

# Audit and Governance Committee

## Agenda

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<b>Date:</b>	<b>Thursday, 27th March, 2014</b>
<b>Time:</b>	<b>2.00 pm</b>
<b>Venue:</b>	<b>Committee Suite 1,2 &amp; 3, Westfields, Middlewich Road, Sandbach CW11 1HZ</b>

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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. 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.

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.

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For requests for further information

**Contact:** Cherry Foreman

**Tel:** 01270 686463

**E-Mail:** [cherry.foreman@cheshireeast.gov.uk](mailto:cherry.foreman@cheshireeast.gov.uk) with any apologies

4. **Minutes of Previous meeting** (Pages 1 - 14)  
To approve the minutes of the meeting held on 30 January 2014.
5. **Informing the Risk Assessment for Cheshire East Council** (Pages 15 - 54)  
To consider a response to questions posed by the Council's External Auditor.
6. **External Audit Plan 2013/14** (Pages 55 - 72)  
To consider and comment on the Audit Plan 2013/14.
7. **External Audit - Emerging Issues Update** (Pages 73 - 96)  
To consider an update from Grant Thornton on emerging national issues and developments.
8. **Internal Audit Plan 2014/15** (Pages 97 - 112)  
To review and approve the Summary Internal Audit Plan for 2014/15.
9. **Risk Management Update Report** (Pages 113 - 128)  
To consider a summary of risk management work carried out since the last meeting.
10. **Compliance with the Regulation of Investigatory Powers Act 2000 and Protection of Freedoms Act 2012** (Pages 129 - 134)  
To consider a report on the numbers of applications and the current arrangements in place to ensure the Council complies with legislation.
11. **Contract Procedure Rules - Waivers** (Pages 135 - 138)  
To consider the number of waivers since the last report in September 2013, and to receive an update on a review of the Contract Procedure Rules.
12. **Members' Code of Conduct: Standards Panels and Sub-Committee Annual Report** (Pages 139 - 142)  
To receive a report which give details of the numbers and outcomes of complaints under the Code of Conduct for Members.
13. **Alternative Service Delivery Vehicles Governance and Stewardship** (Pages 143 - 166)  
To consider a report setting out the governance and stewardship arrangements for Alternative Service Delivery Vehicles
14. **Audit and Governance Committee Self Assessment** (Pages 167 - 182)  
To consider the report of the Chairman following a self assessment of the effectiveness of the Committee.

15. **Work Plan 2014/15** (Pages 183 - 188)

To consider the updated Work Plan and determine any required amendments.

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**CHESHIRE EAST COUNCIL**

Minutes of a meeting of the **Audit and Governance Committee**  
held on Thursday, 30th January, 2014 in Committee Suite 1,2 & 3, Westfields,  
Middlewich Road, Sandbach CW11 1HZ

**PRESENT**

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

Councillors S Corcoran, R Fletcher, M Hardy, S Hogben, A Kolker, D Marren,  
M J Simon and B Murphy.

**Councillors in attendance:**

Councillors K Edwards, B Moran and P Raynes.

**Officers in attendance:**

Peter Bates – Chief Operating Officer  
Suki Binjal – Interim Head of Legal Services  
Joanne Butler – Performance and Risk Manager  
Julie Davies – HR Strategy and Policy Manager  
Jon Robinson – Audit Manager  
Neil Taylor – Audit Manager  
Judith Tench – Head of Corporate Resources and Stewardship  
Jo Wilcox – Corporate Finance Lead

**External Auditor (Grant Thornton)**

Steven Nixon and Allison Rhodes.

**42 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor L Roberts.

**43 DECLARATIONS OF INTEREST**

Councillors A Kolker and M Hardy declared personal interests by virtue of being members of the Board of Everybody, the Councils Leisure Trust.

Councillor D Marren declared a personal interest by virtue of being a member of the Board of Orbitas (Bereavement Services).

Councillor S Hogben declared a personal interest by virtue of being a member of the board of ANSA (Waste Management Services).

Councillor R Fletcher declared a personal interest by virtue of his daughter being employed by the Information Commissioner's Office.

**44 PUBLIC SPEAKING TIME/OPEN SESSION**

No members of the public were present.

**45 MINUTES OF PREVIOUS MEETING**

The minutes were considered and Councillor M Simon asked to be added that she had voted against the motion in minute 34 (Audit Findings and Action Plan) as it was outside the remit of the Committee.

**RESOLVED**

That the minutes of the meeting be approved subject to the addition of Councillor M Simon to minute 34 as detailed above.

**46 EXTERNAL AUDIT UPDATE REPORT**

Consideration was given to the report of Grant Thornton, the Councils External Auditors, on progress in delivering their responsibilities. The report was introduced by Allison Rhodes, the new Audit Manager for Grant Thornton, who had replaced Stephen Nixon. Following the appointment of Judith Tench as Head of Corporate Resources and Stewardship a new audit team had been appointed from the Midlands Region and this included John Roberts (Lead Partner), Allison Rhodes (Audit Manager) and Naomi Povey (Executive); this had been put in place to safeguard the independence of the firm and the auditor.

Discussion ensued on value for money, Government changes to the Business Rate Retention Scheme, and benchmarking and how it would be applied to the Council's new Alternative Service Delivery Vehicles; with regard to this last point the Committee was informed that Grant Thornton had recently published a number of case studies which might be of interest.

**RESOLVED**

That the report be noted.

**47 EXTERNAL AUDIT CERTIFICATION REPORT 2012/13**

Consideration was given to the report of Grant Thornton which summarised the key findings identified during their certification process for 2012/13 for claims and returns.

Particular note was made of the fact that the Council had received an unqualified letter from the Auditors and no significant findings had been identified in relation to the management arrangements and the certification of individual grant claims and returns. The Chief Operating Officer agreed to pass on the thanks of the Committee to all the staff involved in this excellent work.

**RESOLVED**

That the report be noted.

**48 INTERNAL AUDIT INTERIM REPORT 2013/14**

The Committee considered a report on progress against the Internal Audit Plan 2013/14, revisions to it, and a summary of the work carried out in its third quarter.

The Council is responsible for establishing and maintaining appropriate risk managements processes, control systems, accounting records and governance arrangements and one of the roles of Internal Audit is to ensure these arrangements are in place and operating properly. At the end of the first half of the year key work areas for Internal Audit had been agreed as being Alternative Service Delivery Vehicles, and Programme and Project Management – project health checks, with Risk Management project health checks and a review of officer and member disclosures to be carried out in the final quarter.

In a discussion regarding the recent Highways Maintenance audit report, and with regard to monitoring the standard of work of the ASDV's, it was reported that reference would be made to source documentation and to the validation of performance indicator results. In addition, members were keen that the use of local suppliers and local workforce be monitored and it was reported that if this had been included as a clause in the contract then it would be checked as part of the robust monitoring procedures.

The performance indicators applicable to internal audit were outlined and it was suggested that a useful measure would be the comparison of Cheshire East's costs with other authorities. It was also suggested that a further useful indicator would be the implementation of audit recommendations within agreed timescales.

**RESOLVED**

That the report and the comments of the Committee be noted.

**49 TREASURY MANAGEMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2014/15**

Consideration was given to the 2014/15 Treasury Management Strategy Statement, incorporating the Minimum Revenue Provision Policy Statement, Investment Strategy, and the Prudential and Treasury Indicators 2014/17. In accordance with the CIPFA Code of Practice on Treasury Management these needed to be agreed and the main changes were shown in paragraphs 10.3 and 10.4 of the report.

**RESOLVED**

That Council be recommended to approve the Treasury Management Strategy and the Minimum Reserve Position Statements as set out in the report.

**50 COMPLIANCE WITH THE DATA PROTECTION ACT (1988), FREEDOM OF INFORMATION ACT (2000), AND ENVIRONMENTAL INFORMATION REGULATIONS 2004**

The Committee received an update on how the Council fulfilled its obligations under Data Protections and Freedom of Information legislation; in addition details were given of the volume of requests, trends, current and future issues.

It was reported that the number of requests were increasing year on year; the Council had, however, recently stated its commitment to being open, honest and accountable and the Transparency Project had been launched which it was anticipated would reduce the number of requests being made.

**RESOLVED**

That the report, and the arrangements in place to ensure compliance with the legislation, be noted.

**51 REVIEW OF NEW CIPFA GUIDANCE ON AUDIT COMMITTEES**

In order to support the Committee in performing effectively it was reported that new guidance had been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in *Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition)*; the report included CIPFA's position statement and both the current Terms of Reference and those now suggested by CIPFA. Previous guidance dated from 2005.

It was reported that the revised Terms of Reference of the Committee were being looked at by the Constitution Committee as this area of work fell within its remit. Whilst it was understood that this was the case a number of Members were keen to be more directly involved in the review process. Councillors D Marren and B Murphy, Chairman and Vice-Chairman respectively of the Working Group set up by the Constitution Committee to look at the Terms of Reference, confirmed that this request could be accommodated.

**RESOLVED**

1. That the report on the view of CIPFA on the role and functions of an audit committee be noted.



2. That it be noted that this report will be shared with the Constitution Working Group which was reviewing the Audit and Governance Committee's Terms of Reference as part of its Work Programme.
3. That, in accordance with the Constitution, it be noted that final approval for amendments to the Terms of Reference of the Audit and Governance Committee will be approved by Council following reference to, and recommendation from, the Constitution Committee.
4. That it be noted that a report on the self assessment of the effectiveness of the Audit and Governance Committee using the latest guidance would be submitted to the Committee for consideration in March 2014.
5. That, as requested, arrangements be made for representatives from this Committee to participate in the review of Terms and Conditions currently being carried out by the Working Group set up by the Constitution Committee.

## **52 RISK MANAGEMENT UPDATE REPORT**

Consideration was given to a summary of risk management carried out since the last meeting. As part of its duties it was the responsibility of the Committee to provide an oversight of the effectiveness and embedding of risk management processes, and to test and seek assurance about the effectiveness of control and governance arrangements. The update provided the Committee with a summary of recent activity in order to make this assessment.

In addition, and as agreed at its meeting in September, Julie Davies (HR Strategy and Policy Manager) attended to discuss the issue of risk around Corporate Risk 9 (Workforce) which was perceived as being high. She explained the measures in place to support staff in the changes taking place, and measures to be introduced in the future, to take into account the new ASDV's and changes such as the introduction of performance related pay.

The Committee had also previously asked for further information on insurance arrangements for Members and the report detailed the various insurance covers; it was further reported that a new category of insurance for Councillors involved with ASDV's was to be introduced.

In considering Appendix A (Corporate Risk Summary) the Committee asked for further information to come to the next meeting of the Committee on Risk CR20 – Contract and Relationship Management.

### **RESOLVED**

1. That the update report on risk management be noted.

2. That further information on Corporate Risk CR20 be reported to the next meeting of the Committee.

### **53 PROPOSED GOVERNANCE, STEWARDSHIP AND CONTROL ARRANGEMENTS FOR ALTERNATIVE SERVICE DELIVERY VEHICLES**

The Chief Operating Officer submitted a report on the proposed governance, stewardship and control arrangements for the Council's Alternative Service Delivery Vehicles (ASDV's). The key and corporate risks associated with ASDV's were set out in the report; others being managed around governance and stewardship arrangements included training for Members appointed as Non-Executive Directors of the new vehicles.

In considering the proposed governance arrangements, attached as Appendix A to the report, it was agreed that the title of the document be amended and that the word 'Arrangement' be changed to 'Principles'. The proposed arrangements encompassed matters around the contract, the shareholder, the shareholder committee and audit; of these the contract was considered to be especially important particularly for the Leisure Trust and it was reported that, as they were developed, contracts would be peer reviewed by an independent/large firm.

Members were particularly interested in the role of the Audit and Governance Committee in future governance arrangements, and also the role and interaction of Members and the Councils Executive in the process as a whole. Whilst it was recognised that the terms of the reference of the Committee would be changing it was reported that proposed governance arrangements incorporated all interested parties as follows:

*"The proposed approach to the ASDV's is one of 'safety first' and the overall governance framework of the Council is being reviewed to ensure arrangements are robust and fit for purpose at the outset. Maintaining accountability to service users, citizens and local members following the introduction of ASDV's is vital and the arrangements introduced must ensure this and will therefore remain under regular review."*

A lengthy discussion ensued on the role of the shareholder committee, articles of association, service contracts and performance management agreements; Members requested a further report and it was agreed that this be submitted to the next meeting of the Committee.

### **RESOLVED**

1. That the Committee note the arrangements set out in Appendix A and that an update report be submitted to the next meeting of the Committee.

2. That the title of Appendix A be amended to replace the word 'Arrangements' with 'Principles'.

**54 WORK PLAN 2013/14**

Consideration was given to the Committees Work Plan for 2013/14. It was agreed that the recommendation from the last item (Proposed Governance, Stewardship and Control Arrangements for Alternative Service Delivery Vehicle's) be added to the items to be considered at the next meeting.

**RESOLVED**

That the Work Plan be approved subject to the above mentioned addition.

The meeting commenced at 2.00 pm and concluded at 5.30 pm

Councillor J Wray (Chairman)

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**AUDIT AND GOVERNANCE COMMITTEE**  
**PROGRESS WITH ACTIONS AGREED OR REPORTED**  
**AT PREVIOUS MEETINGS**

**REPORTED FOR INFORMATION ONLY**

MINUTE NUMBER AND ACTION	PROGRESS	COMPLETED
<b>49 EXTERNAL AUDIT PLAN 2012/13 (28/03/13)</b> It was agreed that that the emerging issues from the Audit Plan would be considered at the relevant Member/Officer groups.	Emerging issues were discussed at the following Member Officer Group meetings: Accounts and Audit – Nov '13 & Jan '14 Fraud – March '14	In progress
<b>50 INTERNAL AUDIT PLAN 2013/14 (28/03/13)</b> It was agreed that <ul style="list-style-type: none"> <li>When a more detailed audit plan is available it will be shared with the specialist Member groups appointed by the Committee.</li> <li>Once guidance has been published all aspects of service delivery will be reassessed to ensure that there is proper migration to the new requirements and audit documents will then be updated to reflect the revised obligations.</li> </ul>	The Audit Plan is shared with Members as part of the annual and interim internal audit update reports to the Committee.  Report on new standards considered at meeting on 27/06/13. An annual assessment of the arrangements against the Standards forms is part of the Annual Governance Statement process.	Yes  Yes
<b>51 AUDIT AND GOVERNANCE SELF ASSESSMENT (28/03/13)</b> Agreed 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 approval process.	Draft AGS discussed at Committee on 27/6/13 with final AGS due to be agreed on 27/9/13. Review included as part of evidence pack distributed to Members.	Yes

ACTION	PROGRESS	COMPLETED
<b>52 WHISTLEBLOWING (28/03/13)</b> Agreed that a further review of the Policy be carried out in 2013/14 and that it would include a survey of staff awareness and views on the arrangements.	Update report is included on the Work Plan for June 2014. Staff survey to be completed following the introduction of an e-learning package.	In progress.
<b>53 RISK MANAGEMENT UPDATE (28/03/13)</b> Agreed that <ul style="list-style-type: none"> <li>• The Committee identify an area of risk on which to receive a briefing at the next meeting; Commissioning and Services Delivery Chains was duly identified.</li> <li>• The Risk Register from the Welfare Reform Working Group be brought to the next meeting.</li> </ul>	The Executive Director of Strategic Commissioning attended the meeting on 27/06/13 to brief members on this.  Risk Register from the Welfare Reform Working Group made available to the Committee.	Yes 27/06/13  Yes 27/06/13
<b>55 COMPLIANCE WITH REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) (28/03/13)</b> That a report be submitted to the Committee on the Inspectors findings and recommendations following his visit on 2 May 2013.	Considered at the meeting on 27/06/13	Yes 27/06/13
<b>56 WORK PLAN 2012/13 (28/03/13)</b> Agreed that <ul style="list-style-type: none"> <li>• A report be brought to the Committee on the provision of training for Standards Hearings and on whether the agreed processes for dealing with complaints under the Members Code of Conduct should be reviewed.</li> <li>• That there be a report to the Committee on insurance arrangements for elected members.</li> </ul>	It is anticipated that the report will be presented to the Audit and Governance Committee in June 2014  Insurance arrangements for members was included in the Committees Jan '14 report on Risk Mgt.	Yes 30/01/14

ACTION	PROGRESS	COMPLETED
<p><b>5 INTERNAL AUDIT ANNUAL REPORT 2012/13 (27/06/13)</b>  Agreed that the Chief Operating Officer discuss concerns regarding compromise agreements with the appropriate HR Officer or Member Group.</p>	<p>(Rachel Musson) Discussed this with the Chief Executive and with the CLB and was advised that any agreements are managed on a case by case basis.</p>	<p>Yes 27/09/13</p>
<p><b>6 DRAFT ANNUAL GOVERNANCE STATEMENT 2012/13 and 13 WORKPLAN 2013/14 (27/06/13)</b>  That the Chief Operating Officer report back on the most appropriate forum to measure and monitor improvement of organisation of culture.</p>	<p>Rachel Musson - Discussed with the Chief Executive and the Leader who advised that this will be dealt with by Cabinet and the CLB.</p>	<p>Yes 27/09/13</p>
<p><b>7 DRAFT STATEMENT OF ACCOUNTS 2012/13 (27/06/13)</b>  That information on earmarked reserves and the schools balances be forwarded to Members.</p>	<p>This information was circulated on 01/07/2013.</p>	<p>Yes 1/07/13</p>
<p><b>8 ANNUAL REPORT ON RISK MANAGEMENT (27/06/13)</b>  That the Corporate Risk Management Group, the Chairman, the Executive Director of Strategic Commissioning and Cllr Marren consider further the most appropriate way of including the allocation of a measurement/score of risk on all on all written reports.</p>	<p>In progress, discussed at the Corporate Risk Management Group and to be discussed with the Corporate Leadership Team.</p>	<p>In progress</p>
<p><b>9 AUDIT COMMITTEE UPDATE (27/06/13)</b>  That detailed financial information around emerging issues and developments be circulated to Members direct.</p>	<p>Circulated to Committee Members on 1/07/2013</p>	<p>Yes 1/07/2013</p>

ACTION	PROGRESS	COMPLETED
<p><b>10 PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND AUDIT CHARTER UPDATE (27/06/13)</b> That further updates be brought to the Committee as and when necessary.</p>	<p>A report was presented to Members in Sept '13 that looked at the aspects of Standards that affect an Audit Charter. Following this the Internal Audit Charter was presented to the Committee for final approval in November '13.</p>	<p>Yes 28/11/13</p>
<p><b>13 WORK PLAN 2013/14 (27/06/13)</b> That the Monitoring Officer, the Member/Officer Group and Cllr Marren discuss further the appropriateness of the requested Cardiff Review of 6 procurement invoices and report back to the Committee in due course.</p>	<p>The issue was discussed at the relevant Member Officer Group and it was decided not to proceed with this at this particular time.</p>	<p>Yes 15/11/13</p>
<p><b>23 PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND AUDIT CHARTER UPDATE (27/06/13)</b> That the finalised documents be considered by the Committee at its meeting on 28/11/13</p>	<p>The Committee approved the Internal Audit Charter on 28 November and further updates will be brought to the Committee as and when necessary.</p>	<p>Yes 28/11/13</p>
<p><b>25 RISK MANAGEMENT UPDATE (27/09/13)</b> CR9 – Workforce identified as the risk for consideration at the next meeting of the Committee.</p>	<p>As the meeting on 28/11/13 had been convened to deal with specific items of business this is on the agenda for the meeting in January 2014.</p>	<p>Yes 30/01/14</p>



ACTION	PROGRESS	COMPLETED
<p><b>26 COMPLIANCE WITH CONTRACT PROCEDURE RULES (27/09/13)</b> That further reports on the process, and its robustness be brought to the Committee as part of the regular monitoring of the Annual Governance Statement Action Plan.</p>	A further report will be on the agenda for the meeting on 27 March 2014.	In progress, on agenda
<p><b>34 2012/13 AUDIT FINDINGS ACTION PLAN (28/11/13)</b> 1. That there be an all Member briefing on governance issues relating to Alternative Service Delivery Vehicle's in advance of the next Audit and Governance Committee. 2. That there be a report back to a future meeting of the Committee on its terms of reference.</p>	<p>Actioned.</p> <p>On January 2014 Agenda.</p>	<p>17/12/13</p> <p>Yes 30/01/14</p>
<p><b>39 ANTI-FRAUD AND CORRUPTION ARRANGEMENTS – UPDATE (28/11/13)</b> That an annual fraud report be submitted to the Committee on an annual basis.</p>	To be completed during the 2014/15 financial year.	
<p><b>40 ANNUAL REPORT OF CORPORATE COMPLAINTS AND THE LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REVIEW 2012/13 (28/11/13)</b> That staff be thanked for their effort in reducing the number of complaints received.</p>	The thanks of the Committee have been passed on to the Compliance and Customer Relations Team as they are responsible for the management of the Corporate Complaints process.	Yes December 2014

ACTION	PROGRESS	COMPLETED
<b>41 WORK PLAN 2012/13 (28/11/13)</b> With ref to minute 27 of the last meeting arrangements be made for the newly formed Standards Working Group, comprising Cllrs Wray, L Brown, Hardy and Hogben, to meet as soon as possible.	This is to meet asap after the arrival of Anita Bradley (Head of Legal Services and Monitoring Officer) on 3 February 2014.	In progress
<b>47 EXTERNAL AUDIT CERTIFICATION REPORT 2012/13 (30/01/14)</b> Chief Operating Officer to pass on the thanks of the Committee to the staff involved.		
<b>51 REVIEW OF NEW CIPFA GUIDANCE ON AUDIT COMMITTEES (30/01/14)</b> Representatives from the Committee to take part in the Constitution Member Working Group review.	A meeting of the Working Group was held on 3 March but unfortunately the Chairman was unable to attend; however, Cllr Marren is its Chairman and he was able to report the view of the A & G Cttee which was to support the ToR put forward by CIPFA. This was agreed with the minor addition that the remit of the Cttee be widened to allow members of the Audit Cttee to initiate and carry out their own investigations where it was supported by the majority of the Cttee. A report to the Constitution Cttee is planned at a date tbc.	In progress
<b>52 RISK MANAGEMENT UPDATE REPORT (30/01/14)</b> CR20 (Contract Relationship Management) Further info to be submitted to Committee in March 2014.  <b>53 PROPOSED GOVERNANCE STEWARDSHIP AND CONTROL ARRANGEMENTS FOR ASDV'S (30/01/14)</b> Further report to be submitted to Committee in March 2014.	Report to be submitted, date tbc          Report to be submitted in March 2014	In progress, on agenda

## CHESHIRE EAST COUNCIL

### AUDIT AND GOVERNANCE COMMITTEE

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**Date of Meeting:** 27 March 2014  
**Report of:** Chief Operating Officer  
**Title:** Informing the Risk Assessment for Cheshire East Council  
**Portfolio Holder:** Councillor Peter Raynes

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#### 1.0 Report Summary

- 1.1 In order to comply with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)) the Council's External Auditors (Grant Thornton) require an understanding of management processes and the Audit and Governance Committee's oversight of the following areas:

- Fraud (ISA 240)
- Laws and Regulations (ISA 250)
- Going Concern (ISA 570)
- Accounting Estimates (ISA 540)
- Related Party Transactions (ISA 550)

- 1.2 The report, attached at Appendix A, includes a series of questions on each of these areas and the response that Grant Thornton has received from Cheshire East Council's management.

#### 2.0 Recommendation

- 2.1 The Audit and Governance Committee is asked to consider whether management's response to a series of questions posed by the Council's external auditor are consistent with its understanding and whether there are any further comments it wishes to make.

#### 3.0 Reasons for Recommendations

- 3.1 This report assists both the external auditor and the Audit and Governance Committee in understanding matters relating to the audit of financial statements and helps to develop a constructive working relationship. It also enables the external auditor to obtain information relevant to the audit from the Audit and Governance Committee, supports the Committee in fulfilling its responsibilities in relation to the financial reporting process and helps to meet the requirements of International Standards on Auditing (UK and Ireland).

#### 4.0 Wards Affected

- 4.1 All Wards

## **5.1 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 Council has a statutory duty (s151 of the Local Government Act 1972) to make arrangements for the proper administration of its financial affairs. An officer must also be appointed to have responsibility for the administration of these arrangements. The Chief Operating Officer is designated as the Council's s151 Officer.

8.2 In addition the Accounts and Audit (England) Regulations 2011 require the Council's s151 Officer to determine accounting control systems that include measures to enable the prevention and detection of inaccuracies and fraud and that risk is appropriately managed.

