

# Audit and Governance Committee

## Agenda

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**Date:** Thursday, 20th November, 2014  
**Time:** 2.00 pm  
**Venue:** Committee Suite 1,2 & 3, Westfields, Middlewich Road,  
Sandbach CW11 1HZ

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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.

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

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

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For requests for further information

**Contact:** Cherry Foreman

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

To approve the minutes of the meeting held on 25 September 2014.

5. **Better Care Fund Update** (Pages 7 - 20)

To consider an update on the Cheshire East Better Care Fund and progress towards the implementation date of 1 April 2015.

6. **External Audit Annual Letter 2013/14** (Pages 21 - 34)

To consider the key findings and recommendations contained in the Annual Audit Letter for 2013/14.

7. **Annual Governance Statement Update** (Pages 35 - 56)

To consider the process for 2014/15, and to note changes to governance, risk management and audit arrangements.

8. **Internal Audit Interim Report 2014/15 and Internal Audit Charter** (Pages 57 - 80)

To consider an update on the progress of the Internal Audit Plan for 2014/15, and to approve the updated Internal Audit Charter.

9. **Compliance with Contract Rules of Procedure** (Pages 81 - 84)

To consider an update on Compliance with Contract Rules of Procedure, and an outline of improvements being implemented.

10. **Payments to Directors of Council Owned Companies** (Pages 85 - 92)

To consider the Council's policy on paying the Directors of its owned and controlled companies.

11. **Members Code of Conduct: Standards Panels and Sub-Committee Update**  
(Pages 93 - 96)

To note the numbers and outcome of complaints under the Code of Conduct for Members between the period between April and October 2014.

**CHESHIRE EAST COUNCIL**

Minutes of a meeting of the **Audit and Governance Committee**  
held on Thursday, 25th September, 2014 in the West Committee Room -  
Municipal Buildings, Earle Street, Crewe, CW1 2BJ

**PRESENT**

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

Councillors B Burkhill, S Corcoran, M Hardy, A Kolker, D Marren, M J Simon,  
D Neilson, A Moran and B Burkhill

**Officers in attendance:**

Peter Bates – Chief Operating Officer  
Iolanda Puzio – Legal Team Manager  
Jon Robinson – Audit Manager  
Sandra Smith – Customer Relations and Compliance Manager  
Judith Tench – Head of Corporate Resources and Stewardship  
Alex Thompson – Corporate Manager Planning and Performance  
Joanne Wilcox – Corporate Finance Manager  
Cherry Foreman – Democratic Services Officer

**External Auditors (Grant Thornton)**

Allison Rhodes and Jon Roberts.

**13 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors R Fletcher and L Roberts.

**14 DECLARATIONS OF INTEREST**

There were no declarations of interest.

**15 PUBLIC SPEAKING TIME/OPEN SESSION**

No members of the public were present.

**16 MINUTES OF PREVIOUS MEETING**

Minute 12 (Work Plan) was amended to remove the words '*reports on*' from the second paragraph of the preamble, and '*Regulatory*' from item 1 being added to the Work Plan.

**RESOLVED**

That, subject to the above amendment, the minutes of the meeting held on 26 June 2014 be approved as a correct record.

**17 EXTERNAL AUDIT - AUDIT FINDINGS REPORT 2013/14**

Jon Roberts and Allison Rhodes of Grant Thornton introduced this report setting out the key matters arising from their audit of the Council's financial statements for the year ended 31 March 2013. In accordance with the Code of Audit

Practice, published by the Audit Commission, the external auditors were required to report on whether the Council's financial statements presented a true and fair view of the financial position, expenditure and income for the year and had been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. In addition they were required to reach a formal conclusion on whether the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources i.e. the Value for Money conclusion (VFM).

The report summarised particular items of note and also set them out in greater detail, along with an associated action plan. Members had the opportunity to comment on and discuss areas in which they were especially interested including the valuation of assets, the dedicated schools grant, IT controls, benchmarking and PFI modelling.

The Committee was informed that Grant Thornton would be issuing an unqualified opinion on the accounts; reference was made to the Explanatory Foreword which was considered to be an especially good example of good practice and set out a clear and balanced statement of the Council's activities for the year.

Grant Thornton confirmed that they would be issuing an unqualified VfM conclusion as the Council had demonstrated improvements in its arrangements particularly where weaknesses had been highlighted in previous audits.

A summary of findings against six risks areas, where the Council's performance was assessed against the Audit Commission's criteria were as follows:

- Key indicators covering liquidity, borrowing, performance and reserves;
- Strategic financial planning;
- Financial governance and control;
- Improving efficiency and productivity
- Prioritising resources.

The overall assessment for each of these areas was green, reflecting a balanced assessment that the arrangements are adequate.

Overall the report highlighted that the Council had managed its finances effectively for 2013/14 within its revenue budget of £260m, achieved a surplus of £0.9m (after creating new earmarked reserves of £12.4m approved in July 2014 and £0.5m elections reserve set up in October 2013) increasing its general reserves to £19.8m.

### **RESOLVED**

That the Audit Findings Report for 2013/14 be received and noted.

## **18 AUDIT FINDINGS AND ACTION PLAN 2013/14**

Consideration was given to the report of the Chief Operating Officer on the External Auditors Audit Findings and Action Plan for 2013/14; it was noted that the significant progress of the Council in addressing the weaknesses set out in their qualified conclusion for the previous year had been recognised.

The report set out the Council's management response to the 2013/14 Audit findings Report, detailed in the previous item (minute 17 refers) for which specific actions and target dates for implementation were proposed. The Chief Operating Officer and the Corporate Leadership Board had accepted all the auditors' recommendations; the improvements would support the Council's commitment to continuing to strengthen its financial reporting, stewardship and governance arrangements.

**RESOLVED**

That the management response and action plan, set out in the appendix to the report, be noted and endorsed.

**19 STATEMENT OF AUDITED ACCOUNTS 2013/14**

Consideration was given to an updated statement of accounts which now incorporated findings from the audit process. At its meeting on 26 June the Committee had received a report setting out the key elements of the Council's pre-audit accounts for 2013/14.

The report circulated included details of the amendments agreed and reflected in the final Statement of Accounts but that the figures on the political structure of the Council would be updated prior to publication. A copy of the letter of representation, to be signed by the Chief Operating Officer, was circulated for information.

**RESOLVED**

1. That the Statement of Accounts be approved as presenting a true and fair view of the Council's expenditure and income for the year, and its overall financial position.
2. That the Chairman of the Audit and Governance Committee be given delegated authority to sign off the final Accounts on completion of the audit process on behalf of the Committee, in consultation with the Chief Operating Officer.
3. That approval be given for the letter of representation as circulated to be signed by the Chief Operating Officer.

**20 ANNUAL GOVERNANCE STATEMENT 2013/14**

Consideration was given to this report requesting approval of the Annual Governance Statement 2013/14 (AGS) for signature by the Leader of the Council and the Chief Executive; once approved it would accompany the Statement of Accounts and be published on the Council's website.

At its meeting in June the Committee had considered the draft AGS and, since that time, it had been amended to take into account feedback from the meeting and also that received in the interim period from Members, Officers and the External Auditors; particular reference was made to the inclusion of additional wording on the Bettercare Fund and Ofsted.

**RESOLVED**

That approval be given to the Annual Governance Statement.

**21 ANNUAL REPORT 2013/14**

The Chairman introduced the Committees draft Annual Report for 2013/14 prior to the final version being considered by the Council at its meeting on 16 October. The report set out the performance of the Committee in relation to its terms of reference, and detailed the findings, conclusions and recommendations in respect of the adequacy and effectiveness of its governance, risk management and internal control frameworks, financial reporting arrangements and internal and external functions.

In his introduction to the report, as well as giving a summary of the major areas of work covered during the year, the Chairman made reference to the contribution of the Committee to the Council's overall governance and control arrangements, the strengthening and improvement of which had been recognised by the External Auditors. The continuing importance of the Committee in the development of the Council's new Alternative Service Delivery Vehicles, and the positive results of its self assessment against new CIPFA guidance on audit committees was also reported.

**RESOLVED**

That approval be given for the draft Annual Report for 2013/14 to be submitted to Council on 16 October 2014.

**22 REPORT ON CUSTOMER FEEDBACK**

Consideration was given to this report prepared by the Customer Relations and Compliance Manager. She reported that feedback to the Council was considered to be an extremely important and valued contribution to understanding what is required to provide the best possible solution to satisfy customers needs and it was noted that in 2013/14 the Council had actively encouraged both positive and negative feedback by the use of targeted campaigns such as 'Tell Dave' for highways matters.

At the meeting the figures in the report were amended slightly. The figure quoted in para 1.4 should have stated '1140 were compliments (33%) and 117 (3%) were suggestions' rather than '1257 were compliments'; the report accompanying this agenda has been amended accordingly. In discussing the number of complaints received the Committee suggested that it would be useful to separate those relating to a failure of service from those that related to a change of policy - changes in the green waste collection being given as an example; if these representations had been separated, the increase in the number of complaints would have been 5% when compared to 2012/13. It was agreed that a clearer definition of what constituted a complaint would be sought.

It was confirmed that Cabinet and the Corporate Leadership Board were both committed to improving performance across the Council and that training was being provided, internally and in conjunction with the Local Government Ombudsman, so that officers understood the most effective way of dealing with

customer complaints. It was reported that external benchmarking was being carried out to ensure that the Council was learning from best practice elsewhere, and also that complaints measures had been included in the Council's performance management system.

**RESOLVED**

That the report be noted, that the future breakdown of complaints be divided between service provision and policy, and that the statistics from the report be included in the Committee's future Annual Governance Statements.

**23 TREASURY MANAGEMENT UPDATE REPORT**

Consideration was given to this report produced by the Chief Operating Officer in accordance with the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities. It was reported that the Council had remained within all its Prudential Indicators during the year, and that cash balances had remained stable. The report detailed key points for 2013/14 including the Council's cash balances, capital expenditure, levels of external debt and the influence of economic factors.

**RESOLVED**

That the treasury management activity for 2013/14 be noted.

**24 WORK PLAN**

Consideration was given to the Committee's Work Plan and to those items added since the last meeting; it was reported that the following items would be added to the Work Plan: -

- Wholly owned companies – Directors payments  
(20 November 2014)
- Audit and Governance Committee - self assessment update  
(22 January 2014)
- ASDV governance and stewardship – update on arrangements  
(19 March 2014)
- Disclosure of officers remuneration – senior employees in the financial statements  
(19 March 2014)

In addition it was confirmed that a training session on Audit Committees – An External Audit Perspective and Audit Committees - Knowledge and Skills framework would be provided prior to the start of the next meeting.

**RESOLVED**

That subject to the above additions the Work Plan be approved.

The meeting commenced at 10.00 am and concluded at 12.45 pm

Councillor J Wray (Chairman)

## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of Meeting:** 20th November 2014  
**Report of:** Lorraine Butcher, Executive Director of Strategic Commissioning  
**Title:** Better Care Fund Update  
**Portfolio Holder:** Councillor Janet Clowes – Health and Social Care

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#### 1.0 Report Summary

- 1.1 To update the Audit and Governance Committee on the progress of the Cheshire East Better Care Fund plan and to advise on the next stages of delivery towards the implementation date of 1<sup>st</sup> April 2015.
- 1.2 The Better Care Fund is being driven nationally by the Department of Health and is a key part of Public Sector reform supporting the integration of Health and Social Care. The Better Care Fund is a national pooling of £3.8bn from a variety of existing funding sources within the health and social care system, with £23.9m being pooled locally within the Cheshire East Health and Wellbeing Board area. The local pooling is made up of Local Authority funding from the Disabled Facilities Grant and Capital Allocation for Adult Social Care of £1.8m, South Cheshire CCG funding of £10.5m and Eastern Cheshire CCG of £11.6m.
- 1.3 The Better Care Fund requires a pooled budget to be entered into with governance and monitoring arrangements to be formalised under a s75 agreement. It is anticipated that the Council will host the s75 pooled budget arrangement. The draft s75 agreement needs to be completed and approved during early 2015 to meet the reporting and governance arrangements of respective organisations to ensure that an approved s75 agreement is in operation from April 2015.
- 1.4 The Cheshire East Health and Wellbeing Board are responsible for the oversight of the Better Care Fund plan and have approved the 19<sup>th</sup> September 2014 submitted plan.
- 1.5 The outcomes of the implementation of the Better Care Fund Plan will see improved, integrated health and social care for the residents of Cheshire East.

## **2.0 Recommendation**

2.1 Members of the Audit and Governance Committee are asked to note:

- i) the submission of the revised Cheshire East Better Care Fund plan on Friday 19<sup>th</sup> September 2014
- ii) the National Consistent Assurance Review (NCAR) process carried out on behalf of the Department of Health has given approval for the plan to proceed with a category of *'Approved with Support'*, Appendix 1 has a summary and explanation of the categories
- iii) the work underway to progress governance, delivery and risk sharing arrangements across partners as part of the development of the s75 partnership agreement

## **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 At its meeting in June 2014, the Audit and Governance Committee agreed that an update report on the Better Care Fund would be added to the Committee's work plan for November 2014.

3.3 The Better Care Fund is a national initiative overseen by the Department of Health and locally by the Cheshire East Health and Wellbeing Board and partner organisations.

3.4 The governance arrangements supporting the s75 Better Care Fund pooled budget arrangement are fundamental to the smooth delivery of the expected changes and ensuring the level of risk both financial and non-financial the council, partner organisations and providers are exposed to.

## **4.0 Wards Affected**

4.1 All wards.

## **5.0 Local Wards Affected**

5.1 Not applicable.

## **6.0 Policy Implications**

6.1 Health and Social Care integration is a key element of public sector reform. The Better Care Fund formalises these joint initiatives during 2015/16.

6.2 Elements of the Better Care Fund funding are linked to the implementation of the Social Care Act, in particular carers, safeguarding boards and maintaining eligibility criteria.

## **7.0 Financial Implications (Authorised by the Chief Operating Officer)**

7.1 The Better Care Fund is a national pooling of £3.8bn from a variety of existing funding sources within the health and social care system, with £23.9m being pooled locally within the Cheshire East Health and Wellbeing Board area. The local pooling is made up of Local Authority funding from the Disabled Facilities Grant and Capital Allocation for Adult Social Care of £1.8m, South Cheshire CCG funding of £10.5m and Eastern Cheshire CCG of £11.6m. The local health and social care economy will work together to deliver better care arrangements for its population, seeking to keep individuals within the community, avoiding hospital/residential nursing care.

7.2 The revised guidance in July 2014 introduced a payment for performance element related to the reduction in Non Elective Admissions (these are unplanned, often urgent admissions mainly via Accident & Emergency). The potential performance payment for Cheshire East is £2.11m and this is based on a 3.5% reduction in Non Elective Admissions.

7.3 The Better Care Fund requires a pooled budget to be entered into with governance and monitoring arrangements to be formalised under a s75 agreement. A breakdown of the Cheshire East BCF pooled budget of £23.9m by scheme area is available at Appendix 2.

7.4 It is anticipated that the Council will host the s75 pooled budget arrangement. The draft s75 agreement needs to be completed and approved during early 2015 to meet the reporting and governance arrangements of respective organisations to ensure that an approved s75 agreement is in operation from April 2015.

7.5 The proposed contingency plans and risk sharing arrangements between the Council and partner organisations included in the Better Care Fund plan are being reviewed following feedback as part of the NCAR process and will be confirmed as part of the action plan to progress the plan from '*Approved with Support*' status to '*Approved*'. It is the aim of all partner organisations to limit exposure to the risk of financial pressures as part of the delivery of the Better Care Fund and robust financial management and monitoring will be key and the design of the s75 agreement will reflect this.

