences by issuing Cautions (verbal reprimand), Administrative Penalties (a financial penalty set at a level prescribed in legislation, 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 01/04/2012 to 31/3/2013 include 19 cautions, 25 Administrative Penalties and 31 prosecutions/convictions.

- 1.37 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.

- **communicating to employees its views on appropriate business practice and ethical behaviour**

- 1.38 Cheshire East Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The development of a Code of Corporate Governance, consistent with the principles and requirements of the CIPFA/SOLACE Framework *'Delivering Good Governance in Local Government'* helps to ensure proper arrangements are in place to meet that responsibility. Cheshire East Council adopted a Code of Corporate Governance in 2009 and this is subject to annual review, and update, where necessary
- 1.39 In September 2012 the Committee reviewed the Council's Code of Corporate Governance and also noted the ongoing work by the Corporate Governance Group in respect of the Council's Governance Framework.
- 1.40 The Council undertakes an annual review of its governance arrangements to ensure continuing compliance with best practice as set out in the Framework. The Annual Governance Statement (AGS) is that review. The Council is required to prepare and publish the AGS.
- 1.41 The Audit and Governance Committee is responsible for approving the Council's AGS at the same time as the statement of accounts is approved, i.e. by the end of September each year. In the interests of best practice and early engagement, the draft of the AGS is brought to the Committee for information and comment from Members in June of each year.

- 1.42 The six principles of Cheshire East Council's governance framework, as set out in the Authority's Code of Corporate Governance are outlined in the AGS, along with a brief description of arrangements and an assessment of the effectiveness of those arrangements during 2011/12. Principle 3 of the Council's Code of Corporate Governance is promoting the values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour. The following paragraphs summarise the arrangements.
- 1.43 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.
- 1.44 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.
- 1.45 The Anti Fraud & Corruption Strategy 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.
- 1.46 Employees must register any interests they may have in the departmental register recording Declarations of Interests.
- 1.47 All offers of gifts and hospitality, regardless of whether the offer was accepted or declined, must be recorded in the departmental register. Such registers should be reviewed by the appropriate departmental management team on a regular basis and a record kept of such review.

2.0 Actual, Suspected or Alleged Fraud

- 2.1 From the work undertaken by Internal Audit during 2012/13, there is no evidence to suggest any material impact on the 2012/13 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.

3.0 How the Audit and Governance Committee 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. Such arrangements are designed to provide reasonable assurance with regard to compliance rather than absolute certainty, because systems are susceptible to human error and poor judgement, and controls can be deliberately circumvented or overridden.
- 3.2 Reports provide a section for legal implications, and reports cannot go before Cabinet or Council without this being addressed. The Council's Statutory Officers have a positive responsibility to report to the Council, in respect of:
- co-ordination of functions, staff and management matters – the Head of Paid Service
 - financial administration, probity and propriety – the Section 151 Officer
 - legality and administration – 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. The Committee, therefore, gains assurance that all relevant laws and regulations have been complied with via Internal Audit opinion and interim reports. Furthermore, as part of the AGS process the Directors, Heads of Service and Managers are required to sign off on the adequacy of controls within their service areas/directorate via disclosure statements. The disclosures are made available to and considered by the Audit and Governance Committee in order that Members may discharge their duties with regard to approving the AGS.
- 3.4 The Audit and Governance Committee also recognises that an important way for it to assess the efficacy of, and provide assurance on, its risk management, internal control and governance arrangements is to review adverse incidents that the Council has had to deal with, and provide public assurance that appropriate action has been taken to ensure that any shortcomings are rectified promptly, and are less likely to be repeated in future.
- 3.5 Consequently, the Committee on 31 January 2012 resolved that a thorough and robust investigation of all issues surrounding the expenditure incurred on a proposed waste transfer station in the North of the Borough be added to the work plan in order to identify any governance issues and whether all financial and contractual procedure rules were complied with.

