

Audit and Governance Committee

Agenda

Date:	Thursday, 19th March, 2015
Time:	2.00 pm
Venue:	Committee Suite 1,2 & 3, Westfields, Middlewich Road, Sandbach CW11 1HZ

The agenda is divided into 2 parts. Part 1 is taken in the presence of the public and press. Part 2 items will be considered in the absence of the public and press for the reasons indicated on the agenda and at the foot of each report.

PART 1 – MATTERS TO BE CONSIDERED WITH THE PUBLIC AND PRESS PRESENT

1. **Apologies for Absence**

2. **Declarations of Interest**

To provide an opportunity for Members and Officers to declare any disclosable pecuniary and non-pecuniary interests in any item on the agenda.

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

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

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

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

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

For requests for further information

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

To approve the minutes of the meeting held on 22 January 2015 as a correct record.

5. **Informing the External Audit Risk Assessment for Cheshire East Council**
(Pages 7 - 46)

To consider managements response to questions posed by the External Auditor.

6. **Risk Management Update Report** (Pages 47 - 52)

To consider the report and a receive a briefing on Corporate Opportunity 8 (Public Sector Effort).

7. **Members Code of Conduct Standards Report** (Pages 53 - 56)

To note the numbers and outcomes of complaints under the Code of Conduct for Members between 1 November 2014 and the end of February 2015.

8. **Audit and Governance Committee Self-Assessment** (Pages 57 - 78)

To consider the self-assessment and any amendments to it.

9. **Alternative Service Delivery Vehicle Governance and Stewardship** (Pages 79 - 88)

To note the update on the governance arrangements for Council's Alternative Service Delivery Vehicles.

10. **Disclosure of Officers Remuneration in the Statement of Accounts** (Pages 89 - 96)

To consider the report of the Chief Operating Officer.

11. **Grant Thornton Audit Plan 2014/15** (Pages 97 - 122)

To consider the Audit Plan for the year ending 31 March 2015.

12. **Internal Audit Plan 2015/16** (Pages 123 - 138)

To approve the Summary Internal Audit Plan for 2015/16.

13. **Work Plan 2014/15 and 2015/2016** (Pages 139 - 148)

To consider the Work Plan for the remainder of this municipal year and for 2015/16.

CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Thursday, 22nd January, 2015 in Committee Suite 1,2 & 3,
Westfields, Middlewich Road, Sandbach CW11 1HZ

PRESENT

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

Councillors B Burkhill, S Corcoran, M Hardy, A Kolker, B Murphy and D Neilson.

Councillors in attendance:

Councillor B Moran and P Raynes.

Officers in attendance:

Andrew North – Corporate Manager Audit and Governance
Iolanda Puzio – Legal Team Manager
Jon Robinson – Audit Manager
Sandra Smith – Customer Relations and Compliance Manager
Judith Tench – Head of Corporate Resources and Stewardship
Joanne Wilcox – Corporate Finance Manager
Cherry Foreman – Democratic Services Officer

External Auditor (Grant Thornton)

Allison Rhodes

36 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors R Fletcher and D Marren.

37 DECLARATIONS OF INTEREST

There were no declarations of interest.

38 PUBLIC SPEAKING TIME/OPEN SESSION

No members of the public were present.

39 MINUTES OF PREVIOUS MEETING

Minute 30 (Payments to Directors of Council Owned Companies) was amended to add *'It was suggested that full disclosure of all payments by Councillors should be by way of a single table showing all the information in para 9.13.'*

RESOLVED

That, subject to the inclusion of the above, the minutes of the meeting held on 20 November 2014 be approved as a correct record.

40 EXTERNAL AUDIT UPDATE

The External Auditor presented an update on progress to date in delivering their responsibilities. An Appendix to the report tabled work in progress. The report also highlighted emerging national issues and developments which might be of relevance to Cheshire East.

Particular attention was drawn to accounting and audit issues in respect of school land and buildings on local authority balance sheets; this was an issue which was thought to have been settled but had recently been reignited. The Committee was advised that Grant Thornton were taking a leading role in trying to resolve the position and that it would be advised of the outcome as soon as possible.

Attention was also drawn to a current consultation by the DCLG on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018, instead of 30 September. Real changes would have to be made in the way both Local Authorities and their Auditors worked in order to achieve the earlier deadline. Whilst it was appreciated that there were advantages to closing the end of year accounts quickly it was considered that this should also be done as accurately possible without placing unnecessary stress on those involved. It was confirmed that Officers would be responding to the consultation and would ensure that appropriate measures were in place should the change take place.

The main recommendations of the Kerslake report on Birmingham City Council were highlighted as they were especially relevant to large Unitary authorities. It was confirmed that the Corporate Leadership Board were aware of the issues and that they would be assessed further with regard to any messages for Cheshire East.

RESOLVED

That the report be noted.

41 CERTIFICATION OF CLAIMS AND RETURNS

Consideration was given to the key findings of the External Auditor following their completion of the certification process for the 2013/14 claims and returns. A letter attached to the report summarised the key findings in respect of two claims totalling £91 million. It had been concluded that the Council had appropriate arrangements to compile complete, accurate and timely claims and returns.

RESOLVED

That the report be noted.

42 TREASURY MANAGEMENT STRATEGY AND MRP STATEMENT 2015/16

Consideration was given to the Treasury Management Strategy Statement, incorporating the Minimum Revenue Provision Policy Statement for 2015/16 and also the Investment Strategy and Prudential and Treasury Indicators 2015/18. The report was due to be considered by both the Cabinet and Council; the date of the Cabinet meeting had been moved to 11 February which would bring about some changes to the figures.

The key elements of the strategy for 2015/16 were set out as being to retain capital financing costs within an affordable limit of c.£14m; not enter into any overall additional external borrowing in 2015/16; to take an appropriate approach to risk if short term loans were required by only borrowing from lenders identified in the strategy; to maintain security of investments by only using counterparties detailed in the strategy and to support a flexible approach to treasury management that could react to opportunities and market conditions to maximise effectiveness, whilst protecting the public funds managed within the strategy.

RESOLVED

That the Treasury Management Strategy and the Minimum Revenue Provision Policy Statement for 2015/16 be noted and submitted to Cabinet and to Council on 11 and 26 February 2015 respectively.

43 COMPLIANCE WITH THE DATA PROTECTION ACT, FREEDOM OF INFORMATION ACT AND ENVIRONMENTAL INFORMATION REGULATIONS

Consideration was given to an update on how Cheshire East Council fulfils its obligations under the Data Protection Act (1998), and the Freedom of Information Act (2000) (including the Environmental Information Regulations (EIR)). The report highlighted the volume of requests, trends and current and future issues. It was reported that for the first time since the inception of the Council FOI requests had marginally reduced and, also, only 4 complaints about the Council had been referred to the Information Commissioner compared to 13 in the previous year.

RESOLVED

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

44 COMPLIANCE WITH THE REGULATION OF INVESTIGATORY POWERS ACT 2000

Consideration was given to an update on the way in which the Council has complied with RIPA legislation during 2014/15, and the number of applications authorised to date. The Office of Surveillance Commissioners is responsible for inspecting the Council's use of, and compliance with, RIPA and the Council was due to be inspected this Spring in accordance with the biennial inspection regime. The last report had been very positive and any recommendations for improvement had been implemented.

RESOLVED

That the contents of the report in respect of the numbers of applications and the current arrangements in place to ensure the Council complies with the legislation be noted.

45 INTERNAL AUDIT INTERIM REPORT 2014/15

Consideration was given to a report on progress against the Internal Audit Plan and revisions to it. A detailed report had been considered at the last meeting (minute 33 refers) and therefore a highlight report covering work delivered

between October and December had been prepared, along with a brief outline of that planned for the remainder of the financial year.