## **8.0 Legal Implications (Authorised by the Head of Legal Services)**

- 8.1 S141 of the Care Act 2014 provides for the Better Care Fund Pooled Funds to be held under and governed by an overarching s75 National Health Service Act 2006 Partnership Agreement.
- 8.2 Under Section 75 of the National Health Service Act 2006 and the NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000 (the “Regulations”), NHS bodies and local authorities can enter into partnership arrangements for the exercise of specified functions. The regulations define the nature of those arrangements. They provide for the establishment of a fund made up of contributions from the partners out of which payments may be made towards expenditure incurred in the exercise of their functions; for the exercise by NHS bodies of local authority functions and for the exercise by local authorities of NHS functions; and require the partners to set out the terms of the arrangements in writing. The specific objectives for implementing Section 75 Agreements are:
- 8.2.1 To facilitate a co-ordinated network of health and social care services, allowing flexibility to fill any gaps in provision;
  - 8.2.2 To ensure the best use of resources by reducing duplication (across organisations) and achieving greater economies of scale; and
  - 8.2.3 To enable service providers to be more responsive to the needs and views of users, without distortion by separate funding streams for different service inputs.
- 8.3 NHS England has provided a template overarching s75 Agreement which is in the process of being reviewed. The overarching Section 75 Agreement is intended to allow each specific initiative that will be delivered under the Better Care Fund to be governed through an arrangement most suitable to the individual circumstances of that initiative.
- 8.4 The template document is in the process of being reviewed by the Council and separately by its partners (NHS Eastern Community Care Group and the South Cheshire Community Care Group).
- 8.5 The template itself provides a starting point for discussion and agreement of matters such as:
- 8.5.1 the legal and regulatory responsibilities of the partners;
  - 8.5.2 Operational arrangements for managing the partnership. This includes commissioning arrangements, joint performance and governance arrangements, information sharing, length of term, renewal and termination provisions, risk sharing, disputes resolution, complaints procedures, treatment of VAT, provision and mechanism for review;

- 8.5.3 The respective financial contributions and other resources provided in support of the partnership (it includes the arrangements for financial monitoring, reporting and management of pooled budgets;
- 8.5.4 The initiative and services that will be delivered via the Better Care Fund (and provision for any additional services to be added);
- 8.5.5 How to achieve good performance and value for money of services and ensure that providers are regularly monitored and meet the specified outcomes and represent value for money.

8.6

The above is not an exhaustive list of the matters to be considered and agreed in finalising the document. The Service will liaise closely with the Legal Services Section as the specific terms are negotiated and agreed and provide the Legal Services Section with instructions on how the partnership is to be structured and how the specific outcomes are to be delivered in order to ensure that the document properly reflects the aims and outcomes of the Better Care Fund plan, protects the Council's position and reflects and promotes the arrangements agreed between the partners.

- 8.7 The template s75 Agreement contains a statement that "The Partners have jointly carried out consultations on the proposals for this Agreement with all those persons likely to be affected by the arrangements". The guidance notes go on to say that the partners need to be satisfied that consultation occurred as stated (and as required by the Regulations) and that this is likely to include providers and users.
- 8.8 Consideration needs to be given (together with partners) as to how to discharge this duty to consult. Partner organisations have a duty to involve (Section 14Z(2) of the Health and Social care Act 2012). The duty to consult may also arise due to the need to adequately consider equality matters or due to the service integration/reconfiguration having a significant impact on a particular group (such as users) which gives rise to a legitimate expectation that consultation will occur.

**9 Risk Assessment**

- 9.1 The Better Care Fund plan includes a risk register and it is recommended that each work stream develops its own risk register. It is proposed that these risks are monitored by the Joint Commissioning Leadership Board pending discussions about the ongoing Governance arrangements supporting the delivery and monitoring of the Better Care Fund and that the corporate risk registers for respective organisations incorporates significant risks relating to BCF.

9.2 The most significant risks in the plan are as follows:

- The funding for Social Care Act responsibilities funded from the Better Care Fund, including carers assessment and support packages; advocacy and information and advice is not sufficient to cope with the statutory duties.
- The investment in community based interventions does not deliver the expected benefits in reducing Non Elective Admissions this may lead to cost pressures within the acute sector and the performance payment is not released.
- Governance and decision making arrangements supporting the Better Care Fund are not clear and this may lead to delays with decision making; decisions not being made and decisions being made that are not aligned with the overall vision of the Better Care Fund plan.

9.3 These risks will be managed as part of the delivery of the Better Care Fund plan.

## 10 Background

10.1 The Better Care Fund was originally announced in June 2013 as part of the Government's spending review and is due to implemented from April 2015. The Better Care Fund supports the acceleration of the integration of Health and Social Care services particularly in the Community. Locally, there are two health and social care transformational programmes called Connecting Care (South Clinical Commissioning Group) and Caring Together (Eastern Cheshire Clinical Commissioning Group).

10.2 The Cheshire East Health and Wellbeing Board are responsible for the oversight of the Better Care Fund plan and approved the April 2014 plan and this was submitted to the Department of Health for review and approval.

10.3 The Better Care Fund plan is aligned with the two respective health and social care transformation programmes: Caring Together (Eastern Cheshire CCG and Cheshire East Council) and Connecting Care (South Cheshire CCG, Vale Royal CCG, Cheshire East Council and Cheshire West and Chester Council). As part of the delivery of the Better Care Fund, options are currently being considered at a strategic level as to whether the s75 agreements are set up to reflect the respective transformation programmes. These options will be discussed at the forthcoming Cheshire East Health and Wellbeing board on 18<sup>th</sup> November 2014.

### Summary of Activity (July 2014 to September 2014)

- 10.4 Following the release of the revised Better Care Fund guidance from NHS England in July 2014, a cross partner working group focused on updating and strengthening the original plan submission. In particular focus was given to
- Evidencing the case for change including understanding the risk stratification for the Cheshire East population
  - Strengthening the narrative to meet the revised guidance and cross referencing the narrative to the costs/benefits
  - Incorporating the performance payment linked to the reduction of non elective admissions into the plan and understanding the implication on the acute providers capacity
  - Aligning the Better Care Fund plan with the 2 year operational and 5 year strategic plans of the Clinical Commissioning Group
  - Updated and revised risk register to recognise the risk across a range of stakeholders, including service users, hospitals and GP's
  - Reflecting the implications of funding elements of the Social Care Act
  - Further developing the scheme specifications to provide more detail and including reference to the evidence base
- 10.5 The final Cheshire East Better Care Fund Plan was submitted on Friday 19<sup>th</sup> September 2014, this was following agreement and consultation with the Health and Wellbeing Board and sign off with partners including acute providers.
- 10.6 Following the submission of the plans there has been a National Consistent Assurance Review process, to review, validate and provide assurance on the plans on a consistent basis. On 29<sup>th</sup> October 2014, the Cheshire East plan was assessed as '*Approved with Support*', from the four available categories of:
1. Approved
  2. Approved with support
  3. Approved with conditions
  4. Not approved
- 10.7 This means that the plan will be approved and the BCF funding will be made available subject to the following standard conditions which apply to all BCF plans:
- That we complete the agreed actions from the NCAR in the timescales agreed with NHS England;
  - The Fund being used in accordance with our final approved plan and through a section 75 agreement;
  - The full value of the element of the Fund linked to non-elective admissions reduction target will be paid over to CCGs at the start of the financial year. However, CCGs may only release the full value of this funding into the pool if the admissions reduction target is met as detailed in the BCF Technical Guidance<sup>1</sup>. If the target is not met, the CCG(s) may

only release into the pool a part of that funding proportionate to the partial achievement of the target. Any part of this funding that is not released into the pool due to the target not being met must be dealt with in accordance with NHS England requirements. Full details are set out in the BCF Technical Guidance.

### **The Way Forwards**

- 10.8 As a priority the action plan included in the NCAR process will be actioned and submitted to NHS England by 28<sup>th</sup> November. The areas highlighted for action can be progressed relatively quickly and the NCAR review has established that 'no showstoppers' have been identified.
- 10.9 Over the coming months there will be a significant amount of work involved in progressing and implementing the Better Care Fund plan. The next stage of delivering the Better Care Fund plan will focus on developing and implementing the proposed schemes and developing the s75 agreement. The Joint Commissioning Leadership Team are currently reviewing the following:
- Governance and Commissioning Arrangements
  - Implementation and Delivery
  - Risk management and risk sharing
  - Ongoing management of the pooled budget following implementation on 1<sup>st</sup> April 2015

Resources are being identified to support the development of the s75 agreement and a plan is being developed to ensure that key milestones are identified and monitored.

A lead officer will be identified for the schemes to ensure that there is an accountable officer who is responsible for progressing the implementation and delivery of schemes.

## **11 Access to information**

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

Name: Lorraine Butcher  
Designation: Executive Director, Strategic Commissioning  
Tel No: 01270 686021  
Email: [Lorraine.Butcher@CheshireEast.gov.uk](mailto:Lorraine.Butcher@CheshireEast.gov.uk)

**Appendix 1: National Consistent Assurance Review, Rating Summary (extracted from Better Care Fund Weekly update from Andrew Ridley)**

**Approved**

The aim is for all plans to have reached this standard by April. If your plan is 'Approved' following the NCAR process at the end of October, the regional and national team will request to work with you in order to provide support as you prepare for delivery.

**Approved with Support**

This means that overall the review team and the moderation panel have confidence in your plan. However, there may be some items of evidence or information that will need to be submitted to provide full assurance. The team will want to review these before your plan can be fully approved. Areas in this category will be assigned a relationship manager from the task force to agree a plan to provide the further information identified through the NCAR process – this will be a straightforward and light-touch process and we would aim for all HWBs in this category to be fully approved before December.

**Approved subject to Conditions**

If your plan is approved subject to conditions, it means there are some substantial issues or risks in your plan without enough demonstration of how these will be mitigated. Areas in this category will not be able to progress to implementation for the aspects of their plan affected by the conditions placed on them. They will be assigned a relationship manager who will work with the local team to agree an action plan to address areas of weakness identified through NCAR, access available support and agree the level of resubmission required to secure removal of conditions. The aim is to have these areas fully approved before January.

**Not Approved**

Areas in this category will not be given approval for their plan, and will not be able to progress to implementation until their plan is approved. They will be assigned a relationship manager and will be required to work closely with them to agree an action plan that will ensure they submit a fully revised plan in January so they are approved in time to begin implementation. Areas in this category will receive more intensive support to help them improve their plan. These areas will be required to resubmit a full plan for a further NCAR assessment process at the end of January.

## Appendix 2: Breakdown of Cheshire East Better Care Fund Schemes

Ref	Scheme	Funding
1	<b>Self care and self management</b>	
BCF1 (1a)	<p><b>Supporting Empowerment – Information, advice, prevention and early intervention</b></p> <p>The principle of the ‘Empowered Person’ has been one of the key underpinning principles of the whole system redesign in both Caring Together and Connecting Care programmes.</p> <p>It focuses on the cultural shift required to further enable individuals to take responsibility for their own health and wellbeing by ensuring that they have access to a range of information advice and support to do this effectively.</p> <p>The planning is further enhanced by the requirements for this scheme within the Care Act 2014 to ensure that information and advice is made available to those individuals who may need to access social care support.</p> <p>The strategic objective of this scheme is to reduce the demand on health and social care services over the longer term by ensuring access to information and advice at an early stage in order to increase the chance of prevention or delays in deterioration of health conditions. (Includes care navigation services)</p>	£604,000
BCF2 (1b)	<p><b>Universal Access to low level assistive technology, occupational therapy advice and assessment</b></p> <p>To support and enable people to access early practical help to support them with health and social care related problems.</p> <p>Utilising evidence-based practice principles relating to early help to maintain independence and self reliance. It is intended that this initiative will encourage individuals to access support in a variety of community settings where they can have low level assessment which would indicate a range of assistive technology solutions and/or low level equipment, together with advice regarding self heal and self care support.</p> <p>This meets the objectives in the prevention and early intervention agenda. It builds on the premise that individuals want to remain in control and to have the low level support/tools to do this allowing the self care/self management principles to be encouraged and maintained.</p>	£552,000
BCF3 (1c)	<p><b>Assistive Technology Pilot for adults with a learning disability</b></p> <p>To pilot the use of Assistive Technology options within 24 hour supported tenancy based schemes and individuals living in their own homes.</p>	£743,000

Ref	Scheme	Funding
	The objective is to primarily seek out solutions to provide access to support and assistance without the need for continued staff supervision. The long-term objective is to respect individuals' rights to privacy at the same time as ensuring safety and risk management is maintained.	
BCF4 (1d)	<b>Facilitating Early Discharge</b> To provide a service that prevents Delayed Discharge from Hospital.	£228,000
BCF5 (1e)	<b>Disabled Facilities Grant funded service</b> A suitable, well adapted home can be the defining factor in enabling a disabled person to live well and independently. The Disabled Facilities Grant scheme forms part of the vision for health and social care services by increasing opportunities for frail older people and disabled people to take control of their own care and support, increasing their independence and enabling them to remain in the home their choice. There is a growing number of older people in Cheshire East, and an increasing number of non-elective admissions to hospital services, which is putting unsustainable financial pressure on acute services. Home adaptations have the potential to deliver dividends in terms of both social and financial outcomes, enabling care to be delivered in the patient / service user's own home, and maintaining their safety and independence to prevent unnecessary hospital admissions.	£990,000,
BCF6 (1f)	<b>Carer's Assessment and Support</b> <ul style="list-style-type: none"> <li>• Develop revised guidance for carer's eligibility criteria which is aligned with the social care act.</li> <li>• To effectively commission carers support services across Cheshire East across the health and social care boundary.</li> <li>• To ensure Cheshire East Council meets its duties under the Social Care Act to provide assessment and support planning to Carers, and further, to ensure assessment and support planning are truly personalised and provided by skilled staff.</li> <li>• Increase the number of carers assessments performed and to develop a clearer understanding of residents who rely on carer support.</li> </ul>	£743,000
<b>2</b>	<b>Integrated community services</b>	
BCF7 (2a)	<b>Dementia Reablement</b> To pilot a Dementia Reablement service with a view to providing early help to newly diagnosed patients and those in the early stages of Dementia.	£637,000

Ref	Scheme	Funding
	<p>The aim of the service is to pilot and test the principles of reablement to focus on learning new skills/techniques to retain memory and delay memory impairment.</p> <p>Drawing on a range of evidence, the pilot will utilise techniques where patients can use practical measures to assist them in maintaining daily living skills and support family/carers to promote independence and positive risk taking.</p>	
BCF8 2b	<p><b>Community based co-ordinated care</b></p> <p>The Community Based Co-ordinated Care delivered by integrated health and social care teams has been designed to provide joined up care for the wellbeing of people with the most complex needs. Its purpose is to proactively work with people identified through a risk stratification approach and their carers to identify their individual needs and goals, design a personal care plan and support their long term care needs by a dedicated care co-ordinator.</p>	£3,019,000
BCF 9 2c	<p><b>Integrated Community Service Model – Connecting Care</b></p> <p>Community Based Co-ordinated Care will be delivered by integrated health and social care teams which have been designed to provide joined up care for the wellbeing of people with the more complex needs. Its purpose is to proactively work with people identified through a risk stratification approach and their carers to identify their individual needs and goals, design a personal care plan and support their long term care needs by a dedicated care co-ordinator.</p> <p>This means that instead of citizens trying to navigate their way around the multitude of health and social care services, we are redesigning services to fit around their needs. We want to reduce duplication of care, prevent people having to tell their story multiple times and to minimise waste across care settings.</p>	£3,029,000
<b>3</b>	<b>Community based urgent care/rapid response</b>	
BCF10 3a	<p><b>Implementing a Short Term Assessment Intervention recovery &amp; Rehabilitation Service (STAIRRS)</b></p> <p>The need for an integrated community rapid response service has been identified in both Caring Together and Connecting care. Whilst the core objectives and overarching ambition for this service is shared across the two health economies, the delivery model will differ, to take account of the local context and population need</p>	£12,293,000
<b>4</b>	<b>Social Care Capital and Programme Enablers</b>	
BCF11 4a	<p>To utilise the social care capital grant (former Community Capacity Grant) to support development in three key areas:</p> <ol style="list-style-type: none"> <li>1. Personalisation</li> <li>2. Reform</li> <li>3. Efficiency</li> </ol>	£1,053,000

Ref	Scheme	Funding
	To provide enabling support to the Better Care Fund programme, through programme management support; developing governance arrangement including the s75 agreement and commissioning capacity.	
		£23,891,000

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## CHESHIRE EAST COUNCIL

### REPORT TO: AUDIT & GOVERNANCE COMMITTEE

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<b>Date of Meeting:</b>	20 <sup>th</sup> November 2014
<b>Report of:</b>	Chief Operating Officer
<b>Subject/Title:</b>	Annual Audit Letter 2013/14
<b>Portfolio Holder</b>	Councillor Peter Raynes

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#### **1.0 Report Summary**

- 1.1 The Annual Audit Letter summarises the External Auditors' key findings from the 2013/14 audit.
- 1.2 Appendix A summarises the key recommendations identified during the 2013/14 audit and reported in full in the Audit Findings Report.