## **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 and Governance Committee is an important source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance. In recognition of this important role, and in order to comply with ISAs (UK and

Ireland) Grant Thornton require an understanding of management processes and the Audit and Governance Committee's oversight of the following areas:

- Fraud (ISA 240)
- Laws and Regulations (ISA 250)
- Going Concern (ISA 570)
- Accounting Estimates (ISA 540)
- Related Party Transactions (ISA 550)

- 10.2 The report, attached at Appendix A, includes a series of questions on each of these areas and the response that Grant Thornton has received from Cheshire East Council's management.
- 10.3 The Council has in place arrangements to identify fraud risks and respond to them accordingly. There is a strategic fraud risk which is supplemented by a detailed fraud risk assessment that engages service managers in the process of identifying not only areas which may be susceptible to fraud, but also controls that are in place to mitigate these risks.
- 10.4 The arrangements for responding to fraud issues, including the Anti Fraud and Corruption Strategy and the Whistleblowing Policy are subject to regular review and Members receive update reports on these matters through this Committee.
- 10.5 Member oversight of fraud is further strengthened by the Member/Officer Group which provides a more detailed understanding of the issues and arrangements in this area.
- 10.6 The Council has in place arrangements to ensure compliance with relevant laws and regulations via procedure rules contained within the Constitution and throughout the decision making process. Assurance on compliance is achieved through the internal audit work programme and the completion of the Annual Governance Statement which members will receive in September for approval.
- 10.7 The Council has in place arrangements to assess its ability to continue as a going concern through its sound financial management and budget planning processes.
- 10.8 The Financial Resilience report produced by the Council in October 2013, together with the Grant Thornton report to this Committee in September 2013 confirms that the financial health and resilience of Cheshire East has continued to improve to a position of strength, enabling the Council to cope with the national austerity challenges that the public sector continue to face.
- 10.9 Arrangements are in place to ensure arrangements for accounting estimates and the disclosure of related parties transactions are fully compliant with the CIPFA Code and associated guidance.

10.10 The Audit and Governance Committee is asked to consider whether management's response to the questions are consistent with its understanding and whether there are any further comments it wishes to make.

#### **11.0 Access to Information**

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

Name: Peter Bates

Designation: Chief Operating Officer

Tel No: 01270 686013

Email: [peter.bates@cheshire.gov.uk](mailto:peter.bates@cheshire.gov.uk)

# Informing the audit risk assessment for Cheshire East Council

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**Year ended**

31 March 2014

**Jon Roberts**

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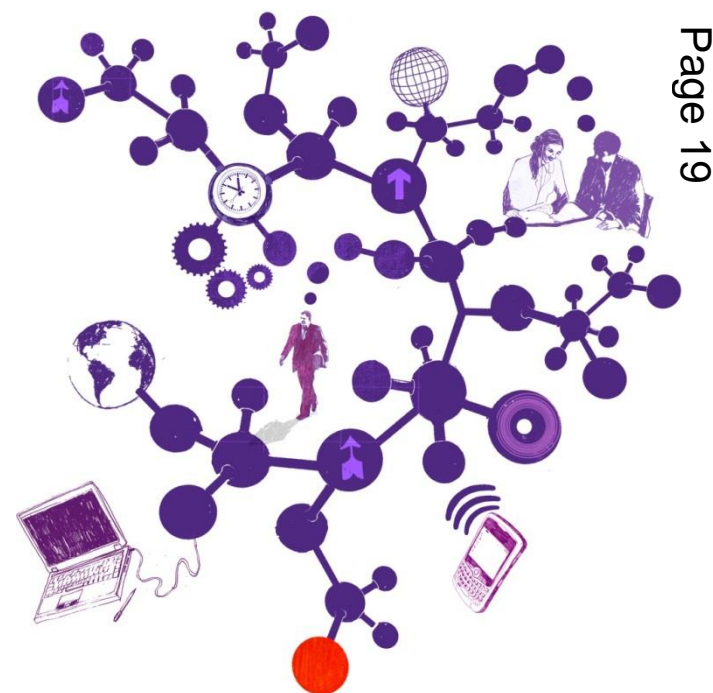
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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# Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and Cheshire East Council 's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

## Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Governance Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit and Governance Committee should consider whether these responses are consistent with the its understanding and whether there are any further comments it wishes to make.

# Fraud

Issue
<p><b>Matters in relation to fraud</b></p> <p>ISA(UK&amp;I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.</p> <p>The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.</p> <p>As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.</p> <p>As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:</p> <ul style="list-style-type: none"><li>• assessment that the financial statements could be materially misstated due to fraud</li><li>• process for identifying and responding to risks of fraud, including any identified specific risks</li><li>• communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud</li><li>• communication to employees regarding business practices and ethical behaviour.</li></ul> <p>We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.</p>

# Fraud risk assessment

Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?

## Management response

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”.*

In addition, a specific fraud risk has been identified and included in the strategic risk register:

**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, particularly at a time of financial hardship, 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.*

These risks are subject to on going review in accordance with the Council's Risk Management Strategy with the Financial Control Risk last formally reviewed in January 2014 and the Fraud Risk in November 2013.

# Fraud risk assessment continued

## What processes does the Council have in place to identify and respond to risks of fraud? processes

### Management response

In addition to the strategic risks identified at page 6, a detailed Fraud Risk Assessment has also been produced in order identify service specific risks to which the Council may be vulnerable.

This assessment was initially produced by the Risk and Performance Manager and the Principal Auditor (Fraud) and took into account the areas identified in the Strategic Fraud Risk, local knowledge and also those risks identified in national publications such as Protecting the Public Purse and Fighting Fraud Locally. This risk assessment was presented to and endorsed by Corporate Risk Management Group prior to circulation to service managers.

Managers were asked to:

- Identify and further risks to which their service area was exposed, and;
- Annotate the assessment with existing and planned controls.

The recently appointed Head of Stewardship and Resources has been allocated as owner of the strategic fraud risk along with the detailed assessment, and, as such will be responsible for the regular review and update of the register in conjunction with the Risk and Performance Manager.

Further work is ongoing to embed awareness of fraud risks within the wider risk management process to ensure that fraud risks are identified and mitigating controls put in place in a timely manner.

# Fraud risk assessment continued

**Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?**

## **Management response**

In developing the Strategic Fraud Risk the findings from the NFA Fraud Loss Profile Tool were used to identify the potential level of exposure that the Council was subject to in high risk areas. This identified Council Tax, Procurement and Payroll as key risk areas and each has been assessed in detail in producing the Fraud Risk Assessment. As previously stated further work is ongoing to engage service managers in the process and further embed fraud awareness across the authority.

Housing Benefit Fraud is a high risk area for all authorities and CEC has established arrangements in place to investigate prosecute and recover losses suffered as a result of benefit fraud. 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 and Corruption Policy. The benefits service strategy is supplemented by the Benefits Fraud Sanction Policy which outlines the criteria used to determine which sanctions may be applicable if a case is proven by the Investigation Team.

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.

A recent management restructure within the Council has taken the opportunity to bring together investigative resources from Housing Benefits, Trading Standards and the accredited Financial Investigators into a single Community Investigations Fraud Team. The scope of this team is currently being determined alongside a review of the corporate anti fraud arrangements in order to further develop the effectiveness of the anti fraud culture across the council and ensure investigative coverage for the whole range of identified fraud risks.

# Fraud risk assessment continued

**Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?**

## **Management response**

The AGS ensures a continuous review of the Council's governance arrangements, to give assurance on the effectiveness of the arrangements and/or to address identified weaknesses including the application of internal controls.

The AGS is considered by the Corporate Leadership Board 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/inspection bodies.

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.

Where weaknesses are identified they are addressed by the production of an action plan which is subject to monitoring by senior management and Internal Audit as part of the Council's Consolidated Action Plan (CAP).

The production of the AGS also takes into account the annual internal audit opinion which provides assurance as to the adequacy of the Council's system of internal control and the action taken to ensure that any shortcomings are rectified promptly.

With regards to the production of the AGS for 2013/14 a draft statement and action plan will be presented to Audit and Governance Committee in June 2014 along with Internal Audit's Annual Report, and the final version will be put in front of the September 2014 meeting of the Committee.

Internal Audit work also provides assurance as to the effectiveness of internal controls and, where weaknesses are identified, mitigating actions are recommended to managers.

# Fraud risk assessment continued

## Management response continued

A programme of audits is carried out in accordance with the Audit Plan that is approved by the Audit and Governance Committee. The work includes the Council's fundamental financial systems in order to gain assurance that the systems of financial control are in place and operating effectively.

Internal Audit undertakes testing on internal controls by examining their effectiveness and in this way the Council can gain 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

Interim reports on progress against and revisions to the Internal Audit Plan, together with a summary of work undertaken are received by the Audit and Governance Committee. The reports provide 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 2014 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 2013/14



# Fraud risk assessment continued

**Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?**

**Management response**

Internal Audit work around key systems has not identified any areas of concern.

In addition the external audit report for 2012/13 stated that 'Our work has not identified any significant control weaknesses which we wish to highlight for your attention'.

**How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?**

**Management response**

Audit and Governance Committee receive regular reports from the Performance and Risk Manager which provide an update on the Strategic Risk Register. The report for the March 2014 committee will include a 'Watch List' of risks that members should be aware of, including the Fraud Risk.

The AGS process, particularly the Head of Service Assurance Statements, provides the Audit and Governance Committee with an understanding of the processes in place, any identified issues and mitigating actions.

# Fraud risk assessment continued

## Management response continued

Internal Audit Update Reports to Committee include details of Counter Fraud Work undertaken in accordance with the plan and in addition to this the Committee received the following reports during the past year:

- June 2013 Chair's response to Audit Commission - this provided detailed information regarding the anti fraud and corruption arrangements and how the Council identifies and responds to the risk of fraud. This report also included details of the number of prosecutions taken by the Housing Benefit Fraud Team.
- November 2013 Update on anti fraud arrangements - update on progress in implementing an Anti Fraud Action Plan developed following a review of the Council's anti-fraud and corruption arrangements against the National Fraud Authority document 'Fighting Fraud Locally: The Local Government Fraud Strategy'

Further oversight is provided to members of the Anti Fraud Member/Officer Sub Group which is one of a number of groups established in 2011 to enable individual Members would become more involved in specific areas of audit and governance work as a means of developing in-depth knowledge and expertise. The group has discussed the following areas over the past 12 months:

- Regular feedback on progress against the Anti Fraud Action Plan
- Discussion around the Fraud Risk Assessment
- Demonstration of Fraud Awareness E-Learning
- More detailed information around whistleblowing concerns
- Consideration of the format for an Annual Fraud Report

Audit and Governance Committee also receive regular reports, as required by the Constitution, to provide the Committee with details of the operation of the 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.

# Fraud risk assessment continued

## How does the Council communicate and encourage ethical behaviour of its employees and contractors?

### Management response

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 all staff and contractors are aware of the standards expected of them.

Cheshire East Council adopted a Code of Corporate Governance in 2009 and this is subject to annual review, and update, where necessary

In November 2013, the Audit and Governance Committee reviewed the Council's Code of Corporate Governance and also noted the on going work by the Corporate Governance Group in respect of the Council's Governance Framework.

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.

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:

- 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.

# Fraud risk assessment continued

## Management response continued

- 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.
- The Anti Fraud and 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.
- Employees must register any interests they may have in the departmental register recording Declarations of Interests.
- 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.

Staff were reminded of the expectations of them when they were provided with a link to the latest version of the Code of Corporate Governance via Team Talk on 16 October 2013 as part of a briefing on the AGS process.

# Fraud risk assessment continued

**How do you encourage employees to report their concerns about fraud? Have any significant issues been reported?**

## **Management response**

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.

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.

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 and Complaints procedure for use by the general public

# Fraud risk assessment continued

## Management response continued

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.

In order to facilitate the reporting of concerns, the Council has in place a Whistleblowing Policy which was produced in accordance with best practice as set down in the PAS 1998:2008 Whistleblowing Arrangements Code of Practice which was produced by the British Standards Institute.

## Are you aware of any related party relationships or transactions that could give rise to risks of fraud?

### Management response

No issues have been identified to date in 2013/14.

# Fraud risk assessment continued

Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2013?

Management response

None which have a material impact on the financial statements.

Cheshire East Council actively pursues those committing benefit fraud offences issuing cautions, administrative penalties and in the most serious cases taking criminal proceedings through the courts.

The number of sanctions and prosecutions for the period 1 April 2013 – 31 January 2014 are as follows:

Cautions	31
Administrative Penalties	40
Prosecutions/Convictions	37

Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2013? If so how does the Audit and Governance Committee respond to these?

Management response

No reports have been made under the Bribery Act since 1 April 2013. Various whistleblowing reports have been received through the year but none which would have a material impact upon the financial statements.

Audit and Governance Committee last received a report detailing whistleblowing activity in March 2013 with the next update scheduled for the June 2014 meeting.

# Laws and regulations

Issue
<p><b>Matters in relation to laws and regulations</b></p> <p>ISA(UK&amp;I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.</p> <p>Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.</p> <p>As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.</p> <p>Risk assessment questions have been set out below together with responses from management.</p>



# Impact of Laws and regulations

Question	Management response
<b>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</b>	<p>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 judgment , controls can be deliberately circumvented or over-ridden.</p> <p>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:</p> <ul style="list-style-type: none"><li>• co-ordination of functions, staff and management matters – the Head of Paid Service</li><li>• financial administration, probity and propriety – the Section 151 Officer</li><li>• legality and administration – Monitoring Officer</li></ul>
<b>How do management gain assurance that all relevant laws and regulations have been complied with?</b>	<p>Internal Audit's annual plan contains a programme of work that includes reviews of compliance with policies, procedures, laws and regulations. Management, therefore, gain 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.</p> <p>Progress against the actions in the AGS Action Plan is monitored throughout the year by the Corporate Governance Group and reported to Audit and Governance Committee.</p> <p>In addition to these internal reviews, key areas of activity across the council are subject to external assessment by bodies such as Ofsted, CQC and the Information Commissioner.</p>

# Impact of Laws and regulations

Question	Management response
<b>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013 with an on-going impact on the 2013/14 financial statements?</b>	No instances have been identified to date in 2013/14.
<b>What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</b>	The Head of Legal Services works with colleagues in Legal and Finance to assess litigation claims. Specific risks are detailed in the Annual Governance Statement..
<b>Is there any actual or potential litigation or claims that would affect the financial statements?</b>	<p>The process to identify any litigation or claims in year that would affect the financial statements is completed as part of the closure of the accounts. This includes a Lead Review undertaken by the Head of Legal Services and the Accountancy Service Manager.</p> <p>The status of insurance claims are reviewed annually as part of closedown procedures.</p>
<b>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?</b>	No instances have been reported to date in 2013/14.

# Going Concern

Issue
<p><b>Matters in relation to Going Concern</b></p> <p>ISA(UK&amp;I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.</p> <p>The going concern assumption is a fundamental principle in the preparation of financial statements for the Council. The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts (that is the basis on which those assets and liabilities are recorded and included in the accounts).</p> <p>Entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium- and long –term liabilities would become short-term liabilities.</p> <p>The Council is not subject to the same future trading uncertainties as private sector entities. However, consideration of the key features of the going concern provides an indication of the Council's financial resilience. It may indicate that some classes of assets or liabilities should not be valued on an on going basis.</p> <p>Going concern considerations have been set out overleaf and management has provided its response.</p>

# Going Concern Considerations

Question	Management response
<b>Does the Council have procedures in place to assess the Council's ability to continue as a going concern?</b>	<p>Yes, the Council undertakes a review of its status in advance of producing the Annual Statement of Accounts and has procedures in place to make that assessment including the following:</p> <ul style="list-style-type: none"><li>• The Council's Medium Term Financial Strategy 2014/17 and Treasury Management Strategy was approved by Council on 27 February 2014.</li><li>• The Three Year Summary Position identified the continued grant funding stream from government and future levels of council tax income. The report also considered the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals, so that members had authoritative advice available to them when they made their decisions.</li><li>• In October 2013 the Council published Guidance and Data on the Financial Resilience of the Council. The Council's Three-Quarter Year Review of Performance was reported to Cabinet in February 2014. This predicted a small underspend against budget.</li><li>• Financial Control is identified as a key risk in the Corporate Risk Register. The net risk rating has reduced to medium as a result of the positive direction of travel evidenced within the Budget Report and the strong financial management which is embedded in the organisation.</li><li>• As part of the approval process for the Statement of Accounts the Section 151 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.</li></ul>

# Going Concern Considerations

Question	Management response
<b>Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?</b>	<p>There are no events or conditions which would impact on the Council's status as a going concern.</p> <p>The Council has set a balanced budget for 2014/15 and provided projections for future years with knowledge of all anticipated changes in Council expenditure and funding through to 2016/17. Given the Council's cautious attitude to including income or savings only when definite projects or government announcements are known, there is a gap between income and expenditure in years two and three. As in previous years the Council expect these challenges to be overcome in good time to present a further balanced budget for 2015/2016.</p>
<b>Are arrangements in place to report the going concern assessment to the Audit and Governance Committee?</b>	<p>Yes, as part of the reporting process to the Audit and Governance Committee which includes the Treasury Management Strategy and Annual Report; the Statement of Accounts and Annual Governance Statement and regular updates on the Corporate Risk Register.</p>
<b>Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?</b>	<p>The Council has set a balanced budget for 2014/15 and this will have taken into account relevant financial assumptions and financial information provided through the year.</p> <p>The forecast position for 2013/14 reflects a likely underspend against the approved budget as growth pressures and contained and savings targets achieved.</p>

# Going Concern Considerations

Question	Management response
<b>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on the going concern?</b>	Yes, the Council's Three Year Plan and reports to Cabinet throughout the year set out the implications of statutory or policy changes. All reports to Cabinet contain a section on Financial Implications authorised by the Section 151 Officer.
<b>Have there been any significant issues raised with the Audit and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</b>	No significant issues have been reported to date in 2013/14 which would cast doubt on the assumptions made. The Audit and Governance Committee receives regular reports from internal and external audit throughout the year and will receive the draft Statement of Accounts and the draft Annual Governance Statement at the June 2014 Committee.
<b>Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?</b>	<p>Financial information on revenue and capital expenditure is reported to managers via a suite of financial reports on a monthly basis. Performance on treasury management is reported weekly to the Finance Portfolio Holder and Senior Managers and quarterly to Cabinet through the Financial Performance Report. No adverse financial indicators have been identified.</p> <p>The process for reporting performance on the payment of invoices is incorporated into the Service Level Agreement for Co-Socius and these indicators will be monitored in 2014/15 as part of this agreement.</p>

# Going Concern Considerations

Question	Management response
<p><b>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council’s objectives?</b></p> <p><b>If not, what action is being taken to obtain those skills?</b></p>	<p>Corporate Risk 3 is concerned with Strategic Leadership and Management and is described as:</p> <p><i>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.</i></p> <p><i>These factors include:</i></p> <ul style="list-style-type: none"><li>• <i>new strategic commissioning operating model</i></li><li>• <i>management restructure</i></li><li>• <i>new and incoming senior appointments</i></li><li>• <i>scale of delivery on substantial change programmes</i></li></ul> <p>Existing controls include the new senior management structure and appointments to this, along with the Collaborative leadership programme which is in place to strengthen and improve our leadership skills. Future planned actions include the development of a succession planning framework and talent pipeline.</p>

# Accounting Estimates

## Issue

### Matters in relation to Accounting Estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. This objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need to an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council are using as part of their accounts preparation: these are detailed in appendix 1 to this report.

The audit procedures we conduct on the accounting estimate will demonstrate that :

- The estimate is reasonable
- Estimates have been calculated consistently with other accounting estimates within the financial statements.



# Consideration of accounting estimates

Question	Management response
<b>Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment?</b>	Yes, as part of the Closure of Accounts process, a review is undertaken to identify accounting estimates that require significant judgement and the note is updated accordingly.
<b>Are the management arrangements for the accounting estimates, as detailed in Appendix 1 reasonable?</b>	Yes, further details are provided in the table on Accounting Estimates.
<b>How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate?</b>	<p>Any amendments to the accounting estimates are reported and approved by the Audit &amp; Governance Committee prior to inclusion in the Statement of Accounts.</p> <p>Members of the Committee also receive training prior to approving the Statement of Accounts so any issues and queries on the accounting estimates can be raised. In September 2013 members requested specific information regarding the PPE valuation process and this was provided by the Head of Property Services.</p>

# Related Parties

## Issue

### Matters in relation to Related Parties

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: Related party disclosures. The Code identified the following as related parties to local government bodies:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries)
- Associates
- Joint ventures in which the authority is a venturer
- An entity that has an interest in the authority that gives it significant influence over the authority
- Key management personnel, and close members of the family of key management personnel
- Post –employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the authority and the related party.

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

# Related Parties

Question	Management response
What controls does the Council have in place to identify, account for, and disclose related party transactions and relationships?	<p>There is a procedure in place to follow three courses of communication to determine whether there are any financially related parties which Cheshire East Council should disclose in its notes to the Statement of Accounts.</p> <ul style="list-style-type: none"><li>• Service Finance obtain potential related parties from service personnel and complete the Finance Lead Review which is collated by Corporate Finance.</li><li>• Business Support issue letters and receive replies from Members and Officers.</li><li>• Corporate Finance request the register of members interests from Democratic Services.</li></ul>

# Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property , plant and equipment valuations	Based on Fair Value – dependent on the class of assets will determine EUV, MV or DRC	A 3 stage QA process with Deloitte's, Assets and finally Finance , quality assuring and challenging the valuations	Deloitte's have been appointed on a 5 year contract	When completing the valuation process and in line with the RICs and CIPFA standards all valuations are considered on number of basis before a decision is made to take a particular one.	No
Estimated remaining useful lives of PPE	For Buildings and Land Deloitte's use Building Surveyor information to determine a useful life. With all other PPE valued at cost the service user determines the useful life of an asset.	Part of the challenge process above particularly if a life has significantly increased or decreased. For other PPE ensure they are in line with our accounting policies.	Yes for Buildings and Land	The valuers and service users provide the estimate for the remaining useful life	No

## Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and amortisation	Straight line method	In line with CIPFA accounting standards and the Council's accounting policies	No	No	No
Non-adjusting events – events after the BS date	A Lead Review is completed at year end requesting information from Corporate Mgt Team, Heads of Services and Finance.	Peer review to check all non-adjusting events have been captured.	No	None	No
Impairments	Conduct an impairment review annually, review helpdesk queries to establish whether any buildings have suffered an impairment and confirm whether the repairs have been remediated.	Quality Assurance from Valuation Team in conjunction with Facilities Management officers	Yes- in house valuation team	The same process as with a valuation – if an impairment has occurred Deloitte would be required to give a valuation based on the reason for the impairment of the asset	No
Overhead Allocation	A model has been derived to identify cost drivers and appropriate methodology for each type of overhead.	In accordance with CIPFA Guidance to establish Total Cost of Service.	No	None	No, but an exercise has been carried out to identify chargeable rates to the ASDV's in 2014/15.

# Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt provision	A review of balances is carried out annually and an impairment provision for doubtful debts is made in accordance with the accounting policy.	In accordance with the accounting policy.	No	Calculation takes into account historical experience, current trends and other relevant factors.	No
Measurement of Financial Instruments - Market LOBO loans	Fair values based on discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate and adding the value of the embedded options	Part of established year end plan for dealing with financial instrument valuations.	Yes – Arlingclose Ltd	Does not give rise to any material differences in the accounts – expertise of company with access to market information used, no alternatives considered	No

# Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments - PWLB loans	Fair values based on information provided by PWLB Investments held in CD's – market value based on an equivalent CD from the same issuer with similar maturity characteristics available on or close to 31 <sup>st</sup> March.	Part of established year end plan for dealing with financial instrument valuations.	Yes – Arlingclose Ltd	Does not give rise to any material differences in the accounts – expertise of company with access to market information used, no alternatives considered	No
Measurement of Financial Instruments - Investments	Investments - fair values based on equivalent loans from (where possible) the same borrowers based on the outstanding maturity period of each loan	Part of established year end plan for dealing with financial instrument valuations.	Yes – Arlingclose Ltd	Does not give rise to any material differences in the accounts – expertise of company with access to market information used, no alternatives considered	No

## Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provision for liabilities	Contingent liabilities: identified as part of Lead Review referred to above.  Pensions: Actuarial Report	In accordance with CIPFA guidance.	No  Yes: Hymans	None	No
Accruals	Auto Accruals Process  Commitment Accounting Reports	In accordance with the Council's accounting policies and controlled through the budget monitoring process.	No	None	No





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## **CHESHIRE EAST COUNCIL**

### **AUDIT AND GOVERNANCE COMMITTEE**

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<b>Date of Meeting:</b>	27 <sup>th</sup> March 2014
<b>Report of:</b>	Chief Operating Officer
<b>Subject/Title:</b>	External Audit Plan 2013/14
<b>Portfolio Holder:</b>	Councillor Peter Raynes (Finance)

---

#### **1.0 Report Summary**

- 1.1 The Audit Plan for the year ending 31 March 2014 is set out in Appendix 1.