- 3.6 The review indicated that whilst, in the main, appropriate Council procedures were in place to achieve compliance with Officer Delegations, Standing Orders, EU Procurement Rules and ensure effective reporting to Members, in this instance there was evidence that officers failed to comply with many of these arrangements.
- 3.7 A special meeting was held on 14 June 2012 where the Committee considered the findings of the review, recommendations and proposed management actions to prevent a reoccurrence of such issues in the future. The Committee resolved that progress reports against the identified actions in the Action Plan be submitted to the Committee on a quarterly basis.
- 3.8 Issues and Actions arising from the review is one of the significant governance issues identified in the Council's Annual Governance Statement (AGS) for 2011/12 together with awareness and compliance with Council processes/procedures and a data protection breach following an incident in May 2011.
- 3.9 Progress against the actions in the AGS Action Plan is monitored throughout the year by the Corporate Governance Group and reported to this Committee.
- 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 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 Corporate Governance Group of any significant control issues which may result in successful legal action against the Council as part of their annual disclosure statement.
- 5.0 How the Committee has satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements.**
- 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 s151 Officer 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 s151 Officer 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.

CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 27th June 2013
Report of: Head of Commercial Strategy, Business Innovation and Performance
Portfolio Holder: Councillor David Brown
Subject: Compliance with Regulation of Investigatory Powers Act (2000) – Report from the recent inspection by the Office of the Surveillance Commissioner

1.0 Report Summary

- 1.1 The Regulation of Investigatory Powers Act (RIPA) provides a regulatory framework to enable public authorities to obtain information through the use of certain covert investigatory techniques. A report was brought to Audit & Governance Committee on 28th March, 2013, outlining how the Council complies with RIPA and highlighting the forthcoming inspection by the Office of Surveillance Commissioners on 2nd May. The inspection has now taken place and the Inspection Report received; this paper outlines the Inspector's findings and recommendations.

2.0 Decision Requested

- 2.1 That the Committee notes the findings from the Inspection Report.

3.0 Reasons for Recommendations

- 3.1 In order to form an opinion on the Council's compliance with and to gain the protection afforded by compliance with this legislation, Audit & Governance Committee needs to gain assurance that there are effective arrangements in place to ensure that the Council is handling requests for covert surveillance in accordance with the Regulation of Investigatory Powers Act 2000.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Ward Members

- 5.1 Not applicable.

**6.0 Policy Implications including - Carbon reduction
- Health**

- 6.1 Using RIPA powers can conflict with an individual's human rights, and so it is imperative that, when investigating wrongdoing, certain conditions are met in each case, in order that successful prosecutions can be made. By following the authorisation procedures set out in RIPA legislation and outlined in the Council's Policy and Procedures (Surveillance under the Regulation of Investigatory Powers Act 2000 – Policy and Procedures – 1st November 2012), officers are demonstrating that the surveillance is necessary for a purpose permitted by the Human Rights Act 1998 and that it is a proportionate measure to take, given all the circumstances.

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

- 7.1 Failure to comply with the legislation can lead to the Office of the Surveillance Commissioner withdrawing the Council's ability to conduct directed surveillance for a period of time, which would then result in a follow up inspection. This would have a detrimental impact on the Council's ability to Carry out investigations.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 The legal implications arising from the legislation referred to in this report are contained within the body of the report, including 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 Inspector's report is very positive about the Council's use of RIPA, but there are some recommendations as to how we can improve standards further. Appendix 1 outlines the key findings and recommendations.

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 Compliance Manager
Tel No: 01270 685865
E-mail: sandra.smith@cheshireeast.gov.uk

RIPA INSPECTION - 2ND MAY 2013 – SUMMARY OF REPORT

1. Excellent training regime.
2. All staff involved in inspection were most receptive to constructive comment and approached the inspection in a most positive, courteous and cooperative manner.
3. Policy and procedures, training documentation and CCTV Policies and Protocols provide an extremely helpful and comprehensive policy and guidance regime for practitioners.
4. Privacy Risk Assessments – example of good practice
5. Review Panel process – whereby applications and authorisations are quality assured -is to be commended, as is the process by which the Senior Responsible Officer (Monitoring Officer) oversees the Central Record and can be involved in rectifying mistakes/failings by applicants and Authorising Officers

Recommendations

1. Policy and guidance documents to include guidance on the use of social networking sites and the internet.
2. CCTV Code of Practice and Protocol for use of CCTV in Covert Policing – in both documents there should be an explanation of the process by which the relevant details of an authorisation are made available to staff in the CCTV Control Room.
3. Central Record of Authorisations – record the Magistrate who considered an authorisation, the names of the officers at the hearing, and the outcome of the hearing and whether or not amendment was made to the authorisation.
4. Application Forms – some general recommendations made regarding improvements to the completion of forms by applicants and authorising officers.

14th June 2013

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 27 June 2013
Report of: Audit Manager
Title: Work Plan 2013/14
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

- 1.0 To present a proposed Work Plan for 2013/14 to the Committee for consideration.