#### **2.0 Recommendation**

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

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

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

#### **4.0 Wards Affected**

- 4.1 Not applicable.

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

- 5.1 Not applicable.

#### **6.0 Policy Implications**

- 6.1 None.

#### **7.0 Implications for Rural Communities**

- 7.1 None

#### **8.0 Financial Implications**

- 8.1 As covered in the report.

**9.0 Legal Implications (Authorised by the Head of Legal Services)**

9.1 None.

**10.0 Risk Management**

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

**11.0 Background and Options**

11.1 The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Grant Thornton reported the detailed findings from their audit work to those charged with governance in the Audit Findings Report on 25<sup>th</sup> September 2014.

11.2 Representatives from Grant Thornton will be attending the meeting to answer any questions raised by members on the Annual Audit Letter.

**12.0 Access to Information**

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

Name: Joanne Wilcox

Designation: Corporate Finance Manager

Tel No: (01270) 685869

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Appendix 1: Cheshire East Council Annual Audit Letter 2013/14

# The Annual Audit Letter for Cheshire East Council

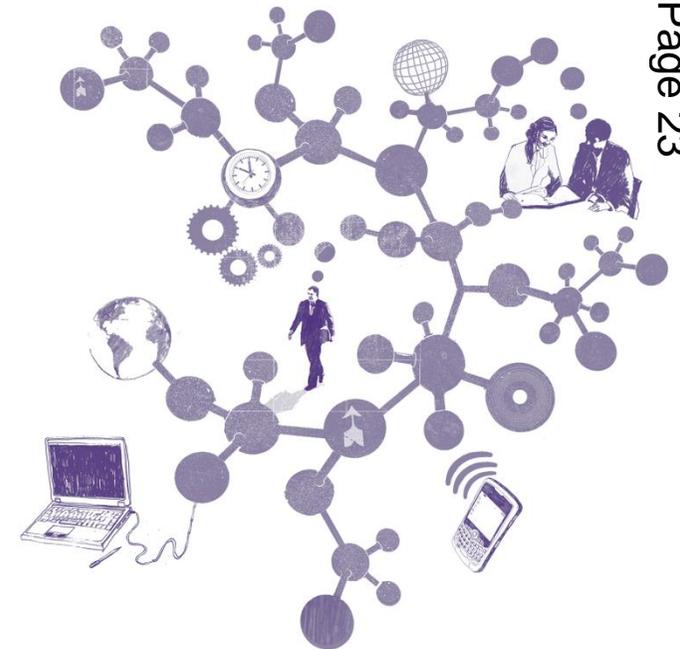
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**Year ended 31 March 2014**

24 October 2014

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# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Cheshire East Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan, dated 14 March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## **Financial statements audit (including audit opinion)**

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 25 September 2014 to the Audit and Governance Committee. The key messages reported are:

- We identified one adjustment affecting the Council's reported financial position. The draft financial statements recorded an overall net income position of £12.281m; the audited financial statements report net income of £21.168m. The adjustment relates to the timing of the recognition of capital grant income for schools of £8.887m now recognised as income in the year rather than being held on the balance sheet.
- We identified a number of classification adjustments, which included the reclassification of housing benefit grants (on the comprehensive income and expenditure statement) and reclassification between capital grants receipts in advance and creditors (affecting the balance sheet). We also agree a number of other amendments to improve the consistency and content of disclosures.
- There were two matters identified, relating to the estimate of the PFI liability and the treatment of unspent dedicated schools grant, which could be interpreted differently from the Council's accounting. However these were technical in nature and were not material to the user of the accounts. The Council's management and the Audit and Governance Committee agreed that the accounts would not be amended, instead these matters would be considered further in 2014/15.
- We also highlighted that the explanatory foreword provided a clear and balanced statement of the Council's activities for the year and we commended the Council on this important section of its accounts.

Key issues and recommendations are at Appendix A.

We issued an unqualified opinion on the Council's 2013/14 financial statements on 29 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

# Key messages

## Value for Money (VfM) conclusion

We issued an unqualified VfM conclusion for 2013/14 on 29 September 2014. On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

This represented an improvement from the previous year's qualified VfM conclusion and the Council is to be commended for the improvements it has made over the last year.

Overall our work highlights that the Council managed its finances effectively for 2013/14 within its revenue budget of £260m, achieved a surplus of £0.9m (after creating new earmarked reserves of £12.4m approved in July 2014 and £0.5m elections reserve set up in October 2013) increasing its general reserves to £19.8m. It has consolidated improvements to its financial planning and controls, updated its medium term financial strategy, identified measures to address the £8.3m net budget deficit and approved a balanced budget for 2014/15. There remains a financial gap of £22m over the following two years, which whilst not as large as that faced by Councils with greater reliance on government grant, represents a significant challenge.

During 2013/14 the Council appointed its senior leadership team after a period of key posts being filled on an interim basis. The management review accompanies changes to the Council's approach to deliver services and to achieve the outcomes set out in the Three Year Council Plan.

The Council's three year plan highlighted the five 'Outcomes', the performance management framework identifies how the Council is delivering each outcome and the medium term financial strategy shows how that performance is funded. Specific project management arrangements for the development and monitoring of programmes of financial significance or particular risk are also now fully in place.

We set out in our Audit Findings report a summary of our findings against six risk areas covering the Audit Commission's criteria, where we have concluded that overall the Council's arrangements were adequate with aspects where further improvements may be made. Our specific recommendations focus on the Council's developments in these key areas and are summarised at Appendix A.

# Key messages

<b>Whole of Government Accounts</b>	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. The pack required amendment to reflect changes to the financial statements and other consistency matters. We were then able to report that the Council's pack was consistent with the audited financial statements.
<b>Certification of grant claims and returns</b>	We certified the Local Transport Plan claim and there were no matters arising. Our work to certify the Housing Benefit Subsidy claim is on-going. The results of this work will be reported to the Audit and Governance Committee in our grant certification report, due in early 2015.
<b>Audit fee</b>	Our fee for 2013/14 is £206,120 (excluding fees for grant certification work) which reflects an increase of £1,070 on our planned fee for the year. This increase is for additional work on business rates following changes to the grant certification requirements, which meant we no longer certify the business rates grant claim. The net impact on the combined audit and grant certification fee is a reduction of £3,329. Further details of fees are included at Appendix B.
<b>Certificate</b>	Following completion of the Whole of Government Accounts work, we formally concluded the audit and issued the certificate on 3 October.

# Appendix A: Key issues and recommendations

This appendix summarises the key recommendations identified during the 2013/14 audit and reported in full in the Audit Findings Report.

Issue and recommendation	Management response/ responsible officer/ due date
<p><b>Property, plant and equipment and capital accounting:</b> We made a number of recommendations relating to accounting for capital expenditure and financing and movements in the value of property plant and equipment.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>• The Council should ensure that it has appropriate arrangements in place to make a formal assessment of whether the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period</li> <li>• We recommend that the Council complete a full review in 2014/15 of the underlying asset register and the associated capital expenditure to ensure appropriate application of the Code's requirements.</li> <li>• We recommend that the Council reviews its approach to capital accounting entries in 2014/15 and specifically its use of a dedicated capital receipts reserve and the capital grant unapplied account.</li> </ul>	<p>The Council will ensure it has appropriate arrangements in place to make a formal assessment of whether the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period. Earlier engagement will take place with the external valuers, Deloitte to ensure an assessment has been undertaken on all assets not subject to revaluation within the year.</p> <p>Responsible officer: Head of Corporate Resources and Stewardship Due date: March 2015</p> <p>A full review of the asset register and associated capital expenditure will be undertaken in 2014/15 to ensure full consideration of the Code requirements.</p> <p>The requirement for a dedicated earmarked reserve for revenue contributions to future capital expenditure will be actioned in 2014/15. We will review the disclosure of the capital grant unapplied account as part of the 2014/15 accounts closedown process.</p> <p>Responsible officer: Corporate Finance Manager Due date: March 2015</p>

# Appendix A: Key issues and recommendations

Issue and recommendation	Management response/ responsible office/ due date
<p><b>PFI liability and disclosures:</b> There are some differences between the Council 's overall PFI liability and 'future cost' disclosures and those estimated by the audit team using the GT model. The PFI liability is £5.358m below our range of estimates. The differences are due to the way in which the initial construction costs of the scheme were derived and apportioned over the properties involved in the scheme.</p> <p><b>Recommendation:</b> We recommend that the Council reviews the initial construction costs within the accounting model.</p>	<p>We will review the initial construction costs within the accounting model - agreed in 2009/10. We will reconsider our accounting treatment in consultation with the auditors.</p> <p>Responsible officer: Corporate Finance Manager Due date: March 2015</p>
<p><b>Receipts in advance:</b> We made two recommendations relating to the treatment of grant income held as receipts in advance (represented by a liability on the balance sheet) as these may only be accounted for this way when there are formal conditions in place that prevent the funds from being recognised as income.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>We recommend that the Council considers the accounting treatment of Dedicated Schools Grant and assess whether any balances to be carried forward each year would be more appropriately accounted for as an earmarked reserve.</li> <li>We recommend that the Council reviews its remaining balances held as receipts in advance.</li> </ul>	<p>We will review accounting treatment of the Dedicated Schools Grant as part of the 2014/15 closedown process.</p> <p>Responsible officer: Accountancy Services Manager Due date: March 2015</p> <p>The Council will review balances held as receipts in advance to assess the appropriate accounting treatment.</p> <p>Responsible officer: Corporate Finance Manager Due date: March 2015</p>

# Appendix A: Key issues and recommendations

Issue and recommendation	Management response/ responsible office/ due date
<p><b>Financial Governance</b> Our work on the VFM Conclusion resulted in a number of recommendations to further improve aspects of financial governance.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>• Encourage focus of consideration and discussions of the Audit and Governance Committee to provide apolitical, effective oversight, support and challenge for the Council's financial management and the system of internal control.</li> <li>• Include key unit cost information within the performance management framework as a measure of financial performance alongside service delivery outcomes.</li> <li>• Demonstrate the improvements to the capital planning process, gateway reviews and managing the delivery of these projects to reduce the amount of slippage and inform accurate forecasting in 2014/15.</li> </ul>	<p>The Chief Operating Officer will continue to work with the Chairman/Vice-Chairman and the established Officer/Member groups to:</p> <ul style="list-style-type: none"> <li>• develop the role of the Committee;</li> <li>• further develop the approach to agenda planning;</li> <li>• provide an appropriate focus for debate; and</li> <li>• implement the improvement actions agreed in June 2014 in response to the effectiveness self-assessment.</li> </ul> <p>The Chief Operating Officer will consider appropriate use of unit costs in performance reports. For example, indicators such as % spending on professional services and £m spending on assets could be included alongside appropriate targets. Financial data, which forms part of the Commissioning Plans, will continue to be analysed and compared during the medium term financial planning cycle.</p> <p>The targets of remaining within a £14m Capital Financing Cap and also to restrict any new external borrowing will stay in place for 2015/16. The approach to the monitoring and management of capital profiling and forecasting will continue to be refined. This will provide a clear distinction between active management to re-profile expenditure and identification of genuine slippage against committed capital schemes.</p> <p>Responsible Officer: Chief Operating Officer Due date: March 2015</p>

# Appendix A: Key issues and recommendations

Issue and recommendation	Management response/ responsible office/ due date
<p><b>Alternative Service Delivery Vehicles</b></p> <p>As part of its move to become a commissioning council, the Council has challenged the way activities are delivered and explored new ways of delivering activities. Our work on the VFM Conclusion acknowledged the developments in financial control as the Council's alternative service delivery vehicles became operational. We also highlighted that looking forward, the Council is more likely to be subject to the requirement to prepare group accounts</p> <p><b>Recommendation:</b></p> <p>Reassess the governance and risk management arrangements for the new ASDVs and the Council's commissioning relationship with them, to make sure that they are operating as intended and they enable the Council to sufficiently identify and address any risks to service delivery or internal controls.</p> <p>The assessment of the scope and application of group accounts requirements should be identified and factored into closedown arrangements.</p>	<p>The Council will continue to:</p> <ul style="list-style-type: none"> <li>• review and develop the governance framework for ASDVs in the light of experience, and as operational arrangements mature, in accordance with the approach set out in the report to Cabinet in March 2014; and</li> <li>• embed quarterly monitoring of the operational and financial performance of its companies, within its usual reporting processes.</li> </ul> <p>The development of group accounts will be considered as part of the planning arrangements for the 2014/15 closedown, in particular the resources and training requirements. We will discuss our proposals with the auditors at an early stage.</p> <p>Responsible Officers: Chief Operating Officer and Executive Director Strategic Commissioning</p> <p>Due date: Ongoing</p>
<p><b>Better Care Fund</b></p> <p>Another aspect to changing service delivery is the integration promoted through the Better Care Fund. We reported that the initial Better Care Fund plans submitted in April 2014 did not include details of specific schemes, financial plans, risk assessment or fully developed key performance indicators.</p> <p><b>Recommendation:</b></p> <p>Throughout 2014/15, the partners need to work together to develop and apply the plans to integrate care and support services across the county area.</p>	<p>The Council is continuing to develop the Better Care Fund arrangements with its Clinical Commissioning Group partners. Further assessments of progress are being undertaken by the Department of Health. The Council, along with its partners is continuing to develop, discuss and assess progress in line with Department of Health Guidance. More detailed plans are submitted in September 2014.</p> <p>Responsible Officers: Executive Director of Strategic Commissioning and Director Adult Social Care</p> <p>Due date: March 2015</p>

# Appendix A: Key issues and recommendations

Issue and recommendation	Management response/ responsible office/ due date
<p>Overall we are satisfied that the Council has adequate arrangements in place to improve efficiency and productivity. We noted the further developments underway in specific areas.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>Review the Data Quality Strategy and the associated measures as part of the Transparency Project to promote the importance of good quality data in effective information governance.</li> <li>Continue to improve procurement arrangements, effectively linking these with contract management and commissioning activities to avoid duplication and maximise savings to be secured.</li> <li>Continue to implement the recommendations arising from the Ofsted inspection and improvement notice regarding the arrangements for the protection of children.</li> </ul>	<p>The current Data Quality Strategy will be reviewed to ensure that it remains fit for purpose. A fundamental review of the Strategy will be undertaken as part of the Council's developing approach to increasing transparency.</p> <p>The Council's Procurement Improvement Plan is being implemented - overseen by the Procurement Board. The work includes a review of Contract Procedures Rules, introduction of Risk Based Sourcing, enhancing the ability of local suppliers to compete for Council contracts. A review of all commissioning activity is scheduled to ensure that the Council is able to maximise the savings and value for money of all contract renewals.</p> <p>Responsible Officer: Chief Operating Officer Due date: March 2015</p> <p>External evaluation, including the Ofsted improvement pilot and Local Government Association Peer Review, has confirmed that good progress has been made in improving safeguarding arrangements for children in Cheshire East. As at the end of March 2014, a significant number of Ofsted and Improvement Notice recommendations have been 'signed off' by the Improvement Board. A new Children's Improvement Plan for 2014-15 has been approved by the Improvement Board to meet the outstanding recommendations. Audit and other activity is also now monitored by the multi-agency Local Safeguarding Children Board.</p> <p>Responsible Officer: Director of Children's Services Due date: The Improvement Notice will not be lifted until the next inspection (unannounced)</p>

# Appendix B: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services.

## Fees

	Per Audit plan £	Actual fees £
Audit Fee	205,050	205,050
Additional fee - business rates		1,070
Grant certification fee	26,900	22,501
<b>Total fees</b>	<b>231,950</b>	<b>228,621</b>

There is an additional fee of £1,070 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for unitary authorities and is subject to agreement by the Audit Commission.