#### **2.0 Recommendation**

- 2.1 That members receive and comment on the Audit Plan for 2013/14.

#### **3.0 Reasons for Recommendations**

- 3.1 The Audit Plan sets out the work that the Council's Auditors, Grant Thornton will be carrying out in their statutory audit on the Council's financial statements and arrangements for securing value for money.

#### **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 The Audit Plan sets out the level of fees for the audit work specified by the external auditors.

#### **8.0 Legal Implications**

- 8.1 None.

## **9.0 Risk Management**

- 9.1 The report sets out the approach of Grant Thornton to completing a risk based audit whereby they will focus audit effort on those areas where they have identified a risk of material misstatement in the accounts.

## **10.0 Background and Options**

- 10.1 Grant Thornton has been appointed as the Council's independent external auditors by the Audit Commission. Their annual work programme is set in accordance with the Code of Audit Practice issued by the Audit Commission and includes nationally prescribed and locally determined work.
- 10.2 The Audit Plan outlines the audit strategy and plan to deliver the audit while the audit findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.
- 10.3 The Audit Plan sets out the key phases of the audit and provides details of the risk based approach to the work programme.
- 10.4 Grant Thornton will be attending the meeting to answer any questions raised by members on the 2013/14 Audit Plan.

## **11.0 Access to Information**

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

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Designation: Corporate Finance Lead

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Email: [Joanne.wilcox@cheshireeast.gov.uk](mailto:Joanne.wilcox@cheshireeast.gov.uk)

Appendix 1: Grant Thornton - The Audit Plan for Cheshire East Council

# The Audit Plan for Cheshire East Council

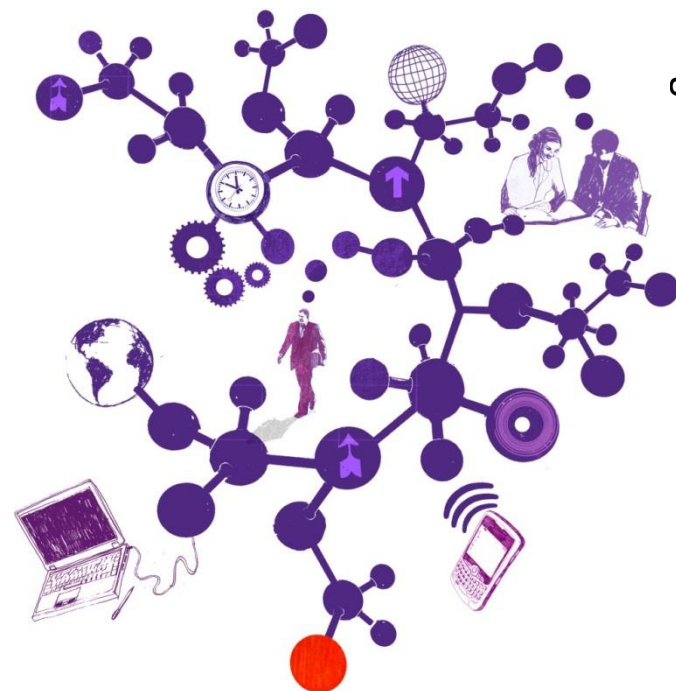
**Year ended 31 March 2014**

14 March 2014

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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 the Council 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.

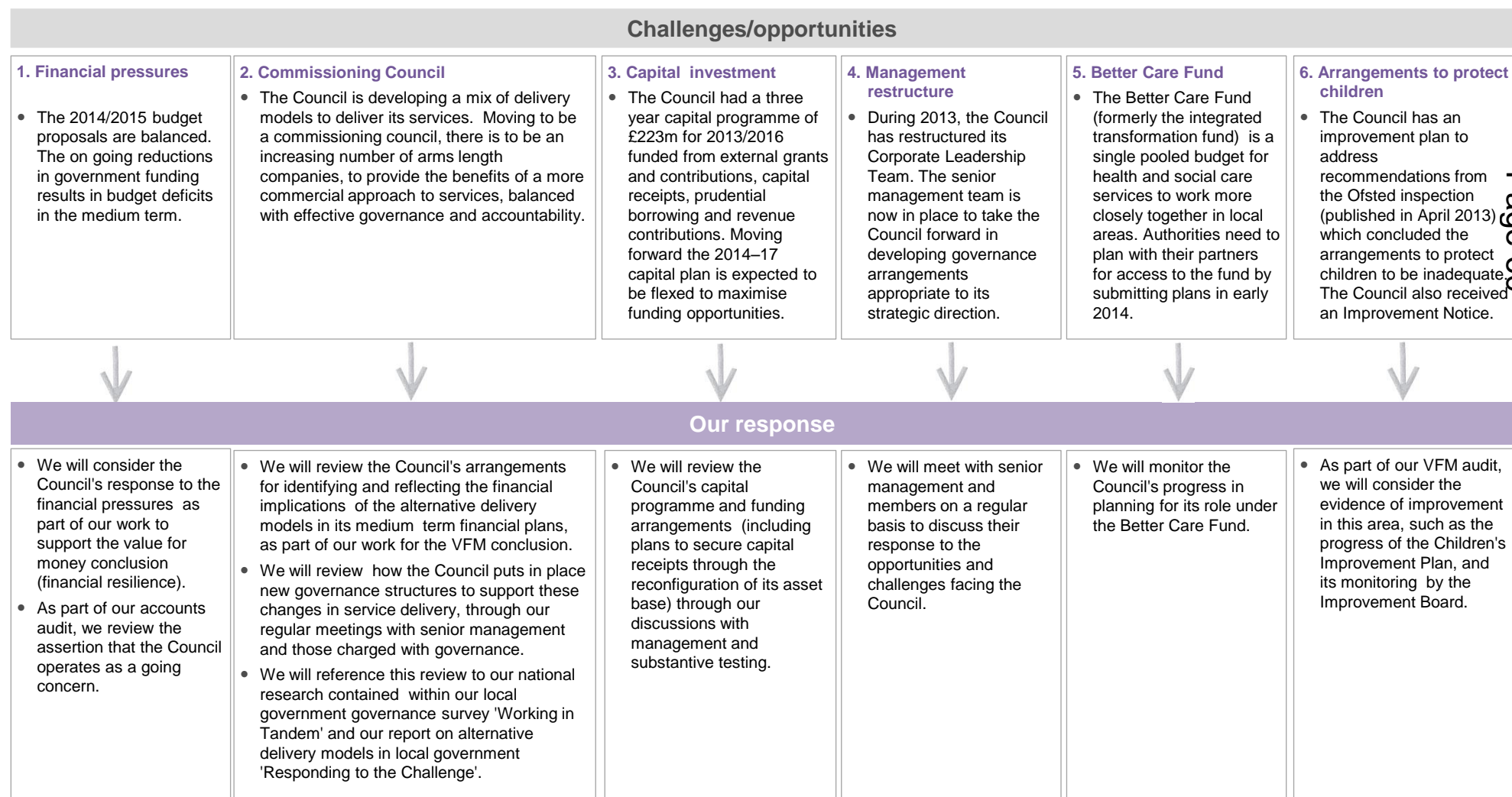
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# Understanding your business

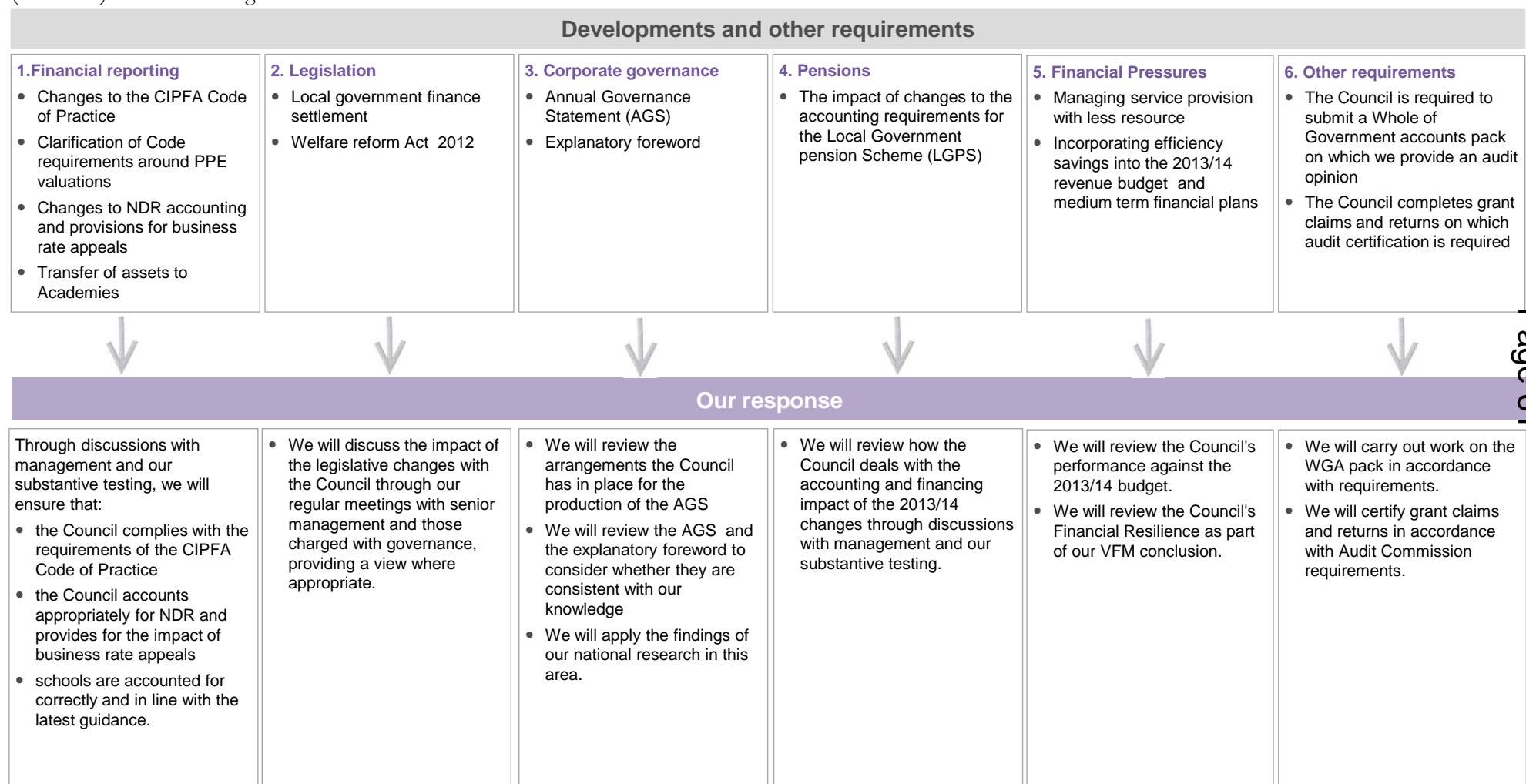
In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



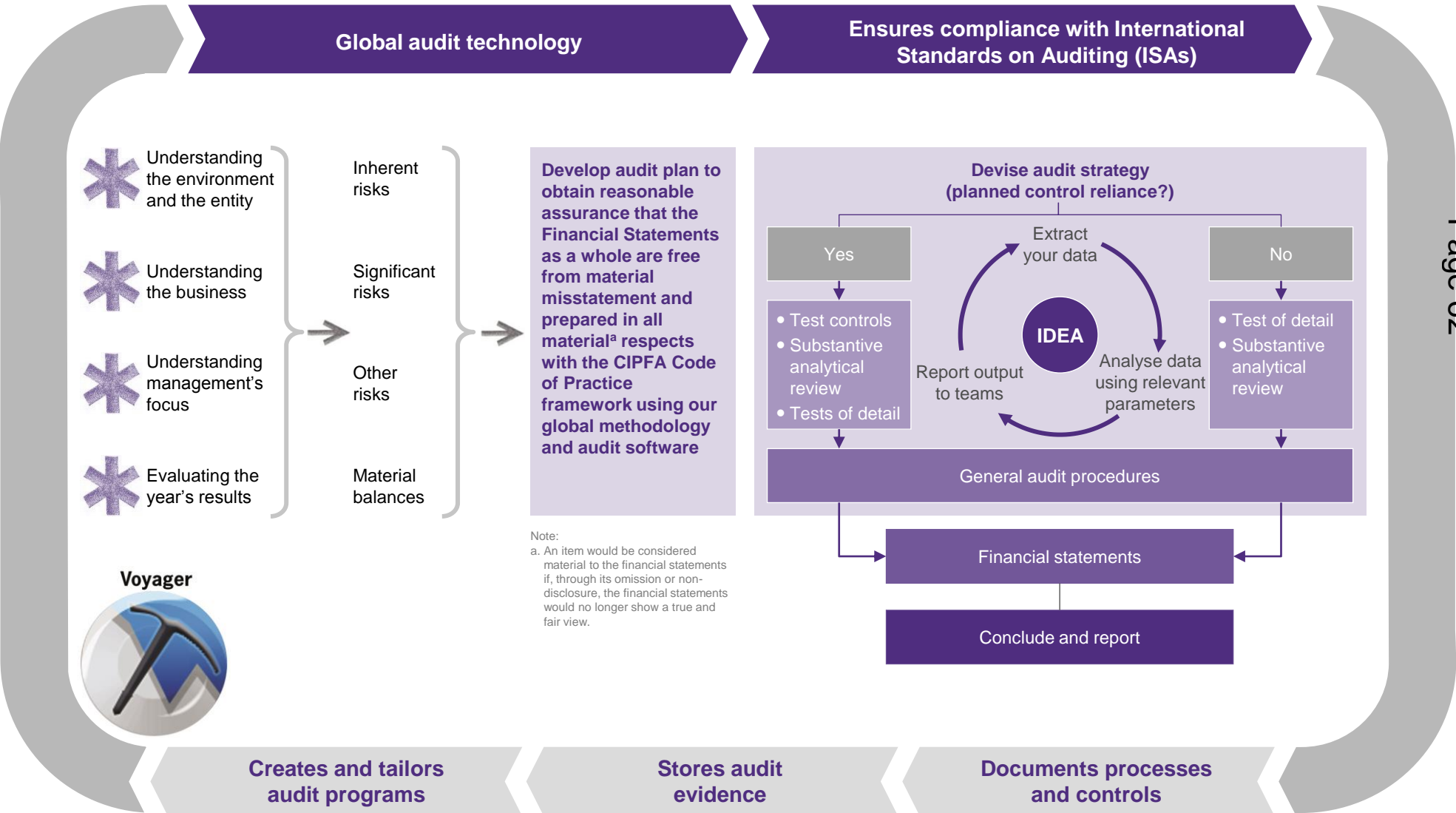


# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.



# Our audit approach



# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Testing of material revenue streams</li></ul>
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	We have discussed with management the rationale and evidence to support key accounting estimates and judgements. <b>Work planned:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of significant and unusual transactions</li></ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work programme
Operating expenses	Creditors understated or not recorded in the correct period	<p>We will document the processes and controls in place around the accounting for operating expenses and carry out walkthrough tests to confirm the operation of controls</p> <p>We will carry out testing including:</p> <ul style="list-style-type: none"> <li>the completeness of the subsidiary system interfaces and control account reconciliations</li> <li>reviewing the monthly trend analysis of payments</li> <li>cut off testing of purchase orders and goods received notes (both before and after year end)</li> </ul> <p>Testing will also cover a sample of operating expenses covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.</p>
Employee remuneration	Employee remuneration accrual understated	<p>We will document the processes and controls in place around the accounting for employee remuneration and carry out walkthrough tests to confirm the operation of controls.</p> <p>We will carry out testing including:</p> <ul style="list-style-type: none"> <li>the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements</li> <li>a sample of payments made in April &amp; May to ensure payroll expenditure is recorded in the correct year.</li> <li>reviewing the monthly trend analysis of total payroll</li> </ul> <p>Testing will also cover a sample of employee remuneration payments covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.</p>

# Other risks identified continued

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work programme
Welfare Expenditure	Welfare benefit expenditure improperly computed	We will document the processes and controls in place around the accounting for welfare benefits and carry out walkthrough tests to confirm the operation of controls.  We will carry out testing in accordance with the methodology required to certify the housing benefit subsidy claim.
Property, Plant & Equipment	PPE activity not valid	We will document the processes and controls in place around the accounting for PPE and carry out walkthrough tests to confirm the operation of controls.  We will carry out substantive testing on a sample of PPE transactions covering the period 1/4/13 to 31/3/14.
Property, Plant & Equipment	Revaluation measurement not correct	We will document the processes and controls in place around the accounting for revaluations of PPE and carry out walkthrough tests to confirm the operation of controls.  We will review the qualifications, term of reference and the assumptions and methods used by the Valuer, in work carried out as an expert for the Council.  We will review valuation reports to support the accounting entries.

# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Review the Council's financial resilience, as reflected in the medium term financial strategy and the savings factored into the annual budgets.
- Review the Council's arrangements for identifying and reflecting the financial implications of the development of alternative delivery models in its medium term financial plans.
- Review the Council's progress in planning for its role under the Better Care Fund (previously Integration Transformation Fund).
- Review the evidence of improvements in the arrangements to protect children following the Ofsted inspection report published in April.
- Review the Council's progress in implementing actions to address the matters raised in the 2012/13 VfM conclusion specifically:
  - arrangements to procure goods and services.
  - understanding of costs and performance.
  - arrangements to develop business proposals and manage significant projects.

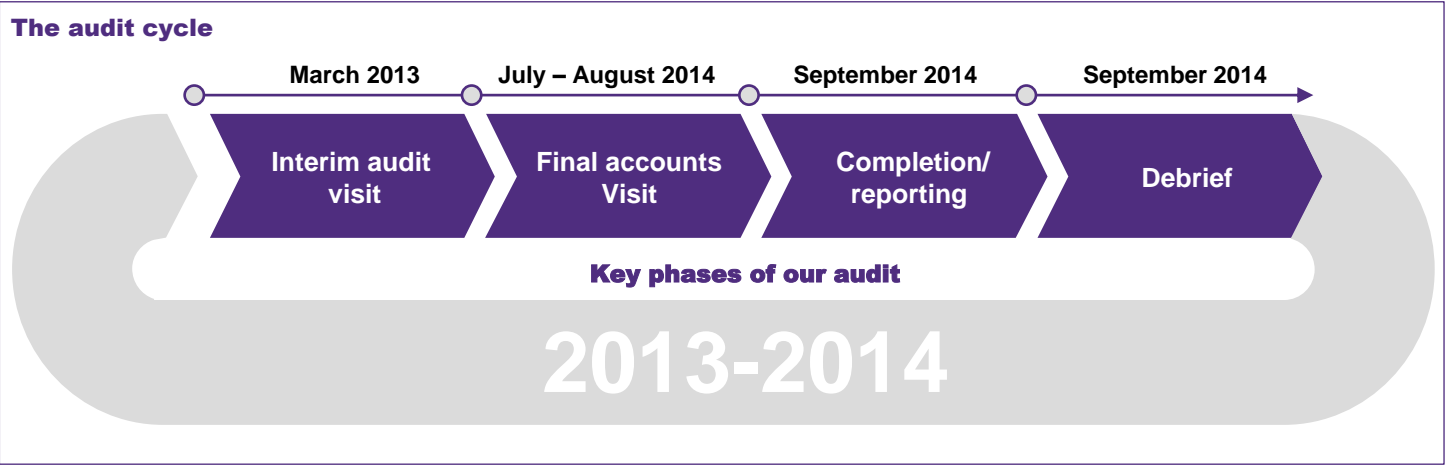
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

# Interim audit work

We will report the results of our interim work to the June meeting of the Audit and Governance. The work to be carried out is detailed in the table below. Should the outcome of our interim work impact upon our overall audit plan and strategy, we will report any changes back to those charged with governance.

	Work to be performed	Outcome of the work to be performed
<b>Internal audit</b>	We review internal audit's overall arrangements in accordance with auditing standards.  We also review internal audit's work on the Council's key financial systems to date.	We will conclude whether the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.  Our review of internal audit work will identify whether there are any weaknesses which impact on our audit approach.
<b>Walkthrough testing</b>	We complete walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. This covers some procedures operated by the shared service provider (under the partnership arrangement with Cheshire West and Chester).  Our work determines whether internal controls have been implemented in accordance with our documented understanding.	We will conclude whether our work has identified any weaknesses which impact on our audit approach.
<b>Review of information technology controls</b>	Our information systems specialist performs a high level review of the general IT control environment, as part of the overall review of the internal controls system. We also perform a follow up of the issues that were raised last year.	We will conclude whether our work identifies any material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Journal entry controls</b>	We review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.	The work will identify whether there any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.
<b>Early substantive testing</b>	We will complete testing on initial samples of employee remuneration, operating expenses and income.	The work will inform our approach to the audit of the Council's accounts and contribute to the assurance for material items.

# Key dates



Date	Activity
February 2014	Planning
10 March 2014	Interim site visit
27 March 2014	Presentation of initial audit plan to Audit and Governance
21 July – August 2014	Year end fieldwork
September 2014 (TBA)	Audit findings clearance meeting with Head of Corporate Resources & Stewardship
18 September 2014	Report audit findings to those charged with governance (Audit and Governance Committee)
week commencing 22 September 2014	Sign financial statements opinion



# Fees and independence

## Fees

	£
Council audit	205,050
Grant certification	26,900
<b>Total fees (excluding VAT)</b>	<b>231,950</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

It is important to note that the actual certification fees for 2013/14 may be higher or lower than the indicative fee stated above, because the auditor is required to undertake more or less work compared to 2011/12 on which the fee is based. Auditors must seek the agreement of the Audit Commission to any variation to the grant certification fee.

## Fees for other services

	£
None	Nil

## Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we have previously reported to the Audit and Governance Committee, the safeguards to mitigate the threat to the independence of the auditor arising from the appointment of the former Engagement Lead to the post of Head of Corporate resources and Stewardship (Deputy Section 151 officer). These arrangements have been agreed with the Audit Commission and are repeated at page 14 of this audit plan.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

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# Independence

In January 2014 Judith Tench joined Cheshire East Council as Head of Corporate Resources and Stewardship (Deputy s151 Office). Judith was formerly employed by Grant Thornton UK LLP and was the engagement lead for the external audit of the Council. This appointment poses a threat (actual or perceived) to the independence of the auditor.

In these circumstances we have taken actions to safeguard the independence of the firm and of the auditor, in accordance with the Ethical Standards and the Audit Commission's Standing Guidance. A summary of these safeguards are set out below. We will also disclose this threat and these safeguards in our audit findings report.

We have discussed these safeguards with the Council's Leader, Chief Executive and Chief Operating Officer. We have also discussed and agreed these safeguards with the Audit Commission.

## **Safeguards to mitigate the threat to the independence of the auditor**

- Judith withdrew from the audit team as soon as she advised her interest in applying for the role at the Council and alternative arrangements were put in place to discuss and finalise the Annual Audit Letter and to certify two grant claims. This concluded the 2012/13 audit.
- For the 2013/14 audit all senior members of the team are now replaced by individuals who have not previously worked with Judith. Your new audit team are set out on page 4.
- As an additional safeguard the team are from another Grant Thornton region (Midlands) and are headed up by the Regional Lead Partner for the Midlands - Jon Roberts. Your new audit team also includes Allison Rhodes and Naomi Povey.
- The audit engagement team will not conduct any meetings with Judith without another Council officer being present. This additional safeguard will continue for the next two years.
- In addition we confirm that Judith has no residual financial relationships with the firm.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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## CHESHIRE EAST COUNCIL

### AUDIT AND GOVERNANCE COMMITTEE

---

<b>Date of Meeting:</b>	27 <sup>th</sup> March 2014
<b>Report of:</b>	Chief Operating Officer
<b>Subject/Title:</b>	Grant Thornton - Emerging Issues Update
<b>Portfolio Holder:</b>	Councillor Peter Raynes (Finance)

---

#### **1.0 Report Summary**

- 1.1 The report provides the Audit and Governance Committee with an update from the external auditors, Grant Thornton on emerging national issues and developments.