RESOLVED

That the issues identified be noted, and the approach to achieving adequate audit coverage in the remainder of 2014/15 be endorsed.

46 AUDIT AND GOVERNANCE COMMITTEE SELF-ASSESSMENT UPDATE

Members considered progress in implementing agreed actions arising from the 2013/14 self assessment of the Committee against good practice, and the evaluation of its effectiveness reported in March 2014. Points arising from the discussion would be used in planning the Committees work programme and training plans for the coming year, and also to inform the 2014/15 Annual Report.

Support was given to the improvement options given and particularly to expanding the attendance of non-committee members at meetings, especially newly elected Councillors, by involving as many as possible in member development training sessions and presentations on the findings of the External Auditors; encouraging a greater awareness by Committee members of their own knowledge and skills and so of their training needs; and to the use of performance indicators for the implementation of agreed recommendations within agreed timescales.

In addition further training was requested on the position regarding school land and buildings, as highlighted by Grant Thornton earlier in the meeting.

RESOLVED

1. That the progress in relation to the implementation of actions to improve the effectiveness of the Committee be noted, and the comments made be taken into account in preparing the Committee Work Plan for 2015/16.
2. That the self-assessment of the Audit and Governance Committee against good practice, and the evaluation of its effectiveness for 2014/15, be considered at the next meeting.

47 FRAUD AND CORRUPTION UPDATE REPORT

The Committee considered a report on national developments to counter the threat of fraud corruption, an update on the activity of Cheshire East Council, and details of work to be completed to ensure its compliance with best practice and improve its resilience to these threats.

Attention was drawn to the work of CIPFA, the Counter Fraud Centre, and of Internal Audit in reviewing and the Council's current arrangements. The success of a joint bid by the Council with Cheshire West and Chester, Warrington and Halton, to the Governments Counter Fraud Fund, was reported, and also that for funding to develop a Counter Fraud Smartphone App.

The Council's performance in certain key areas was detailed, along with comparisons with the average for Unitary Authorities. This showed that in common with many other Authorities the arrangements for non-benefit fraud were

not as well developed as those for benefits; this was an area, however, that was to be targeted using the resources reported above.

RESOLVED

That the report be noted.

48 REVISING THE COUNCIL'S CODE OF CORPORATE GOVERNANCE

An update was considered on the approach to updating the content and format of the Councils Code of Corporate Governance to reflect best practice and organisational change.

Areas of review included looking at it from the position of being a Commissioning Council, reviewing the continuing relevance of the principles and sub-principles of the Code, and ensuring that evidence sources were as wide ranging and comprehensive as possible. It was proposed that the Code be revised to include the sources of evidence, examples of which were shown in an Appendix to the report, and that it be considered further by the Committee at its meeting in June 2015.

In response to a question concerning whether or not the Code applied to the Councils WOCs and ASDVs, Members were advised that it did not but that they were governed by the Councils contractual process. It was requested that this be looked into further

RESOLVED

That approval be given to updating the Councils Code of Corporate Governance.

49 RISK MANAGEMENT UPDATE REPORT

The Committee considered the Council's risk maturity assessment and an update on the Corporate Risk Register. It was noted that the Council had previously been assessed between '*risk aware*' and '*risk defined*' and the Cabinet had set a target of '*risk managed*'.

In order to provide high level focus on risk management, control and governance arrangements a Corporate Assurance Group had been formed and it was considering measures needed to achieve the '*risk managed*' standard. It was reported that the Councils Risk Register had been reviewed recently in line with the Councils Risk Management Policy; Members selected the Public Sector Effort opportunity for review at the next meeting.

RESOLVED

That the report be noted and that the Public Sector Effort opportunity be reviewed further at the next meeting of the Committee.

50 WORK PLAN 2014/15

The Committee considered the Work Plan, which ran until the end of the current municipal year.

It was suggested that, as discussed earlier in the meeting, items be added to the Work Plan as follows: -

- Schools accounting (Minute 40 refers)
- Performance management (Minute 46 refers)
- Revised Code of Corporate Governance (Minute 48 refers)

RESOLVED

That the additions to the Work Plan as detailed above be noted and that it be considered further by the Committee at its meeting in June.

The meeting commenced at 2.00 pm and concluded at 4.30 pm

Councillor J Wray (Chairman)

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting: 19 March 2015

Report of: Chief Operating Officer

Title: Informing the External Audit Risk Assessment for Cheshire East Council

Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

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

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

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

2.0 Recommendation

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

3.0 Reasons for Recommendations

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

4.0 Wards Affected

4.1 All Wards

5.1 Local Ward Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Chief Operating Officer)

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

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

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

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

9.0 Risk Assessment

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

10.0 Background and Options

10.1 The Audit and Governance Committee is an important source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance. In recognition of this important role, and in order to comply with ISAs (UK and Ireland) Grant Thornton require an understanding of management processes and the Audit and Governance Committee's oversight of the following areas:

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

- 10.2 The report, attached at Appendix A, includes a series of questions on each of these areas and the response that Grant Thornton has received from Cheshire East Council's management.
- 10.3 The Council has in place arrangements to identify fraud risks and respond to them accordingly. There is a Corporate fraud risk which is supplemented by a detailed fraud risk assessment that engages service managers in the process of identifying not only areas which may be susceptible to fraud, but also controls that are in place to mitigate these risks.
- 10.4 The arrangements for responding to fraud issues, including the Anti Fraud and Corruption Strategy and the Whistleblowing Policy are subject to regular review and Members receive update reports on these matters through this Committee.
- 10.5 Member oversight of fraud is further strengthened by the Member/Officer Group which provides a more detailed understanding of the issues and arrangements in this area.
- 10.6 The Council has in place arrangements to ensure compliance with relevant laws and regulations via procedure rules contained within the Constitution and throughout the decision making process. Assurance on compliance is achieved through the internal audit work programme and the completion of the Annual Governance Statement which members will receive in September for approval.
- 10.7 The Council has arrangements in place to assess its ability to continue as a going concern through its sound financial management and budget planning processes. The following Corporate Risk has been formally considered in accordance with the Council's Risk Management Policy:

CR4 Financial Control Risk that the Council fails to manage expenditure within budget, due to inaccurate financial planning in both the short term and longer term and/or ineffective financial control leading to a failure to maintain an adequate level of reserves, thereby threatening financial stability and service continuity and preventing the achievement of Cheshire East's objectives and outcomes.

- 10.8 Arrangements are in place to ensure that accounting estimates and the disclosure of related parties transactions are fully compliant with the CIPFA Code and associated guidance.

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

11.0 Access to Information

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

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Informing the audit risk assessment for Cheshire East Council

Year ended

31 March 2015

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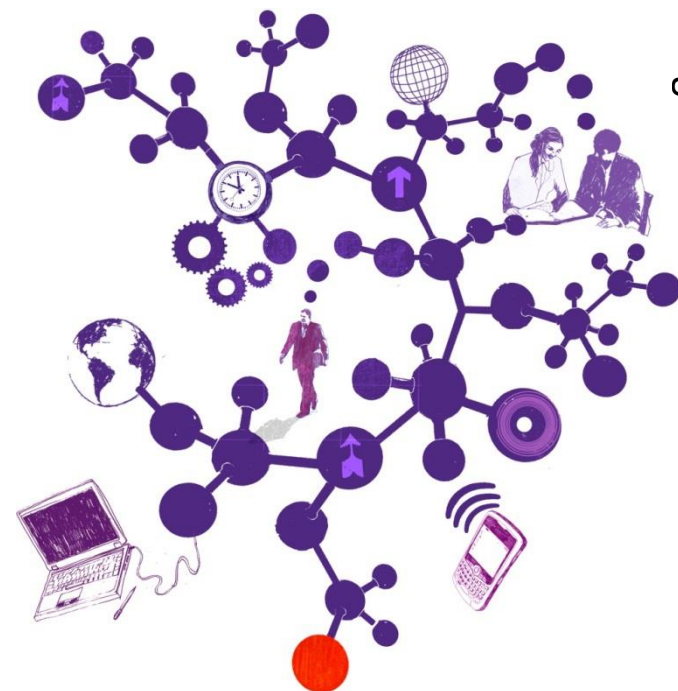
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

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Purpose

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

Background

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

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

Communication

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

- fraud
- laws and regulations
- going concern.