The indicative fee for grant work has reduced from that reported in the audit plan to £22,501 to reflect the removal of fees for schemes no longer requiring certification (such as business rates) and also to reflect the removal of council tax benefit from the housing benefit subsidy scheme. The actual fee for grant certification is not yet finalised as this work is not complete. Any proposed amendments will be discussed with the Chief Operating Officer and must also be approved by the Audit Commission.

## Fees for other services

Service	Fees £
None	

## Reports issued

Report	Date issued
Audit Plan	14 March 2014
Informing the audit risk assessment	18 March 2014
Audit and Governance Committee Updates	28 November 2013 20 January 2014
Emerging Issues Briefings	11 March 2014 13 June 2014
Audit Findings Report	25 September 2014
Certification report	January 2015 (planned)
Annual Audit Letter	24 October 2014



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## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 20 November 2014  
**Report of:** Corporate Governance Group  
**Title:** Annual Governance Statement (AGS) Update  
**Portfolio Holder:** Councillor Peter Raynes

---

#### **1.0 Report Summary**

- 1.1 The purpose of this report is to provide assurance that the Annual Governance Statement (AGS) is underpinned by an appropriate framework of assurance and to allow the Committee to monitor the implementation of actions to improve governance arrangements and respond to emerging issues.
- 1.2 The report also informs the Committee of a number of recent developments in governance, risk management and audit arrangements whilst describing what impact the changes have had on the Work Plan.

#### **2.0 Recommendation**

- 2.1 That the Committee:
- (i) consider and endorse the process for the production of the 2014/15 AGS;
  - (ii) note the progress in relation the implementation of actions to improve governance arrangements and respond to emerging issues;
  - (iii) note the changes to governance, risk management and audit arrangements and the impact on the Work Plan.

#### **3.0 Reasons for Recommendation**

- 3.1 Legislation requires local authorities to prepare an AGS and to report publicly on the effectiveness of governance and control. The Audit and Governance Committee is responsible for reviewing and then approving the AGS prior to being signed by the Leader of the Council and the Chief Executive.

3.2 In accordance with best practice the Audit and Governance Committee should undertake a number of activities to discharge its responsibilities in relation to the AGS including:

- ensuring that the AGS is underpinned by a framework of assurance
- monitoring the implementation of action plans or recommendations to improve governance arrangements
- receiving reports and assurances over changes to the governance framework and control environment as they are established

#### **4.0 Wards Affected**

4.1 All wards.

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

5.1 Not applicable.

#### **6.0 Policy Implications**

6.1 Not applicable.

#### **7.0 Financial Implications (Authorised by the Chief Operating Officer)**

7.1 In reviewing assurance arrangements, the Committee should bear in mind that the assurance process has a cost to the Organisation and it should therefore be proportional to the risk.

7.2 The production of the AGS is designed to align with the production of the Council's Financial Statements (draft by end of June) and will be published alongside the audited accounts (approved by the end of September).

#### **8.0 Legal Implications (Authorised by the Head of Legal Services)**

8.1 The production of the AGS is required by the Accounts and Audit (England) Regulations 2011 and the process outlined is designed to meet this obligation.

#### **9.0 Risk Assessment**

9.1 An assurance framework that does not support the production, approval and on-going review of the AGS and associated management actions can

result in problems with the integrity of the Council's Statement and lead to missed opportunities to strengthen the control environment and the management of risk.

## **10.0 Background**

### **Production of the 2014/15 Annual Governance Statement (AGS)**

10.1 Good governance enables the Council to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk.

10.2 In order to provide assurance that:

- governance arrangements are adequate and operating effectively in practice, or
- where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in future.

The Council is required to:

- undertake regular, at least annual, reviews of the effectiveness of its governance framework
- consider the findings of the review at a meeting of the Authority or delegated Committee
- approve an AGS at a meeting of the Authority or delegated Committee
- publish the AGS

10.3 These requirements were introduced by the revised CIPFA/SOLACE Good Governance Framework and are necessary to meet the statutory requirement set out in the Accounts and Audit (England) Regulations 2011.

10.4 The Audit and Governance Committee has, through its terms of reference, been delegated some governance responsibilities including considering the findings of the review of the effectiveness of governance arrangements and approving the AGS. It is, therefore, considered best practice to agree the process for preparing the AGS including the framework of assurance that underpins it with Members in advance.

10.5 The review of the effectiveness of the Council's governance framework for 2014/15 will be informed by the work of Internal Audit and senior managers and also comments made by the External Auditors and other review agencies/inspectors. The sources of assurance include:

- Senior management assigned with the ownership of risks and delivery of services through the risk management process
- The Section 151 Officer and the Monitoring Officer in meeting statutory responsibilities
- Internal Audit through the annual and interim reports
- External Audit through its reports to those charged with governance
- Outcomes from other review agencies and inspectorates
- Service managers who independently sign off on the adequacy of controls within their service areas via disclosure statements
- Other internal assurance providers (ICT Security etc.) via completion of questionnaires
- Designated officers who complete AGS self-assessment questionnaires (in this way compliance with the Council's Code of Corporate Governance will be evidenced).

10.6 The AGS will be considered by the Corporate Leadership Board on an ongoing basis with work being co-ordinated by the Corporate Governance Group who will:

- Review and update the Code of Corporate Governance and governance framework
- identify systems, processes and documentation that provide evidence of compliance including:
  - agreeing content and format of Management Disclosure Statements, self- assessments and questionnaires
- identify the individuals responsible for monitoring, reviewing and providing assurance on the systems, processes and documentation identified
- consider the extent to which the Authority complies with the principles and elements of good governance set out in the CIPFA/SOLACE Framework using:
  - Self-assessment of the Organisation's performance against its Code of Corporate Governance
  - Completion of Disclosure Statements/Internal Assurance Provider questionnaires
  - Assessment of significant partnership governance arrangements (including single legal entity and alternative service delivery vehicles where applicable)
  - Self-assessment of Internal Audit against the Public Sector Internal Audit Standards
  - Assessment of the effectiveness of the Audit and Governance Committee
  - Consideration of sources of external assurance as applicable (External Audit, Ofsted, Care Quality Commission etc.)
  - Assessment of the effectiveness of mitigating actions for approved corporate risks

- Consideration of the Annual Internal Audit Opinion Report
- identify issues that have not been addressed in the Authority and consider how they should be addressed
- identify the individuals who would be responsible for undertaking the actions that are required.
- Produce the draft AGS, and co-ordinate its approval including review by Corporate Leadership Board and consideration by the Audit and Governance Committee in June 2015.

**Actions that improve the Council's governance arrangements and respond to emerging issues**

- 10.7 As previously reported to this Committee no significant governance issues were identified in the 2013/14 AGS. A number of governance issues requiring further attention, and several emerging issues for the Authority were, however, reported. An update on the Council's response to the emerging issues and the issues requiring further attention is included at Appendix A for consideration by Members. These issues will continue to be monitored by the Corporate Leadership Board.

**Developments in governance, risk management and audit arrangements and impact on the Work Plan**

- 10.8 The Corporate Governance and Risk Management Groups provide a high-level focus on risk management, control and governance arrangements. In particular they provide essential support for the production and approval of the AGS.
- 10.9 In order to strengthen the current arrangements the Head of Corporate Resources and Stewardship is currently reviewing the role and membership of the Groups to ensure that assurance is planned and delivered in an efficient and cost effective manner and more specifically that:
- there is clarity over what assurance is required;
  - responsibility for providing assurance is clearly allocated;
  - duplication is avoided; and
  - assurance of appropriate rigour and independence is provided
- 10.10 The Groups' role in helping deliver best practice that dictates governance, risk management and strong controls be embedded in the daily and regular business of the Council will also be reviewed.
- 10.11 In order to provide the necessary levels of assurance to the Council with regard to internal control and compliance and support managers in delivering change and improvement; existing internal audit, risk

management and compliance capacity is being co-ordinated and aligned. These separate teams have been unified under a single line of management, reporting to the new post of Corporate Manager Audit and Governance within the Corporate Resources and Stewardship service.

- 10.12 This has allowed the vacant position of Internal Audit Manager to be deleted along with one of the two Audit Manager posts in the current structure, releasing capacity for redeployment across the wider Corporate Resources and Stewardship service. The new Corporate Manager Audit and Governance will commence their role in December 2014 and assume responsibility for managing the internal audit activity in accordance with the Public Sector Internal Audit Standards (PSIAS) and the relevant CIPFA/IIA Application Note.
- 10.13 As part of this review the responsibility for monitoring and facilitating the implementation of effective risk management practices and reporting risk-related information up and down the organisation has recently been passed to Internal Audit.
- 10.14 In order to maintain independence and objectivity in line with the PSIAS any assurance activity in areas where the Corporate Manager Audit and Governance has operational responsibility will be carried out by auditors with no involvement in the process and overseen by the Head of Corporate Resources and Stewardship.
- 10.15 The impact of the developments in governance, risk management and audit arrangements and the time necessary for these to take effect have made it necessary to amend aspects of the Audit and Governance Committee Work Plan. Furthermore, the timing of national publications has also had an impact in relation to the evaluation and reporting on the adequacy of the Council's counter-fraud arrangements.
- 10.16 The full changes to the Work Plan are included at Appendix B.

#### **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:** Head of Corporate Resources and Stewardship

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**Annual Governance Statement 2013/14 – Progress against Action Plan and Emerging Issues**

Issues requiring further attention

The Council's assessment of its governance arrangements for 2013/14 did not identify any significant issues. Significant governance issues are those which may prevent the Council achieving its vision. However there were a small number of governance issues which although not considered as significant, required further attention during 2014/15. Progress on managing these issues is provided in the table below.

Issue Requiring Attention	Actions Agreed	Responsible Officer/Target Date	Progress Report for November Audit and Governance Committee
<p><b>Information Asset Registers</b> - the organisation does not have current and complete Information Asset Registers.</p>	<p>To establish information asset registers and agree arrangements for their ongoing maintenance.</p>	<p>Chief Operating Officer  31 March 2015</p>	<p>The National Archives "Information Assurance and Cyber Security Engagement Programme" trainers presented to Senior Officers and Members in June 2014 on the importance and significance of Information Assurance and building an Information Asset Register (IAR). Further guidance and examples of best practice were shown at an "iNetworks"<sup>1</sup> event.</p> <p>A first draft of the Council's IAR has now been developed, informed by the The National Archives and iNetworks training. The format of the IAR is modelled upon the Cheshire East corporate records retention scheme which in turn is based upon the Local Government Retention Guidelines.</p> <p>To support Services in the completion of the Registers, two Business Analysts have been appointed to assist in the data collection and maintenance of the register, identifying both information owners and users. A complete register is on schedule to be produced by March 2015</p>

<sup>1</sup> iNetworks is a public sector partnership focused upon delivering improvements and innovations through collaboration. <http://i-network.org.uk/>

**Annual Governance Statement 2013/14 – Progress against Action Plan and Emerging Issues**

Issue Requiring Attention	Actions Agreed	Responsible Officer/Target Date	Progress Report for November Audit and Governance Committee
<p><b>Business Continuity Plans</b> - current and tested business continuity plans are not in place across all service areas.</p>	<p>Internal Audit will review Business Continuity plans and identify specific areas for improvement.</p>	<p>Head of Corporate Resources and Stewardship</p> <p>30 September 2014</p>	<p>A draft report for discussion has been issued by Internal Audit, and is referenced in the Internal Audit Interim update.</p> <p>The discussion draft is now being considered by management to confirm accuracy, obtain feedback and to confirm and agree management actions, including responsibilities and implementation timescales.</p>
<p><b>Local Economic Partnership (LEP) governance arrangements</b> - governance arrangements outlining the relationship between the Council and the LEP are out of date.</p>	<p>Governance arrangements need to be developed that are sufficiently 'future proofed' to accommodate further anticipated changes to the role of the LEP and its sub groups, and the Council's relationship with it.</p>	<p>Director of Economic Growth and Prosperity</p> <p>31 December 2014</p>	<p>The Council has been working closely with the LEP core team to develop and 'bed-in' governance and stewardship arrangements appropriate to the LEP and CEC as the accountable body for Local Growth Funds.</p> <p>Governance and stewardship will be delivered on behalf of LEP Board through three committees; Finance &amp; Audit, Performance and Investment, and Strategy, which CEC has representation on. European Structural Investment Funds will be managed by the European Strategy Board, which the council also sits on.</p> <p>As the accountable body on behalf of the LEP for Local Growth Funds, the council is holding workshops in November and December to critically review stewardship and governance arrangements, and ensure it can exercise its responsibilities appropriately in line with government policy.</p>

**Annual Governance Statement 2013/14 – Progress against Action Plan and Emerging Issues**

Issue Requiring Attention	Actions Agreed	Responsible Officer/Target Date	Progress Report for November Audit and Governance Committee
<p><b>Compliance with corporate policies and procedures</b> – further work is needed across the Council to ensure policies and procedures are properly embedded. The Constitution Working Group, led by the Monitoring Officer has reviewed and updated the Constitution – as the Council’s formal decision making framework. The updated Constitution and Officer Scheme of Delegation were considered and agreed at Council in May 2014.</p>	<p>The Corporate Governance Group, now chaired by the Head of Corporate Resources and Stewardship will revise its terms of reference to provide a specific focus of ensuring that the operational arrangements for governance, stewardship and decision making are appropriate and meet the Council’s needs.</p>	<p>Head of Corporate Resources and Stewardship</p> <p>31 July 2014</p>	<p>The terms of reference for the Corporate Governance Group were updated as required and by the agreed target date.</p> <p>However, further changes to the Corporate Governance and Corporate Risk Management groups are being considered to identify opportunities to improve governance, stewardship and decision making. These will specifically address;</p> <ul style="list-style-type: none"> <li>• Clarity on what assurance is required</li> <li>• Clear allocation of responsibility for providing assurance</li> <li>• Avoiding duplication</li> <li>• Improving the efficiency and cost effectiveness of obtaining assurance</li> <li>• Securing assurance with appropriate rigour and independence across a range of assurance providers.</li> </ul> <p>The necessary changes should updated and operational by the end of Q3 /start of Q4 2014/15.</p>

**Annual Governance Statement 2013/14 – Progress against Action Plan and Emerging Issues**

Emerging Issues 2014/15

Looking forward to 2014/15, a small number of emerging governance issues were identified that, if not managed appropriately, had the potential to become significant during the course of the year. These were reported upon in the 2013/14 Annual Governance Statement, approved in September 2014, together with proposed management actions.

These have been reviewed during the third quarter of 2014/15, and additional management actions, where necessary, have been identified. These are included in the table below.