#### **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**

- 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 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 national emerging issues and developments which may be of relevance to Cheshire East.
- 10.2 The document includes a number of questions that the Committee may wish to consider in order to assess whether it has sought sufficient and appropriate assurance to fulfil its governance responsibilities.
- 10.3 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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Email: [Joanne.wilcox@cheshireeast.gov.uk](mailto:Joanne.wilcox@cheshireeast.gov.uk)

Appendix 1: Emerging Issues Briefing for Cheshire East Council

# Emerging Issues Briefing for Cheshire East Council

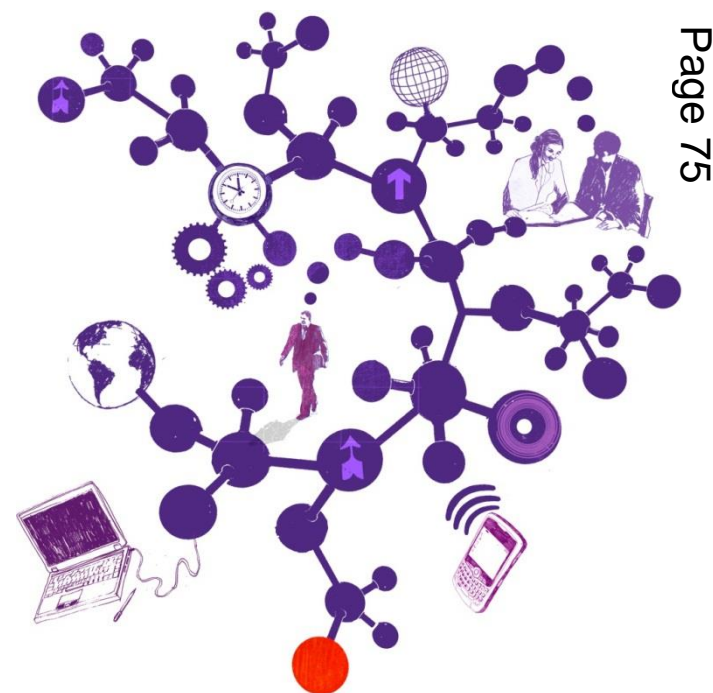
**Year ended March 2014**

11 March 2014

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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 and Governance Committee with summary of emerging national issues and developments that may be relevant to you as a unitary council.

This includes a number of questions that the Committee may wish to consider to order to assess whether it has sought sufficient and appropriate assurance to fulfil its governance responsibilities.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://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 : '2016 tipping point? Challenging the current', ' Responding to the challenge, alternative delivery models in local government', 'Reaping the benefits? First impressions of the impact of welfare reform', Local Government Governance Review 2014: Working in tandem'.

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.

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# Emerging issues and developments

## Local government guidance - Councils must continue to adapt to meet the needs of local people

### Audit Commission research - Tough Times 2013

The Audit Commission's latest research, <http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf> shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

#### Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

#### To consider:

Have members satisfied themselves that the Council can deliver a balanced budget, that the medium term strategy/budget has been subject to appropriate challenge and that the Council's finances are resilient over the medium term (3 years) and beyond?

# Emerging issues and developments

## Local government guidance - Councils choosing their auditors one step closer

### Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

Key points - amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

### To consider:

Have members considered the implications of the Local Audit and Accountability Act for the Council's future external audit arrangements?

# Emerging issues and developments

## Local government guidance - Joint Health and Social Care Plans to be in place by 4th April

### Better Care Fund

In the June 2013 Spending Round the Government announced the prospective implementation of the Better Care Fund (formerly the integration transformation fund). The key aim is to ensure a transformation in integrated health and social care through local single pooled budget arrangements. Pooled budget arrangements are formally underpinned by Section 75 of the NHS Act 2006.

#### Key issues

- £3.8 billion for funding will be available from 2015/16, largely through a top slice of existing Clinical Commissioning Group (CCG) budgets;
- Local Authorities with Adult Social Services, CCGs and NHS Trusts will need to collaborate through a single pooled budget arrangement to support the delivery of health and social care services in their designated local areas;
- finalised joint health and social care plans must be in place setting out how pooled budgets will be spent – draft plans must be formally signed off by each statutory Health and Well Being Board and submitted to NHS England area teams by 14 February, with a 4 April 2014 deadline for submission of finalised plans

#### To consider:

Have members satisfied themselves that:

- the local Health and Wellbeing Board is on track to finalise and sign off the joint health and social care plan for submission to the NHS England area team
- the size of the pooled budget is understood
- the Council is collaborating with its partner bodies to work through funding and delivery arrangements
- the roles and responsibilities are defined and understood for the Council and its partner CCGs, NHS Trusts and the Health and Wellbeing Board

# Emerging issues and developments

## Local government guidance - Helping the High Street

### Support for UK high streets

On December 6, 2013 the Communities Secretary set out a £1 billion package of support for UK high streets, the stated objectives being to:

- support business and the private sector to have a greater stake in their high streets;
- make it easier to diversify town centres;
- ensure town centres remain accessible to visitors;
- promote the use of technology to modernise town centres.

Key elements of the strategy include:

- a £1,000 discount in 2014/15 and 2015/16 for retail premises with a rateable value of up to £50,000 – including shops, pubs, café and restaurants;
- capping the Retail Price Index (RPI) increase in bills to 2% in 2014/15;
- extending the doubling of Small Business Rates relief to April 2015;
- a reoccupation relief for 18 months with a 50% discount for new occupants of retail premises empty for a year or more;
- assisting business cash flow by allowing businesses to pay their bills over 12 months (rather than 10)

### To consider:

Have members satisfied themselves that the Council has assessed the local economic impact of the measures announced by the Communities Secretary and the impact of this upon the Council's finances and the 2014/15 and 2015/16 budgets?

# Emerging issues and developments

## Local government guidance - Councils keep New Homes Bonus

### Help for housing building

In the Autumn statement (5 December 2013) the government announced plans to secure a £1 billion 6 year investment in house building, to simplify the local authority planning process and help to achieve the stated objective of delivering 250,000 new homes.

Key objectives:

- nationally to increase the housing supply in England through a £1 billion 6 year investment programme;
- at a local level helping councils to increase the supply of affordable social housing supply in their area by allowing them to bid for up to £300 million of additional borrowing against their housing revenue account;
- improving labour market mobility by introducing a Right to Move for those needing to move to take up a job or training ;
- Allowing councils outside London to keep all of their **New Homes Bonus** and have full control over how they use it to support new homes in their area – the New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use, is paid each year for 6 years and is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use

### To consider:

Have members satisfied themselves that the implications and potential financial impact for the Council of the help for housing building measures announced in the Autumn statement are reflected in financial plans?

# Emerging issues and developments

## Grant Thornton

### 2016 tipping point? Challenging the current

This report [http://www.grant-thornton.co.uk/Global/Publication\\_pdf/LG-Financial-Resilience-2016-tipping-point.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf) is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

### To consider:

Have members considered whether the good practice checklist designed to provide senior management and members with an overview of key tipping point risks, or the good practice case studies in strategic financial planning, financial governance and financial control provide comparative information to support their governance role.



# Emerging issues and developments

## Grant Thornton

### Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

### To consider:

Have members considered whether the three checklists on supporting innovation in service delivery, setting up a company and relevant questions when considering the development of a new delivery model, may be used as helpful tools as the Council continues to develop its commissioning strategy?

# Emerging issues and developments

## Grant Thornton

### Reaping the benefits: first impressions of the impact of welfare reform

The potential scope of this topic is broad, so our report, [Reaping the benefits](#) focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

### To consider:

Are members satisfied that :

- they are kept informed of progress with stakeholder engagement and changes to governance arrangements to implement specific reforms
- the Council has carried out impact assessment on council tax localisation, the benefit cap and housing benefit, the spare room subsidy and changes to the Social Fund
- The Council has a plan in place or in development for the introduction of universal credit?

# Emerging issues and developments

## Accounting and audit issues

### Private Finance Initiative Schemes and Service Concessions

#### Updating the accounting model during the operational phase

Most authorities derive their accounting entries from an accounting model which, in turn, is derived from the operators costing model. The initial accounting model will have included a range of assumptions, such as inflationary increases. We would expect authorities to update the accounting model for actual information, such as inflationary increases and performance variations, during the contract.

#### Disclosing the impact of inflation on commitments

We expect authorities to disclose the impact of inflation on their service concession commitments. These commitments are affected by:

- past inflation – previous price rises will be built into future payments
- fluctuations in future inflation – this gives rise to uncertainties about future payments.

#### Disclosing the fair value of the service concession liability

Service concession liabilities are financial instruments. Therefore, we would expect authorities to disclose the fair value of the liability unless this is not materially different from the carrying value. In most cases we would expect the fair value for operational schemes to be higher than the carrying value. This is because once a scheme is operational, authorities have access to lower interest rates for refinancing. This is because the pre-construction interest rate reflects the risks associated with construction.

#### To consider:

Are members satisfied that there are arrangements in place to regularly update the accounting model, disclose the impact of past and future inflation on its commitments, disclose the fair value of its PFI liability?

# Emerging issues and developments

## Accounting and audit issues

### Property, plant and equipment valuations

The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' This means that a local authority will need to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014. This is likely to be a complex analysis which might include consideration of:

- the condition of the authority's property portfolio at 31 March 2014
- the results of recent revaluations and what this might mean for the valuation of property that has not been recently valued
- general information on market prices and building costs
- the consideration of materiality in its widest sense - whether an issue would influence the view of a reader of the accounts.

The Code also follows the wording in IAS 16 more closely in the requirements for valuing classes of assets:

- items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates
- a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

There has been much debate on what is a short period and whether assets that have been defined as classes for valuation purposes should also be disclosed separately in the financial statements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. However, we would expect auditors to report to those charged with governance where, for a material asset class:

- all assets within the class are not all valued in the same year
- the class of asset is not disclosed separately in the property, plant and equipment note.

### To consider:

Are members assured that there are appropriate arrangements in place for the valuation of assets and proposals for disclosing information about classes of assets in accordance with the Code.

# Emerging issues and developments

## Accounting and audit issues

### Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
  - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
  - to recognise a provision where a reliable estimate can be made
  - to disclose a contingent liability where a reliable estimate cannot be made
  - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.

### To consider:

Have members sufficient assurance that :

- the Council will obtain the information it needs from the VOA
- the Council has a robust rationale and methodology to estimate and recognise a provision or to disclose a contingent liability and to refresh this before the opinion is issued.

# Emerging issues and developments

## Accounting and audit issues

### Changes to SeRCOP – new public health line

SeRCOP for 2013/14 introduces a new cost of service line for 'Public health'. This has been introduced to reflect new responsibilities placed upon local authorities following restructuring in the NHS. We expect this new service line to be presented on the face of the CIES within cost of services. If there were material amounts relating to this service in 2013/14, we would expect comparative figures to be restated.

### To consider:

Are members satisfied that accurate information and a robust audit trail can be provided for the new public health line within cost of services?

# Emerging issues and developments

## Accounting and audit issues

### Accounting for and financing the local government pension scheme costs

#### Accounting issues

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively.

The main changes we expect to see are:

- a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES)
- more detailed disclosures.

We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

#### Financing issues

The amount to be charged to the general fund in a financial year is the amount that is payable for that financial year as set out in the actuary's rates and adjustments certificate. Some local authorities are considering paying pension fund contributions early in exchange for a discount but not charging the general fund until later.

Local authorities must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year. Where local authorities are considering making early payments, we would expect them to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. We would expect this to include consideration of:

- the actuary's opinion on the amounts that are payable by the local authority into the pension fund
- the agreement between the actuary and the local authority as to when these payments are to be made
- the wording in the rates and adjustments certificate setting out when amounts are payable for each financial year.

For example, if a local authority agrees to make a payment to the pension fund in a single year and proposes to charge this amount to the general fund over a three-year period, we would expect the rates and adjustments certificate to show, unambiguously, that the amount payable is spread over the three years.

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# Emerging issues and developments

## Accounting and audit issues

### To consider:

Are members satisfied that arrangements are in place to obtain the information from its actuary to meet the changes in the requirements for accounting for the LGPS (including restating the comparatives) and that any considerations of early payments to the fund will also ensure that the charge to the general fund is appropriate and supported by legal advice.



# Emerging issues and developments

## Accounting and audit issues

### Changes to the Local Government Pension Scheme

The Public Service Pensions Bill received Royal Assent in April 2013, becoming the Public Service Pensions Act 2013 ('the Act'). The Act makes provision for new public service pension schemes to be established in England, Wales & Scotland. Consequent regulations have been laid to introduce changes to the LGPS in England and Wales from 1st April 2014. (The regulations for the changes in Scotland have not yet been laid and will only impact from 1 April 2015).

These introduce a number of changes including:

- a change from a final salary scheme to a career average scheme
- introduction of a 50/50 option whereby members can choose to reduce their contributions by 50% to receive 50% less benefit
- calculation of contributions based on actual salary which could lead to some staff with irregular patterns of working moving between contribution rate bandings on a regular basis
- changes in employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014 (further regulations are still awaited).

The above changes have implications for all employers involved in the LGPS introducing required changes to their payroll systems to ensure pension contributions are calculated correctly. This has consequent implications for administering authorities to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions going forwards since the calculations are more complex going forwards and less predictable. In addition changes are also required to pension administration/payment systems as well as much more detailed processes around maintaining individual pension accounts for all members to ensure the correct payment of future pensions.

The Act also requires changes to the governance arrangements although regulations for the LGPS have not yet been laid for these and the changes in governance arrangements are not expected to be implemented until 1 April 2015.

(continued overleaf)

# Emerging issues and developments

## Accounting and audit issues

### Changes to Local Government Pension Scheme continued

#### To consider:

Are members satisfied that there are arrangements in place:

- to ensure implementation of the required changes to its payroll system and processes by 1 April 2014
- to liaise with the administering authority over any changes they may need in the assurances provided over the completeness and accuracy of contributions?



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## CHESHIRE EAST COUNCIL

### AUDIT AND GOVERNANCE COMMITTEE

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**Date of Meeting:** 27th March 2014  
**Report of:** Head of Internal Audit  
**Title:** Internal Audit Plan 2014/15  
**Portfolio Holder:** Councillor Peter Raynes

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#### 1.0 Report Summary

- 1.0 The purpose of the report is for the Committee to review and approve the Summary Internal Audit Plan for 2014/15.

#### 2.0 Recommendations

- 2.1 That the Committee:

- i) endorse the approach to internal audit planning and approve the Summary Internal Audit Plan 2014/15 (Appendix A).
- ii) note that a more detailed Internal Audit Plan will be developed and produced in the first quarter of 2014/15, and discussed and agreed with the relevant Member/Officer group.

#### 3.0 Reasons for Recommendations

- 3.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), the Audit and Governance Committee, as the 'board' defined in the Public Sector Internal Audit Standards, should '*review and assess the annual internal audit plan*'. The development of the risk-based audit plan remains the responsibility of the Head of Internal Audit after consultation with senior management and the Audit and Governance Committee, but the Committee should approve it.
- 3.2 A more detailed audit plan will be developed and produced in the first quarter of 2014/15 as a number of factors progress. These include outcomes of the service planning process and further consultation with management on critical systems and processes to delivering the Council's key priorities. Other factors include confirmation on the Alternative Service Delivery Vehicles' specific requirements for internal audit, and a consideration of resource availability.

#### 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 In accordance with the PSIAS, the Audit and Governance Committee should ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors.

7.2 Internal Audit was removed at a late stage from the Management Review in mid-2013 in the light of the Council's transition to a strategic commissioning authority and the introduction of new delivery models. The arrangements will be reviewed during 2014/15.

7.3 The Summary Internal Audit Plan 2014/15 has been prepared, based on current resources, to cover the core areas of work required in order to deliver an annual audit opinion. No contingency allocation has been included at this stage.

7.4 Once the detailed work plan has been set, this will be compared to resource availability and where there is an imbalance between the two, the Committee will be informed of proposed solutions. Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to the Committee.

## **8.0 Legal Implications**

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

## **9.0 Risk Assessment**

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

## **10.0 Background and Options**

10.1 All principal local authorities subject to the Accounts and Audit Regulations 2011 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS).

- 10.2 In accordance with the Cheshire East Audit Charter, at least annually, the Head of Internal Audit will submit to the Corporate Leadership Board and the Audit and Governance Committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next financial year. The Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to the Corporate Leadership Board and the Audit and Governance Committee.
- 10.3 The internal audit plan is developed based on a prioritisation of the audit universe using a risk-based methodology, including input of the Corporate Leadership Board and the Audit and Governance Committee. The Head of Internal Audit will review and adjust the plan, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the Corporate Leadership Board and the Audit and Governance Committee through periodic activity reports.
- 10.4 The term 'Head of Internal Audit' is used within this report and the appendix and can be considered the same as the terms 'Chief Audit Executive' (used within the PSIAS) and 'Internal Audit Manager' (used within the Cheshire East Audit Charter). This role is currently carried out by the two Audit Managers within Cheshire East Council.

#### **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: Audit Managers

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# Summary Internal Audit Plan 2014-15

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[www.cheshireeast.gov.uk](http://www.cheshireeast.gov.uk)

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Internal Audit

First Floor, Westfields

Cheshire East Council

Sandbach CW11 1HZ

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## Cheshire East Council - Summary Internal Audit Plan 2014/15

### 1 Introduction

- 1.1 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.
- 1.2 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.
- 1.3 A risk based Internal Audit plan is produced each year to ensure that:
- the scale and breadth of 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
- 1.4 This document sets out Cheshire East Council's Summary Internal Audit Plan for 2014/15.

### 2 Responsibilities and Objectives of Internal Audit

- 2.1 Internal Audit is an independent, objective assurance and consulting service designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.2 Internal Audit's primary function is the provision of assurance. This is delivered through the provision of the annual internal audit opinion, which informs the Annual Governance Statement and is based on an objective assessment of the framework of governance, risk management and control.
- 2.3 Subject to the availability of resources, and there being no impact on the core assurance work, non-assurance work, including fraud related and consultancy work may be undertaken at the request of the organisation.
- 2.4 The Council's response to audit activity should lead to the strengthening of the control environment.

### 3 Summary and Process

- 3.1 The Plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation and

## Cheshire East Council - Summary Internal Audit Plan 2014/15

recent experience has reinforced this. It is, therefore, presented at a summary level.

3.2 The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

3.3 The Plan has been prepared by taking the following into account:

- Adequacy and outcomes of the Authority's risk management, performance management and other assurance processes.
- Internal Audit's own risk assessment.
- Cheshire East Three Year Plan 2014/2017.
- Preliminary consultation with key stakeholders (e.g. Corporate Leadership Board (CLB), External Audit, Internal Audit staff, Cheshire West and Chester Internal Audit).

3.4 The Plan will be further defined in the first quarter of 2014/15, through the following:

- Outcomes from the Strategic Risk Management Process, including using risk appetite levels set by management for the different activities or parts of the organisation.
- Outcomes from the Service Delivery Planning process, including key organisational objectives and priorities and risks to achieving them.
- Outcomes from the Annual Governance Statement process.
- Further consultation with key stakeholders (e.g. Senior Managers).
- Confirmation of the Alternative Service Delivery Vehicles' internal audit requirements.

### 4 Key Themes and Outputs

4.1 There are a number of key themes emerging within the 2014/15 Internal Audit Plan, including:

- Alternative Service Delivery Vehicle (ASDV) arrangements
- Programme and Project Management
- The authority's Assurance Framework; reviewing the first and second 'lines of defence'.

## Cheshire East Council - Summary Internal Audit Plan 2014/15

4.2 The outputs from the plan fall into two main areas:

- **Assurance Audits** - On completion of the audit an opinion report is issued to management on the risks and controls of the area under review. This builds up to the annual audit opinion on the control environment that is reported to the Audit and Governance Committee.
- **Consulting Services** - advisory in nature and are generally performed at the specific request of the organisation. The nature and scope of the consulting engagement should aim to improve governance, risk management and control and should contribute to the overall opinion.

4.3 The main areas of the plan that will deliver an opinion on the risks and controls of the area under review and will inform the HIA Annual Internal Audit Opinion include:

- Key Financial Systems
- Corporate Core and Cross Service Systems
- Service Specific Systems
- Anti Fraud and Corruption – Proactive reviews

4.4 The main areas of the plan that will not deliver an opinion report but will help inform the HIA's Annual Internal Audit Opinion include:

- **Corporate Governance and Risk**
  - Support and contribution to production of the Annual Governance Statement (AGS)
  - Produce Assurance Statements to support the AGS (from Senior Managers)
  - Development of the authority's Assurance Framework
- **Statutory Returns**
  - Internal Audit may be required, as a 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.
- **Anti Fraud & Corruption**
  - National Fraud Initiative – results are recorded on the Audit Commission secure website, update reports presented to the Corporate Risk Management Group.

## Cheshire East Council - Summary Internal Audit Plan 2014/15

- **Follow Up**
    - Monitoring implementation of audit recommendations through the Consolidated Action Plan and targeted follow up of recommendations based on audit opinion/recommendation rating, where necessary.
  - **Advice and Guidance**
    - The exact nature and scope of any internal audit work, agreed in advance with the manager.
- 4.5 Other work that will not necessarily inform the annual HIA opinion includes:
- **Corporate Work**
    - Supporting the Audit and Governance Committee including production of reports
    - External Audit liaison
    - Support and contribution to Corporate Working Groups
    - Regional Collaboration
  - **Anti Fraud and Corruption**
    - At the request of management, Internal Audit may assist with the investigation of suspected fraud and corruption/reports made under the Council's Whistleblowing Policy
    - Awareness raising
    - Support and Production to Corporate Policies and Procedures
- 4.6 The Head of Internal Audit, in accordance with CIPFA guidance, should be made aware of major new systems and proposed initiatives to help ensure risks are properly identified and evaluated and appropriate controls built in. Some of the work described in 4.5 contributes to this awareness.
- 4.7 The assurance framework will be further reviewed and developed during 2014/15 to highlight existing sources of assurance provision, ensuring effective planning and efficient deployment of resources.
- 4.8 In addition, there are a number of developments and improvements to the service, such as development of the internal CEntranet site, that the Internal Audit team has identified and the associated tasks and activities will be built into the planning process.
- 4.9 Internal Audit also provide services to PATROL, as Cheshire East Council is the host Council. In 2014/15 Internal Audit will also provide services to CoSocius and

## Cheshire East Council - Summary Internal Audit Plan 2014/15

some of the Council's new Alternative Service Delivery Vehicles.

### 5 Resources

5.1 The resources currently available are outlined below:

Audit Year	2014/15	2013/14
Maximum Days	2400	2400
Total Unavailable Working Days	586	411
Available Working Days	1814	1989
Non Chargeable Sub Total	364	424
Chargeable Days	1450	1565

5.2 The Summary Internal Audit Plan 2014/15 has been prepared, based on current resources, to cover the core areas of work required in order to deliver an annual audit opinion. A contingency figure is normally included to recognise that the plan needs to be flexible to be able to reflect the changing risks and priorities of the Council. No contingency allocation has been included at this stage.

5.3 As described in 3.4, further work will now take place in the first quarter of 2014/15 to produce a more detailed plan for the year.

5.4 Where there is an imbalance between the work plan and the resources available, the Audit and Governance

Committee will be informed of proposed solutions. The more detailed Audit Plan will be discussed and agreed by the Member/Officer group responsible for Audit.

5.5 In further defining the audit plan, areas of work may be highlighted which the Internal Audit function is not currently sufficiently staffed/skilled to provide assurance on, for example, specialist ICT audits. In these cases, the Council may wish to consider procuring external audit resource to provide the necessary assurance.

5.6 Significant matters which jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and brought to the attention of the Corporate Leadership Board and Audit and Governance Committee.

5.7 Internal Audit's key priority will always be to deliver the assurance programme of work in order to provide the Council with an informed annual audit opinion.

### 6 Progress Reporting

6.1 During the year, Internal Audit will produce interim progress reports for the Audit and Governance Committee, detailing key issues arising from audits and progress made against the Audit Plan. Any significant matters affecting the delivery of the plan or requiring

## Cheshire East Council - Summary Internal Audit Plan 2014/15

changes to the plan will also be reported to the Committee.

- 6.2 At the end of the year, an Annual Report is presented to the Audit and Governance Committee to provide assurance or otherwise on the effectiveness of the internal control framework of the Council. This will be based on the findings of the work carried out during the year.

### **7 Quality Assurance and Improvement Programme**

- 7.1 Internal Audit will maintain a quality assurance and improvement programme that covers all aspects of its activity. The programme will include an evaluation of Internal Audit's compliance with the PSIAS and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of Internal Audit and identifies opportunities for improvement.
- 7.2 The Head of Internal Audit will communicate to the Corporate Leadership Board and the Audit and Governance Committee on Internal Audit's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

### **Performance Indicators**

- 7.3 Internal Audit has a number of existing Performance Indicators that are reported to the Audit and Governance Committee through the year via interim reporting and the Annual Report. For 2014/15 these are:

Performance Indicator	2014/15 Target	2013/14 Actual (at 31/12/13)	2013/14 Target
Percentage of Audits completed to user's satisfaction	92%	91%	90%
Percentage of significant recommendations agreed	90%	92%	85%
Productive Time (Chargeable Days)	80%	82%	80%
Draft report produced promptly (per Client Satisfaction Form)	95%	91%	90%

- 7.4 As requested at the Audit & Governance Committee, a new Performance Indicator on the implementation of internal audit recommendations within timescale will be developed and reported on during 2014/15. This new indicator is closely linked to the existing Consolidated Action Plan, which reports to CLB and the Chief

## Cheshire East Council - Summary Internal Audit Plan 2014/15

Operating Officer on outstanding audit (including External Audit and other external inspection regimes) recommendations.