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

Fraud

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

Fraud risk assessment

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

Management response

The Council's risk management process has identified the following as a Strategic Risk:

Fraud Risk: *Risk that the Council fails to have proper, adequate, effective and efficient management arrangements, policies and procedures in place to mitigate the risk of fraud and corruption including bribery, particularly at a time of financial hardship, such that public money is misappropriated. This would result in a loss of funds to the Council, have a detrimental effect on services users, a negative impact on the Council's ability to achieve all of its priorities, value for money, and may have a negative impact on the Council's reputation.*

Risks are subject to on going review in accordance with the Council's Risk Management Strategy. The fraud risk was last formally reviewed in January 2015 when, following the identification and assessment of mitigating controls, the net risk was scored as medium.

In 2013 an ASDV framework was produced setting out the approach of the Council to setting up new ASDVs. This was proposed to be used as a manual for all officers and included checklists, key issues to consider across all disciplines (e.g. HR, ICT, Assets etc,) timelines and laid out an approach to risk management in relation to the creation of ASDVs. This was followed by two reports which were approved by Cabinet on 24th March 2014:

- Cheshire East Ltd – Group Structure and Governance Arrangements. This set out a comprehensive governance framework for the new companies.
- Decisions for ASDVs – this agreed the key policy decisions that the Council needed to take with regard to all companies e.g. treatment of Pensions liabilities, payment arrangements, guarantees from the Council and key contractual terms.

Fraud risk assessment continued

Management response continued

All proposals to set up ASDVs are subject to scrutiny and approval through the Council's standard project management framework. This involves the creation of an outline business case which is developed into a detailed business case, which is then considered and critiqued by an officer Technical Enabler Group (TEG) and an Executive Monitoring Board (EMB). Projects which gain approval from these bodies then progress through to Cabinet for final approval. The detailed business cases for all ASDVs have been through this process.

Fraud risk assessment continued

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

Management response

In addition to the strategic risk identified on page 6 above, a detailed Fraud Risk Assessment was produced in order to identify service specific risks to which the Council may be vulnerable.

This assessment was initially produced by the Risk and Performance Manager and the Principal Auditor (Fraud) and took into account the areas identified in the Strategic Fraud Risk, local knowledge and also those risks identified in national publications such as Protecting the Public Purse and Fighting Fraud Locally. It was then shared with service managers to obtain their input and ensure that all significant risks had been identified.

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

Management response

In common with many other local authorities, Cheshire East Council has in place robust arrangements for the identification, investigation and prosecution of Housing Benefit Fraud. It is, however, acknowledged that arrangements are less well developed in other, non benefit, related areas but no specific or significant frauds have been identified during the year.

This issue was discussed with Internal Audit colleagues at neighbouring authorities and a collaborative bid was developed and submitted to the Counter Fraud Fund to pay for a Counter Fraud Analyst post to work across the four Cheshire authorities. The bid for funding was successful and a recruitment exercise is currently underway. The objective of the role is to focus on areas identified as being at high risk of fraud and to develop awareness raising tools and training materials. The initial focus will be on procurement and insurance.

The Fraud and Bribery Risk Assessment was developed based upon local and national knowledge and seeks to identify areas that are vulnerable to fraud. Internal Audit will seek assurance as to the effectiveness of mitigating controls in line with the Annual Audit Plan.

Fraud risk assessment continued

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

Management response

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

The AGS is considered by the Corporate Leadership Board with the collection of evidence for, and the drafting of it being the responsibility of the Corporate Assurance Group. The review of governance arrangements in place is informed by the work of Internal Audit and senior managers and also comments made by the External Auditors and other review agencies/inspectors.

Sources of assurance include the Directors, Heads of Service and senior managers signing off the adequacy of controls within their service areas/directorate via disclosure statements. The disclosures are made available to, and considered by the Audit and Governance Committee in order that Members may discharge their duties with regard to approving the AGS.

Where weaknesses are identified they are addressed by the production of an action plan which is subject to monitoring by the Corporate Assurance Group (CAG).

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

With regards to the production of the AGS for 2014/15 a draft statement and action plan will be presented to the Audit and Governance Committee in June 2015 along with Internal Audit's Annual Report, and the final version will be put in front of the September 2015 meeting of the Committee.

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

Fraud risk assessment continued

Management response continued

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

Internal Audit undertakes testing on internal controls by examining their effectiveness and in this way the Council can gain reasonable assurance with regard to the potential for override of management controls or other inappropriate influence over the financial reporting process. The outcome of each audit assignment is reported to management in order to:

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

Interim reports on progress against and revisions to the Internal Audit Plan, together with a summary of work undertaken are received by the Audit and Governance Committee. The reports provide the Committee with an overview of the Council's response to internal audit activity to ensure any shortcomings in the control environment are rectified promptly. In June 2015 the Audit and Governance Committee will receive Internal Audit's annual opinion on the overall adequacy and effectiveness of the Council's control environment for 2014/15.

Fraud risk assessment continued

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

Management response

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

The Council receives quarterly performance monitoring reports from all its ASDVs and this ensures that they receive detailed scrutiny in a similar fashion alongside in house Council service areas. All financial reports are produced by Council staff who report to the Accountancy Services Manager using the same financial system and operating under the same control environment as in house service areas.

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

Management response

Audit and Governance Committee receive regular Risk Management Update reports which provide information relating to the Corporate Risk Register. The latest, received in January 2015, provided an update on the status of risks included within the Corporate Risk register, including the fraud risk.

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

Fraud risk assessment continued

Management response continued

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

- March 2014 Informing the Risk Assessment for Cheshire East Council- this provided detailed information regarding the anti fraud and corruption arrangements and how the Council identifies and responds to the risk of fraud. This report also included details of the number of prosecutions taken by the Housing Benefit Fraud Team.
- January 2015 Fraud and Corruption Update Report – this provided Members with an overview of developments taking place nationally, an update on activity at Cheshire East, and, details of work planned to ensure compliance with best practice including the Code of Practice on Managing the Risk of Fraud and Corruption.

Further oversight is provided to members of the Anti Fraud Member/Officer Sub Group which is one of a number of groups established in 2011 to enable individual Members to become more involved in specific areas of audit and governance work as a means of developing in-depth knowledge and expertise.

Audit and Governance Committee received a report in November 2014 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 involved and required changes to the Contract Procedure Rules. Following these revisions to the Council's Contract Procedure Rules (adopted on 1 January 2015) responsibility for receiving reports regarding non adherence has transferred from the Audit and Governance Committee to the Procurement Board.

Fraud risk assessment continued

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

Management response

The Council ensures that the standards of conduct expected of staff are defined and communicated through, for example, Codes of Conduct, an Anti-Fraud and Corruption Strategy and the Whistleblowing Policy. Such policies, together with the Council's Constitution, prescribe the arrangements that ensure all staff and contractors are aware of the standards expected of them.