Issue	Management action to address – As reported in September 2014	Update: November 2014
<p>On-going and future changes to the financial framework - including several changes to national funding regimes - will increase the Council's reliance on self-financing. Many of these changes arise from changes to benefit administration, reductions in government grant and more schools becoming academies. While the Council is in a strong position it needs to accelerate its transition to a full commissioning model to ensure that the quality and cost base of services are appropriate and meet the needs of local residents and businesses within the future level of available resources.</p>	<p>The Chief Operating Officer considers the risk as part of the closure of accounts including his assessment of the need to make appropriate provisions in both the Collection Fund and General Fund. In addition, significant work has been undertaken with the Cabinet on ideas for the future.</p> <p>Proposals for a balanced budget for 2015/16 were presented to <a href="#">Corporate Overview and Scrutiny Committee on 21st July 2014</a> – significantly earlier than ever before. This will provide residents and businesses with greater certainty and allow the Council more time to focus on the even greater financial challenges of 2016/17 and beyond.</p>	<p>Issues which challenge the Council's financial position are considered as part of the budget setting report to Council which includes the standard calculation of a risk assessed minimum level of reserves. This calculation will be reviewed and challenged during January 2015 and be informed by the third quarter review of performance.</p> <p>Budget setting will be supported by further enhancements to the in year performance monitoring processes. These enhancements include:</p> <ul style="list-style-type: none"> <li>• Quarterly review meetings between the Executive Director of Strategic Commissioning or Chief Operating Officer and their direct reports to consider performance in terms of forecast outturn, progress in relation to one off expenditure, capital programme delivery and budget proposal delivery.</li> <li>• The development of a corporate performance indicator to monitor any</li> </ul>

**Annual Governance Statement 2013/14 – Progress against Action Plan and Emerging Issues**

Issue	Management action to address – As reported in September 2014	Update: November 2014
		<p>forecast variance to budget, given the improved base budget position.</p> <ul style="list-style-type: none"> <li>• Further improvements to the quarterly report.</li> <li>• Continuation of the monthly reports to CLB to consider Finance, HR and performance to enable prompt action to be taken.</li> <li>• Research into a new reporting tool to improve reporting across the Council.</li> </ul> <p>In terms of Medium Term Financial Strategy and financial planning, the Council’s “Central Finance Group” has continued to meet on a monthly basis to review each of the assumptions in relation to funding levels including Council Tax, Business Rates etc. The focus of this meeting is the local position given the growing reliance on these funding sources.</p> <p>The Council will be releasing the second major update of its “Value for Money, Guidance and Data on the Financial Resilience of the Council”, document in November 2014. This highlights the funding and dependency issues in addition to commentary on many other issues surrounding the Council’s Financial Stability.</p>
<p>The Council has a significant number of key projects currently in implementation and planned for the future. These include ambitious economic regeneration plans as well as the Council’s ongoing commissioning</p>	<p>The Chief Operating Officer considers the risks as part of the closure of accounts including the need to make appropriate provision to mitigate the financial impact.</p> <p>The Council’s revised robust project and programme</p>	<p>Continuous improvement in programme and project management has been embedded in the form of a comprehensive Programme Management Office (PMO) Action Plan, endorsed by EMB in July 2014 and monitored on</p>

**Annual Governance Statement 2013/14 – Progress against Action Plan and Emerging Issues**

Issue	Management action to address – As reported in September 2014	Update: November 2014
<p>reviews leading to new improved service delivery arrangements. Should one of these high profile projects not be delivered as planned it could result in aspects of service failure, reputational damage to the Council or increase the financial pressure on the Council for the future.</p>	<p>management approach is now an established part of its governance framework.</p> <p>Through its member led Executive Monitoring Board all major change programmes and projects are subject to scrutiny and challenge at both development and delivery stage. The Council’s overview and scrutiny committees also have oversight of this issue.</p>	<p>an ongoing basis. This brings together a number of ongoing work streams, including recommendations from the audit project health check.</p> <p>A number of Finance and Project Management staff have received formal training on “Better Business Cases” and will use this to inform the production of Business Cases in future.</p> <p>A number of CEC staff with project involvement have undertaken a Foundation Course in the Management of Risk.</p>
<p>The Council successfully launched four new service delivery vehicles in April and May 2014. Service areas transferred to these new companies were done from a governance perspective on essentially a ‘lift’ and ‘shift’ basis. Further work is now being done to ensure that the Council maximises the benefit of these new arrangements.</p>	<p>Senior officers continue to work with the directors of the new companies and the Leisure Trust to clarify roles and responsibilities and to ensure that the requirements of the new contracts - and the benefit to residents - are fully achieved. The next step will be for Cabinet to approve the shareholder agreements and directors mandates with Cheshire East Residents First and all of its subsidiaries.</p>	<p>The shareholder agreement is now in place and work is ongoing to support the Cheshire East Residents First (CERF) Board in monitoring performance and reviewing business plans. The Council is also reviewing the management fee requirements for 2015/16 as part of its wider budget discussions.</p> <p>Cabinet is due to receive updates in relation to proposals for its energy and planning/building control companies. TSS Ltd is expected to go live on 1 January 2015.</p>
<p>The Council is a key partner in the delivery of integrated health and social care and is a signatory of the Better Care Fund (BCF) submission to NHS England. This is a high profile programme of change which the Council is working with the two Clinical Commissioning Groups, (CCGs), and the three acute providers in the Borough. BCF is part of</p>	<p>The Council is continuing to develop the BCF arrangements with its CCG and acute provider partners, to ensure that a deliverable programme of work is in place by April 2015. The Council, along with its partners is continuing to develop, discuss and assess progress in line with Department of Health Guidance throughout 2014/15, which help to support further assessments of progress being undertaken by</p>	<p>The revised Better Care Fund plan was submitted to the Department of Health on 19<sup>th</sup> September 2014 and has been through a National Consistent Assurance Review process (NCAR). Following the NCAR process the plan has been given approval to proceed with a category of ‘<i>Approved with support</i>’.</p>

**Annual Governance Statement 2013/14 – Progress against Action Plan and Emerging Issues**

Issue	Management action to address – As reported in September 2014	Update: November 2014
<p>a staged process to focus and increase joint working with the NHS seeking to improve the health and wellbeing outcomes for Cheshire East residents, with one of the initial aims of the work programme being to reduce non elective-admissions to hospitals locally.</p> <p>The initial Plans submitted in April 2014 did not include details of specific schemes, financial plans, risk assessment or fully developed key performance indicators.</p>	<p>the Department of Health. More detailed plans will be submitted to the Department in September 2014.</p> <p>Specific actions being developed as part of the September submission, and continuing through the remainder of 2014/15 include:</p> <ul style="list-style-type: none"> <li>• Developing the risk log and assessment process with partners.</li> <li>• Establishing appropriate governance arrangements for the BCF – with an overall budget of £23.8m - determined by Government, that are outlined in the submission alongside arrangements for risk sharing and contingency planning with partner commissioners and providers.</li> <li>• Assessing the financial risk between the partners, whilst understanding that significant risk falls to the CCG's as commissioners, in that if a reduction in emergency admissions is not achieved, they would bear the cost of these admissions as well as the cost of investment in BCF initiatives.</li> <li>• Ensuring that the performance framework provides sufficient intelligence and information to allow the overall performance of the BCF scheme to be monitored including the performance payment mechanisms being implemented by the Department of Health.</li> </ul>	<p>As a priority the action plan included in the NCAR process will be actioned and submitted to NHS England by 28<sup>th</sup> November 2014 to progress the plan to the 'Approved' category.</p> <p>The below are further key actions identified to date:</p> <ul style="list-style-type: none"> <li>- Establishing a working group to develop the overarching s75 agreement for BCF and ensuring that it approved by the respective organisations governance arrangements.</li> <li>- Identifying accountable lead officers to take responsibility for the delivery and performance of the BCF schemes.</li> <li>- Involving the Health and Wellbeing board with the development and implementation of the BCF plan</li> </ul>

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## Work Plan 2014/15

Agenda Item	Description	Change to Work Plan since it was last discussed in September 2014 & Reason.
<b>20 Nov 2014</b>		
In order to help Members keep up to date and extend their knowledge the following training will be provided one hour before the Audit & Governance Committee meeting:		
<b>Title</b>	<b>Detail</b>	<b>Responsibility</b>
Audit Committees – An External Audit Perspective	This session will be used to help Members to recognise and address common issues that audit committees face. Session to include the public sector audit committee – role, features of an effective audit committee, what works well, approach, the pitfalls to avoid, guidance.	Allison Rhodes, Manager, Grant Thornton
Audit Committees – Knowledge & Skills Framework	This session will be used to guide members on their training needs and to demonstrate how the overall knowledge and skills of the Committee can be evaluated. Session to include knowledge area, specialist knowledge that adds value to an audit committee & core skills. How an audit committee member is able to apply the knowledge, skill and add value.	Senior Member Development Officer, Governance & Democratic Services.
External Audit – Annual Audit Letter 13/14.	Summary of the External Audit findings from 13/14 audit. The letter will also confirm the level of audit fees.	

## Work Plan 2014/15

Agenda Item	Description	Change to Work Plan since it was last discussed in September 2014 & Reason.
External Audit update report	<del>To consider an update report from Grant Thornton in delivering their responsibilities as external auditors.</del>	Removed from the Agenda. No matters to bring to the attention of the Committee at this time.
Annual Governance Statement (AGS) Update.	Assurance Framework that underpins the Council's AGS & update on actions to improve governance arrangements and respond to emerging issues.  The report on updates to the Code of Corporate Governance has been deferred until January 2015.	The Council has, in accordance with best practice, developed and adopted a local code of corporate governance. Following the review of the Corporate Governance and Risk Management Groups, it will be necessary to fundamentally review the content and governance arrangements of this important document to ensure it remains current and reflects the substantial changes in the Council.  Given its role in overseeing the Code of Corporate Governance, the findings of the review will be reported to the Audit and Governance Committee in <b>January 2015</b> .
Risk Management Update Report	Update report on Risk Management	The report has been deferred until <b>January 2015</b> to allow for the review of the Corporate Governance and Risk Management Groups to be undertaken and the outcomes to take effect.  It is also necessary to review the role of the risk management function following the move to Internal Audit.
Internal Audit Interim Report to include Internal Audit Charter	Progress report against the Internal Audit Plan 14/15. Review of Internal Audit Charter in accordance with Public Sector Internal Audit	

## Work Plan 2014/15

Agenda Item	Description	Change to Work Plan since it was last discussed in September 2014 & Reason.
Update	Standard (PSIAS) 1000	
Annual Anti-Fraud and Corruption Report	Annual review of Anti-Fraud and Corruption Policy and arrangements against best practice.	<p>The report has been deferred until <b>January 2015</b> because of the timing of the following national publications:</p> <ul style="list-style-type: none"> <li>• CIPFA released a new Counter Fraud Code of Practice in October 2014 which is intended to provide a framework against which authorities can assess and develop their own counter fraud arrangements. This is a high level document and the detailed application note will be released during November 2014.</li> <li>• Protecting the Public Purse 2014 was released by the Audit Commission on 23 October 2014. This provides details of year on year changes in cases and value of detected fraud and is based upon the Annual Fraud Survey completed by all local government bodies. Its aim is to inform the development of effective counter fraud arrangements in local government and is a useful tool for reviewing our arrangements and identifying improvements.</li> <li>• Following on from publication of Protecting the Public Purse 2014, the Audit Commission will make an individual fraud briefing available to all local authorities via their external auditors during November 2014. This will contain</li> </ul>

## Work Plan 2014/15

Agenda Item	Description	Change to Work Plan since it was last discussed in September 2014 & Reason.
		comparative data which will allow us to compare our performance against other local authorities and identify where we are able to improve our existing arrangements.
Compliance with Contract Procedure Rules	A report setting out the number of non-compliance instances in the previous period, broken down by Service, and a description of exceptional instances	
Better Care Fund	An update on the Better Care Fund governance arrangements within Cheshire East Council, including the latest on the plan submission and the following areas: governance structure, accountability arrangements, roles and responsibilities, risk sharing arrangements, funding and delivery arrangements, and partnership working.	
Payments to Directors of Council Owned Companies	<b>New</b> - A briefing paper on payments to directors of Council owned companies.	As agreed with Members at Audit and Governance, 25 September 2014.
Members' Code of Conduct: Standards Panels and Sub-Committee Update Report	An update report providing details of the numbers and outcomes of complaints under the Code of Conduct for Members considered by Audit and Governance's Initial Assessment Panel and Local Resolution Panel between the period April 2014 to October 2014.	
<b>22 Jan 2015</b>		
External Audit update	To consider an update report from Grant Thornton	

## Work Plan 2014/15

Agenda Item	Description	Change to Work Plan since it was last discussed in September 2014 & Reason.
report	in delivering their responsibilities as external auditors	
External Audit – Certification of Claims & Returns	Annual report on the issues, amendments and qualifications arising from certification work of grant claims and returns.	
Internal Audit Interim Report	Progress report against the Internal Audit Plan 14/15.	
Treasury Management Strategy and MRP Statement 2015/16	The CIPFA Code of Practice on Treasury Management requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years. The Treasury Management Strategy is also reported to Cabinet before being presented to Full Council for approval.	
Data Protection and Freedom of Information Update	Update on Data Protection and Freedom of Information issues including volumes of requests and trends.	
Compliance with Regulation of Investigatory Powers Act (RIPA)	A report on the Council's compliance with the Regulation of Investigatory Powers Act.	
Audit Committee Self-Assessment Update	<b>New</b> - A report giving an update on the progress of the actions arising from the 2013/14 self-assessment.	As agreed with Members at Audit and Governance, 25 September 2014.

## Work Plan 2014/15

<b>Agenda Item</b>	<b>Description</b>	<b>Change to Work Plan since it was last discussed in September 2014 &amp; Reason.</b>
<i>Annual Anti-Fraud and Corruption Report</i>	<i>Annual review of Anti-Fraud and Corruption Policy and arrangements against best practice.</i>	<i>Moved from November 2014.</i>
<i>Local Code of Corporate Governance</i>	<i>A report on updates to the Council's Local Code of Corporate Governance.</i>	<i>Moved from November 2014.</i>
<i>Risk Management Update Report</i>	<i>Update report on Risk Management</i>	<i>Moved from November 2014.</i>
Work Plan	Review of 2014/15 Work Plan to ensure comprehensive coverage of the Committee's responsibilities	
<b>19 March 2015</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 14/15	External Audit's planned work for the audit of financial statements and the value for money conclusion 14/15	
Internal Audit Plan 15/16	Approval of risk based Internal Audit Plan for following year.	
Risk Management Update Report	Update report on Risk Management and attendance by a Corporate Risk Owner to explain their mitigation	
Compliance with Contract Procedure Rules	An update on non compliance with Contract Procedure Rules since September 2014	
Members Code of Conduct Complaints	Update on the number and outcome of complaints	

## Work Plan 2014/15

Agenda Item	Description	Change to Work Plan since it was last discussed in September 2014 & Reason.
Update		
Audit Committee Self-Assessment	Self assessment of the effectiveness of the Committee, which feeds into the AGS process	
Alternative Service Delivery Vehicle Governance and Stewardship.	<b>New</b> An update on the governance arrangements for alternative service delivery vehicles, (ASDVs).	As agreed with Members at Audit and Governance, 25 September 2014.
Disclosure of Officers' Remuneration – Senior Employees in the Financial Statements.	<b>New</b> To consider the disclosure of officers' remuneration – senior employees, Note 25 to the Financial Statements.	As agreed with Members at Audit and Governance, 25 September 2014.
Work Plan	Forward looking programme of meetings and agenda items 2015/16 to ensure comprehensive coverage of the Committee's responsibilities.	

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## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 20 November 2014  
**Report of:** Audit Manager  
**Title:** Internal Audit Interim Report 2014/15 & Internal Audit Charter  
**Portfolio Holder:** Councillor Peter Raynes

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#### **1.0 Report Summary**

1.1 The purpose of the report is to:

- i) update the Audit and Governance Committee on progress against the Internal Audit Plan 2014/15, revisions to the plan and to summarise work during the first half of 2014/15 (see Appendix A).
- ii) present the updated Internal Audit Charter for approval by the Committee (see Appendix B).

#### **2.0 Recommendation**

2.1 That the Committee:

- i) note the issues identified, endorse the approach to achieving adequate audit coverage in the remainder of 2014/15 and discuss future audit issues and ways of working as appropriate.
- ii) approve the updated Internal Audit Charter.