### **Benchmarking**

- 7.5 Benchmarking is a vital tool to help drive improvements and deliver value for money. In 2014/15, along with other Cheshire East Council back office functions, Internal Audit will be joining the CIPFA Benchmarking Club.
- 7.6 Through the Benchmarking Club, staffing (central and local) cost data is collected for the internal audit function in order to derive the number of audit days available and the cost per audit day. The number of audit days per £million authority gross revenue turnover is compared and further analysed by: type of audit, system audited and type of risk. There is also comparison and analysis of the cost per Auditor and the number of chargeable days per auditor.
- 7.7 Results from the Benchmarking Club will be shared with the relevant Committee and relevant Member/Officer Group, as appropriate.



Audit Theme/Area <i>Identified Key Areas</i>	Drivers/Risks	2014/15 Planned Audit Days	2014/15 Planned %
<b>Chargeable Days</b>		<b>1450</b>	
<b>Less: Corporate Work</b>		<b>70</b>	
<i>Includes:</i> Corporate Management, Executive Monitoring Board, Performance Development Review Process etc.	Corporate requirements		
<b>Available Audit Days</b>		<b>1380</b>	<b>100%</b>
<b>Corporate Governance and Risk</b>		<b>380</b>	<b>27%</b>
<i>Includes:</i> Audit and Governance Committee: Member Liaison and Development, Reports to A&G (Internal Audit and taken on behalf of others), Committee Administration and Work Plan development. Corporate Groups - Corporate Risk Management Group, Constitution Working Group, reporting to Corporate Leadership Board, Technical Enabler Group Supporting Corporate Governance, - Support and production of AGS, Corporate Governance Group and associated working groups. External Audit - Grant Thornton Liaison Regional Collaboration - Working with regional internal audit partners Reviewing corporate and operational risk management Consolidated Action Plan - monitoring implementation of recommendations from Internal Audit, External Audit and other key inspectorate reports as necessary	Statutory requirement/supporting the overall provision of assurance and the annual internal audit opinion.		
<b>Anti Fraud and Corruption - Proactive Reviews</b>		<b>80</b>	<b>6%</b>
<i>Includes:</i> National Fraud Initiative, Developing an anti-fraud culture, Review of associated policies, Proactive assurance reviews	Statutory requirement – NFI/ Responding to fraud trends/ Awareness raising.		
<b>Anti Fraud and Corruption - Reactive Investigations</b>		<b>50</b>	<b>4%</b>
Will be undertaken as necessary after appropriate risk assessment.	In response to demand.		
<b>Chief Operating Officer - Key Financial Systems</b>		<b>195</b>	<b>14%</b>
<i>Includes:</i>	Provision of assurance to S151 Officer		

<b>Audit Theme/Area</b> <i>Identified Key Areas</i>	<b>Drivers/Risks</b>	<b>2014/15 Planned Audit Days</b>	<b>2014/15 Planned %</b>
Accounts Payable, Accounts Receivable, Payroll, Housing Benefits, Council Tax, NNDR, Cash Receipting, General Ledger, Treasury Management, Debt Management, Fixed Assets, Schools Financial Value Standard establishment visits.	on identified high risk areas/Review of new arrangements and follow up of previous recommendations/Potential risk of mis-statement in the Authority's financial statements.		
<b>Chief Operating Officer - Corporate Core and Cross Service</b>		<b>190</b>	<b>13%</b>
<i>Includes:</i> Project and Programme Management, Second Line of Defence Reviews - FOI, Procurement, Information Assurance etc.	Key Corporate and Cross service risks/Assurance relating to specific service areas reporting to COO.		
<b>Strategic Commissioning - Children's Social Care &amp; Education</b>		<b>75</b>	<b>6%</b>
<i>Includes:</i> Troubled Families Initiative, Foster Care Payments, Care Management Process, Establishment visits	Key departmental and service risk areas.		
<b>Strategic Commissioning - Adult's Social Care</b>		<b>55</b>	<b>4%</b>
<i>Includes:</i> Adults Financials System, Personal Budgets, Care Management Process, Establishment visits.	Key departmental and service risk areas.		
<b>Strategic Commissioning -Safeguarding</b>		<b>40</b>	<b>3%</b>
<i>Includes:</i> External Providers - Contracts/Accreditation, Client Finance - Management of Corporate Appointeeship arrangement.	Key departmental and service risk areas.		
<b>Strategic Commissioning -Public Health</b>	As above.	<b>40</b>	<b>3%</b>
<b>Strategic Commissioning -Communities</b>	As above.	<b>20</b>	<b>1%</b>
<b>Economic Growth and Prosperity</b>		<b>75</b>	<b>6%</b>
<i>Includes:</i> ASDV (Ansa/Engine of the North/ESAR/Orbitas) Client arrangements, Growing Places, Local Transport Body, Carbon Reduction Commitment.	Key departmental and service risk areas/Assurance on new ASDV arrangements.		

<b>Audit Theme/Area</b> <i>Identified Key Areas</i>	<b>Drivers/Risks</b>	<b>2014/15 Planned Audit Days</b>	<b>2014/15 Planned %</b>
<b>Providing Assurance to External Organisations</b>		<b>75</b>	<b>6%</b>
<i>Includes:</i> <i>CoSocius/PATROL/Others to be confirmed.</i>	Host Authority arrangement (PATROL)/Assurance provided to External Organisations.		
<b>Advice and Guidance</b>		<b>60</b>	<b>4%</b>
<i>Includes:</i> Provision of ad-hoc advice and guidance to services as requested during 14/15.	Add value and improve overall governance, risk management and control processes within the organisation.		
<b>Other Chargeable Work</b>		<b>45</b>	<b>3%</b>
<i>Includes:</i> Consultancy (specific nature and scope to be agreed In advance with client), General certification of grants. <b>Note: Contingency is currently zero.</b>	Specific requests from services.		
<b>Total Audit Days</b>		<b>1380</b>	<b>100%</b>

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# CHESHIRE EAST COUNCIL

## AUDIT AND GOVERNANCE COMMITTEE

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<b>Date of Meeting:</b>	27 <sup>th</sup> March 2014
<b>Report of:</b>	Performance and Risk Manager
<b>Subject/Title:</b>	Risk Management Update Report
<b>Portfolio Holder:</b>	Councillor David Brown

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### 1.0 Report Summary

- 1.1 This is a summary of risk management work undertaken since the previous meeting of the Audit and Governance Committee on 30 January 2014.
- 1.2 The purpose of this report is to provide the Audit and Governance Committee with a summary of recent risk management work so that it may continue its role to oversee risk management processes and the effectiveness of control and governance arrangements. A strong risk management framework strengthens the effectiveness of our governance. It provides a focusing mechanism to ensure that the scale of risk and reward is balanced in our decision making, through risk identification we anticipate eventualities and it helps us to respond to changes in need, ensuring that we are fit for purpose to serve Cheshire East residents and businesses.
- 1.3 Learning from risk management judgements gives us a key competitive advantage enabling our leaders and managers to act proactively on their accountabilities and facilitate strategic thinking so that we are able to exploit opportunities which enables innovation and better value for public money.

### 2.0 Decision Requested

- 2.1 The Audit and Governance Committee is requested to note and comment on the update report on risk management, which is for Members' information and assurance.

### 3.0 Reasons for Recommendations

- 3.1 The Council must be able to demonstrate effective management of the risks which threaten the achievement of its strategic objectives, as outlined in the Council's 3 Year Plan.
- 3.2 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.

#### 4.0 Cheshire East Council 3 Year Plan – Corporate Risk Update

- 4.1 Achievement of the 3 Year Council Plan brings both risk challenges and opportunities. Cabinet and management work to ensure that the vision, culture and organisational structure are fully aligned, as the Council works as one to increase efficiency and undertakes major change programmes to innovate as effectively and cost efficiently as possible.
- 4.2 At a time of change, when managers are dealing with competing demands, it is possible to miss the risks that arise suddenly or unexpectedly. Risk identification, assessment and management are therefore an integral part of the delivery of our 3 Year Council Plan. Consideration and response to existing and new threats, and the ability to recognise and seize new opportunities, is fundamental to achieving desired outcomes.
- 4.3 The tables below inform the Audit and Governance Committee on progress against key risks. Attached at **Appendix A** is a more detailed summary of these risks including the Risk Owner, Cabinet Strategic Lead and comments on the net risk rating.

**Table 1: 4 Highest Rated Corporate Risks**

Ref	Type	Risk Title	Rating	Direction
CR20	Threat	Contract and Relationship Management	12 High	↔
CR15	Threat	Protection of Children and Young People	12 High	↔
CR9	Threat	Workforce	12 High	↓
CR11	Threat	Commissioning & Service Delivery Chains	12 High	↓

**Table 2: Risk Watch List**

Ref	Type	Risk Title	Rating	Direction
CR22	Threat	ASDV Business Plans	9 Medium	↔
CR17	Threat	Adult Social Care	9 Medium	↔
CR18	Threat	Legal Challenge	9 Medium	↓
CR19	Threat	Fraud and Corruption	9 Medium	↔

**Table 3: Managed (Dying) Risks**

Ref	Type	Risk Title	Rating	Direction
CR10	Threat	Project and Programme Management Skills	6 Medium	↓
CR3	Threat	Strategic Leadership and Management	4 Low	↓

**Table 4: New (Emerging) Risks**

Ref	Type	Risk Title	Rating	Direction
CR23	Threat	Health Integration Programme	9 Medium	(New)

4.3 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 20, Contract and Relationship Management Risk is attached at **Appendix B** to this report for discussion with the Risk Owner/Risk Manager during the Audit and Governance Committee meeting.

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

## **5.0 Wards Affected**

5.1 All

## **6.0 Local Ward Members**

6.1 All

## **7.0 Policy Implications**

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

## **8.0 Financial Implications**

8.1 There are no financial implications in relation to this report. However, a risk around financial control is included as a corporate risk.

## **9.0 Legal Implications**

9.1 This report is aimed at addressing the requirement that the Council achieves its strategic aims and operates its business, under general principles of good governance and that it identifies risks which threaten its ability to be legally compliant and operate within the confines of the legislative framework.

## **10.0 Risk Management**

10.1 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 is operating effectively. 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 threats or to exploit, share, enhance or ignore opportunities due to poor risk management

## 11.0 Access to Information


### 11.1 Risk Management Policy

The updated Risk Management Policy was approved by Cabinet at its meeting on 22 July 2013. The background papers relating to this report can be inspected by contacting the report writer:

Name: Joanne Butler  
 Designation: Performance and Risk Manager  
 Tel No: 01270 685999  
 Email: [joanne.butler@cheshireeast.gov.uk](mailto:joanne.butler@cheshireeast.gov.uk)



## Top 5 Corporate Risks

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR20 Threat	<b>Contract and Relationship Management:</b> Risk that the Council does not have a sufficient number of skilled, experienced and knowledgeable staff to manage contracts and ongoing relationships with the Council's new alternative service delivery vehicles (ASDVs) and other providers, such that contractual arrangements may not be robustly specified (including exit strategies), or that they fail to deliver expected outcomes and/or within contracted 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.	Executive Director of Strategic Commissioning	Corporate Policy Portfolio Holder	<b>12 High</b> 	Likelihood of this risk occurring at present has been recognised as very likely and work on an intelligent client function is underway, alongside the retention of staff that understand the outsourced services. The impact of this risk is clearly major if it were to materialise due to the nature of contracting and the significance of the service delivery areas being outsourced. Further work is planned to mitigate this risk and the net score of 12 high risk is expected to reduce.

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR15 Threat	<b>Protection of Children and Young People:</b> The risk that a combination staff retention and an inability to recruit sufficient qualified and competent social workers and supervisors to meet statutory children Social Care statutory duties, results 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.	Director of Children's Services	Children and Family Services Portfolio Holder	<b>12 High</b> ↔	The overall net risk rating is 12, high risk. This is not exclusive to Cheshire East, there is presently a national risk around social worker recruitment. The existing mitigation will take a period of time to reduce this risk, so at present likelihood is 3, very likely. The impact of children not being adequately safeguarded should it materialise would have a major impact on the council's outcomes of; local people living well and for longer and our communities being strong and supportive.
CR9 Threat	<b>Workforce:</b> Risk that the fast pace and scale of change in the Council results in a de-motivated, disengaged and poor performing workforce which prevents the Council from achieving all its outcomes and priorities and fails to be a leading Council. The fast pace and scale of change gives rise to:- disconnect of roles and responsibilities 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	<b>12 High</b> ↓	The likelihood of this risk occurring is a 3 likely, capacity as Officers move into the new management structure but continue to undertake their previous roles remains a concern, as is clarity over accountability during this time. Impact should this risk occur would be a 4 as the workforce has a major impact on the achievement of the corporate outcomes and performance (reduction in likelihood may result in less disengaged staff and would result in a less negative impact on performance and capacity). The overall rating for this risk is 12 high risk

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR11 Threat	<b>Commissioning and Service Delivery Chains:</b> 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.	Chief Executive	Corporate Policy Portfolio Holder	<b>12 High</b> ↓	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’.

## Corporate Risks – Watch List

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR22 Threat	<b>ASDV Business Plans:</b> Risk that there is inadequate information available to allow the development of rigorous and fully costed business cases and plans for the alternative delivery vehicles. This may result in the vehicles not being viable and in the worst case scenario eventually failing. This may affect the Council's ability to meet its statutory duties in the short-term, give rise to legal, financial and credibility issues and have a detrimental impact on achieving some of the Council's outcomes (dependent upon area at risk).	Chief Operating Officer	Leader of the Council	9 <b>Medium</b> ↔	The likelihood of this risk is mitigated in the short-term because of the existing knowledge and intelligence held by the Council in the longer-term the business plans are to be presented to the shareholder annually. The risk is scored as 3 likely at present as some of the detail is still to be determined and the business plans produced. The impact of this risk should it materialise and an ASDV fail (worst case scenario) is that the consequences would have a major impact on the Council's ability to achieve some of its planned outcomes. The net risk rating is therefore 9 medium risk.
CR17 Threat	<b>Adult Social Care:</b> The risk that a combination of causes such as staff turnover, sickness and an inability to recruit, mean that there is insufficient qualified and capable staff to meet statutory adult social care duties (e.g. reassessments). This may result in some individuals assessed needs and risks not being met, individuals not being effectively safeguarded, consequential legal challenges and credibility issues (e.g. with CQC) and could have a detrimental impact upon our ability to deliver the outcomes of local people living well and for longer, and of our communities being strong and supportive.	Executive Director of Strategic Commissioning	Health and Adult Social Care Portfolio Holder	9 <b>Medium</b> ↔	Presently the likelihood of this risk is assessed as a 3 which is likely; a number of the actions taken may take a while to reduce the likelihood and the impact of the risk. The impact of the risk should it materialise is mitigated by the action taken but would still have a major impact, score of 3, on the Council's outcomes of local people living well and for longer, and of our communities being strong and supportive. The overall net risk rating is therefore 9 medium risk.

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR18 Threat	<p><b>Legal:</b> 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. Examples include:</p> <ul style="list-style-type: none"> <li>inappropriate procurement of goods and services</li> <li>no proper consultation undertaken or findings acted upon</li> <li>no equality impact assessment undertaken or findings acted upon</li> <li>ineffective governance</li> </ul>	Chief Operating Officer	Leader of the Council	<p>9 Medium ↓</p>	There are a number of causes and interdependencies with other corporate risks that affect the likelihood of this risk, the impact is dependent upon the type or extent of legal challenge, but is mitigated through requesting and taking legal advice and would be mitigated through use of reserves if required. The overall net risk rating is 9 medium risk.
CR19 Threat	<p><b>Fraud and Corruption Risk:</b> 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 and corruption, particularly at a time of financial hardship, 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	<p>9 Medium ↔</p>	As the Council commissions and lengthens its supply chain and the uncertainty of the level of controls and assurance arrangements the likelihood of this risk is increased. Alongside this, change of key personnel due to the staffing review may also increase the risk of unexplained or suspicious expenditure. The impact of this risk should it occur is a 3 'major' as the amount of funds at risk could be significant and jeopardise financial resources to achieve the outcomes. The overall risk rating is 9 medium risk.

## Corporate Risks – Managed (Dying) Risks

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR10 Threat	<b>Project and Programme Management Skills:</b> Risk that the Council does not have a sufficient number of skilled and knowledgeable staff managing projects and programmes, such that they fail to deliver expected outcomes and/or within budgeted costs and/or within expected timescales. 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.	Chief Operating Officer	Performance Portfolio Holder	8 Medium ↓	Likelihood is reduced to less than 40% chance of this risk occurring given the increase in project management staff and up skilling of existing staff. The impact of this risk is clearly critical if it were to materialise due to the high level and significant number of change programmes and contracting. The score is 8 medium risk.
CR3 Threat	<b>Strategic Leadership and Management:</b> 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"> <li>new strategic commissioning operating model</li> <li>management restructure</li> <li>new and incoming senior appointments</li> <li>scale of delivery on substantial change programmes</li> </ul>	Chief Executive	Leader of the Council	4 Low ↓	There are significant existing controls and processes which are now embedded. The likelihood of this risk occurring has reduced significantly with the permanent CLT now in place and meeting regularly, staff roadshows have also provided clarity of direction so that there is a shared understanding. The impact of this risk has also reduced significantly because the performance management framework demonstrates direction of travel towards achieving the Council's 3 Year Plan and allows for early intervention thus reducing the impact of the risk. This risk is recognised as a dying risk and the net score has reduced to 4 low risk and will be removed from the corporate risk register.

## Corporate Risks – New (Emerging) Risks

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR23 Threat	<b>Health Integration Programme:</b> The risk that programme timescales do not pay attention to available resources such that there is a lack of commitment to maintain the pace required to meet the multiple partner health integration programme, this could have a detrimental impact upon our ability to deliver target budget savings (adult social care), meet the conditions of funding arrangements, and to deliver the outcomes of local people living well and for longer, and of our communities being strong and supportive.	Executive Director of Strategic Commissioning	Health and Adult Social Care Portfolio Holder	9 Medium  (New)	Further work is required on internal targets and timescales to reduce the likelihood of this risk which is 3, very likely at present. The programme is key to the Councils outcomes of people living well and for longer, and communities being strong and supportive so would have a major impact and is rated as 3. The overall net risk rating is 9 medium risk.

<b>Risk Ref: Corporate Risk 20 (13-14)</b>		<b>Date template updated: 4March 2014</b>	
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.			
<b>Corporate Priorities /</b> <b>Service Delivery Objective /</b> <b>Project Objective :</b>		<b>Risk to all Council Plan Outcomes –</b> 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 v BE A LEADING, COMMISSIONING & RESPONSIBLE COUNCIL	
Risk description should include the <b>cause</b> of the impact and the <b>consequence</b> to the objective which might arise.			
<b>Identified Risk Description:</b> <p><b>Contract and Relationship Management:</b> Risk that the Council does not have a sufficient number of skilled, experienced and knowledgeable staff to manage contracts and ongoing relationships with the Council's new alternative service delivery vehicles (ASDVs) and other providers, such that contractual arrangements may not be robustly specified (including exit strategies), or that they fail to deliver expected outcomes and/or within contracted 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>			
<b>Risk Comments:</b> <p>Competencies include a fundamental understanding of the relevant area, the external marketplace for that area, change management skills and strong people skills for managing the relationships. It is the role of the contract to set out how the services are to be delivered by the ASDV to the residents and businesses of Cheshire East. Part of this risk is recognised and escalated from the ASDV Steering Group risk register.</p> <p>This risk has interdependencies with a number of other corporate risks:-          CR4 Financial Control          CR6 Evidenced Decision Making          CR7 Reputation          CR9 Workforce          CR14 Business Planning - Resource</p> <p>CR18 Legal          CR19 Fraud Risk          CR21 Assurance of Information          CR22 ASDV Business Plans</p>			
Who owns and is accountable for the risk? <b>Risk Owner:</b> Executive Director of Strategic Commissioning		Who is responsible for taking forward the actions? <b>Risk Managed by:</b> Head of HR in seconded role to Core Programme Action Team (CPAT)	
<b>Strategic Lead:</b> Cllr Paul Findlow, Corporate Policy Portfolio Holder		Is the risk new, enduring, dying or re-emerging? <b>Risk Status:</b> Enduring	
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.		<b>Likelihood</b> 4	<b>x Impact</b> 3
		<b>= Gross Risk Score</b> 12	
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:**

- Taken on additional legal support to specifically help with contract associated issues.
- Strengthened gate keeping re procurement procedures
- Draft paper written outlining a contract function for consideration. This function will have responsibility for:
  - Day to day contract management and relationship management
  - Ensure appropriate performance delivery
  - Provide regular updates through the governance structure
  - Alert the s151 officer of any urgent issues
  - Ensure contracts are fit for purpose and continue to be so, over time
- Utilisation of previous contractual arrangements and best practice incorporated into draft specifications.
- Using our business intelligence and existing management and performance information to inform service specs
- The core service is retaining at least one member of staff who understands how the transferring service is delivered.

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**

4

**x Impact**

3

**= 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:**

- Establishing and implementing stronger commissioning and client function capability
- External support to manage contracts – will up skill existing staff or outsource with another Council e.g. future business model expertise.
- In the process of seeking external advice to assist with the implementation of a commissioning model through undertaking a Commissioning Capability Assessment
- Identified need for continuous training and we are shaping a training programme for middle managers on understanding commissioning
- Recruiting further skills to the contracting function
- Acting upon recommendations made by internal audit to strengthen our controls around client functions
- Learning from the first phase of ASDV set-ups – a review to be undertaken after the first quarter

**Next Review Date:**

Monthly – End March / Early April 2014

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:-  
Contract existence  
Number of Contract Variations  
Corporate Performance variances  
Service Complaints

**Future Issues:**

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**

1

**x Impact**

2

**= Target Score**

2

**Comments**

December 13: Likelihood of this risk occurring at present has been recognised as very likely and work on a contracting function is underway along with the retention of staff that understand the outsourced services. The impact of this risk is clearly major if it were to materialise due to the nature of contracting and the significance of the service delivery areas being outsourced. Further work is planned to mitigate this risk and the net score of 12 high risk is expected to reduce.

Jan 14: Risk reviewed no change in the rating.

Mar 14: Whilst there has been some reduction in likelihood of this risk work is still underway to ensure that we reduce the cause of this risk for the future shape of the Council. The score remains 12 high risk.

SCORING CHART FOR IMPACT				SCORING CHART FOR LIKELIHOOD				
	Factor	Score	Effect on Corporate Objectives		Factor	Score	Description	Indicator
Threats	Critical	4	Critical impact on corporate objectives and performance and could seriously affect reputation. Long term damage that may be difficult to restore with high costs.	Threats	Very likely	4	>75% chance of occurrence	Regular occurrence Frequently encountered - daily/weekly/monthly
	Major	3	Major impact on corporate objectives and performance, could be expensive to recover from and would adversely affect reputation in the medium to long term.		Likely	3	40% - 75% chance of occurrence	Within next 1-2 yrs Occasionally encountered (few times a year)
	Significant	2	Significant impact on corporate objectives, performance and quality, could have medium term effect and be potentially expensive to recover from.		Unlikely	2	10% - 40% chance of occurrence	Only likely to happen 3 or more years
	Minor	1	Minor impact on the corporate objectives and performance, could cause slight delays in achievement. However if action is not taken, then such risks may have a more significant cumulative effect.		Very unlikely	1	<10% chance of occurrence	Rarely/never before
	Factor	Score	Effect on Corporate Objectives		Factor	Score	Description	Indicator
Opportunities	Exceptional	4	Result in major increase in ability to achieve one or more strategic objectives	Opportunities	Very likely	4	>75% chance of occurrence or achieved in one year.	Clear opportunity, can be relied on with reasonable certainty to be achieved in the short term.
	Significant	3	Impact on some aspects of the achievement of one or more strategic objectives		Likely	3	40% to 75% chance of occurrence. Reasonable prospects of favourable results in one year.	May be achievable but requires careful management. Opportunities that arise over and above the plan.
					Unlikely	2	<40% chance of occurrence or some chance of favourable outcome in the medium term.	Possible opportunity which has yet to be fully investigated by management.

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## CHESHIRE EAST COUNCIL

### AUDIT AND GOVERNANCE COMMITTEE

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<b>Date of Meeting:</b>	27 <sup>th</sup> March 2014
<b>Report of:</b>	Compliance and Customer Relations Manager
<b>Subject/Title:</b>	Compliance with Regulation of Investigatory Powers Act (2000) (RIPA) and Protection of Freedoms Act (2012)
<b>Portfolio Holder:</b>	Councillor David Brown

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#### 1.0 Report Summary

- 1.1 This report provides an update on how the Council has complied with RIPA legislation during 2013/14 and the number of RIPA applications which have been authorised.