Cheshire East Council adopted a Code of Corporate Governance in 2009 which was updated in November 2013 and is subject to annual review, and update, where necessary.

In January 2015, the Audit and Governance Committee received a report entitled Revising the Council's Code of Corporate Governance which allocated responsibility to the CAG for the detailed review of the Code which will be updated and reported to the June 2015 meeting of the Committee.

The Council undertakes an annual review of its governance arrangements to ensure continuing compliance with best practice as set out in the Framework. The Annual Governance Statement (AGS) is that review. The Council is required to prepare and publish the AGS.

Principle 3 of the Council's Code of Corporate Governance is promoting the values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour. The following paragraphs summarise the arrangements:

- All employees are governed by the Council's Financial and Contract Procedure Rules. They are required to follow the standards set out in the Code of Conduct, which is issued to all staff along with their Contract of Employment. Employees who consider other employees to be guilty of misconduct must report this to their line manager or raise it through one of the other available procedures. Employees are further governed by the Council's HR Policies (Disciplinary Procedure etc), which are issued to all staff. The Codes are communicated via briefings, training and are available on the Council's intranet and internet.

Fraud risk assessment continued

Management response continued

- The role that employees are expected to play in the Council's framework of internal control is included in staff induction procedures by their line manager and then subsequently through corporate induction training, as appropriate.
- The Anti Fraud and Corruption Strategy states that Cheshire East Council expects its employees to comply with codes of practice or other relevant professional obligations issued by professional bodies of which they may be members. Furthermore it reminds employees that they must comply with Section 117 of the Local Government Act 1972 which requires any interests in contracts that have been proposed to be entered into by the Council to be declared. The Legislation also prohibits the acceptance of fees or rewards other than by means of proper remuneration.
- Employees must register any interests they may have in the departmental register recording Declarations of Interests.
- All offers of gifts and hospitality, regardless of whether the offer was accepted or declined, must be recorded in the departmental register. Such registers should be reviewed by the appropriate departmental management team on a regular basis and a record kept of such review.

Fraud risk assessment continued

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

Management response

The Council's Anti Fraud and Corruption Strategy states that Cheshire East Council's Members and employees are positively encouraged to raise concerns regarding fraud and corruption, immaterial of seniority, rank or status, in the knowledge that such concerns will be taken seriously and wherever possible, treated in confidence and properly investigated.

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

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

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

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

Fraud risk assessment continued

Management response continued

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

In order to facilitate the reporting of concerns, the Council has in place a Whistleblowing Policy which was produced in accordance with best practice as set down in the PAS 1998:2008 Whistleblowing Arrangements Code of Practice which was produced by the British Standards Institute. The Whistleblowing Policy was reviewed and updated during 2014 with the latest version presented to and approved by the Audit and Governance Committee in June 2014.

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

Management response

Council Officers are required to declare details of related party interests which are then reviewed by senior managers to ensure no staff members are in a position where they could unduly influence Council activity in relation to these parties. Senior Officers and Members are also required to complete an additional related parties disclosure to identify any relationships they or a close family member have with a potential Council trading partner.

Reviews of such returns to date and in previous years have not indicated any relationships that would lead to a materially increased risk of fraud.

Fraud risk assessment continued

Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2014?

Management response

None which have a material impact on the financial statements.

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

The number of sanctions and prosecutions for the period 1 April 2014 – 31 January 2015 are as follows:

Cautions	26
Administrative Penalties	31
Prosecutions/Convictions	49

Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2014? If so how does the Audit and Governance Committee respond to these?

Management response

No reports have been made under the Bribery Act since 1 April 2014. Various whistleblowing reports have been received through the year but none which would have a material impact upon the financial statements.

Audit and Governance Committee last received a report detailing whistleblowing activity in June 2014 with the next update scheduled for the June 2015 meeting.

Laws and regulations

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

Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	<p>The Council has in place , within the Constitution, various procedure rules which set out how budget and policy decisions are made. Officers are required to ensure compliance with relevant laws and regulations and that lawful expenditure is delivered. Such arrangements are designed to provide reasonable assurance with regard to compliance rather than absolute certainty, because systems are susceptible to human error and poor judgment , controls can be deliberately circumvented or over-ridden.</p> <p>Reports provide a section for legal implications, and reports cannot go before Cabinet or Council without this being addressed. The Council's Statutory Officers have a positive responsibility to report to the Council, in respect of:</p> <ul style="list-style-type: none">• co-ordination of functions, staff and management matters – the Head of Paid Service• financial administration, probity and propriety – the Section 151 Officer• legality and administration – Monitoring Officer
How do management gain assurance that all relevant laws and regulations have been complied with?	<p>Internal Audit's annual plan contains a programme of work that includes reviews of compliance with policies, procedures, laws and regulations. Management, therefore, gain assurance that relevant laws and regulations have been complied with via Internal Audit opinion and interim reports. Furthermore, as part of the AGS process the Directors, Heads of Service and Senior Managers are required to sign off on the adequacy of controls within their service areas/directorate via disclosure statements. The disclosures are made available to and considered by the Audit and Governance Committee in order that Members may discharge their duties with regard to approving the AGS.</p> <p>Progress against the actions in the AGS Action Plan is monitored throughout the year by the Corporate Assurance Group and reported to Audit and Governance Committee.</p> <p>In addition to these internal reviews, key areas of activity across the council are subject to external assessment by bodies such as Ofsted, CQC and the Information Commissioner.</p>

Impact of Laws and regulations

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014 with an on-going impact on the 2014/15 financial statements?	No instances of non-compliance are known to exist that will have an ongoing impact on the 2014/15 financial statements.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p>Legal Services assess litigation claims in conjunction with Finance Officers.</p> <p>The process to identify any litigation or claims in year that would affect the financial statements is completed as part of the closure of the accounts. This includes a year end review undertaken by the Head of Legal Services and the Accountancy Service Manager.</p> <p>Where the Council believes that there is a potentially legitimate legal claim against it then this will be recognised on the balance sheet as a provision using the Council's best estimate of the likely costs it may incur. Where a claim is less likely to be successful but if successful could be material then it will be disclosed in the financial statements as a contingent liability.</p> <p>The status of insurance claims are reviewed regularly. In 2014/15 an actuarial investigation of the claims reserves has been undertaken. The results will be factored into the Council's assessment of the level of its self-insurance and the procurement of external insurance.</p>
Is there any actual or potential litigation or claims that would affect the financial statements?	There are potentially two litigation claims that have been identified by Legal Services but these are considered not to have a material impact on the financial statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	<p>There have been no inspections or reports from HMRC within 2014/15.</p> <p>Changes introduced in relation to new ASDVs have been discussed and agreed with HMRC.</p>

Going Concern

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

Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	<p>Yes, the Council undertakes a review of its status in advance of producing the Annual Statement of Accounts and has procedures in place to make that assessment including the following:</p> <ul style="list-style-type: none">• The Councils Medium Term Financial Strategy 2015/18 and Treasury Management Strategy were approved by Council on 26 February 2015.• The Three Year Summary Position identified the continued grant funding stream from government and future levels of council tax income. The report also considered the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals, so that members had authoritative advice available to them when they made their decisions.• The Council has also published Guidance and Data on the Financial Resilience of the Council. The Council's Three-Quarter Year Review of Performance was reported to Cabinet in February 2015. This predicted a small underspend of £0.2m against budget.• Financial Control is identified as a key risk in the Corporate Risk Register: <i>Financial Control: Risk that the Council fails to manage expenditure within budget, due to inaccurate financial planning in both the short term and longer term and/or ineffective financial control leading to a failure to maintain an adequate level of reserves, thereby threatening financial stability and service continuity and preventing the achievement of Cheshire East's objectives and outcomes.</i>• As part of the approval process for the Statement of Accounts the Section 151 Officer will provide assurance regarding the key risks, policies and concepts applicable to the accounts and any such disclosures that are necessary to present fairly the financial position of the Council at its year end.• All wholly owned companies benefit from a number of guarantees put in place by the authority. Their contributions to the Cheshire Pension Fund are guaranteed by the Council and each company receives regular payments in advance from the Council to cover known expenses. To cover unforeseen events each company also has access to an automatic loan facility from the council, repayable on commercial terms.