2.0 Recommendation

- 2.1 That the Committee:

- consider the Work Plan for 2013/14 and determine any required amendments;
- note the changes to the plan since it was last discussed in March 2013; and
- 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.
- 3.2 As agreed at the last Committee meeting, the specialist Member/Officer groups were asked to identify items for inclusion on the work plan.

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

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 March 2013:

Additional Items on the June 2013 Agenda

- The Risk Register from the Welfare Reform Working Group has been made available to Members - as requested in March 2013.
- A report on how the Audit and Governance Committee gain assurance over management processes and arrangements - in order to comply with International Auditing Standards.
- An update on Public Sector Internal Audit Standards (PSIAS) - in order to inform the Committee of the new standards which came into effect on 1 April 2013 and note the implications and further actions necessary to meet compliance including the development of an Audit Charter.
- An update report following the inspection from the Office of the Surveillance Commissioner outlining the Inspector's findings and recommendations- as discussed at the March meeting.

10.2 It should be noted that the Work Plan will be re-submitted to the Committee periodically for further development and approval.

11.0 Access to Information

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

Name: Jon Robinson

Designation: Audit Manager

Tel No: 01270 685864

Email: jon.robinson@cheshireeast.gov.uk

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Audit & Governance Committee Work Plan

Committee Date/Agenda Item	Description
28 March 2013	
External Audit – Certification of Claims & Returns	The Committee considered a report which detailed the key findings identified during the External Auditor's certification process for 2011/12 grant claims and returns.
External Audit Plan	The Committee considered the External Auditor's plan which set out the work for the 2012/13 audit. It was agreed that that the emerging issues from the Audit Plan would be considered at the relevant Member/Officer groups.
Internal Audit Plan 13/14	The Committee approved the Internal Audit Plan for 2013/14 noting that when a more detailed audit plan became available, it would be shared with the specialist Member groups appointed by the Committee.
Audit Committee Self Assessment	The Committee considered a report on the results of a self-assessment of the effectiveness of the Audit and Governance Committee.
Whistleblowing Policy Update	The Committee considered a report which provided an update on the effectiveness of the Council's Whistleblowing Policy and a breakdown of the number of reports received during 2012/13.
Risk Management Update Report	The Committee considered an update report on risk management.
Update on Programme and Project Management and Other Compliance Issues	The Committee received an update on programme and project management and other compliance issues.
Regulation of Investigative Powers Act (RIPA)	The Committee considered a report on the Council's compliance with the Regulation of Investigatory Powers Act 2000.
Work Plan	The Committee considered the updated Work Plan.
27 June 2013	
External Audit – Progress Report 12/13	External Audit to report progress against their 12/13 Plan/emerging issues.
Draft Statement of Accounts 12/13	Overview of the key issues within the 12/13 Draft Statement of Accounts
Draft Annual Governance Statement (AGS) 12/13	Draft AGS 12/13 for comment/agreement; final version to be approved at September meeting.

Audit & Governance Committee Work Plan

Committee Date/Agenda Item	Description
Internal Audit Annual Report 12/13	Opinion on the overall adequacy and effectiveness of the Council's control environment for 12/13
Corporate Risk Management Group Annual Report 12/13 & Risk Management Policy Review <i>including Risk Owner Mitigation Plan</i>	Annual Report of the Corporate Risk Management Group, an update of the Risk Management Policy and attendance by a Corporate Risk Owner to explain their mitigation plan (Commissioning and Services Delivery Chains). A copy of the Risk Register from the Welfare Reform Working Group is made available to the Committee.
Compliance with International Auditing Standards	To comply with International Auditing Standards, each year the Council's External Auditors are required to refresh their understanding of how the Audit and Governance Committee gain assurance over management processes and arrangements.
Update on Public Sector Internal Audit Standards (PSIAS) and Audit Charter NEW	To inform the Audit and Governance Committee of the new Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013, note the implications and further actions necessary to meet compliance with the PSIAS, including the development of an Audit Charter.
Regulation of Investigatory Powers Act (RIPA) NEW	Update following the inspection from the Office of the Surveillance Commissioner outlining the Inspector's findings and recommendations.
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities
26 Sept 2013	
External Audit – Audit Findings Report 12/13	Summary of findings from the 12/13 audit and key issues identified by External Audit in issuing their opinion on the Council's financial statements and its arrangements for securing economy, efficiency & effectiveness in the use of resources.
Financial Resilience Report NEW	A report from the Council's External Auditors
Annual Report 12/13	Annual Report of the Chair of the Audit & Governance Committee to Council