#### **3.0 Reasons for Recommendation**

3.1 This interim report addresses emerging issues in respect of the whole range of areas to be covered in the annual report, due in June 2015.

3.2 The Internal Audit Charter is reviewed periodically (as a minimum annually) by the Internal Audit Manager and presented to the Corporate Leadership Board and forwarded to the Audit and Governance Committee for approval.

#### **4.0 Wards Affected**

4.1 All wards.

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

5.1 Not applicable.

## **6.0 Policy Implications**

6.1 Not applicable.

## **7.0 Financial Implications (Authorised by the Chief Operating Officer)**

7.1 The Internal Audit team must be appropriately resourced to comply with statutory and best practice requirements.

## **8.0 Legal Implications (Authorised by the Head of Legal Services)**

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

## **9.0 Risk Assessment**

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

## **10.0 Background**

10.1 The Public Sector Internal Audit Standards (PSIAS) Local Government Application Note states that, “in addition to the annual report, the Chief Audit Executive should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report and hence support a ‘no surprises’ approach, as well as assist management in drafting the annual governance statement”.

10.2 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council, via the Audit and Governance Committee, that these arrangements are in place and operating properly. The annual internal audit opinion informs the Annual Governance Statement. The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council’s objectives.

10.3 In order to provide the necessary levels of assurance to the Council with regard to internal control and compliance and support managers in delivering change and improvement; existing internal audit, risk management and compliance capacity is being co-ordinated and aligned. These separate teams have been unified under a single line of management, reporting to the new

post of Corporate Manager Audit and Governance within the Corporate Resources and Stewardship Service.

- 10.4 This has allowed the vacant position of Internal Audit Manager to be deleted along with one of the two Audit Manager posts in the current structure, releasing capacity for redeployment across the wider Corporate Resources & Stewardship service. The new Corporate Manager Audit and Governance will commence their role in December 2014.
- 10.5 The Public Sector Internal Audit Standards state that the purpose, authority and responsibility of internal audit must be formally defined in an Internal Audit Charter. The Charter establishes Internal Audit's position within the organisation, including the nature of functional and administrative reporting, authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities. Final approval of the Internal Audit Charter resides with the Audit and Governance Committee as per the Terms of Reference
- 10.6 The Internal Audit Charter was first approved by the Committee in November 2013. This has now been reviewed and updated for the following:
- § Operational responsibility for risk management, business improvement and compliance:  
*Para 6.2 "Any assurance activity in areas where the Corporate Manager Audit and Governance has operational responsibility will be carried out by auditors with no involvement in the process and overseen by the Head of Corporate Resources and Stewardship, thus maintaining independence and objectivity in line with the PSIAS".*
  - § Changes in structure (as described in 10.3/10.4 above)
  - § Latest review date i.e. November 2014.

## **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: jon.robinson@cheshireeast.gov.uk

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# Internal Audit

## Interim Report 2014/15

### April – September 2014

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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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## Internal Audit Interim Report 2014/15 April – September 2014

### 1 Introduction

- 1.1 In accordance with the United Kingdom Public Sector Internal Audit Standards (PSIAS), the first Internal Audit Interim Report 2014/15 for Cheshire East Council contains “emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 1.2 Internal Audit is required, at the end of the year, to form an opinion on the overall adequacy and effectiveness of the organisation’s control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified.
- 1.3 The interim report contains the following:
- a summary of the audit work carried out in 2014/15 to date (Section 2)
  - any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (See Sections 2.15-2.16 and Section 3)
  - comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets (Section 4)

- comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 5)
- other developments, including the Internal Audit Charter (Section 6)

### 2 Summary of Audit Work 2014/15

- 2.1 This is the first 2014/15 interim report on progress against the Internal Audit Plan. A summary comparison of the 2014/15 Audit Plan with actuals for the half year to 30 September 2014 is shown on page 2 (with comments on variances).
- 2.2 During the first half of the year, audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised a mix of risk based auditing, regularity, investigations and the provision of advice to officers.

## Internal Audit Interim Report 2014/15 April – September 2014

## Summary Comparison of Audit Plan 2014/15 and Actuals

Area of Plan		Plan		Actuals (to 30/9/14)		Comments on coverage
		Days	%	Days	%	
<b>Chargeable Days</b>		<b>1450</b>		<b>728</b>		
Less: Corporate Work		(70)		(49)		
<b>Available Audit Days:</b>		<b>1380</b>	<b>100%</b>	<b>679</b>	<b>100%</b>	
Corporate Governance and Risk		380	27%	182	27%	Includes operational risk management duties from July 14
Anti-Fraud and Corruption	Proactive Reviews	80	6%	83	12%	Higher than expected; extra work on NFI due to ASDVs/bid for Counter Fraud Fund.
	Reactive Investigations	50	4%	43	6%	Work assisting HR in investigations.
Chief Operating Officer (COO)	Key Financial Systems	195	14%	56	8%	Schools Audit Programme commenced in September and the majority of audits will take place in the second half of the year.
	Corporate Core & Cross Service	190	13%	163	24%	Work in this area was scheduled for quarter 1 & 2.
Strategic Commissioning	Children's Social Care & Education	75	6%	11	2%	A number of projects commenced just prior to half year end e.g. Children's Care Management – Case Files.
	Adult's Social Care	95	7%	28	4%	Further work planned for quarters 3 & 4; see 2.37 - 2.39
	Public Health	40	3%	18	3%	
	Communities	20	1%	1	0%	Further work planned for quarters 3 & 4 see 2.37 - 2.39
Economic Growth & Prosperity		75	6%	27	4%	Further work planned for quarters 3 & 4 see 2.37 - 2.39
Providing Assurance to External Organisations		75	6%	27	4%	Primarily work for PATROL.
Advice & Guidance		60	4%	24	4%	
Other Chargeable Work		45	3%	16	2%	Includes grant certification work; Adoption Reform Grant, Care Bill and Family Focus Programme. Some grants require annual certification, some quarterly.
Contingency		-	-	-	-	No contingency was planned.
<b>Total Audit Days</b>		<b>1380</b>	<b>100%</b>	<b>679</b>	<b>100%</b>	

## Internal Audit Interim Report 2014/15 April – September 2014

## Summary of Audit Work to support the overall opinion

Area	Description of Audit Work	Output
Assurance Work	Audits with formal assurance level.	Audit Reports
Project Health Checks	Assessment of whether the required elements to deliver projects successfully are in place and operating effectively.	Audit Reports
Schools	Assessment against Schools Financial Value Standard	Audit Reports
Supporting Corporate Governance	Support and contribution to production of the Annual Governance Statement, including assurance statements from Heads of Service.	Annual Governance Statement, and supporting evidence
	Support and contribution to update reports from the Corporate Governance Group.	Reports to Corporate Leadership Board
	Support and contribution to AGS Action Plan, Compliance with Contract Procedure Rules reports etc.	Report to Audit & Governance Committee
Risk Management	Support and Contribution to the Corporate Risk Management Group including update reports.	Reports to Audit & Governance Committee
Counter Fraud	Review of Anti-Fraud and Corruption arrangements.	Report to Audit & Governance Committee
	National Fraud Initiative – co-ordination of matches and investigation work.	Results published on Audit Commission website/update reports to Corporate Risk Management Group/Investigation Reports.
	Investigations	Investigation Reports
Technical Enabler Group (TEG)	Support and contribution to TEG, which supports the Executive Monitoring Board (EMB).	Gateway Progress Report detailing TEG Outcome for use by EMB.
Consultancy & Advice	Ad-hoc consultancy and advice provided to services.	Various – reports etc.
Statutory Returns/ Grant Claims	Audit/assurance work on programme/project and subsequent report to statutory/funding body.	Return/Claim sign off
Implementation of Recommendations	Targeted follow up of audit recommendations based on audit opinion/recommendation.	Follow up reports/action plans/Key Corporate Indicator (see: Implementation of Audit Recommendations, (2.27 to 2.36)

## Internal Audit Interim Report 2014/15 April – September 2014

### Assurance Work

2.3 A summary of the reports produced in the first half of 2014/15 with the formal assurance level is included below (some of the audit reports are still at draft stage i.e. awaiting management comments):

#### Summary of reports by assurance level

Assurance Level	Half year to 30/9/14 Audit Reports	Full Year 2013/14 Audit Reports
Good	0	2
Satisfactory	4	5
Limited	7	16
No	0	0

**Note:** includes assurance levels on Project Health Checks. Implementation of these recommendations is monitored by Executive Monitoring Board (EMB) (see 2.9 – 2.11)

2.4 The assurance levels reported in the table above include a combination of opinions at a broad level for the Council as a whole (macro-level opinion) and opinions on individual business processes or activities within a single organisation, department or location (micro-level opinion). Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority.

2.5 Further detail is provided on those audits with ‘Limited’ or ‘No’ assurance during the period under review.

### Limited Assurance Reports

2.6 In each case a number of recommendations have been made. When implemented these will address the identified weaknesses and improve the control environment.

2.7 All actions from these audits have been, or are currently being, agreed with management and progress on implementation will be monitored through normal processes. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the 2014-15 Annual Governance Statement process.

2.8 One theme that has emerged from Internal Audit activity is the difficulty in ensuring that the requirements of corporate and cross cutting policies are delivered in a consistent and repeatable manner. This issue will be picked up as part of the Head of Corporate Resources and Stewardship’s review into the role and membership of the Corporate Governance and Risk Management Groups.

## Internal Audit Interim Report 2014/15 April – September 2014

Summary of Assurance Reports 2014/15

Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Freedom of Information (Fol)	Key corporate core and cross service risk.	Satisfactory		All actions agreed. Final report issued
PATROL (Parking and Traffic Regulations Outside London) <sup>1</sup>	Cheshire East Council is the host/ accountable body.	Satisfactory		All actions agreed. Final report issued
Public Health	Key departmental and service risk.	Satisfactory		All actions agreed. Final report issued
Shared Lives	Key departmental and service risk.	Satisfactory		Draft report issued.
Carbon Reduction Commitment	Key departmental and service risk.	Limited	Inconsistencies in the calculations used to forecast the level of "allowances" required for the Council in the second phase of the Carbon Reduction Commitment has increased the risk that the Council's actual Carbon usage will exceed forecasts. Additional allowances can be purchased but these are charged at a higher rate. Whilst difficult to forecast accurately, this is not expected to have a significant budgetary impact.	All actions agreed. Final report issued
Business Continuity	Key corporate core and cross service risk.	Limited	Business Continuity Planning is not being managed consistently and effectively across the organisation. For example, whilst Business Continuity Plans are in place for most services, some are out of date. The Business Continuity Planning team do not consistently review and test the quality of the plans.	Draft report issued.
Recruitment Process – Vetting and Recruiting	Key corporate core and cross service	Limited	Whilst there are controls and procedures in place they are not being managed consistently and effectively across the Council. There is a	Draft report issued.

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<sup>1</sup> External Organisation

## Internal Audit Interim Report 2014/15 April – September 2014

Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Safely	risk.		lack of monitoring of compliance with policies and guidance, which reduces the ability to provide assurance that employees are being recruited in line with the Council's policies and external guidance. A second phase of work in this key area will be carried out in Quarter 4.	
Variations to Pay	Key corporate core and cross service risk.	Limited	There is a lack of sufficiently detailed policy and guidance regarding roles and responsibilities in processing, authorising and monitoring variations to pay, which has resulted in differences in practice and the development of local arrangements.	All actions agreed. Final report issued
Management of Mobile Devices	Key corporate core and cross service risk.	Limited	There is an existing lack of clarity regarding roles, responsibilities, and accountability for budget and service delivery for Mobile Telephony Devices. ICT have assumed partial responsibility for this area, but do not control the budget. The audit identified a number of control weaknesses which will require a cross-organisational approach to resolve.	Draft report issued.

## Internal Audit Interim Report 2014/15 April – September 2014

### Programme and Project Work

- 2.9 Under the Constitution, the Executive Monitoring Board (EMB) takes on a challenge role at a strategic level in monitoring the delivery of projects and programmes. To assist them with this process EMB has commissioned Internal Audit to undertake a series of “healthchecks” on specific projects/programmes and issues. The project health check process provides an independent assessment of whether the required elements to deliver projects successfully, e.g. good project management practices, appropriate resources, are in place and operating effectively. The results of these assessments are reported to Executive Monitoring Board (EMB) following agreement of recommendations with the Senior Responsible Owner (SRO) and Project Manager (PM). Progress in implementing recommendations is reported to and monitored by EMB.
- 2.10 During the first half of the year two healthchecks (Environmental Services – Programme and Bereavement Services - Project) were completed and a cross cutting review of project and programme benefits realisation was also undertaken. Two limited assurance reports were issued along with action plans that provided a formal record of issues together with the agreed management actions. The recommendations are being used to support the on-going implementation of the Council’s programme and project management framework.

- 2.11 Further work in this area is under consideration by EMB. The management actions will be followed up under normal Internal Audit procedures.

### Schools

- 2.12 The Department for Education requires the Council’s Section 151 Officer to sign off an Annual Assurance Statement. That statement confirms:
- the number of School’s Financial Value Standard (SFVS) self-assessment returns received; and
  - that an appropriate audit programme is in place to provide adequate assurance over the standard of financial management, and the regularity and propriety of spending in schools.
- 2.13 During Quarter 1 of this financial year a Consolidated Schools Report was issued that confirmed the audit approach and summarised the findings of the work undertaken by Internal Audit during 2013/14. The report concluded that the majority of controls relating to high risk areas are operating effectively. While some inconsistencies in the application of controls were highlighted, these are not considered to be significant issues. This report was used to share the findings with and make recommendations to all schools using our established network. It also supported the s151 Section Officer in signing off the Annual Assurance

## Internal Audit Interim Report 2014/15 April – September 2014

Statement. Please note that individual reports have also been issued to the relevant schools throughout 2013/14.

- 2.14 Work is now underway on the 2014/15 Schools Audit Programme. A number of Secondary Schools have been selected for full 'Keeping Your Balance' audits along with a selection of primary schools for Schools Financial Value Standard (SFVS) audits.

### Supporting Corporate Governance

- 2.15 In accordance with Regulation 4 of the Accounts and Audit (England) Regulations 2011 the Council is required to conduct a review at least once a year of the effectiveness of its governance arrangements and publish an Annual Governance Statement (AGS).
- 2.16 During the first half of this financial year Internal Audit has assisted Management in the production of the Council's AGS for 2013/14 by:
- collecting evidence for and production of the 2013/14 Annual Governance Statement.
  - contribution to and production of Audit & Governance Committee reports on Corporate Governance.
  - Audit Manager representation on and contribution to the Corporate Governance Group (CGG) in order to advise on risk management, control, and governance issues that have been identified through audit work

and ensure that the findings have been considered when determining the 2013/14 AGS action plan.

- Audit work in contribution to and production of CGG reports to Corporate Leadership Board.

### Risk Management

- 2.17 Internal Audit assisted in the Management of Risk through:
- Delivery of a risk based audit plan; and
  - Audit Manager representation on and contribution to the Corporate Risk Management Group (CRMG) - to advise on risk management, control, and governance issues identified through audit work.
- 2.18 Formal reports with regard to the risk management process are made throughout the year to Corporate Leadership Board, Cabinet and the Audit and Governance Committee.
- 2.19 From 14<sup>th</sup> July 2014, Jon Robinson (Audit Manager) has taken over temporary responsibility for Risk Management whilst the current Performance and Risk Manager is seconded to the Chief Executive's Office.

### Counter Fraud

- 2.20 Internal Audit has carried out a small number of investigations in association with Human Resources

## Internal Audit Interim Report 2014/15 April – September 2014

colleagues and action has been taken in accordance with the appropriate policies. There are no significant issues arising from this work to bring to the attention of the Committee.