Going Concern Considerations

Question	Management response
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	<p>There are no events or conditions which would impact on the Council's status as a going concern.</p> <p>The Council has set a balanced budget for 2015/16 and provided projections for future years with knowledge of all anticipated changes in Council expenditure and funding through to 2017/18. Given the Council's cautious attitude to including income or savings only when definite projects or government announcements are known, there is a gap between income and expenditure in years two and three. As in previous years the Council expect these challenges to be overcome in good time to present a further balanced budget for 2016/2017.</p>
Are arrangements in place to report the going concern assessment to the Audit and Governance Committee?	<p>Yes, as part of the reporting process to the Audit and Governance Committee which includes the Treasury Management Strategy and Annual Report; the Statement of Accounts and Annual Governance Statement and regular updates on the Corporate Risk Register</p>
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	<p>The Council has set a balanced budget for 2015/16 and this will have taken into account relevant financial assumptions and financial information provided through the year.</p> <p>At the third quarter stage of 2014/15, the Council's reserves strategy remains effective with a small forecast underspend of £0.2m (0.1%) against a budget of £253.8m. Portfolio Holders and the Corporate Leadership Board continue to focus on managing this position to avoid any impact on the Council's general reserves at year end.</p>

Going Concern Considerations

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on the going concern?	Yes, the Councils Three Year Plan and reports to Cabinet throughout the year set out the implications of statutory or policy changes. All reports to Cabinet contain a section on Financial Implications authorised by the Section 151 Officer
Have there been any significant issues raised with the Audit and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No significant issues have been reported to date in 2014/15 which would cast doubt on the assumptions made. The Audit and Governance Committee receives regular reports from internal and external audit throughout the year and will receive the Statement of Accounts and the Annual Governance Statement for approval in September 2015
Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	Financial information on revenue and capital expenditure is reported to managers via a suite of financial reports on a monthly basis. Performance on treasury management is reported monthly to the Finance Portfolio Holder and Senior Managers and quarterly to Cabinet through the Financial Performance Report. The Council receives quarterly performance monitoring reports from all its ASDVs No adverse financial indicators have been identified. The process for reporting performance on the payment of invoices is incorporated into the contract with Co-Socius and these indicators are monitored through monthly performance reports.

Going Concern Considerations

Question	Management response
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council’s objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>Corporate Risk 3 addressed Strategic Leadership and Management and was described as:</p> <p><i>Risk that a number of interlinked change factors result in ineffective strategic leadership and management arrangements in place meaning there is no clear and consistent understanding of our business for staff, members and partners. This reduces our ability to achieve all of our priorities, objectives and outcomes.</i></p> <p><i>These factors include:</i></p> <ul style="list-style-type: none">• <i>new strategic commissioning operating model</i>• <i>management restructure</i>• <i>new and incoming senior appointments</i>• <i>scale of delivery on substantial change programmes</i> <p>In March 2014 the Audit and Governance Committee was informed that this risk was recognised as a dying risk, the net score had reduced to 4 low risk and that it was to be removed from the corporate risk register.</p>

Accounting Estimates

Issue
<p>Matters in relation to Accounting Estimates</p> <p>Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. This objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.</p> <p>Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need to an accounting estimate.</p> <p>Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council are using as part of their accounts preparation: these are detailed in appendix 1 to this report.</p> <p>The audit procedures we conduct on the accounting estimate will demonstrate that :</p> <ul style="list-style-type: none">• The estimate is reasonable• Estimates have been calculated consistently with other accounting estimates within the financial statements.

Consideration of accounting estimates

Question	Management response
Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment?	<p>Yes, as part of the Closure of Accounts process, a review is undertaken to identify accounting estimates that require significant judgement and the note is updated accordingly.</p> <p>Discussions take place with Directors/Head of Service as part of budget monitoring and outturn meetings, and will be agreed with management prior to inclusion in the accounts.</p>
Are the management arrangements for the accounting estimates, as detailed in Appendix 1 reasonable?	<p>Yes, further details are provided in the table on Accounting Estimates.</p>
How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate?	<p>Any amendments to the accounting estimates are reported and approved by the Audit & Governance Committee prior to inclusion in the Statement of Accounts.</p> <p>Members of the Committee also receive training prior to approving the Statement of Accounts so any issues and queries on the accounting estimates can be raised.</p>

Related Parties

Issue
<p>Matters in relation to Related Parties</p> <p>For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: Related party disclosures. The Code identified the following as related parties to local government bodies:</p> <ul style="list-style-type: none">• Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries)• Associates• Joint ventures in which the authority is a venturer• An entity that has an interest in the authority that gives it significant influence over the authority• Key management personnel, and close members of the family of key management personnel• Post –employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority. <p>The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the authority and the related party.</p> <p>ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.</p>

Related Parties

Question	Management response
What controls does the Council have in place to identify, account for, and disclose related party transactions and relationships?	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none">• Annual return from senior managers and members stating details of any known related party interests.• Review of minutes of decision making meetings to identify any member declarations and therefore related parties.• Finance staff review information collated in each service to identify potential related parties.• Review of in-year income and expenditure transactions with known identified related parties from prior year information.

Appendix A Accounting Estimates

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

Appendix A Accounting Estimates continued

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

Appendix A Accounting Estimates continued

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

Appendix A Accounting Estimates continued

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

Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provision for liabilities	Contingent liabilities: identified as part of Lead Review referred to above. Pensions: Actuarial Report	In accordance with CIPFA guidance.	No Yes: Hymans	None	No
Investments in companies valuations	Estimates are based on the use of accepted valuation models. These are prepared by the Council based on the audited financial statements of the companies. Alderley Park Holdings Ltd Manchester Science Parks Ltd	These will be based on the audited financial statements and reviewed by the corporate finance team..	When necessary external advice will be sought.	None	No
Accruals	Auto Accruals Process Commitment Accounting Reports	In accordance with the Council's accounting policies and controlled through the budget monitoring process.	No	None	No

Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Long term obligations under PFI schemes	The Council has assessed these arrangements under IFRIC 12 – recognizing the assets used to deliver the services on the Council's balance sheet along with a corresponding liability.	The model developed by Grant Thornton is used to calculate the relevant accounting entries.	Deloitte have been appointed to revalue the buildings.	The initial recognition of the asset/liability is based on costs within the operator's financial model and the embedded finance lease repayments are estimated by deducting service and lifecycle costs from the Unitary Charge.	No



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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 19 March 2015
Report of: Corporate Manager Governance and Audit
Title: Risk Management Update Report
Portfolio Holder: Councillor David Brown

1.0 Report Summary

1.1 Audit and Governance Committee has responsibility for monitoring the effectiveness of the Council's risk management arrangements. In order to support the Committee in fulfilling its role this report provides Members with:

- a summary of risk management work
- the Risk Stewardship Template for Corporate Opportunity 8 – Public Sector Effort (Appendix A) for discussion with the Risk Manager during the meeting
- an update on the current status of the Council's Corporate Risk Register.

2.0 Recommendation

2.1 That the Committee:

- i) Note and consider the contents of this report; and
- ii) Receives a short briefing with regard to Corporate Opportunity 8.