#### 2.0 Decision Requested

- 2.1 That the Committee notes the contents of the report in respect of the numbers of applications and the current arrangements in place to ensure the Council complies with the legislation.

#### 3.0 Reasons for Recommendations

- 3.1 In order to form an opinion on the Council's compliance with this legislation, the Audit and Governance Committee needs to gain assurance that there are effective arrangements in place to record, coordinate and authorise requests for directed surveillance and that the Council complies fully with the requirements of RIPA legislation in so doing.

#### 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 alleged wrongdoing, certain conditions are met in each case, in order that successful prosecutions can be made.
- 6.2 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 –

1<sup>st</sup> 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**

- 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. There could also be fines imposed if the Council was found to be illegally breaching someone's Human Rights.

## **8.0 Legal Implications**

- 8.1 The Regulation of Investigatory Powers Act 2000 was enacted to consolidate and update a range of law enforcement investigative powers, to ensure that these powers were fit for purpose, as well as compliant with the UK's obligations under the European Convention on Human Rights. A number of codes of practice have also been issued under this Act.
- 8.2 The Protection of Freedoms Act 2012, introduced additional safeguards in respect of certain surveillance undertaken under RIPA 2000 by local authorities. These safeguards include a requirement for local authorities to obtain Magistrate approval of the use of RIPA 2000 powers in certain instances.
- 8.3 Given the possible infringement of peoples Human Rights when using these powers, it is important that the Council complies fully with the law and it's own policy and that it reflects on it's use of these powers to ensure it is proportionate at all times.

## **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**

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. The Protection of Freedoms Act, which came into force on 1<sup>st</sup> November, 2012, requires public authorities to acquire judicial approval to use covert surveillance techniques. It also restricts the use of surveillance to the investigation of offences which attract a custodial sentence of six months or more.

### **10.1 Compliance with RIPA Legislation**

The Council will, on occasion, need to use directed surveillance 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. Directed surveillance is essentially covert surveillance in places open to the public. Using RIPA powers can conflict with an individual's human rights, and so it is imperative that, when investigating alleged wrongdoing, certain conditions are met in each case, in order that successful prosecutions can be made. In particular, RIPA requires that covert techniques are only used when it is necessary and proportionate to do so. All covert surveillance must be properly authorised and recorded, the tests of necessity and proportionality must be satisfied, and the potential for collateral intrusion must be considered and minimised.

All applications must be authorised by an Authorising Officer. The Authorising Officers for the Council are:

Chief Executive  
Chief Operating Officer  
Executive Director of Strategic Commissioning  
Director of Public Health  
Director of Children's Services  
Director of Adult Social Care and Independent Living  
Head of Service – Early Help and Protection  
Head of Organisational Development

Once authorised, all applications need the approval of a Justice of the Peace/Magistrate. The investigating officer makes arrangements to meet the magistrate in person at the court. Surveillance cannot take place until the application has been granted.

The Monitoring Officer assumes responsibility for the integrity of the process and procedures to ensure that the Council complies with the requirements of the legislation.

## **10.2 Access to Communications Data – use of National Anti Fraud Network**

The Regulation of Investigatory Powers (Communications Data) Order 2010 currently sets out which organisations can access communications data and for what purposes. The Council is limited to accessing only service user and subscriber data i.e. the 'who', 'when' and 'where' of a communication but not the actual content. The Council is required to nominate a Single Point of Contact (SPOC), who needs to be an accredited person, to ensure that data is obtained lawfully and to facilitate access to the data with the communications service providers. The SPOC may be an employee of the Council or an externally appointed person. The Council has been using the SPOC service provided by the National Anti-Fraud Network (NAFN) since 25 October 2012 and this process has run smoothly.

### 10.3 Numbers of applications authorised

	Directed Surveillance	Communications Data
2009-2010	1	0
2010-2011	8	1
2011-2012	7	2
2012-2013	15	3
2013-2014 to date	7	3

The apparent rise in applications in 2012-2013 includes five renewals of existing investigations that have been entered in the central register as new applications.

### 10.4 Inspections

The Office of the Surveillance Commissioners is responsible for inspecting the Council's use of and compliance with RIPA Legislation and the Council was last inspected on 2<sup>nd</sup> May 2013.

The Inspector's Report was very positive about the Council's use of RIPA, but also included some recommendations about how the standards might be improved further (see Appendix 1). These recommendations have been implemented and the RIPA Policy is currently being revised to reflect these changes.

The Interception of Communications Commissioner's Office is responsible for inspecting applications to access communications data, and this took place on 3<sup>rd</sup>-5<sup>th</sup> June, 2013. However, the inspection was carried out on NAFN, rather than on the Council.

### 11.0 Access to Information

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

Sandra Smith  
 Compliance and Customer Relations Manager  
 01270 685865  
[sandra.smith@cheshireeast.gov.uk](mailto:sandra.smith@cheshireeast.gov.uk)



**APPENDIX 1**

**RIPA INSPECTION – 2.5.13**

**Comments**

1. Excellent training regime
2. All staff involved in inspection were 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 are an 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 – both documents should explain 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 – more details to be included regarding the names of the Magistrate and the Officers at the hearing, the outcome of the hearing and any amendments to the authorisation.
4. Application Forms – some general recommendations made regarding improvements to the completion of forms by applicants and Authorising Officers.

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## CHESHIRE EAST COUNCIL

### AUDIT AND GOVERNANCE COMMITTEE

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**Date of Meeting:** 27th March 2014  
**Report of:** Chief Operating Officer  
**Title:** Contract Procedure Rules - Waivers  
**Portfolio Holder:** Councillor Peter Raynes

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#### 1.0 Report Summary

- 1.1 The purpose of the report is, as required by the Constitution, to update the Committee on Contract Procedure Rules (CPRs) Waivers.

#### 2.0 Recommendation

- 2.1 To note:
- i) the update on Waivers of CPRs since September 2013.
  - ii) that procedures have been revised in this area since the last report to Committee in September 2013.
  - iii) that Finance and Contract Procedure Rules are currently being reviewed as part of a wider review of the Constitution.

#### 3.0 Reasons for Recommendation

- 3.1 The Audit and Governance Committee has a key role in overseeing governance arrangements and ensuring the Council has appropriate policies and mechanisms to safeguard resources in place.
- 3.2 Contract Procedure Rule E11 currently states that *"a report will be 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 circumstances"*.

#### 4.0 Wards Affected

- 4.1 All wards.

#### 5.0 Local Wards Affected

- 5.1 Not applicable.

#### 6.0 Policy Implications

- 6.1 Any changes to the Constitution, including Finance and Contract Procedure Rules, arising from the current review are required to be approved by the Constitution Committee and full Council.

## **7.0 Financial Implications**

- 7.1 There are no direct financial implications associated with the decisions requested.

## **8.0 Legal Implications**

- 8.1 All employees must ensure that they use any Council or other public funds entrusted to them through their job role in a responsible and lawful manner.
- 8.2 Employees must also seek to ensure value for money and take care to avoid the risk of legal challenge to the Council in relation to the use of its financial resources. The Council's Officer Delegations, Finance and Contract Procedure Rules and Operating Procedures must, therefore, be followed at all times. This report sets out compliance with CPR E11.

## **9.0 Risk Assessment**

- 9.1 There is a requirement within the Council's Constitution that a report will be made to Audit and Governance Committee on a half yearly basis on this matter. Failure to submit the report would be a breach of the Constitution.

## **10.0 Background and Options**

- 10.1 During 2011/12, a number of concerns were raised regarding the content and timeliness of Delegated Decisions to waive Finance & Contract Procedure Rules. As a result a revised procedure was adopted in May 2012. There were subsequently two further changes to the process, in January 2013 and May 2013. An internal audit review of the operation and use of Delegated Decisions was undertaken in summer 2013; the findings and recommended actions from which, were reported back to this Committee in September 2013.

### **Summary (July – December 2013)**

- 10.2 A summary of the waivers for the period under review, against the previous figures reported to Committee in September 2013, is set out below:

<b>Directorate*</b>	<b>July – December 2013</b>		<b>September 2012 – June 2013</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Children, Families & Adults	16	36%	26	36%
Corporate	14	31%	16	22%
Places & Organisational Capacity	15	33%	30	42%
<b>Total</b>	<b>45</b>	<b>100%</b>	<b>72</b>	<b>100%</b>

**\*Note:** The previous management structure has been used to enable a comparison.

### 10.3 During the six month period to December 2013:

- § All recommendations from the internal audit report in September 2013 have been implemented or are in progress. Those in progress are dependent on the ongoing review of Finance & Contract Procedure Rules.
- § Analysis of the requests for waiver show that 67% (up from 60% in the previous period) of the value involved is less than £75,000 i.e. below the level where a formal tendering process is required.
- § The largest single reason for request for waivers is that of urgency/efficiency of the service. The majority of these relate to instances of additional work e.g. where consultants have been appointed and additional work has been identified following completion of the original engagement, where going through a further tendering process may delay the allocation of funds or lose vital knowledge. The engagement of interim officers falls into this category.
- § Other significant areas include situations where there is a sole provider e.g. maintenance and support to legacy ICT systems. There are also a number of cases where there are issues of client welfare, in provision of social care or educational services, which influence the decision making process.

### **Update (January 2014 to date)**

- 10.4 A revised procedure has been introduced to simplify the process further and make it more efficient and appropriate, whilst still in line with the Constitution. This now means that the three forms previously used have been consolidated into one new form. The new approach increases the rigour of the process, encouraging greater compliance going forward, whilst also reducing the number of waiver forms.

## **11.0 Access to information**

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

Name: Peter Bates

Designation: Chief Operating Officer

Tel No: 01270 686013

Email: [peter.bates@cheshire.gov.uk](mailto:peter.bates@cheshire.gov.uk)

## **CHESHIRE EAST COUNCIL**

### **AUDIT AND GOVERNANCE COMMITTEE**

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<b>Date of Meeting:</b>	27 March 2014
<b>Report of:</b>	Head of Legal Services and Monitoring Officer
<b>Subject/Title:</b>	Members' Code of Conduct: Standards Panels and Sub-Committee Annual Report

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#### **1.0 Report Summary**

- 1.1 The report gives details of the numbers and outcomes of complaints under the Code of Conduct for Members considered by Audit and Governance's Initial Assessment Panel, Local Resolution Panel and Hearing Sub-Committee between the period April 2013 to March 2014.

#### **2.0 Recommendation**

- 2.1 Audit and Governance Committee is invited to note the report.

#### **3.0 Reasons for Recommendations**

- 3.1 To assist the Audit and Governance Committee in fulfilling its responsibility for promoting high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council.

#### **4.0 Wards Affected**

- 4.1 All

#### **5.0 Local Ward Members**

- 5.1 All

#### **6.0 Policy Implications**

- 6.1 The Localism Act places a statutory duty upon the Council to promote and maintain high standards of conduct amongst its own Elected Members, co-opted Members and Parish members within the borough. Strong ethical governance is critical to the corporate governance of the authority and also supports the Council's decision-making processes across the organisation.

#### **7.0 Financial Implications**

- 7.1 None identified.

## **8.0 Legal Implications**

- 8.1 The Localism Act 2011 requires the Council to have a Code of Conduct which sets out the standards expected of Members whenever they act in their official capacity. The Council must also have in place a suitable procedure at a local level to investigate and determine allegations against Members.
- 8.2 The Code of Conduct also covers co-opted members.
- 8.3 The Council is also responsible for having arrangements in place to investigate and determine allegations against parish councillors.

## **9.0 Risk Management**

- 9.1 If the Council fails to adopt a Code of Conduct and process for the investigation of complaints which is fit for purpose, robust and transparent then there are risks to the Council's reputation and also to the integrity of its corporate governance and decision-making processes.

## **10.0 Background**

- 10.1 Cheshire East Council adopted a new Code of Conduct and associated complaints procedure in July 2012. It is the responsibility of the Audit and Governance Committee to monitor the Code of Conduct. This report therefore sets out details of all complaints received under the Code from April 2013 to March 2014 and, where concluded, the outcome.

- 10.2 Between April 2013 and March 2014, 17 complaints were received by the Monitoring Officer i.e.

No. of complaints against a member of Cheshire East Council	6
No. of complaints against a member of a Parish/Town Council within the Borough	11

- 10.3 Of those complaints which have completed the initial assessment stage, the decision of the Initial Assessment Panel was as follows -

No further action	7
Referred to a Group Leader for informal action	1
Referred for local resolution	3
Referred for formal investigation	-
Referral to a regulatory agency or police	-

- 10.4 As can be seen from the figures above, 6 complaints remain outstanding and will shortly be presented to Initial Assessment Panel.
- 10.5 No matters referred for local resolution between April 2013 and March 2014 have yet been concluded and the outcome will therefore be reported in the next updating report.



## **11.0 Access to Information**

There are no background papers relating to this report.

Name: Anita Bradley  
Designation: Head of Legal Services and Monitoring Officer  
Tel No: 01270 685850  
Email: [MonitoringOfficerCEC@cheshireeast.gov.uk](mailto:MonitoringOfficerCEC@cheshireeast.gov.uk)

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## CHESHIRE EAST COUNCIL

### Audit and Governance Committee

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<b>Date of Meeting:</b>	27 March 2014
<b>Report of:</b>	Chief Operating Officer
<b>Subject/Title:</b>	Alternative Service Delivery Vehicle Governance and Stewardship
<b>Portfolio Holder:</b>	Councillor Peter Raynes

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#### 1.0 Purpose of the report

- 1.1 In February 2013 the Council set out its three year plan to becoming a strategic commissioning council. The strategic commissioning model ensures a measured approach to achieving the Council's ambitions alongside the required financial savings. It also provides a platform to redefine and reinvent services and to sustain quality services to Cheshire East residents and businesses. The role of elected members is also strengthened - beginning and ending with councillors' democratic relationship with local residents, who should have a stronger voice and input into commissioning decisions in the future.
- 1.2 This new approach requires robust corporate leadership, innovation and for the Council and its partners to deliver more with less. In summary it requires a clear focus on identifying and prioritising local needs. Cheshire East Council then concentrates on meeting those needs in a cost-effective way by stimulating and managing a diverse local market of high quality local providers.
- 1.3 This report updates the Audit and Governance Committee on the:
- governance structures under which Cheshire East Limited and its subsidiary companies will operate; and
  - governance arrangements for other alternative service delivery vehicles, (ASDVs).

It also outlines the Committee's role in relation to the ASDVs. The 24 March 2014 Cabinet report on Group Structure and Governance is attached, appendix A and B.

#### 2.0 Recommendations

- 2.1 The Audit and Governance Committee is asked to endorse the arrangements set out in this Report and appendices A and B.

#### 3.0 Reasons for Recommendations

- 3.1 The Council has realised the need to change the way future services are provided in order to create opportunities for innovation and provide service efficiencies. As a result, the Council has determined to take a more strategic commissioning role.
- 3.2 The aspirations to deliver services and redefine the Council's role in core place-based services are set out in the Three Year Plan. The development of a group company structure forms part of that major change programme.
- 3.3 It is important that the Committee is reassured that the overall governance arrangements for the ASDVs are fit for purpose. The Committee's Terms of Reference include:  
....overseeing the Council's roles and responsibilities in respect of Corporate Governance and Audit....; and  
....undertaking, as appropriate, an assessment of wider governance issues....

**4.0 Wards Affected** - All wards are affected by this decision.

**5.0 Local Ward Members** - All wards are affected by this decision.

## **6.0 Policy Implications**

- 6.1 The recommendations are in accordance with the Council's plan to become a strategic commissioning council.

## **7.0 Financial Implications**

- 7.1 The financial implications for the establishment of ANSA, Everybody Sport and Recreation (ESAR) and Orbitas were laid out in the detailed business cases presented to Cabinet on 4<sup>th</sup> February 2014. These included plans to deliver savings of over £3.3m over the next three financial years.
- 7.2 There are no further financial implications arising from this report.

## **8.0 Legal Implications**

- 8.1 The legal implications regarding the establishment of the companies were considered in reports to Cabinet in June and October 2013 and February 2014. The legal implications are considered further within the body of this report.
- 8.2 The Council can set up the companies under the general power of competence laid down by section 1 of the Localism Act 2011. In addition, section 4 of the Localism Act 2011 provides

**"4. Limits on doing things for commercial purpose in exercise of general power**

(1)The general power confers power on a local authority to do things for a commercial purpose only if they are things which the authority may, in exercise of the general power, do otherwise than for a commercial purpose.

(2)Where, in exercise of the general power, a local authority does things for a commercial purpose, the authority must do them through a company.

(3)A local authority may not, in exercise of the general power, do things for a commercial purpose in relation to a person if a statutory provision requires the authority to do those things in relation to the person.

(4)In this section “company” means—

(a)a company within the meaning given by section 1(1) of the Companies Act 2006, or

(b)a society registered or deemed to be registered under the Co-operative and Community Benefit Societies and Credit Unions Act 1965 or the Industrial and Provident Societies Act (Northern Ireland) 1969.”

In other words any enterprise must be conducted through a company within the meaning of section 1 of the Companies Act 2006.

9.0 The requirements of both local government and company law are reflected in this report and its appendices.

## **9.0 Risk Management**

10.1 The risks within the Alternative Service Delivery Vehicle, (ASDV), programme are identified and managed at 3 levels: Project, Programme and Corporate.

10.2 The project risks for each of the new companies were detailed within the business cases presented to Cabinet in February 2014. The respective project boards - in managing the risks - have established appropriate mitigating actions and monitor each risk on a regular basis in accordance with the Council’s project management methodology.

10.3 Programme risks are those that are common to more than one ASDV project. These risks are identified, managed and monitored by the ASDV Steering Group. Two of the programme risks are classified as corporate risks and have been escalated to the corporate Risk Management Group for consideration and monitoring and inclusion. These are:

- Contract and relationship management; and
- ASDV Business Plans

The Corporate Leadership Board ensures that actions and recommendations within the Corporate Risk Register are implemented.

## **10.0 Background**

- 11.1 Strategic Commissioning is about achieving even greater value for money, by doing things differently and using innovative new approaches to the way in which services are delivered, that achieve the outcomes desired by local people. It is not about simply reducing costs through arranging cheaper provision or about traditional outsourcing. The new approaches will be used to get the best from in-house services, from joint ventures between the Council and other providers, and from new delivery vehicles such as social enterprises or staff mutuals.
- 11.2 In January 2014 the Chief Operating Officer presented an initial report to the Committee on the proposed governance, stewardship and control arrangements for the Council's ASDV's. The Committee requested a further report to its next meeting in March 2014.

## **11.0 Alternative service delivery vehicles**

- 11.1 The Council's group of companies will be structured under its wholly owned parent company, Cheshire East Ltd. The Council is the sole shareholder of Cheshire East Ltd.
- 11.2 The Council already has two Council owned and controlled companies in place – East Cheshire Engine of the North Limited and Tatton Park Enterprises Limited. In February 2014 Cabinet also approved the detailed business cases for two new companies - Ansa Environmental Services Limited and Orbitas, Bereavement Services Limited. Each of these companies will now become subsidiaries of Cheshire East Ltd.
- 11.3 Cheshire East Ltd will own the majority interest, (80%), in all of its subsidiaries. Cheshire East Council retains a minority interest, (20%), in each subsidiary. By holding a minority shareholding in the subsidiaries the Council retains more control over important decisions.
- 11.4 Two further ASDVs will go live during the first quarter of 2014-15:
- Everybody Sport & Recreation, (ESAR), and
  - CoSocius Limited (shared HR, Finance and ICT back office services with Cheshire West and Chester Council)
- 11.5 Everybody Sport & Recreation is an independent charitable trust and, as such, will not form part of the group. CoSocius, a joint venture with Cheshire West and Chester Council will not form part of the group.

## **12.0 Governance**

- 12.1 The Council's overriding principle for the governance, stewardship and control arrangements for its ASDVs is to be resident and business led, and to ensure accountability to residents, service users, businesses and

local councillors. However, the Council remains responsible for ensuring that it uses public funds properly and that it can demonstrate value for money.

- 12.2 Maintaining accountability to residents, service users, businesses and local councillors is vital. The arrangements introduced will ensure this and will remain under regular review.
- 12.3 Cabinet's control over the parent company and its subsidiaries is exercised through a number of key documents:
  - articles of association;
  - directors' mandate;
  - shareholder's agreement;
  - mandates for the shareholder's representatives; and
  - the contract.
- 12.4 Further details on the purpose and outline content of each of the documents listed in paragraph 12.3 are set out in appendix A, section 12. These documents require careful drafting not least to protect the companies' *Teckal* exemption in the early years. (The *Teckal* exemption enables the Council to award contracts directly to its subsidiaries without going through a public procurement process.) Draft documents will be shared with the Cabinet and the board of each company before they are approved.
- 12.5 The governance arrangements for ESAR and Coscious are different:
  - **ESAR:** As an independent charitable trust the Council's relationship with ESAR is, essentially, contractual. A detailed contract and performance specification is currently being negotiated. The contract will protect the Council's interest and ensure that its significant investment in ESAR plays an important role in achieving its key strategic outcomes.
  - To provide additional protection, the freehold of the assets used by ESAR will remain with the Council. ESAR will operate/access those assets through a series of leases and licences.
  - Performance monitoring against the contract will be led by the Council's Executive Director of Strategic Commissioning.
  - **CoSocius** will be legally separate from the Council and will have more freedom to trade and operate on a commercial basis. The Council will enter into a 5 year contract for the provision of ICT, finance and HR services. The Council together with Cheshire West and Chester Council (as shareholders) will seek to maximise value for money to benefit local taxpayers.
  - The shared services joint committee agreed the governance of CoSocius, its relationship with the Councils and the relationship between Cheshire East Council and Cheshire West and Chester Council at its meeting on 29 November 2013. (A link to that report is provided in the access to information section in paragraph 16.) That

committee is expected to agree the go live date for CoSocius on 28 March 2014.

- The Council will exercise its powers as shareholder in CoSocius through the new shareholder board. That Board will be expected to provide regular update reports to the Cabinet.

12.6 The governance arrangements summarised above will be regularly reviewed. This is necessary to ensure that they provide the appropriate balance between proper governance and stewardship of public money alongside doing things differently and using innovative new approaches to service delivery.

12.7 The Cabinet will also take the opportunity to reflect upon its experiences in setting up ASDVs to date. This will include officers continuing to review and refine the contract documentation for ANSA and Orbitas beyond the 1 April 'go live' date. This will ensure that the learning from these two vehicles, and from ESAR, will be applied to the next phase of ASDVs.

### **13.0 The role of the Audit And Governance Committee**

13.1 Ensuring the adequacy of governance, stewardship and risk management over ASDVs or other commercial arrangements can be complicated. However, the accountability for value for money, (vfm), performance and stewardship of public funds remains with the Council whatever vehicle is used.

13.2 The Committee's terms of reference, (TOR), is currently being reviewed. The current TOR includes a number of areas that highlight the Committee's role in relation to ASDVs. These include:

- overseeing the Council's roles and responsibilities in respect of Corporate Governance and Audit;
- undertaking, as appropriate, an assessment of wider governance issues;
- supporting the Council's audit function, both internal and external;
- ensuring the Council has in place appropriate policies and mechanisms to safeguard the Council's resources; and
- reviewing and approving the Annual Governance Statement.

13.3 The latest CIPFA paper on Audit Committees, (Practical Guidance for Local Authorities and Police, 2013), also gives some guidance. It suggests that in relation to ASDVs audit committees:

- consider the assurance available to them on whether the arrangements are satisfactorily established and are operating effectively. For example, the Committee could seek assurance that the Council has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance.
- know what arrangements have been put in place to maintain accountability to stakeholders, to ensure transparency of decision making and to ensure standards of probity are maintained.



- receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the new ASDV.
- consider the coverage of assurances that underpin the Annual Governance Statement (AGS) to make sure that ASDVs are adequately covered.

13.4 The Committee will want to be assured about the vfm, governance and stewardship of public funds in relation to ASDVs in much the same way as for other areas of spend. The Corporate Governance Group is reviewing the Council's overall assurance framework and will present a report for this Committee to consider. As part of the Annual Governance Statement process, the group will also assess the Council's partnership arrangements – including all ASDVs.

13.5 In addition, the Council's internal auditors will continue to:

- provide independent assurance on arrangements;
- evaluate and assess strategic risks; and
- evaluate reliability and integrity of information.