- 2.21 Work has been carried out with colleagues from Cheshire West and Cheshire, Warrington and Halton Councils to develop a collaborative bid for funding through the Government's Counter Fraud Fund. As a result a bid was submitted in September 2014 for funding to resource proactive work to identify and prevent fraud in high risk areas such as procurement.
- 2.22 In addition, CEC has also joined a bid led by the London Borough of Bromley to develop a smart phone app to raise awareness of fraud and improve the ease of reporting concerns. A total of 37 authorities joined this particular bid.
- 2.23 Work continued in preparation for the extract and upload of data sets to comply with the requirements of the biennial National Fraud Initiative data matching exercise. This was successfully completed on 6 October 2014 in accordance with the Audit Commission timetable. Results will be released during January 2015 at which point investigations will commence within the appropriate services. An additional match of Council Tax data against the Electoral Roll will take place in December 2014 to identify single person's discount fraud and steps have been taken in preparation for this.

### Technical Enabler Group (TEG)

- 2.24 In addition to the Project Health Check work outlined in 2.9 – 2.11, Internal Audit also sits on the Technical Enabler Group (TEG) which supports EMB and comprises senior officers representing key corporate enablers.

### Consultancy and Advice

- 2.25 During the year, Internal Audit provided advice - at the specific request of management. The nature and scope of these engagements are generally aimed at improving governance, risk management and control and contribute to the overall opinion. This year advice was given on new arrangements including ASDVs and the application of Finance & Contract Procedure Rules.

### Statutory Returns/Grant Claims

- 2.26 Internal Audit is sometimes required to certify statutory returns and grant claims. This may be related to funding provisos or similar. In most cases the work required is either an audit or an assurance statement on a specific programme/project. During 2014/15 this has included work on the Care Bill, the Adoption Reform Grant and Cheshire East Council's Family Focus programme.

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### Implementation of Audit Recommendations

- 2.27 Throughout 2014/15, Internal Audit has continued to carry out a range of follow up exercises to ensure recommendations are implemented. This work is done in a number of different ways:
- Major pieces of audit work, such as the AGS have detailed action plans which are monitored and reported separately to the Committee.
  - Investigations – follow up work is usually dependent on both the nature of the investigation and any recommendations made e.g. a follow up audit may be done at the request of management.
  - Formal assurance audits (see 2.3).
- 2.28 Audits with ‘limited’ or ‘no’ assurance are subject to more detailed review. In addition, key systems (e.g. Payroll, Accounts Payable) are audited each year with recommendations followed up as part of the work.
- 2.29 In June 2014, Internal Audit reported, as part of the Annual Report 2013/14 on the implementation of audit recommendations within timescale. This is now a key indicator contributing to the Council’s *Outcome 6: ‘A Responsible, Effective and Efficient Organisation.*
- 2.30 The indicator showed that a high percentage of 2013/14 agreed recommendations had been implemented.

- 2.31 However, the indicator also showed that the majority of the recommendations were being implemented after the agreed timescale. The 2014/15 actual figure is shown below:

#### Implementation of agreed recommendations within timescale as at 31 October 2014

2014/15 Actual	2014/15 Target	2013/14 Actual
50%	75%	26%

- 2.32 There has been a marked improvement in the indicator in 2014/15. Further work is planned in order to reach the target including the actions noted in sections 2.35 and 2.36 below.
- 2.33 One of the common themes that led to delays in implementation of audit recommendations is the ownership of actions. Structural changes mean that actions now rest with different managers not involved in the original audit work. In most cases there is no formal handover of actions when a manager leaves the authority or moves to a different role.
- 2.34 In some cases the scale of change now means that the original recommendation is no longer appropriate. In these circumstances Internal Audit liaises with managers to agree a more appropriate action.

## Internal Audit Interim Report 2014/15 April – September 2014

2.35 The timely implementation of audit recommendations is a good indicator of both the effectiveness of Internal Audit in securing action and the Council's commitment and capacity to improve. Internal Audit will continue to work with senior managers to improve this important indicator, to include

- Reporting the Consolidated Action Plan, which summarises outstanding recommendations, to the Corporate Governance Group and to Corporate Leadership Board by exception.
- Escalating common themes or emerging patterns in relation to agreed recommendations (high and medium rated) that are not being progressed, to the COO, Corporate Governance Group and CLB as necessary.

2.36 As previously reported the COO has made a commitment to further improve this indicator in 2014/15. He will work with Internal Audit and the Corporate Leadership Board, (CLB), to ensure this happens.

### Ongoing Work

2.37 The following audits commenced during the first half of the year, with work ongoing in the third quarter of 2014/15:

- Schools Audits – Assurance to S151 Officer
- Emergency AssistanCE
- Narrowing the Gap KS4
- Children's Care Management – Case Files

- Personal Budgets
- Management of Corporate Appointeeships

2.38 Other planned work, subject to final agreement with management in terms of timing and content, includes:

- Taxi Licensing
- Nursery Education Grant
- Care Leavers
- Income Management
- Council Tax
- National Non Domestic Rates

2.39 Following the changes to the audit structure and the allocation of operational responsibility for Risk Management, the audit plan will, however, need to be reviewed and areas to be audited re-assessed and prioritised. The changes will be reported in the interim report to this Committee in January 2015.

### Reliance placed on the work of other assurance bodies

2.40 Internal Audit place assurance on the work of the Council's external auditors, OFSTED and other external bodies, where appropriate.

## Internal Audit Interim Report 2014/15 April – September 2014

### 3 Annual Governance Statement

- 3.1 Each year the Council produces an Annual Governance Statement that explains how it makes decisions, manages its resources and promotes its values and high standards of conduct and behaviour. Any significant issues that are assessed as falling short of the Council's expected high standards are reported in the Annual Governance Statement, (AGS).
- 3.2 The findings and opinions of 2014/15 Internal Audit work will be considered in preparing the 2014/15 AGS. The contents of this interim report will form part of that process.

### 4 Internal Audit Performance

- 4.1 Internal Audit's performance is measured in a number of ways. Its performance against the new indicator – implementation of agreed recommendations is reported in paragraph 2.31.
- 4.2 The internal audit team's performance overall is slightly above the levels achieved in 2013/14.

Performance Indicator	2014/15 Actual at 30/9/14	2014/15 Target	2013/14 Actual	Comments on 2014/15 Actuals
Percentage of Audits completed to user's satisfaction	93%	92%	89%	Above target.
Percentage of significant recommendations agreed	97%	90%	93%	Above target.
Productive Time (Chargeable Days)	83%	80%	82%	Above target.
Draft report produced promptly (per Client Satisfaction Form)	83%	95%	78%	Positive direction of travel.

### Benchmarking

- 4.3 Benchmarking is an important tool to help identify areas for review, drive improvement and deliver better value for money. The Internal Audit Section has taken part in the CIPFA Benchmarking Club in 2014/15.
- 4.4 Through the Benchmarking Club, staffing 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

## Internal Audit Interim Report 2014/15 April – September 2014

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.

- 4.5 This year's exercise has been completed and the results received. The results are currently being analysed and an improvement plan drawn up. Progress on improvements will be shared with the Committee as part of the regular Internal Audit reports.

### 5 Compliance with the Public Sector Internal Audit Standards (PSIAS)

- 5.1 Regulation 6 of the Accounts and Audit Regulations 2011 requires relevant bodies to conduct an annual review of the effectiveness of its internal audit and for a committee of the body to consider the findings. This review has been carried out by self-assessing compliance with the Public Sector Internal Audit Standards (PSIAS).
- 5.2 The review, completed by the Audit Managers concluded that, although there are areas for improvement, the internal audit service is being delivered to the required standard. This contributes to the assurances received for the AGS and was shared with members of the Committee as part of the AGS process in September.
- 5.3 An improvement action plan has been drawn up and will be monitored on an ongoing basis. Progress on improvements

will be shared with the Committee as part of the regular Internal Audit reports.

### 6 Other Developments (including Internal Audit Charter)

- 6.1 In order to provide the necessary levels of assurance to the Council with regard to internal control and compliance and support managers in delivering change and improvement; existing internal audit, risk management and compliance capacity is being co-ordinated and aligned. These separate teams have been unified under a single line of management, reporting to the new post of Corporate Manager Audit and Governance within the Corporate Resources & Stewardship service.
- 6.2 This has allowed the vacant position of Internal Audit Manager to be deleted along with one of the two Audit Manager posts in the current structure, releasing capacity for redeployment across the wider Corporate Resources & Stewardship service. The new Corporate Manager Audit and Governance will commence their role in December 2014.
- 6.3 The Internal Audit Charter was approved by the Committee in November 2013, with review due on an annual basis. A revised and updated version, that takes account of changes in structural and operational responsibility, is included as Appendix B.

# Internal Audit Charter

## 1 Introduction

- 1.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the operations of Cheshire East Council. It assists the Council in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes.

## 2 Role

- 2.1 The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2011, which states that a relevant body must:
- ‘undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.
- 2.2 The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [‘the Standards’].

## 3 Professionalism

- 3.1 Internal Audit will govern itself by adherence to the Public Sector Internal Audit Standards 2013 [‘the Standards’]. The mandatory Standards constitute the fundamental requirements for the professional practice of internal auditing in the public sector and for evaluating the effectiveness of Internal Audit's performance.
- 3.2 The Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (LGAN) will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to Cheshire East Council's relevant policies and procedures and the Internal Audit Manual.

## 4 Authority

- 4.1 Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Cheshire East Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit will also have free and unrestricted access to the Audit and Governance Committee.

# Internal Audit Charter

## 5 Organisation

5.1 The Corporate Manager Audit and Governance will report functionally to the Audit and Governance Committee and administratively (i.e. day to day operations) to the Head of Corporate Resources and Stewardship.

The Audit and Governance Committee will:

- Approve the Internal Audit Charter.
- Approve the risk based internal audit plan.
- Receive communications from the Corporate Manager Audit and Governance on Internal Audit's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Corporate Manager Audit and Governance to determine whether there is inappropriate scope or resource limitations.
- Receive the annual report, which includes:
  - the annual opinion,
  - a summary of the work on which internal audit has based the opinion,
  - a statement on conformance with PSIAS and the LGAN and
  - the results of the quality assurance and improvement programme.

5.2 The Corporate Manager Audit and Governance will communicate and interact directly with the Audit and Governance Committee as appropriate.

## 6 Independence and Objectivity

6.1 Internal Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

6.2 Any assurance activity in areas where the Corporate Manager Audit and Governance has operational responsibility will be carried out by auditors with no involvement in the process and overseen by the Head of Corporate Resources and Stewardship, thus maintaining independence and objectivity in line with the PSIAS.

6.3 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

6.4 The Corporate Manager Audit and Governance will confirm to the Audit and Governance Committee, at least annually, the organisational independence of Internal Audit.

# Internal Audit Charter

## 7 Responsibility

7.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating risk exposure relating to achievement of the Council's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the Council.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the Council's risk management processes.
- Evaluating the degree of coordination between internal and external providers of assurance – sharing information and coordinating activities to ensure proper coverage and minimise duplication of effort.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation.
- Reporting periodically on Internal Audit's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Audit and Governance Committee.
- Evaluating specific operations at the request of the Audit and Governance Committee or management, as appropriate.

7.2 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the organisation that these arrangements are in place and operating properly.

7.3 The provision of assurance is, therefore, the primary role for internal audit. This role requires the Corporate Manager Audit and Governance to provide an annual internal audit opinion and report which is timed to inform the Annual Governance Statement

## Internal Audit Charter

and is based on an objective assessment of the framework of governance, risk management and control.

- 7.4 Internal Audit may also undertake non-assurance work including fraud related and consultancy work, at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.
- 7.5 The Corporate Manager Audit and Governance will be made aware of major new systems and proposed initiatives. The Corporate Manager Audit and Governance will consider what if any audit work needs to be done to help ensure risks are properly identified and evaluated and appropriate controls built in.

### 8 Role of Internal Audit in Fraud Related Work

- 8.1 Managing the risk of fraud and corruption is the responsibility of management. The Corporate Manager Audit and Governance will be informed of all suspected or detected fraud, corruption or impropriety to inform their opinion on the internal control environment and Internal Audit's work programme.
- 8.2 At the request of management, Internal Audit may go beyond the work needed to meet its assurance responsibilities and assist with, for example, the investigation of suspected fraud and corruption.

### 9 Internal Audit Plan

- 9.1 At least annually, the Corporate Manager Audit and Governance 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 Corporate Manager Audit and Governance will communicate the impact of resource limitations and significant interim changes to the Corporate Leadership Board and the Audit and Governance Committee.
- 9.2 The internal audit plan will be 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 Corporate Manager Audit and Governance 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.

## Internal Audit Charter

### 10 Reporting and Monitoring

- 10.1 A written report will be prepared and issued by the Corporate Manager Audit and Governance or designee following the conclusion of most internal audit assignments and will be distributed as appropriate. Internal audit results will also be communicated to the Audit and Governance Committee.
- 10.2 The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- 10.3 Internal Audit will be responsible for appropriate follow-up on engagement findings and recommendations.
- 10.4 The Corporate Manager Audit and Governance will periodically report to the Corporate Leadership Board and the Audit and Governance Committee on Internal Audit's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by The Corporate Leadership Board and the Audit and Governance Committee.
- 10.5 The Corporate Manager Audit and Governance is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

### 11 Quality Assurance and Improvement Programme

- 11.1 Internal Audit will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the *Standards* 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.
- 11.2 The Corporate Manager Audit and Governance 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.

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## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of Meeting:** 20th November 2014  
**Report of:** Chief Operating Officer  
**Title:** Compliance with Contract Procedure Rules  
**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 Compliance with Contract Procedure Rules (CPRs) and also to provide an outline of the improvements being implemented via procurement that involve and require changes to the Contract Procedure Rules.

#### 2.0 Recommendation

- 2.1 To note:
- i) the update on Compliance with CPRs since March 2014.
  - ii) that Contract Procedure Rules have been reviewed recently and a revised and updated set of Rules will be presented to Constitution Committee on 19<sup>th</sup> November and thereafter to full Council on 11<sup>th</sup> December, for approval.

#### 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 (Authorised by the Chief Operating Officer)**

- 7.1 Whilst there are no direct financial implications associated with the decisions requested, the changes being implemented via the Procurement Team will help to continue to improve the delivery of value for money and also allow more analysis of the exceptions/requests to be reported to the Procurement Board at each of its meetings.

## **8.0 Legal Implications (Authorised by the Head of Legal Services)**

- 8.1 This report is being submitted to comply with the Council's Constitution and in particular rule E11 of the Finance and Contract Procedure Rules ("the Rules"), which provides that reports should be submitted to the Audit and Governance Committee setting out instances of non-compliance with the Council's rules.
- 8.2 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. 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.

## **9.0 Risk Assessment**

- 9.1 There is a current 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 further improvements to the process, in January 2013 and May 2013.
- 10.2 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. All

recommendations from the audit were implemented and also fed into the review of Contract Procedure Rules (see 10.5 below).

- 10.3 Further improvements were introduced in December 2013, as reported to the Committee in March 2014, when a revised procedure was introduced that has simplified the process and made it more efficient and appropriate, whilst still in line with the Constitution. This led to one new consolidated form being used as compared to the three previously used. This new approach has increased the rigour of the process and encouraged greater compliance and will lead to a reduced number of forms over time.

#### Summary (January – June 2014)

- 10.4 The new 'WARN' (Waivers and Record of Non Adherences) process records the following:

- § **Waivers to requirements of competition** – these are agreed waivers in accordance with E23/E24 of the current Contract Procedure Rules.
- § **Non Adherences to Contract Procedure Rules**
- § **Unauthorised extensions to existing contracts**

- 10.5 A summary of the Waivers and Non Adherences for the period under review, against the previous total figure reported to Committee in March 2014, is set out below:

	January to June 2014	July to December 2013
	No.	No. <sup>1</sup>
Waiver to requirements of competition	39	
Non Adherence to Contract Procedure Rules	10	
Unauthorised extensions	0	
<b>Total</b>	<b>49<sup>2</sup></b>	<b>45<sup>2</sup></b>

#### Notes:

<sup>1</sup> The analysis of waivers/non-adherences began in December 2013, so is not available for the July – December 2013 period.