3.0 Reasons for Recommendations

3.1 The terms of reference for the Audit and Governance Committee include:

- monitoring the effectiveness of the Council's risk management arrangements;
- monitoring progress in addressing risk related issues reported to the committee; and
- advising the Council on the adequacy and effectiveness of these arrangements.

3.2 In order to fulfil its role the Audit & Governance Committee from time to time requests that it receives a short briefing from one of the Corporate Risk Owners / Managers.

4.0 Wards Affected

4.1 All

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Effective risk management provides organisations with a means of improving strategic and operational performance.

7.0 Financial Implications (Authorised by the Chief Operating Officer)

7.1 Effective risk management helps to maximise opportunities, achieve service objectives and minimise loss events including those with financial consequences.

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

8.1 The Accounts and Audit (England) Regulations 2011 require the Council to have a sound system of internal control which includes arrangements for the management of risk.

9.0 Risk Management

9.1 Best practice dictates that governance, risk management and strong internal controls be embedded in the daily and regular business of an organisation. Effective internal control and the establishment of an audit committee can never eliminate risk. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues.

9.2 An effective audit committee can:

- § raise awareness of the need for robust risk management arrangements
- § support the establishment of effective arrangements to govern and manage risks that help the Council to achieve its goals and objectives
- § provide assurance through a process of independent and objective review of actions being taken on risk related issues

10.0 Background

Risk Management Work

10.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital part in advising the Council that these arrangements are in place and operating properly. The annual Internal Audit opinion, which informs the Annual Governance Statement (AGS), provides an independent and objective opinion to the Council on the overall

adequacy and effectiveness of the organisation's framework of governance, risk management and control.

- 10.2 Following the Audit and Governance meeting of 22 January 2015 Internal Audit has drafted a risk-based plan for 2015/16 that outlines the assignments to be carried out, their respective priorities and the estimated resources. The basic aim of every audit assignment is to:
- give an opinion on the risk and controls of the area under review, building up to the annual opinion
 - where appropriate, reach agreement with management to implement actions for change leading to improvement in the control environment and performance within appropriate timescales
- 10.3 As part of the planning process Internal Audit has met with Strategic and operational Risk Owners/Managers in order to ensure audit activity focuses on areas where assurance is most needed.
- 10.4 The Corporate Assurance Group monitors and supports the implementation of all elements of the risk management framework (from risk identification, risk assessment and response, to communication of risk-related information) and all categories of risks (from the strategic to the operational level as necessary). On- going risk management work undertaken by the Corporate Assurance Group since the previous meeting of the Audit and Governance Committee on 22 January 2015 includes:
- continuing to monitor the effectiveness of risk management arrangements and support the development and embedding of good practice in risk management by:
 - reviewing the corporate risk profile by examining, challenging and supporting the risk assessment process to ensure consistency and gain assurance that strategic risks are being actively managed and monitored
 - discussing significant areas of operational and project risk and seeking assurance that these risks are supported by adequate risk assessment and are managed effectively and owned appropriately
 - following up risks identified by auditors and inspectors to ensure that risks are being actively managed and monitored and that, where necessary, they are integrated into the risk management process
 - considering new and emerging risks.
- 10.5 For the remainder of the financial year and during quarter 1 of 2015/16 the Corporate Assurance Group will, in addition to the above:
- oversee revisions to the Council's Risk Management Policy and support its implementation in practice (outcomes to be reported to Audit and Governance Committee in June 2015)
 - ensure that the Annual Governance Statement (AGS) is an adequate reflection of the risk environment (Draft AGS to be reported to Audit and Governance Committee in June 2015)

- oversee production of the Annual Risk Management Report 14/15 which is timed to support production of the AGS (to be reported to Audit and Governance Committee in June 2015) and monitoring progress on improvement plans
- oversee the risk maturity assessment and monitoring progress on associated improvement plans (reported to Audit and Governance Committee January 2015)

An update on the current status of the Council's Corporate Risk Register

- 10.6 In addition to the actions highlighted above, Members are asked to note that the Council's Corporate Risk Register is currently being comprehensively revisited by the Corporate Assurance Group and Risk Managers and Owners. The outcomes of this review will then form the basis of discussion with Corporate Leadership Board and Cabinet, who will be asked to agree the Corporate Risk Register for 2015/16 and beyond. The results of this work will be reported to future meetings of the Committee at which time Members will be asked to select one of the Corporate Risks for review.

Corporate Opportunity 8 – Public Sector Effort

- 10.7 In order to help Audit & Governance Committee to fulfil its role Members requested a short briefing with regard to Corporate Opportunity 8 – Public Sector Effort at this meeting. The most up to date version of the Risk Stewardship Template is attached at Appendix A to this report. The Risk Manager will attend the meeting and talk through the Risk Stewardship Template to provide assurance that the risk is managed effectively and owned appropriately.

11.0 Access to Information

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

Name: Jon Robinson

Designation: Audit Manager

Tel No: 01270 685864

Email: jon.robinson@cheshireeast.gov.uk

Risk Stewardship Template

Risk Ref: Corporate Opportunity 8 (14 -15)		Date template updated: 10 March 2015	
Cross reference the risk to the Corporate and Service Delivery Plan Objective to which it relates, only key risks that require monitoring will be recorded in the Corporate / Significant Risk Register.			
Corporate Priorities / Service Delivery Objective / Project Objective :		Risk to all Council Plan Outcomes – <ol style="list-style-type: none"> 1. OUR LOCAL COMMUNITIES ARE STRONG AND SUPPORTIVE 2. CHESHIRE EAST HAS A GROWING AND RESILIENT ECONOMY 3. PEOPLE HAVE THE LIFE SKILLS AND EDUCATION THEY NEED TO THRIVE 4. CHESHIRE EAST IS A GREEN AND SUSTAINABLE PLACE 5. LOCAL PEOPLE LIVE WELL AND FOR LONGER ❖ BE A LEADING, COMMISSIONING & RESPONSIBLE COUNCIL	
Risk description should include the cause of the impact and the consequence to the objective which might arise.			
Identified Opportunity Description: Public Sector Effort: Opportunity to ensure that a consensus approach and joint strategic planning by several Council partners reduces duplication of effort and ensures best use of resources in varying geographic areas, such that efforts are not contradictory and/or do not leave gaps and we maximise public resources such that the Council and its partners are better able to achieve intended objectives and outcomes. Current examples include: community safety, complex dependency, health and care integration, including key transformation programmes with other commissioning bodies and key health providers.			
Comments: The opportunity has interdependencies with: CR1 –Political and Economic Environment CR2 – Managing Expectations CR15 – Protection of Children and Young People CR17 – Adult Social Care CR23 – Health Integration Programme			
Who owns and is accountable for the risk? Risk Owner: Chief Executive		Who is responsible for taking forward the actions? Risk Managed by: Executive Director of Strategic Commissioning	
Strategic Lead: Michael Jones, Leader of the Council		Is the risk new, enduring, dying or re-emerging? Risk Status: Enduring	
Assess the combined risk of the likelihood and impact of the risk being realised before taking account of any controls in place to manage the risk. This is the gross risk score.		Likelihood 2	x Impact 3
		= Gross Risk Score 6	
What controls are already in place to mitigate the risk? Controls could consist of authorisation and approval processes, governance arrangements and monitoring processes, physical controls, segregation of duties, organisational, personnel, management and supervisory controls or arithmetic and accounting controls. Where is the evidence for these controls kept?			
Existing Controls and Evidence: Strategic engagement in national, regional and sub-regional networks i.e. Sub Regional Management and Leaders Boards, Public Sector Transformation Board, Integrated health and care programmes, Pioneer Panel and also Health and Well Being Board. Considerable engagement underway on a number of work streams within the health and care transformation Boards (Caring Together and Connecting Care). This includes examining combining commissioning arrangements for integration, and reshaping front line delivery into integrated teams. A significant development is a commitment to introducing an Integrated Digital Care Record across two local authorities, four Clinical Commissioning Groups and four acute trusts. Additional work streams currently include urgent care and rapid response services to reduce pressures on acute trusts. Finally, success in the sub-region is securing a transformation bid from DCLG of £5m across three Local Authorities to:- <ul style="list-style-type: none"> • establish a multi-agency approach to tackling complex dependencies across families and individuals in Cheshire and Warrington; 			