Audit & Governance Committee Work Plan

Committee Date/Agenda Item	Description
Statement of Accounts 2012/13 Audited	Approval of the final 12/13 Financial Statements.
Final AGS 12/13	Final AGS 12/13 for approval.
Internal Audit Charter NEW	The Internal Audit Charter defines the internal audit activity's purpose, authority and responsibility.
Treasury Management Update Report	Update report on Treasury Management.
Risk Management Update Report <i>including Risk Owner Mitigation Plan</i>	Update report on Risk Management and attendance by a Corporate Risk Owner to explain their mitigation
Compliance with Contract Procedure Rules NEW	A report setting out the number of non-compliance instances in the previous period, broken down by Service, and a description of exceptional instances
Members Code Of Conduct – Complaints Update. NEW	Review of operation of arrangements and update on the number and outcome of complaints.
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
28 Nov 2013	
External Audit – Annual Audit Letter 12/13	Summary of the External Audit findings from 12/13 audit.
External Audit update report and audit fee letter	To consider an update report from Grant Thornton in delivering their responsibilities as external auditors. The report will also specify the level of audit fees.
Internal Audit Interim Report	Progress report against the Internal Audit Plan 13/14.
Update on Governance Framework and Code of Corporate Governance, 12/13 Action Plan & 13/14 Process	Council's Governance Framework for discussion/agreement and approval of updates to Code of Corporate Governance. Progress to date on the 12/13 AGS Action Plan and suggested approach for the 13/14 AGS for approval.
Anti Fraud and Corruption Update	Periodic review of Anti Fraud and Corruption Policy and arrangements against best practice.
Annual Report of Corporate Complaints and Local Government Ombudsman's Annual Review 12/13	Summary of the complaints received by the Council and also those dealt with by the Local Government Ombudsman about the Council for 12/13.

Audit & Governance Committee Work Plan

Committee Date/Agenda Item	Description
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
30 Jan 2014	
Internal Audit Interim Report	Progress against the Internal Audit Plan 13/14.
Members Code of Conduct Complaints Update	Update on the number and outcome of complaints.
Treasury Management Strategy and MRP Statement 2014/15	The CIPFA Code of Practice on Treasury Management requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years. The Treasury Management Strategy is also reported to Cabinet before being presented to Full Council for approval.
Data Protection and Freedom of Information Update	Update on Data Protection and Freedom of Information issues including volumes of requests and trends.
Compliance with International Auditing Standards 2013/14	To comply with International Auditing Standards, each year the Council's External Auditors are required to refresh their understanding of how the Audit and Governance Committee gain assurance over management processes and arrangements.
Risk Management Update Report <i>including Risk Owner Mitigation Plan</i>	Update report on Risk Management and attendance by a Corporate Risk Owner to explain their mitigation
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
27 March 2014	
Compliance with Contract Procedure Rules	A report setting out the number of non-compliance instances in the previous period, broken down by Service, and a description of exceptional instances.
External Audit – Audit Plan 13/14	External Audit's planned work for the audit of financial statements and the value for money conclusion 13/14.

Audit & Governance Committee Work Plan

Committee Date/Agenda Item	Description
External Audit – Certification of Claims & Returns	Annual report on the issues, amendments and qualifications arising from certification work of grant claims and returns.
Internal Audit Plan 13/14	Approval of risk based Internal Audit Plan for following year.
Audit Committee Self Assessment	Self assessment of the effectiveness of the Committee, which feeds into the AGS process.
Whistleblowing Policy	To provide the Committee with an update on the effectiveness of the Council's Whistleblowing Policy and a breakdown of the number of reports received during 2013/14
Risk Management Update Report <i>including Risk Owner Mitigation Plan</i>	Update report on Risk Management and attendance by a Corporate Risk Owner to explain their mitigation
Compliance with Regulation of Investigatory Powers Act (RIPA)	A report on the Council's compliance with the Regulation of Investigatory Powers Act.
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
	<i>The following items may, subject to requirement, be presented to the Committee.</i>
Insurance NEW	<p>The Committee is, where necessary, 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>To be included in a future Risk Management Update Report.</p>
Anti Money Laundering	Consideration of any updates to the Anti Money Laundering Policy and assurance from management that measures are operating effectively.
Training for Standards Hearings NEW	Hearings training for panel members.

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