<sup>2</sup> An analysis by service has not been produced given the Council restructure last year and therefore lack of any meaningful comparison between periods.

- § The largest single reason for waivers and/or non-adherences is that of urgency/efficiency of the service, sometimes resulting from a lack of planning. Many 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. The Procurement Board analyses all WARNs at each of its meetings and has explored trends and issues arising. The use of interims and consultants to assist with the improvement required as part of the Ofsted Improvement plan was one major factor earlier in the year. A framework for consultants is currently being developed to allow for the employment of senior consultants and interims, which would have reduced the number of WARNs by 15.

- § 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 (July 2014 to date)**

- § There is currently a Procurement Improvement Programme underway. One of the key areas for changes is the re-drafting of Contract Procedure Rules which underpin all Commissioning and Procurement Activity.

- § There will be a new 'risk based sourcing' approach which essentially assesses the risk, value and complexity of procurements. The key objective is to support a more commercial approach ensuring best value with a balanced attitude to risk. The changes to Contract Procedure Rules will also simplify processes, particularly below European Union thresholds which supports the delivery of savings and cost avoidance, whilst making it easier for local/all companies to bid for Council work.

- § It is envisaged that the risk based sourcing approach will facilitate a reduction in waivers due to quicker/leaner processes.

- § Future reporting of waivers and non-adherences and any issues resulting from the waiver process will be regularly reported and analysed by the Procurement Board.

- § Corporate Leadership Board has recently started receiving monthly analyses of expenditure over £5,000 to enable them to understand and review the information for their particular areas of spends. Internal Audit will also be sample checking a number of transactions. This process will give expenditure more visibility, a higher profile and provide CLB and Members with greater assurance and control.

#### **11.0 Access to information**

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

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Designation: Chief Operating Officer  
Tel No: 01270 686013  
Email: [peter.bates@cheshire.gov.uk](mailto:peter.bates@cheshire.gov.uk)

## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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<b>Date of Meeting:</b>	20 November 2014
<b>Report of:</b>	Head of Corporate Resources and Stewardship
<b>Subject/Title:</b>	Payments to Directors of Council Owned Companies
<b>Portfolio Holder</b>	Cllr Peter Raynes

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#### 1.0 Report Summary

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. An integral part of the Council's plan has been the establishment of a number of Alternative Service Delivery Vehicles (ASDVs) in a variety of service areas, with the aim of improving services and placing the needs of residents first. To date, the following ASDVs have been established:

- Cheshire East Residents First Limited (holding company) (CERF). Its subsidiaries are:
  - East Cheshire Engine of the North (EoTN).
  - Ansa Environmental Services Limited (ANSA),
  - Orbitas, Bereavement Services Limited (Orbitas),
  - Transport Service Solutions Limited (TSS),
  - New Cheshire Planning Limited
  - Cheshire East Energy Limited.
- Tatton Park Enterprises Ltd (TPE)
- Everybody Sport & Recreation Limited (ESAR),
- CoSocius Limited (shared HR Finance and ICT transactional services with Cheshire West and Chester Council) (CoSocius),

Details of the current Directors of all Council owned companies are included at Appendix 1.

1.2 The Council's policy on paying Directors within its owned and controlled companies was set out in the report 'Cheshire East Ltd – Group Structure and Governance Arrangements', which was approved by Cabinet on 24<sup>th</sup> March 2014. This report sets out the Council's policy and provides assurance to the Audit and Governance Committee with regard to its implementation.

## **2.0 Recommendation**

- 2.1 That the Committee notes the report and the assurance it provides in relation to payments to company directors.

## **3.0 Reasons for Recommendations**

- 3.1 To inform the Audit and Governance Committee of the action taken to implement a Cabinet decision and to allow the Committee to review those actions.

## **4.0 Wards and Local Ward Members Affected**

- 4.1 All Members who are directors and in addition, Councillor Marren, who is both a Member of Audit and Governance Committee and Chairman of Orbitas Limited

## **5.0 Policy Implications**

- 5.1 Not applicable.

## **6.0 Financial Implications (authorised by the Chief Operating Officer)**

- 6.1 Contained within the report.

## **7.0 Legal Implications (authorised by Head of Legal Services and Monitoring Officer)**

- 7.1 Under company law the right to pay Directors must be set out in the company's Articles of Association. All Cheshire East owned and controlled companies have adopted the model Articles of Association referred to in the Companies Act 2006 and are therefore permitted to remunerate directors as well as reimbursing them for reasonable expenses. To enable payments to be made the relevant Company Board must make a decision to remunerate its directors and record this decision. Where necessary, payments to Directors can be retrospectively approved by a decision of the Board. All of the payments that have been made to company directors to date fully comply with current company law.

- 7.2 A primary consideration in making payments to Directors has been to ensure that all HMRC requirements with regard to PAYE regulations have been adhered to. To this end, all payments have been made either by the companies directly via their own payroll system or by the Council, on behalf of the relevant company, through its own payroll system. This approach has ensured that all statutory deductions were made at source through PAYE and all tax and NI reported and paid promptly to HMRC. The Council's approach to paying directors in April 2014 was discussed with the Council's HMRC Relationship Manager at the time. The Relationship Manager confirmed that the Council's proposals were fully compliant with HMRC

regulations. The Council's External Auditors were also consulted and no concerns were raised.

## **8.0 Risk Management**

8.1 The main risks with Directors' payments are similar to those associated with salary payments to employees, namely errors and overpayments. This risk is mitigated by the fact that all payments are made via the Oracle payroll system, governed by standard authorisation and approval procedures, with a full audit trail of payments retained. However, with regard to Directors' payments there is an additional risk of individuals benefitting twice from a Special Responsibility Allowance (SRA) and a Director's payment due to changes to payments or responsibilities by a company or the Council. Processes have been set up to ensure that the Council receives information on all payments made by controlled companies and any changes to a Director's payments will be immediately notified to the Democratic Services team so an assessment of any potential impact on SRA payments can be made.

8.2 As set out at 7.2, all payments have been made through the payroll system of either the company or the Council, with appropriate statutory deductions made at source. This ensures that the requirements of HMRC with regard to Real Time Information (RTI) framework are fully complied with.

## **9.0 Background**

9.1 The Cabinet report of 24<sup>th</sup> March 2014 set out the overarching governance framework for all Cheshire East's wholly owned and controlled companies. Included within the report were the following provisions relating to Directors and their remuneration.

9.1.2 The composition of Company Boards was defined as:

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

9.1.3 The principle of paying non-executive directors was set out as follows:

*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.*

9.1.4 The level of remuneration:

*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.*

9.1.5 The potential for some Councillors to be in receipt of both a Director's payment from a company and an SRA from the Council was also considered:

*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 (the £10,000/£5,000 limits). This ensures that a councillor does not 'benefit twice' by receiving an income from the company in addition to their special responsibility allowance.*

9.1.6 The issue of when payments should commence:

*Directors' remuneration accrues from day to day. It is also generally accepted 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.*

9.1.7 Following the 24<sup>th</sup> March meeting the following principles were agreed between the Leader of the Council and the Chief Operating Officer to enable officers to implement 9.1.6:

- *A company chair may be paid up to 3 months prior to the date of the incorporation provided they can justify activity such as planning meetings and business case development:*
- *Other non executive directors – from the date of incorporation or when they become active if later than date of incorporation.*

The key element in this criteria to initiate payments is the evidence to support involvement and activity by the Directors. In each case the Heads of Legal Services and Corporate Resources and Stewardship review this evidence before authorising payments to start.

9.2 Following approval of the report by Cabinet on 24<sup>th</sup> March 2014 arrangements were put in place to make payments to all qualifying Directors. The nature of the payments was particularly complex due to the interplay between SRAs paid by the Council and Director's payments made

by the Company. The payments were made on 4 April 2014 to bring all transactions up to date as at the end of the financial year 2013-14. A key objective was to ensure payments were made in the 2013-14 tax year. This meant that the last day that payment could be made through the PAYE system, and accounted for in the 2013-14 tax year, was 4 April 2014.

- 9.3 All payments on 4 April 2014 were made through the Council's payroll system to ensure that all statutory deductions were made at source and reported to the HMRC. The issue was discussed with HMRC at the time and they expressed satisfaction that it had been handled correctly and were re-assured that all deductions had been made correctly. The Council has since been reimbursed in full by each company involved. In addition, the approach taken has been subsequently shared with the Council's external auditors who have also expressed their satisfaction.
- 9.4 In line with company law all company boards passed resolutions setting out their policy on Director's remuneration. Some of the companies passed their resolutions on director's remuneration shortly after the initial payments had been made on 4 April 2014. Such an approach is in line with company law which permits the retrospective approval by the Board of actions taken by the company. The overriding principle is that remuneration for a directorship is paid first and where appropriate the SRA is reduced to ensure that the individual is not paid twice.
- 9.5 Apart from Tatton Park Enterprises Ltd (TPE), all Cheshire East owned and controlled companies resolved to pay Directors in line with the March Cabinet report. TPE Ltd have set their payments at a maximum of £2,000 per year for the Chair and £1,000 for Non Executive Directors, reflecting the different size and nature of that company.
- 9.6 The Board of CoSocius Ltd (the shared service company owned jointly with Cheshire West and Chester) is comprised of officers of the company and the two councils with no additional remuneration paid. The Leisure Trust (Everybody Sports and Recreation) is an independent Charitable Trust and its Directors receive no remuneration. The boards of New Cheshire Planning Limited and Cheshire East Energy Limited are not yet active and therefore no payments have been made.
- 9.7 In June this year, the Chief Operating Officer commissioned a comprehensive review of all payments made to date. The main purpose of his review was to confirm that:
- Council procedures were followed;
  - HMRC regulations were not breached;
  - payments complied with company law;
  - all calculations were correct; and
  - that no director benefited twice - by receiving an income from the company in addition to any SRA.

9.8 The Chief Operating Officer's review identified a small number of errors had been made in the payments made on 4 April 2014. The errors were primarily due to complex relationship between a councillor's SRA and director's remuneration. Particular issues related to the precise timing of when responsibilities in both the Council and the company were assumed or relinquished. All of these issues were corrected in August 2014. In all instances, directors were notified of transactions which affected them and detailed calculations were shared with the individuals concerned.

9.9 The total payments made as at the end of August 2014 were:

	Director Payments 2012-13	Director Payments 2013-14	Director Payments 2014-15 to end August '14	<b>Total (exc. oncosts)</b>	Monthly Amount from Sept 2014  (exc oncosts)
	£	£	£	£	£
CERF Ltd	0	0	0	<b>0</b>	0
ANSA Ltd	0	10,613	8,554	<b>19,167</b>	1,667
Orbitas Ltd	0	12,980	6,187	<b>19,167</b>	1,667
Engine of the North Ltd	973	23,144	8,338	<b>32,455</b>	1,667
TSS Ltd	0	0	6,667	<b>6,667</b>	1,666
TPE Ltd	524	3,166	586	<b>4,276</b>	146
<b>Total</b>	<b>1,497</b>	<b>49,903</b>	<b>30,332</b>	<b>81,732</b>	<b>6,813</b>

No payments are due in respect of Cheshire East Residents First Ltd as the Directors of this company elected not to take any remuneration. In all instances, the Chief Operating Officer found that Council procedures and company law were followed and that HMRC regulations were not breached. The total level of Special Responsibility Allowances (after allowing for Director's Payments which take precedence) paid by the Council in 2013-14 was £322,000. This is expected to reduce to about £286,000 in 2014-15. In addition, the total level of net SRA payments and Director's payments combined is projected to fall from £372,000 in 2013-14 to £364,000 in 2014-15.

9.10 Wherever possible payments were made directly by the companies themselves i.e. through their own separate financial systems and their own bank accounts. However, in the case of two companies – Engine of the North and Transport Service Solutions, payments were made by the Council on their behalf and then charged back to the company. This is because the payroll functionality required to make the payments directly from the company's bank account is not yet ready. Work is ongoing to

ensure that all payments are made directly by each company as soon as is practically possible.

- 9.11 From September 2014 onwards primary responsibility for initiating, processing and checking payments rests with each company. However, due to the interaction with the Council's Special Responsibility Allowances (SRAs), each company must report any amendments to Democratic Services who can then assess any impact on SRAs. In all instances, it is the Director's payment which takes precedence. Where appropriate it is the councillor's SRA payment that is reduced to avoid any individual benefitting twice.
- 9.12 To ensure openness and transparency full details of all Directors payments made to Councillors from a Council owned and controlled company will be published on the Council's website alongside details of all other allowances paid.

## **10.0 Access to Information**

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

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## Appendix 1

## Current Directors in Council Owned Companies

Name of Company	Directors
Tatton Park Enterprises Limited	Jamie Macrae – Chair Peter Raynes George Walton
East Cheshire Engine of the North Limited	Andrew Thwaite - Chair Damien Druce David Newton
ANSA Environmental Services Limited	John Hammond - Chair Steven Hogben Roger West
Orbitas, Bereavement Services Limited	David Marren - Chair Penelope Butterill Lesley Smetham
Transport Service Solutions Limited	Rod Menlove - Chair Gail Wait Derek Hough
Cheshire East Residents First Limited	David Brown - Chair David Topping
New Cheshire Planning Limited	Andrew Kolker - Chair Olivia Hunter
Cheshire East Energy Limited	Peter Mason - Chair Derek Bebbington
CoSocius Limited	<i>No Councillors on the board</i>

## CHESHIRE EAST COUNCIL

### Audit and Governance Committee

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**Date of Meeting:** 20 November 2014  
**Report of:** Head of Legal Services and Monitoring Officer  
**Subject/Title:** Members' Code of Conduct: Standards Panels and Sub-Committee Update

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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 and Local Resolution Panel between the period April 2014 to October 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 2014 to October 2014 and, where concluded, the outcome.
- 10.2 On the 26<sup>th</sup> June 2014 this committee considered a report from the Head of Legal Services recommending improvements to the processes for considering standards complaints aimed at reducing delay and complexity. This report was approved and passed on to the council for consideration. On the 17<sup>th</sup> July 2014 the council agreed the report and adopted an amended process for dealing with complaints received after that date. Any complaints previously received would continue to be dealt with under the procedure in force at the time the complaint was received.

## **11.0 Summary of Complaints April 2014 to 17 July 2014**

- 11.1 Between April 2014 and 17 July 2014, 12 complaints were received by the Monitoring Officer i.e.

No. of complaints against a member of Cheshire East Council	7
No. of complaints against a member of Cheshire East Council and A Parish/Town Council	2
No. of complaints against a member of a Parish/Town Council within the Borough	3

11.2 Of those complaints dealt with under the former processes which had completed the initial assessment stage, the decision of the Initial Assessment Panel was as follows -

No further action/letter from Monitoring Officer	15
Referred to a Group Leader for informal action	0
Referred for local resolution	0
Referred for formal investigation	1
Referral to a regulatory agency or police	0

11.3 The figures include 4 complaints received during 2013/2014 which had not been through initial assessment at the time the figures were last reported to the Committee.

11.4 Two further complaints remain to be dealt with by the Initial Assessment Panel. A third which had been referred for local resolution in March 2014 has also now been completed, the Local Resolution Panel concluding that no further action be taken.

**12.0 Summary of Complaints – 18 July 2014 to October 2014**

12.1 Between 18 July 2014 and end October 2014, 5 complaints were received by the Monitoring Officer i.e.

No. of complaints against a member of Cheshire East Council	4
No. of complaints against a member of a Parish/Town Council within the Borough	1

12.2 Of those complaints dealt with under the new processes the decision of the Monitoring Officer was as follows -

No further action	3
No further action/letter from Monitoring Officer	1
Referral for informal action	1

**11.0 Access to Information**

There are no background papers relating to this report.

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