Risk Stewardship Template

<ul style="list-style-type: none"> improve outcomes for children, families and citizens and reduce costs implement the approach already agreed by all partners to maximise buy-in and commitment to transformation around the needs of the customer. 			
Assess the combined risk of the likelihood and impact of the risk being realised after taking account of the existing controls in place to manage the risk. This is the net risk score – as it is now.	Likelihood 4	x Impact 3	= Net Risk Score 12
Is the net risk now acceptable or not? Are there further reasonable controls or planned actions you can take to manage the risk down to an acceptable level? If not, consider the need for a contingency plan for what will happen if the risk is realised. Members of the Corporate Risk Management Group are responsible for ensuring that actions proposed to mitigate corporate and significant operational risks are sufficient and proportional to the risk identified.			
Future Planned Actions / Contingency: Effective engagement in design of collaborative programmes including project and programme leadership through Programme Boards. Effective monitoring of ‘in flight’ programmes/projects Strong governance arrangements for oversight and accountability, to include clarity regarding risk share arrangements etc. Capacity and skills is currently being drawn from existing resources. This will be subject to ongoing review.			
Next Review Date June 2015		Some risks require weekly or monthly monitoring, others will only need to be revisited following the proposed date for the completion of the planned action.	
The reason for monitoring key risks is to create an early warning system; risk registers should be regularly reviewed and amended. Questions asked during monitoring are: Is the risk still relevant? Is there any movement in the net risk score? Are the controls still in place and operating effectively? Has anything occurred which may change its impact and/or likelihood? Have any significant control failures or weaknesses occurred since the risk was last monitored? Is the risk increasing - do I need to devise more controls? Is the risk decreasing – can I relax existing controls?			
Monitoring Arrangements: Through quarterly reporting at Board Meetings.		Future Issues: Potential impact of change in Government or administration locally.	
Predict the combined risk of the likelihood and impact of the risk being realised after taking account of the existing and planned controls in place to manage the risk. This is the target risk score.	Likelihood 4	x Impact 4	= Target Score 16
Comments The future financial context for local government will continue to require services to be funded and delivered differently. Maximum opportunities will continue to be sought to secure improved value from the totality of public resources available locally, as well as continuing to build upon the promotion of communities and individuals to be less reliant upon publicly funded services where appropriate. Future controls will be focussed on ensuring delivery and where there are problems we will know early and can take corrective action.			

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting: 19 March 2015
Report of: Head of Legal Services and Monitoring Officer
Subject/Title: Members' Code of Conduct: Standards Report

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 the Monitoring Officer and the Independent Person between the period 1 November 2014 to end February 2015.

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 Members' Code of Conduct in July 2012. It is the responsibility of the Audit and Governance Committee to monitor this Code.
- 10.2 The report sets out details of the complaints received under the Members' Code of Conduct from November 2014 to February 2015 and, where concluded, the outcome.
- 10.3 On the 17 July 2014, the Council adopted an amended process for dealing with complaints received from that date. Any complaint still in progress at the time was dealt with under the procedure in force when the complaint was received, the outcome of which is reported in paragraph 12.1

11.0 Summary of Complaints received November 2014 to February 2015

- 11.1 Between 1 November 2014 to 28 February 2015, 11 complaints were received by the Monitoring Officer i.e.

No. of complaints against a member of Cheshire East Council	5
No. of complaints against a member of a Parish/Town Council within the Borough	6

11.2 Of those complaints, the decision of the Monitoring Officer was as follows:

No further action to be taken	7
Referred to the Monitoring Officer for informal resolution	1
Referred to Group Leader for informal action	0
Referred by the Monitoring Officer for external investigation	2
Referred to the Police or other regulatory agency	0

11.3 One complaint has not yet completed the initial assessment stage as further information was deemed to be required.

12.0 Pre July 2014 Complaints

12.1 In addition to those complaints set out in paragraph 11, two complaints remained to be dealt with by the Initial Assessment Panel at the time the Monitoring Officer last reported to Committee and these have been concluded as follows -

No further action/letter from Monitoring Officer	2
Referred to a Group Leader for informal action	0
Referred for local resolution	0
Referred for formal investigation	0
Referral to a regulatory agency or police	0

13.0 Access to information

There are no background papers relating to this report.

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting:	19th March 2015
Report of:	Chairman of the Audit and Governance Committee
Title:	Audit and Governance Committee Self- Assessment
Portfolio Holder:	Councillor Peter Raynes

1.0 Report Summary

- 1.1 The aim of this report is to support the Audit and Governance Committee in performing effectively and facilitate compliance with the Accounts and Audit (England) Regulations 2011. Members are, therefore, asked to consider the results of a self assessment of the effectiveness of the Audit and Governance Committee using the CIPFA publication '*Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition)*'.

2.0 Recommendations

- 2.1 That the Committee:
- consider the self assessment (Appendix A) and determine any required amendments
 - note that the detailed outcome of the review of internal audit will be considered by the Committee as part of the Annual Governance Statement (AGS) approval process
 - endorse the actions arising from the self assessment and note that a further report, updating Members on progress with these actions, will be brought to a future meeting of this Committee.

3.0 Reasons for Recommendations

- 3.1 A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements for the Audit and Governance Committee to be effective.
- 3.2 Regular self-assessments against best practice can be used to support the planning of the Committee's work programme, training plans and inform the annual report.
- 3.3 Regulation 6 of the Accounts and Audit (England) Regulations 2011 requires the Council to conduct an annual review of the effectiveness of its internal audit. In accordance with guidance issued by the CIPFA Better Governance Forum this review should be part of a review of the effectiveness of the Council's assurance framework that supports the production of the Annual Governance Statement (AGS). The guidance

goes on to say that this would include the contribution made by internal audit and the audit committee itself and that by reviewing the effectiveness of internal audit as part of this wider review the specific requirements of the Regulations will be met.

4 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 No specific financial implications.

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

8.1 As detailed within the report the Council is required to abide by the Accounts and Audit (England) Regulations 2011.

9.0 Risk Assessment

9.1 It is not uncommon for audit committees to face difficulties or barriers to fulfilling their potential effectiveness. Regular self-assessment against best practice may be of value in helping audit committee members or those supporting the committee to recognise and address the challenges whilst facilitating compliance with the Accounts and Audit (England) Regulations 2011.

10.0 Background

10.1 The process for conducting the review of the effectiveness of internal audit, which is based on best practice guidance, was agreed with the Audit and Governance Committee in November 2014 and includes a self -assessment using the following:

- The Checklist for Assessing Conformance with the Public Sector Internal Audit Standards and the Local Government Application Note, taken from the Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (CIPFA)
- Self-assessment of Good Practice and Evaluating the Effectiveness of the Audit Committee taken from Audit Committees - Practical Guidance for Local Authorities and Police (2013 Edition)

- 10.2 The tables below compare the outcomes of the 2014/15 Audit and Governance Committee self-assessment to those of the 2013/14 review (reported to Members in March 2014). The improvement in performance reflects the progress made in implementing actions agreed with Members in March 2014 (reported to Audit and Governance Committee in January 2015).