13.6 In providing that assurance internal audit will include specific pieces of work in its 2014-15 audit plan. This will include, for example:

- Reviewing the governance arrangements in place at both the Council and the companies to determine whether they are operating effectively; and
- mapping the assurance framework – including all ASDVs - to determine whether reliance can be placed on an ASDV's own internal auditors or external auditors/assurance providers; and

In addition Internal Audit will carry out specific pieces of work at the request of the Audit and Governance Committee and, for example, the Chief Operating Officer or the Cabinet.

13.7 **Audit and access to information:** For each Council owned and controlled company the shareholders agreement and accompanying articles of association enable the Cabinet and its advisors to visit and inspect the books and records at any time. In particular, the Council's internal and external auditors will have open access to every company in the group. This will not apply to ESAR as an independent charitable trust.

13.8 The Cabinet expects to appoint Grant Thornton as external auditors for the group. Cheshire East Ltd accounts will be consolidated into the Council's financial statements. Internal Audit will continue to share information and co-ordinate audit activities with the external auditors to ensure appropriate coverage and minimise duplication of effort in respect of the ASDVs.

13.9 **Risk Management:** The Council's risk management processes are being updated to ensure proper assessment of risk in relation to ASDVs. This is to ensure that:

- The risks associated with each ASDV have been identified, prioritised and are being appropriately managed; and
- Each ASDV has effective risk management procedures in place.

#### **14.0 Business cases for change**

- 14.1 The detailed business cases for change for ANSA, Orbitas and ESAR were approved by Cabinet in February 2014. Each business case was prepared in line with statutory guidance and the principles of the Council's own strategic framework. Through this process the Council has demonstrated that there is a sound financial case for creating each company.
- 14.2 The business cases were considered in detail by the Technical Enabling Group on 13 December 2013. They were also discussed and endorsed by the Executive Monitoring Board (EMB) on 16 December 2013.
- 14.3 To gain further assurance, the Chief Operating Officer engaged Price Waterhouse Cooper (PwC) to undertake a high level review of the business cases during early January 2014. PwC concluded that the business case for change was made in each case. PwC recognised the scale of the Council's change programme and the significant amount of preparatory work done. They highlighted a number of areas where further work would help to minimise risk and optimise the successful implementation of the new organisations.
- 14.4 In early March 2014 the Chief Operating Officer engaged PwC to take a further look at the progress made towards securing the contracts. PwC carried out a review of the contract documentation for ANSA. They concluded that the Council has made some good progress on a number of the issues raised in a relatively short period of time following their initial review of business cases. The Council's project team is continuing to work on the detailed specification and the strategic and financial aspects of the business plan. Similar work is being done by the projects teams for Orbitas, ESAR and CoSocius.

#### **15.0 Conclusions**

- 15.1 The Council's overriding principles for the governance, stewardship and control arrangements for its ASDVs are:
- to be resident and business led; and
  - to ensure accountability to residents, service users, businesses and local councillors.
- 15.2 They will be regularly reviewed. The Audit and Governance Committee will also take the opportunity to review the assurance framework and ensure that it remains satisfied with the arrangements.

## 16.0 Access to Information

<http://moderngov.cheshireeast.gov.uk/ecminutes/documents/s26357/Governance%20Final.pdf>

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

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# CHESHIRE EAST COUNCIL

## Cabinet

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<b>Date of Meeting:</b>	24 <sup>th</sup> March 2014
<b>Report of:</b>	Chief Operating Officer
<b>Subject/Title:</b>	Cheshire East Ltd – Group Structure and Governance Arrangements
<b>Portfolio Holder:</b>	Cllr Michael Jones, Leader of the Council

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### 1.0 Purpose of the report

- 1.1 In February 2013 the Council set out its three year plan to becoming a strategic commissioning council. The strategic commissioning model ensures a measured approach to achieving the Council's ambitions alongside the required financial savings. It also provides a platform to redefine and reinvent services and to sustain quality services to Cheshire East residents and businesses. The role of elected members is also strengthened - beginning and ending with councillors' democratic relationship with local residents, who should have a stronger voice and input into commissioning decisions in the future.
- 1.2 This new approach requires robust corporate leadership, innovation and for the Council and its partners to deliver more with less. In summary it requires a clear focus on identifying and prioritising local needs. Cheshire East Council then concentrates on meeting those needs in a cost-effective way by stimulating and managing a diverse local market of high quality local providers.
- 1.3 This report:
  - sets out the proposed structure and mandate for creating a new wholly owned Council company – Cheshire East Ltd. This company will act as parent company to all other companies set up by the Council. Cheshire East Ltd will hold 80% of the shares in its subsidiaries with the Council holding the remaining 20%; and
  - seeks approval for the governance structures under which the group will operate.

### 2.0 Recommendations

- 2.1 Cabinet is asked to approve:
  - i) The establishment of the wholly owned local authority parent company Cheshire East Ltd.
  - ii) The general principles of governance of the parent company and its subsidiaries and operation as set out in this report. This includes the appointment of the Deputy Leader as a non-executive director to act as Chairman of the Group Board.

- iii) The re-organisation of the Council's existing companies as subsidiaries of Cheshire East Ltd. Cheshire East Ltd will hold 80% of the shares in its subsidiaries with the Council holding the remaining 20%.
- iv) That each subsidiary apply to the government to be recognised under the Redundancy Payments Modification Order (RPMO). This will protect the continuous service for employees who transfer under TUPE and those who are appointed in future from another RPMO body.
- v) A 1 April implementation date for Cheshire East Limited, Ansa and Orbitas. Beyond that date the Council will continue to review and refine the contract documentation - together with the governance arrangements set out in this report - for all its companies.

And to note:

- vi) The appointment of Kevin Melling as the Managing Director for ANSA and Orbitas.
- 2.2 In addition to the specific recommendations, Cabinet approves the general approach laid out in this report and authorises the:
- i) Chief Operating Officer as Section 151 Officer to take any necessary and consequential action arising from the above recommendations, in agreement with the Leader of the Council.
  - ii) Head of Legal Services and Monitoring Officer to enter into any necessary documentation to give effect to the above recommendations including the:
    - articles of association;
    - the shareholder agreement and mandate for the shareholder's representative; and
    - Directors' mandate for each company.

### **3.0 Reasons for recommendations**

- 3.1 The Council has realised the need to change the way future services are provided in order to create opportunities for innovation and provide service efficiencies. As a result, the Council has determined to take a more commissioning role.
- 3.2 The aspirations to deliver services and redefine the Council's role in core place-based services are set out in the Three Year Plan. The development of a group company structure forms part of that major change programme.

**4.0 Wards Affected** - All wards are affected by this decision.

**5.0 Local Ward Members** - All wards are affected by this decision.

### **6.0 Policy Implications**

- 6.1 The recommendations are in accordance with the Council's plan to become a strategic commissioning council.

## **7.0 Financial Implications**

- 7.1 The financial implications for the establishment of ANSA, Everybody Sport and Recreation (ESAR) and Orbitas were laid out in the detailed business cases presented to Cabinet on 4<sup>th</sup> February 2014. These business cases laid out plans to deliver savings of over £3.3m over the next three financial years. Further financial implications relating to directors' remuneration are set out in this report.

## **8.0 Legal Implications**

- 8.1 The legal implications regarding the establishment of the companies were considered in reports to Cabinet in June and October 2013 and February 2014. The legal implications are considered further within the body of this report.
- 8.2 The Council can set up the companies under the general power of competence laid down by section 1 of the Localism Act 2011. In addition, section 4 of the Localism Act 2011 provides that "any enterprise be conducted through a company within the meaning of section 1 of the Companies Act 2006".

## **9.0 Risk Management**

- 9.1 The risks within the Alternative Service Delivery Vehicle, (ASDV), programme are identified and managed at 3 levels: Project, Programme and Corporate.
- 9.2 The project risks for each of the new companies were detailed within the business cases presented to Cabinet in February 2014. The respective project boards - in managing the risks - have established appropriate mitigating actions and monitor each risk on a regular basis in accordance with the Council's project management methodology.
- 9.3 Programme risks are those that are common to more than one ASDV project. These risks are identified, managed and monitored by the ASDV Steering Group. Two of the programme risks are classified as corporate risks and have been escalated to the corporate Risk Management Group for consideration and monitoring and inclusion. These are:
- Contract and relationship management; and
  - ASDV Business Plans

The Corporate Leadership Board ensures that actions and recommendations within the Corporate Risk Register are implemented.

- 9.4 The Audit and Governance Committee is responsible for keeping under review the effectiveness of the risk management, control and governance arrangements. That Committee receives a quarterly update on the Corporate Risk Register. Cabinet also receives quarterly monitoring reports and an annual report on the Corporate Risk Management.
- 9.5 The responsibility to manage operational risks after the 'go live' date rests with the individual company.

## **10.0 Background**

- 10.1 It is clear that change is inevitable. Strategic Commissioning is about achieving even greater value for money, by doing things differently and using innovative new approaches to the way in which services are delivered, that achieve the outcomes desired by local people. It is not about simply reducing costs through arranging cheaper provision or about traditional outsourcing. The new approaches will be used to get the best from in-house services, from joint ventures between the Council and other providers, and from new delivery vehicles such as social enterprises or staff mutuals.
- 10.2 The Council already has two successful wholly owned companies in place – Engine of the North and Tatton Park Enterprises. In February 2014 it also approved the detailed business cases for two new companies - Ansa Environmental Services Limited and Orbitas Bereavement Services Limited.

## **11.0 Proposed structure and mandate of Cheshire East Ltd**

- 11.1 The Council's group of companies will be structured under its wholly owned parent company, Cheshire East Ltd. The Council is the sole shareholder of Cheshire East Ltd.
- 11.2 Everybody Sport and Leisure is a charitable trust and, as such, is not part of the group. CoSocius, a joint venture with Cheshire West and Chester Council is also not part of the group.
- 11.3 Cheshire East Ltd will own the majority interest, (80%), in all of its subsidiaries. Cheshire East Council retains a minority interest, (20%), in each subsidiary. By holding a minority shareholding in the subsidiaries the Council retains more control over important decisions. Importantly, the minority shareholding also provides all councillors with access to the companies. The following companies will now become subsidiaries of Cheshire East Ltd:
- Tatton Park Enterprises Ltd;
  - East Cheshire Engine of the North;
  - Ansa Environmental Services Limited; and
  - Orbitas, Bereavement Services Limited.

A diagram showing the proposed group structure is attached, appendix A.

- 11.4 Cheshire East Ltd and all of its subsidiaries, although separate entities, will continue to be held accountable by Cheshire East Council. The Council will have robust governance arrangements in place to ensure each company provides quality services for the residents and businesses of Cheshire East. Formal contracts, built around key outcome focused performance indicators, will be in place and will be monitored by an effective client function. Arrangements relating to the Council's strategic contract with Engine of the North will be considered by Cabinet in April 2014.
- 11.5 Each subsidiary will be required to apply to the government to be recognised under the Redundancy Payments Modification Order (RPMO). This will



protect the continuous service for employees who transfer under TUPE and those who are appointed, in future, from another RPMO body. (RPMO refers to the Redundancy Payments (Continuity of Employment in Local Government, etc.) (Modification) Order 1999 (as amended)), commonly referred to as the redundancy payments.)

- 11.6 The legal framework for all UK companies is enshrined in company law. Cheshire East Ltd will be a company limited by shares. The Council is the sole shareholder. All of the Council's powers as shareholder will be exercised by the Cabinet. The Cabinet will hold directors to account to ensure the proper use of public money. The objects of the parent company and its subsidiaries are clearly set out in their articles of association.
- 11.7 Cheshire East Ltd's primary objective is to provide a forum for strategic decision-making across the group. Its board of directors will set the overall strategy in relation to the activities of its subsidiaries. In setting the overall strategy for the group Cheshire East Ltd will also sign off all business plans and hold its subsidiaries to account. However the Cabinet, representing the shareholder, will approve any decisions which would have an effect on the shareholder's rights.
- 11.8 Cheshire East Ltd also provides a 'natural home' for roles that could be common across the group – company secretary, finance and HR. The subsidiary companies will be expected to adopt a common 'group' approach using existing Council policies and strategies where appropriate. For example, these will include group financial procedure rules, fraud and whistle-blowing policies, urgent decisions, disciplinary procedures, health and safety. The group expects to appoint Grant Thornton as its auditors and its accounts will be consolidated into the Council's financial statements.
- 11.9 The Deputy Leader of the Council, as portfolio holder for strategic outcomes and delivery will be the chairman of Cheshire East Ltd. The new service commissioning portfolio holder will also be a non-executive director providing an explicit link with the Council's new commissions.
- 11.10 The appointment of directors to Cheshire East Ltd is not yet complete. At this stage it is anticipated that the Strategic Director of Commissioning will sit on the board. The Leader of the Council, the finance portfolio holder and the Chief Executive should also attend but will not have a vote.
- 11.11 The Council's Chief Operating Officer and Head of Legal Services will also advise the board from time to time. The Head of Legal Services will also act as company secretary for all companies in the group unless agreed otherwise in consultation with Cabinet.
- 11.12 There are some risks associated with the Council's statutory officers involvement with Cheshire East Ltd – whether as directors or advisors. The Council has sought external legal advice in relation to those risks. In summary, given that the Council will wholly own Cheshire East Ltd it is unlikely that there will be a potential conflict of interest between it,(or its subsidiaries), and the Council at least in the early years.

11.13 In the event that there were a potential or actual conflict of interest the Council's statutory officers may still act for both parties – subject to certain provisions. These include:

- the need for the Council's Scheme of Delegation to specifically provide for these new roles and that relevant contracts of employment are amended to accommodate them - including appropriately worded specific indemnities against potential non-fraudulent personal liability; and
- that where those officers feel in any doubt as to whether there is a potential or actual conflict of interest between their statutory role to the Council and their advisory role to the companies then they should be allowed absolute discretion to seek external advice from an appropriately qualified professional if they wish; and
- company directors should accept that in light of the fact that they are receiving advice from the Council statutory officers, it will be even more important that the Company remains solvent and complies with the law.

11.14 In addition those officers must be allowed sufficient time to devote to their statutory duties. In the event of any conflicting demands between the Council and its companies the officers should prioritise those of the Council.

11.15 While the Cheshire East Ltd group is unique in its range and scope of services, a number of other public sector companies operate in a similar way. Examples include:

- The Norse Group – bringing together property services, commercial services – covering a wide range of services including waste management, environmental services, building maintenance, transport, catering - and residential and housing with care service across Norfolk and further afield.
- Kent Commercial Services – a range of trading companies providing energy purchasing, temps/agency staff and minor building works in Kent .
- Essex Cares – a trading company for disability and homecare services.
- The Barnet Group - bringing together a trading company to manage 15,000 council homes and a social care provider for people with learning and physical disabilities.

## 12.0 **Governance**

12.1 The Council's overriding principle for the governance, stewardship and control arrangements for its ASDVs is to be resident and business led, and to ensure accountability to residents, service users, businesses and local councillors. However, the Council remains responsible for ensuring that it uses public funds properly and that it can demonstrate value for money.

12.2 Maintaining accountability to residents, service users, businesses and local councillors is vital. The arrangements introduced will ensure this and will remain under regular review.

- 12.3 Cabinet's control over the parent company and its subsidiaries is exercised through a number of key documents:
- articles of association;
  - directors' mandate;
  - shareholder's agreement;
  - mandates for the shareholder's representatives; and
  - the contract.
- 12.4 The content of the **articles of association** is governed by company law. Put simply they set out the objectives of the company and what its directors can and cannot do. Typically they will also include specific powers reserved for the Cabinet as shareholder. They will also ensure that the Council's internal and external auditors - and other employees/advisors - can inspect all records held by the company.
- 12.5 A **directors' mandate** is used to set out a more detailed 'set of rules' under which the company board can operate. They are particularly helpful in the context of local authority companies where the over-riding objective is to retain transparency and openness. They also have a key role in ensuring each company continues to benefit from the *Teckal* exemption - at least initially. (The *Teckal* exemption enables the Council to award contracts directly to its subsidiaries without going through a public procurement process.)
- 12.6 The **shareholder's agreement** is a key document between the Cabinet and the companies. It will set out, in some detail, how the Cabinet will exercise control and influence over the group. The Cabinet will have the key role of holding directors to account to ensure quality delivery and proper use of public money.
- 12.7 The shareholder's agreement will set out the governance principles set out in this report. It will include a range of issues which are subject to prior approval by the shareholder before a decision can be made by the company boards. These are described as 'reserved decisions'. For example:
- appointment and removal of directors and auditors;
  - remuneration of directors;
  - non-executive directors must be serving councillors;
  - approval of business plan and any subsequent (significant) changes;
  - requirement to meet in public;
  - expectations re performance reporting;
  - engagement of consultants.
- 12.8 The agreement is the key mechanism for ensuring that the Council, through the Cabinet, or via appropriate delegations, exercises decisive control over its companies and continues to approve significant decisions. These proposals will also ensure that relevant decisions remain subject to the Council's scrutiny arrangements – including the new commissions.

- 12.9 Cabinet will also nominate **shareholder's representatives** for each company. In summary, this person observes the companies' decision making processes and represents the interests of the shareholder. Given the range of companies involved, this is likely to be more than one person. They will be able to attend board meetings across the group – as the shareholder's eyes and ears. This 'access' is secured through the minority shareholding the Council has in the subsidiaries. Without the minority shareholding the Council's access to the subsidiaries would have been restricted to the parent company board. In turn this could have limited its ability to demonstrate decisive control.
- 12.10 The shareholder's representatives will, in most cases, be an officer. Cabinet will authorise its representative to communicate its wishes to the company as required. Where issues arise in relation to a *non-executive* director, (a councillor), the shareholder's agreement will provide Cabinet with the necessary powers to act.
- 12.11 The **contract** is intended to empower rather than constrain the companies. In summary, the Council will specify the broad outcomes it requires the contractor to deliver and include key performance indicators. In contrast, the contractor is required to produce detailed statements setting out how it will meet the Council's requirements.
- 12.12 The contract will also include the agreed payment mechanism and clear triggers and sanctions if either party does not meet its obligations. The overall terms and conditions will be the same for each contract.
- 12.13 Each of the documents listed at paragraph 12.3 need to be carefully drafted to protect the companies' *Teckal* exemption – at least in the early years. Taken together these arrangements will demonstrate that the shareholder has decisive control over the group. (This is an important *Teckal* test.) Over time a company may well wish to trade more widely. At that stage the Council and the company will need to reconsider these arrangements – not least to ensure that the companies do not get caught by public procurement legislation in future.
- 12.14 The implementation date for Cheshire East Limited, Ansa and Orbitas is 1 April 2014. However, beyond that date the Cabinet will continue to review and refine the documents set out in paragraph 12.3 and the wider governance and scrutiny arrangements set out in this report.

### 13.0 **Company Directors**

- 13.1 Each company board will have:

- a managing director; and
- three non-executive directors (Councillors).

Cabinet will agree outline job descriptions for each of the above roles.

Each company will also have a staff representative (nominated by the employees). That person will be expected to attend management and Board meetings as an observer. It will be for Cabinet to determine whether the staff

representatives, or any other operational managers, are appointed as directors.

- 13.2 In addition, the shareholder's representative will be expected to attend the Board as an observer. The shareholder, staff representatives and any other operational manager regularly attending board meetings will need to be alert to the risks of becoming a shadow director under company law.
- 13.3 The roles and responsibilities of company directors are governed by company law. In summary, a director must act in the way he considers is most likely to promote the success of the company.
- 13.4 A director of a company must avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company. In the context of a local authority company the articles of association will expressly state that a director is not to be regarded as having a conflict of interest by virtue of being a member of the Council alone.
- 13.5 Company directors can be paid. Under company law the nature of any payments are for each board to determine. Under local government law the role of company director cannot be classed as a special responsibility allowance. They are not special responsibilities in relation to the Council.
- 13.6 In principle any payment to a *non-executive* director through a council owned company should be pitched at a level of similar/comparative duties in the Council. For example being the chair of a company may be considered as being over and above the role of a Council committee chair but less than a Cabinet member. To ensure transparency and consistency in relation to any such payments the shareholders agreement will set out the Council's expectations in relation to any remuneration offered. The Council expects all companies to:
  - offer councillors acting as the chair of a company payment of up to £10,000. It will be for each councillor to decide whether to accept this payment; and
  - offer other councillors acting as *non-executive* company directors a payment of up to £5,000. It will be for each councillor to decide whether to accept this payment.
- 13.7 In each case where any individual councillor is also entitled to a special responsibility allowance in respect of their wider responsibilities the total amount paid is subject to the limits set out in paragraph 13.6. This ensures that a councillor does not 'benefit twice' by receiving an income from the company in addition to their special responsibility allowance.
- 13.8 Directors' remuneration accrues from day to day. It is also generally accepted that such accrual is from the day the company was incorporated/became active. It is for each board to determine what their remuneration is and from when it falls due in agreement with Cabinet. This will be reflected in the shareholder's agreement.

- 13.9 The Council's Chief Executive proposes to appoint a single managing director for ANSA and Orbitas. Following the recent recruitment exercise Kevin Melling will be appointed to that post.

14.0 **Scrutiny**

- 14.1 While the Council is setting up a group company structure to provide services it remains committed to being open and transparent. The Cabinet will ensure that all services remain directly accountable to residents and elected members by offering them the chance to influence, scrutinise and propose changes to how services are run. The Cabinet will set out its expectations for all of its companies in the shareholder's agreement.
- 14.2 For example, that agreement will empower the new commissioning portfolio holder to:
- hold periodic meetings with the chairs and vice chairs of each company;
  - present joint reports to Cabinet alongside the shareholder's representative, any scrutiny committee and, where appropriate, the company boards;
  - ensure regular public meetings and quarterly reporting of outcomes and performance; and
  - in exceptional circumstances, have the right to recommend the removal of a *non-executive* director to the Leader of the Council and Cabinet.
- 14.3 The Council is currently reviewing its scrutiny arrangements. Led by the Constitution Committee, the detailed review is being done by a cross-party working group, Chaired by Councillor Peter Groves. The terms of reference for the review have recently been agreed and expert advice is being provided by Professors Steve Leach and Colin Copus of De Montfort University.
- 14.4 The working group has agreed that the review must take into account the emerging ASDV landscape including issues of accountability and transparency. One potential outcome is the creation of cross-party commissions with *scrutiny-like* powers. It is envisaged that these new commissions will be both forward looking and retrospective, whilst allowing for ultimate scrutiny powers to be held by the Council's corporate scrutiny function.
- 14.5 Commissions will be cross-party, and member-led. They will assist in policy development and also scrutinise the performance of each subsidiary. They will present joint reports to the Cabinet alongside the commissioning portfolio holder and subsidiary company boards where appropriate. The lead officer will be the Strategic Director of Commissioning.
- 14.6 Cheshire East Ltd will require its subsidiaries to provide regular performance monitoring reports. In most cases these will be quarterly. Those reports will form the basis of public reporting to Cabinet as the shareholder and also to the Commission. The precise frequency of reporting and public meetings will be set out in the directors' mandate for each company. Cheshire East Ltd will

also prepare an annual report and hold its annual general meeting in public – together with those of all of its subsidiaries.

14.7 Cheshire East Ltd will meet in public at least once a quarter – it will also hold private meetings. At the request of the chairman of Cheshire East Ltd, the Leader of the Council, the Chief Executive, or other invitee will be expected to answer questions from members of the Public or from other elected members.

14.8 Each subsidiary will be required to hold:

- a quarterly public meeting; and
- a monthly management meeting - minuted but not public, unless the Board agrees otherwise.

14.9 All councillors will have the right to attend all public meetings with the right to speak with the agreement of the chair. All papers for public meetings will be made available electronically, on request.

14.10 The business cases for each company have been reviewed through the Council's usual Technical Enabler Group, (TEG), and Executive Monitoring Board, (EMB), processes. Their day to day activities, beyond the 'go live' date will not be subject to further review by TEG or EMB. Ongoing contract monitoring will be done by the Strategic Director of Commissioning. However, the Council's usual checks and balances, including TEG and EMB, will continue to apply in the following instances:

- business cases proposing significant changes in scope for an existing company;
- proposals to establish a new vehicle; and
- any specific projects with a total value on £250,000 or more.

These requirements will be set out in the shareholder's agreement.

14.11 In addition EMB will receive regular reports summarising all new contracted spend of £250,000 or more. EMB will reserve the right to seek clarification on, and review of, any such expenditure. This information will also be included in EMB's regular update reports to Cabinet.

14.12 The Cabinet and its advisors have the power to visit and inspect the books and records of the new delivery companies at any time. In particular, the Council's internal and external auditors will have open access to every company in the group. The Council's internal auditors will continue to:

- provide independent assurance on arrangements;
- evaluate and assess strategic risks; and
- evaluate reliability and integrity of information

## 15.0 Conclusions

15.1 The Council's overriding principles for the governance, stewardship and control arrangements for its ASDVs are:

- to be resident and business led; and

- to ensure accountability to residents, service users, businesses and local councillors.

The arrangements set out in this report will ensure this. They will be regularly reviewed so that they provide the appropriate balance between proper governance and stewardship of public money alongside doing things differently and using innovative new approaches to service delivery.

- 15.2 The Cabinet will also take the opportunity to reflect upon its experiences in setting up ASDVs to date. This will include officers continuing to review and refine the contract documentation for ANSA and Orbitas beyond the 1 April 'go live' date. This will ensure that the learning from these two vehicles, and from ESAR, will be applied to the next phase of ASDVs.

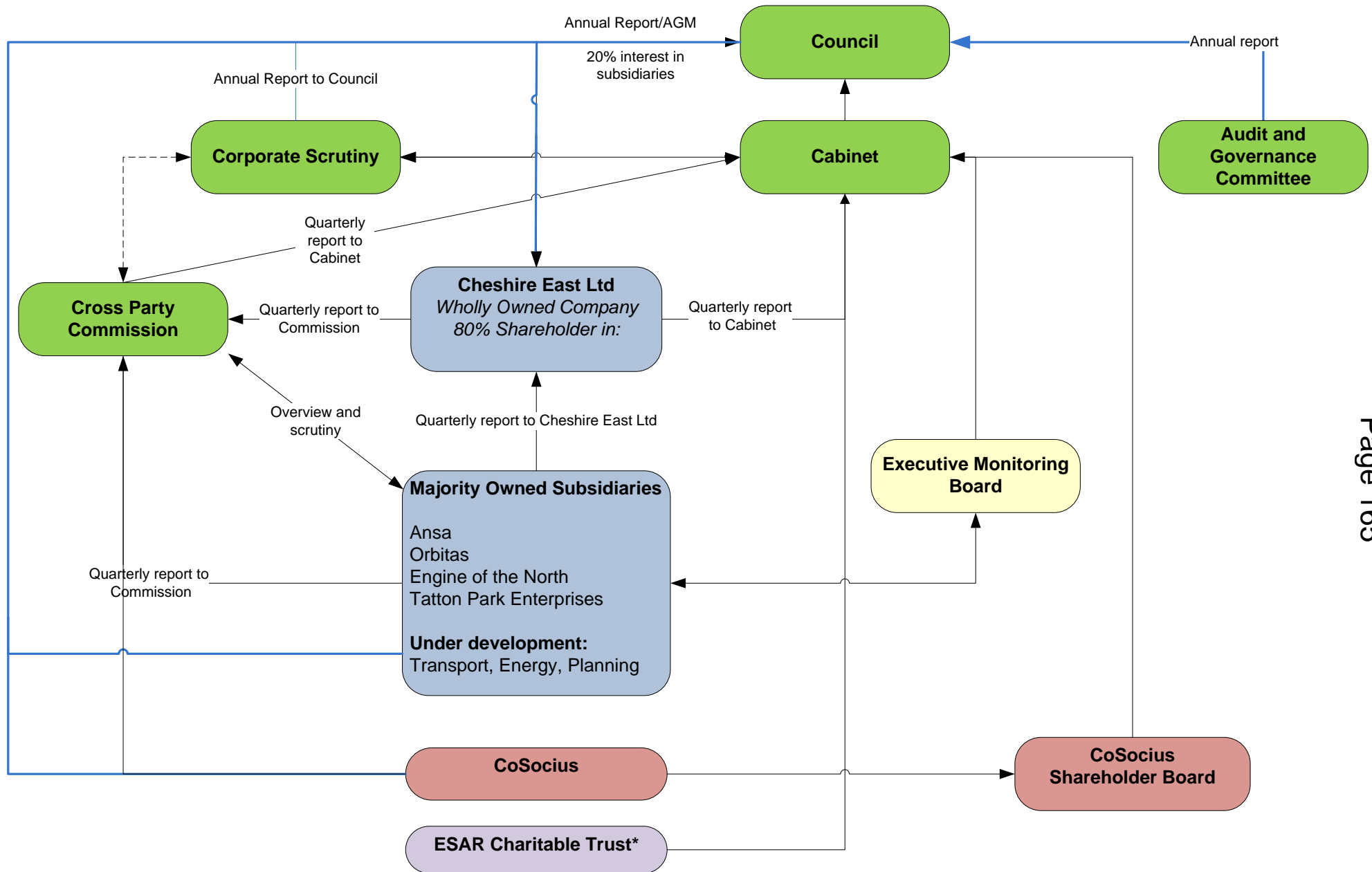
#### 16.0 **Access to Information**

There are no background papers relating to this report. The report author is:

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# Cheshire East Council - ASDV Reporting Lines



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## CHESHIRE EAST COUNCIL

### AUDIT AND GOVERNANCE COMMITTEE

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<b>Date of Meeting:</b>	27th March 2014
<b>Report of:</b>	Chair of the Audit and Governance Committee
<b>Title:</b>	Audit and Governance Committee Self Assessment
<b>Portfolio Holder:</b>	Councillor Peter Raynes

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#### 1.0 Report Summary

- 1.1 The purpose of this report is to facilitate compliance with the Accounts and Audit Regulations 2011. It advises Members on the results of a self assessment of the effectiveness of the Audit and Governance Committee using the new CIPFA publication '*Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition)*'.

#### 2.0 Recommendations

- 2.1 That the Committee:

- § consider the self assessment (Appendix A) and determine any required amendments.
- § note 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.
- § endorse the actions arising from the self assessment and note that a further report, updating Members on progress on these actions, will be brought to a future meeting of this Committee.

#### 3.0 Reasons for Recommendations

- 3.1 Regulation 6 of the Accounts and Audit Regulations 2011 requires the authority to conduct an annual review of the effectiveness of its system of internal audit.
- 3.2 The effectiveness of the system of internal audit should include the effectiveness of the audit committee itself (to the extent that its work relates to internal audit), as well as the performance of the internal audit provider.
- 3.3 As reflected in the new CIPFA guidance, there have been a number of significant developments in governance and audit practice since 2005, which have required audit committees to adapt their remit. The guidance contains a number of self assessment tools e.g. a 'knowledge and skills framework' for audit committee members and the committee chair. This can be used to guide members on their training

needs and to evaluate the overall knowledge and skills of the committee.

- 3.4 Using the recommended practice in the new guidance should help the Authority to achieve a good standard of performance. A regular self-assessment can be used to support the planning of the Committee's work programme and training plans. It can also inform an annual report.

#### **4.0 Wards Affected**

- 4.1 All wards.

#### **5.0 Local Wards Affected**

- 5.1 Not applicable.

#### **6.0 Policy Implications**

- 6.1 Not applicable.

#### **7.0 Financial Implications**

- 7.1 No specific financial implications.

#### **8.0 Legal Implications**

- 8.1 As detailed in the report.

#### **9.0 Risk Assessment**

- 9.1 Failure to review and report on the Committee's effectiveness could result in improvement opportunities being missed and in non compliance with the Accounts and Audit Regulations 2011.

#### **10.0 Background and Options**

- 10.1 The process for conducting the review of the effectiveness of the Council's system of internal audit, which was agreed with the Audit and Governance Committee in November 2013 includes a self -assessment against the following relevant internal audit standards:

- Public Sector Internal Audit Standards
- Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition)

- 10.2 As with the AGS, the completion of the review of the system of internal audit will be carried out by the Corporate Governance Group with input from the Section 151 Officer and Monitoring Officer. The detailed results of the overall review will then be reported to this Committee for consideration as part of the AGS process. Prior to this it is important

that Members are satisfied that the self-assessment of the Committee's effectiveness has been completed correctly.

- 10.3 The original CIPFA guidance on Audit Committees was published in 2005 and previous self assessments have been carried out in accordance with that guidance on an annual basis. The new CIPFA 'Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition)' was published in December 2013 and this year's self assessment has been carried out in accordance with this guidance, specifically the *Self-assessment of Good Practice* and *Evaluating the Effectiveness of the Audit Committee* sections.
- 10.4 There have been a number of changes to the guidance to reflect the developments in governance and audit practice since 2005. Similarly, the self assessment template has been updated and expanded to include a section on evaluating the effectiveness of the audit committee.
- 10.5 The recent publication of the guidance is reflected in a number of the Self Assessment (Appendix A) questions currently being assessed as 'partly'. It is envisaged that these will be assessed as 'yes', once those actions identified have been implemented. A number of actions are already underway e.g. the Constitution Working Group is reviewing the Audit and Governance Committee's Terms of Reference as part of its Work Programme.

#### **11.0 Access to Information**

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

Name: Councillor John Wray

Designation: Chair of the Audit and Governance Committee

Tel No: 01477 500609

Email: [john.wray@cheshireeast.gov.uk](mailto:john.wray@cheshireeast.gov.uk)

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Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
<b>Audit committee purpose and governance</b>					
1	Does the authority have a dedicated audit committee?	✓			
2	Does the audit committee report directly to full council?	✓			The Audit & Governance Committee presents an annual report to full Council.
3	<p>Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement*?</p> <p>* The Purpose of Audit Committees (CIPFA Position Statement) extract:  <i>Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.</i></p> <p><i>The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.</i></p>		✓		<p>The CIPFA Position Statement, published in December 2013, and a report on the new guidance on Audit Committees was presented to the Audit &amp; Governance Committee on 30<sup>th</sup> January 2014.</p> <p><b>NEXT STEPS:</b>  The report has been shared with the Constitution Working Group. The group are reviewing the Audit &amp; Governance Committee's Terms of Reference (ToR) as part of its work programme.</p>
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓			<p>The Annual Report of the Committee, including the Committee's ToR, is presented to full Council. The Committee's ToR are included in the Council's Constitution, which is approved by full Council.</p> <p><b>IMPROVEMENT:</b>  Consideration should be given to further</p>

## Audit & Governance Committee Self Assessment

## Appendix A

Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
					publicising the role and purpose of the Committee to all members.
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			The Committee developed and approved the Council's Code of Corporate Governance and approves the Council's Annual Governance Statement (AGS).
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓			The Annual Report of the Committee is presented to full Council. <b>IMPROVEMENT:</b> Compare the Committee's Annual Report and Terms of Reference against best practice.
<b>Functions of the committee</b>					
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?		✓		See Comment/Action 3 above. This will be covered as part of the review of the Committee's Terms of Reference.
	good governance				
	assurance framework				
	internal audit				
	external audit				
	financial reporting				
	risk management				
	value for money or best value				
	counter-fraud and corruption.				



Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓			Self Assessment of the Committee is undertaken every year and forms part of the AGS process. The Committee's Annual Report compares the work carried out by the Committee during the year with its Terms of Reference.
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?		✓		See Comment/Action 3 above. This will be covered as part of the review of the Committee's Terms of Reference.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?		✓		See Comment/Action 3 above. This will be covered as part of the review of the Committee's Terms of Reference.
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓			The Committee's decision making powers are all in line with its core purpose. E.g. approval of Financial Statements, approval of AGS.
<b>Membership and support</b>					
12	Has an effective audit committee structure and composition of the committee been selected? This should include: separation from the executive an appropriate mix of knowledge and skills among the membership a size of committee that is not unwieldy where independent members are used, that they have been appointed using an appropriate process.	✓			The Committee is separate from the executive and is of a size that is not unwieldy. No independent members are used. Re: appropriate mix of knowledge and skills among the membership, see 15 below.

## Audit & Governance Committee Self Assessment

## Appendix A

Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
13	Does the chair of the committee have appropriate knowledge and skills?		✓		The Chair of the Committee is relatively new to the Committee (first meeting: September 2013) and further training and development will be provided. Membership of the Committee is yet to be assessed against the core knowledge and skills framework, contained within the new guidance. (See 15 below).
14	Are arrangements in place to support the committee with briefings and training?		✓		Training sessions are held - annually on the Financial Statements and the AGS and other areas - on an ad-hoc basis. There are five Member/Officer Groups, designed to increase knowledge and expertise. These cover the areas within the Committee's current Terms of Reference and meet 4-5 times a year. The group areas will be reviewed when the new ToR are agreed. See 15 below.
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			✓	The framework was part of the new guidance issued in December 2013, so this assessment has yet to be carried out. <b>ACTION:</b> Assess membership and chair of the Committee against the core knowledge and skills framework and to identify gaps

## Audit & Governance Committee Self Assessment

## Appendix A

Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
					and address any areas for improvement identified.
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			External Audit attend all Committee meetings and also meet separately with the Chair/Vice Chair. Internal Audit and the Chief Financial Officer attend all Committee meetings.
17	Is adequate secretariat and administrative support to the committee provided?	✓			Democratic Services provide secretariat and administrative support to the Committee.
<b>Effectiveness of the committee</b>					
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		✓		The Annual Report of the Committee is presented to full Council, which gives the opportunity for feedback on performance. <b>IMPROVEMENT:</b> Committee could obtain feedback from other stakeholders e.g. External Audit
19	Has the committee evaluated whether and how it is adding value to the organisation?	✓			The Annual Report of the Committee is presented to full Council. This self assessment also evaluates whether the Committee is adding value. See 6 & 18.
20	Does the committee have an action plan to improve any areas of weakness?	✓			This self assessment has identified areas for improvement and these will form an action plan.

Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
Assessment key					
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.				
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.				
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.				
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.				
1	No evidence can be found that the audit committee has supported improvements in this area.				
Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness		Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
Promoting the principles of good governance and their application to decision making.	<ul style="list-style-type: none"> <li>▪ Providing robust review of the AGS and the assurances underpinning it.</li> <li>▪ Working with key members/governors to improve their understanding of the AGS and their contribution to it.</li> <li>▪ Supporting reviews/audits of governance arrangements.</li> <li>▪ Participating in self-assessments of governance</li> </ul>	<ul style="list-style-type: none"> <li>▪ AGS and supporting evidence is provided to the Committee and training session held for Members. Draft AGS is brought to the Committee in June ahead of the final version in September.</li> <li>▪ Pro-active in requesting reports e.g. Governance Arrangements for</li> </ul>		4	<b>ACTION:</b> Consider how the Committee can work with other Members to improve their understanding of the Code of Corporate Governance and the Annual Governance Statement and their contribution to it. This could include raising awareness through Cabinet and Scrutiny, for example.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
	<p>arrangements.</p> <ul style="list-style-type: none"> <li>Working with partner audit committees to review governance arrangements in partnerships.</li> </ul>	<p>Alternative Service Delivery Vehicles.</p> <ul style="list-style-type: none"> <li>Member/Officer Group on governance.</li> <li>Governance arrangements with respect to partnerships are considered as part of the AGS review and approval process.</li> </ul>		
Contributing to the development of an effective control environment.	<ul style="list-style-type: none"> <li>Monitoring the implementation of recommendations from auditors.</li> <li>Encouraging ownership of the internal control framework by appropriate managers.</li> <li>Raising significant concerns over controls with appropriate senior managers.</li> </ul>	<ul style="list-style-type: none"> <li>The Committee monitors implementation of specific External Audit actions and also those within the AGS Action Plan.</li> <li>The Committee receives summary information on the number of internal audit recommendations outstanding.</li> <li>Senior managers do not</li> </ul>	4	<p><b>ACTION:</b></p> <p>Consider attendance at Committee by senior managers, if there are concerns over the control framework or non/delayed implementation of recommendations from auditors/other inspection regimes. i.e. this could include external inspection reports/actions.</p>

## Audit & Governance Committee Self Assessment

## Appendix A

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
		<p>attend the Committee in respect of this area.</p> <ul style="list-style-type: none"> <li>Member/Officer Group on Audit &amp; Accounts.</li> </ul>		
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	<ul style="list-style-type: none"> <li>Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking.</li> <li>Monitoring improvements.</li> <li>Holding risk owners to account for major/strategic risks.</li> </ul>	<ul style="list-style-type: none"> <li>Regular risk management reports received at Committee, reviewing strategic risks. Also: regular reports on specific strategic risks and mitigating controls from risk owners.</li> <li>The Committee does not necessarily consider the overall risk management arrangements and their effectiveness, including benchmarking.</li> <li>Member/Officer Group on Risk Management.</li> </ul>	4	<p><b>ACTION:</b></p> <p>Review, through the Corporate Risk Management Group, the overall risk management arrangements of the Council and consider risk management benchmarking.</p>
Advising on the adequacy of the assurance framework	<ul style="list-style-type: none"> <li>Specifying its assurance needs, identifying gaps or overlaps in</li> </ul>	<ul style="list-style-type: none"> <li>The Committee is proactive in requesting work and</li> </ul>	4	<p><b>ACTION:</b></p> <ul style="list-style-type: none"> <li>Map the assurance</li> </ul>

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
and considering whether assurance is deployed efficiently and effectively.	<p>assurance.</p> <ul style="list-style-type: none"> <li>Seeking to streamline assurance gathering and reporting.</li> <li>Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.</li> </ul>	<p>reports in certain areas. It has received the assurance framework for the AGS. The overall assurance framework for the Council needs specifying to ensure no gaps or duplication in assurance.</p> <ul style="list-style-type: none"> <li>Some measures of the effectiveness of assurance providers are provided to Committee.</li> </ul>		<p>framework of the Council, specifying the Committee's assurance needs and identifying any gaps or overlaps.</p> <ul style="list-style-type: none"> <li>Review the effectiveness of assurance providers through, for example, benchmarking.</li> </ul>
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	<ul style="list-style-type: none"> <li>Reviewing the audit charter and functional reporting arrangements.</li> <li>Assessing the effectiveness of internal audit arrangements and supporting improvements.</li> </ul>	<ul style="list-style-type: none"> <li>The Committee reviews the audit charter and functional reporting arrangements.</li> <li>Internal Audit produces interim reports and an annual report, featuring their performance indicators.</li> <li>Member/Group on Audit &amp; Accounts.</li> </ul>	4	<p><b>ACTION:</b> Ongoing review of Internal Audit performance indicators. This could be carried out through the Member/Officer Group.</p>

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	<ul style="list-style-type: none"> <li>▪ Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.</li> <li>▪ Reviewing the effectiveness of performance management arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Responsibility for undertaking high level project/programme monitoring rests with the Executive Monitoring Board (EMB).</li> <li>▪ The Committee has received reports on Programme and Project Management (e.g. March 2013).</li> <li>▪ Performance Management arrangements are not reviewed by the Committee.</li> </ul>	3	<b>ACTION:</b> <ul style="list-style-type: none"> <li>▪ Consider receiving a briefing to better understand governance and assurance arrangements for major projects and programmes from the Executive Monitoring Board (EMB).</li> <li>▪ Consider receiving a briefing to better understand the performance management arrangements.</li> </ul>
Supporting the development of robust arrangements for ensuring value for money.	<ul style="list-style-type: none"> <li>▪ Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee.</li> <li>▪ Considering how performance in value for money is evaluated</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Committee considers the external audit opinion on value for money.</li> <li>▪ The AGS contains a review of the effectiveness of, as a key element of the Council's governance</li> </ul>	3	<b>ACTION:</b> <ul style="list-style-type: none"> <li>▪ Consider the Committee's role with regard to VFM against CIPFA's new guidance on Audit Committees.</li> </ul>



Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
	as part of the AGS.	arrangements and thus the AGS contains a review of its effectiveness.		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	<ul style="list-style-type: none"> <li>▪ Reviewing arrangements against the standards set out in CIPFA's <i>Managing the Risk of Fraud</i> (Red Book 2).</li> <li>▪ Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks.</li> <li>▪ Assessing the effectiveness of ethical governance arrangements for both staff and governors.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Chair's response to External Auditors on management processes in place to prevent and detect fraud and to ensure compliance with law and regulation is brought to Committee and provides detailed information on the Council's anti-fraud and corruption arrangements and how the Council identifies and responds to fraud.</li> <li>▪ There is an annual report to the Committee on the effectiveness of the Whistleblowing Policy.</li> <li>▪ Regular updates on anti</li> </ul>	4	No further actions proposed.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
		<p>fraud arrangements e.g. update on progress in implementing the Action Plan developed as a result of the review of arrangements against the Red Book (November 2013).</p> <ul style="list-style-type: none"> <li>Member/Officer Group on Fraud.</li> </ul>		
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	<ul style="list-style-type: none"> <li>Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.</li> <li>Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.</li> </ul>	<ul style="list-style-type: none"> <li>The Committee reviews and approves a number of public facing documents e.g. Financial Statements, AGS, Annual Report and these documents are continually reviewed against best practice and improvements made to improve transparency and accountability.</li> </ul>	4	No further actions proposed.

## CHESHIRE EAST COUNCIL

### Audit and Governance Committee

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<b>Date of Meeting:</b>	27th March 2014
<b>Report of:</b>	Audit Manager
<b>Title:</b>	Work Plan 2013/14
<b>Portfolio Holder:</b>	Councillor Peter Raynes

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#### 1.0 Report Summary

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

#### 2.0 Recommendation

- 2.1 That the Committee:
- i) consider the Work Plan and determine any required amendments,
  - ii) note the changes to the plan since it was last discussed in January 2014, and
  - iii) note that the plan will be periodically brought back to the Committee for development and approval.

#### 3.0 Reasons for Recommendations

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

#### 4.0 Wards Affected

- 4.1 All wards.

#### 5.0 Local Ward Affected

- 5.1 Not applicable.

#### 6.0 Policy Implications

- 6.1 Not applicable.

## **7.0 Financial Implications**

- 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 changes that will enable it to meet its responsibilities. In doing so it should be noted that the following changes have been made to the programme that was discussed in January 2014:

- A report that facilitates compliance with International Standards on Auditing (UK and Ireland) has, as anticipated, been included as part of the March agenda.
- An emerging issues briefing report for those charged with governance has been added to the March agenda.
- An update report on the proposed governance, stewardship and control arrangements for alternative service delivery vehicles has,

at the request of the Committee, been included as part of the March agenda.

- Following discussion with the Chairman a report on whistleblowing has been deferred to the June meeting. This will allow the newly appointed Monitoring Officer to determine and initiate any changes to either the Policy itself or the manner in which it is administered.
- Following discussion with the Head of Legal and Monitoring Officer the Standards Review Report has been deferred. It is anticipated that it will be presented to the Audit and Governance Committee in June 2014.

10.2 In order to help with their deliberations regarding the Work Plan, Members are asked to consider whether:

- the inclusion of each item on its agenda results in added value
  - the assurance process has a cost to the organisation and it should therefore be proportional to the risk
  - care should be taken to avoid duplication and maintain the focus of an audit committee on its core functions as defined by its terms of reference rather than wider issues that are subject to the work of other committees or assurance functions
- there are any time consuming aspects of Committee business that could be more effectively addressed elsewhere
  - an audit committee should operate at a resolutely strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers
  - the number and frequency of reports should be proportional to the risk in order to give the core business of an audit committee sufficient focus and attention and to avoid lengthy and thus unproductive meetings

10.3 It should be noted that although an agenda for the June 2014 Committee has been drafted further discussion in the specialist Member/Officer groups is necessary in order to draft a full Work Programme for 2014/15.

## **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 & Governance Committee Work Plan

Committee Date/Agenda Item	Description
<b>27 March 2014</b>	
Informing the Risk Assessment for Cheshire East Council	A report that facilitates compliance with International Standards on Auditing (UK and Ireland).
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
Emerging Issues Briefing for Cheshire East Council	This paper provides the Audit and Governance Committee with a summary of emerging national issues that may be relevant to a unitary council.
Internal Audit Plan 14/15	Approval of risk based Internal Audit Plan for following year.
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.
Contract Procedure Rules - Waivers	An update on waivers of Contract Procedure Rules since September 2013.
Members Code of Conduct Complaints Update	Update on the number and outcome of complaints
Alternative Service Delivery Vehicles – Proposed Governance Arrangements	An update report outlining the proposed governance and stewardship arrangements and the overall control environment for the operation of the new Alternative Service Delivery Vehicles.
Audit Committee Self Assessment	Self assessment of the effectiveness of the Committee, which feeds into the AGS process.
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
<b>June Committee</b>	
External Audit – Progress Report 13/14	To consider an update from Grant Thornton in delivering their responsibilities as external auditors
Draft Statement of Accounts 13/14 Update	A report to provide members with an overview of the key issues within the draft 2013/14 Statement of Accounts
Draft Annual Governance Statement (AGS) 13/14	Draft AGS 13/14 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 13/14	Opinion on the overall adequacy and effectiveness of the Council's control environment for 13/14
Corporate Risk Management Group Annual Report 13/14 & 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.
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
Anti Fraud and Corruption Update	Periodic review of Anti Fraud and Corruption Policy and arrangements against best practice.
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities
	<b><i>It should be noted that the following item will be presented to the Committee but has not, as yet, been allocated to a specific agenda</i></b>
Audit Committee Self Assessment - Update	Update report on Audit Committee Self Assessment.
Standards Review	Review of Members Standards/Procedures.
	<b><i>The following items may, subject to requirement, be presented to the Committee.</i></b>
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	Hearings training for panel members.