Self-assessment of Good Practice		
Assessment	No. of Good Practice Questions	
	Outcome of 2013/14 Assessment	Outcome of 2014/15 draft Assessment
Yes	12	16
Partly	7	4
No	1	0
Total	20	20

Evaluating the Effectiveness of the Audit Committee			
Assessment Key: Level and criteria		No. of areas where the committee can add value by supporting improvement	
		Outcome of 2013/14 Assessment	Outcome of 2014/15 draft Assessment
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.	0	0
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.	7	7
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.	2	2
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.	0	0
1	No evidence can be found that the audit committee has supported improvements in this area.	0	0
Total		9	9

10.3 As with the AGS, the review of the effectiveness of internal audit will be carried out by the Corporate Assurance Group. The detailed results of the overall review will then be reported to this Committee for consideration as part of the AGS process. Prior to this it is important that Members are satisfied that the draft Audit and Governance Committee self- assessment, prepared by the Chairman and Vice Chairman, has been completed correctly. The Committee is therefore asked to:

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

11.0 Access to Information

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

Name: Councillor John Wray

Designation: Chairman of the Audit and Governance Committee

Tel No: 01477 500609

Email: john.wray@cheshireeast.gov.uk

Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
Audit committee purpose and governance					
1	Does the authority have a dedicated audit committee?	✓			
2	Does the audit committee report directly to full council?	✓			The Audit & Governance Committee presents an annual report to full Council.
3	<p>Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement*?</p> <p>* The Purpose of Audit Committees (CIPFA Position Statement) extract: <i>Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.</i></p> <p><i>The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.</i></p>	✓			<p>Council approved new Terms of Reference (ToR) in May 2014 following reference to and recommendation from the Constitution Committee.</p> <p>The ToR are based on the latest guidance from CIPFA - Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition) and, therefore, clearly set out the purpose of the Committee in accordance with CIPFA's Position Statement.</p> <p>Moved from Partly to Yes.</p>
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓			<p>The ToR are included in the Council's Constitution, which is approved by full Council.</p> <p>The Annual Report of the Committee is presented to full Council. It addresses the</p>

Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
					<p>key areas where the Committee should be held to account and is a helpful way to ensure that those not directly involved in the work of the Committee achieve an understanding of its role and purpose.</p> <p>ACTION: Members agreed in January 2015 to invite newly elected members to attend an Audit and Governance Committee meeting. To be actioned from May 2015.</p>
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			<p>The Annual Report of the Committee is presented to full Council. It addresses the key areas where the Committee should be held to account including what impact it has had on the improvement of governance, risk and control within the Council.</p> <p>Delegated governance responsibilities include approving the Council's Annual Governance Statement (AGS).</p>
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓			<p>The Audit and Governance Committee's ToR, approved in May 2014, include accountability arrangements.</p>

Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
					The Annual Report of the Committee is based on recommendations made by the CIPFA Better Governance Forum and those contained in Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition). It is presented to full Council and addresses the key areas where the Committee should be held to account.
Functions of the committee					
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?	✓			<p>The ToR, approved in May 2014, are based on the latest guidance from CIPFA - Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition) and, therefore, explicitly address all of the core areas identified in CIPFA's Position Statement.</p> <p><i>Moved from partly to yes</i></p>
	good governance				
	assurance framework				
	internal audit				
	external audit				

Audit & Governance Committee Self Assessment

Appendix A

Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
	financial reporting				
	risk management				
	value for money or best value				
	counter-fraud and corruption.				
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓			Self- assessment of the Committee is undertaken every year and forms part of the AGS process. The Committee's Annual Report compares the work carried out by the Committee during the year with its ToR.
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	✓			<p>Considered as part of the review of the Committees ToR in 2014 and evidenced by the Committee having responsibility for reviewing:</p> <ul style="list-style-type: none"> • ethical standards issues • the effectiveness of the Council's whistleblowing arrangements • and monitoring the Council's treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice <p><i>Moved from partly to yes</i></p>
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	✓			<p>See Actions below relating to:</p> <ul style="list-style-type: none"> ▪ Aiding the achievement of the

Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
					<p>authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements</p> <ul style="list-style-type: none"> Supporting the development of robust arrangements for ensuring value for money. <p><i>Moved from partly to yes</i></p>
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓			The Committee's decision making powers are all in line with its core purpose. E.g. approval of Financial Statements, approval of AGS.
Membership and support					
12	Has an effective audit committee structure and composition of the committee been selected? This should include: separation from the executive an appropriate mix of knowledge and skills among the membership a size of committee that is not unwieldy where independent members are used, that they have been appointed using an appropriate process.	✓			The Committee is separate from the executive and is of a size that is not unwieldy. No independent members are used. Re: appropriate mix of knowledge and skills among the membership, see 15 below.
13	Does the chair of the committee have appropriate knowledge and skills?		✓		Membership of the Committee is yet to be assessed against the core knowledge and skills framework, contained within the new guidance. (See 15 below).

Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
14	Are arrangements in place to support the committee with briefings and training?		✓		Training sessions are held - annually on the Financial Statements and the AGS, and other areas on an ad-hoc basis. There are five Member/Officer Groups and a Standards Working Group, designed to increase knowledge and expertise. (See 15 below).
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		✓		<p>A training session in November 2014 introduced the Committee to the core knowledge and skills framework. There was agreement that there are some core areas of knowledge that Committee Members will need to acquire. The need for regular briefings or training to help Committee Members keep up to date or extend their knowledge was also acknowledged.</p> <p>ACTION: It was agreed, in January 2015, that Members of the Committee, should be assessed against the core knowledge and skills framework. This could then be used to establish a programme of support that involves regular briefings and updates as well as formal training programmes.</p>

Audit & Governance Committee Self Assessment

Appendix A

Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
					Process to be looked at in more detail by the Chairman and Vice Chairman from April 2015. <i>Moved from No to Partly.</i>
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			External Audit attend all Committee meetings. Internal Audit and the Chief Financial Officer (Chief Operating Officer) and/or Deputy (Head of Corporate Resources & Stewardship) attend all Committee meetings. ACTION: External Audit to meet separately with the Chairman and Vice Chairman from April 2015.
17	Is adequate secretariat and administrative support to the committee provided?	✓			Democratic Services provide secretariat and administrative support to the Committee.
Effectiveness of the committee					
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		✓		The Annual Report of the Committee is presented to full Council, which gives the opportunity for feedback on performance. The Council's external auditors concluded

Good practice questions	Yes	Partly	No	Comments/Actions for Improvement
				<p>that:</p> <p>“The Audit and Governance Committee provide adequate challenge but there is scope to improve the focus of its discussions to provide more effective oversight, support and challenge for the Council's financial management and system of internal control</p> <p><i>Grant Thornton UK LLP, Audit Findings Report, September 2014.</i></p> <p>In order to support the Committee in its role the Council’s external auditors ran training sessions in September and November 2014 that included guidance on the public sector audit committee – role, features of an effective audit committee, what works well, approach, the pitfalls to avoid and guidance.</p> <p>ACTION: Committee agreed, in January 2015, that the Chairman would seek feedback from meeting participants including External Audit (see 16 above).</p>

Good practice questions		Yes	Partly	No	Comments/Actions for Improvement
19	Has the committee evaluated whether and how it is adding value to the organisation?	✓			<p>The Annual Report of the Committee is presented to full Council. It addresses the key areas where the Committee should be held to account including what impact it has had on the improvement of governance, risk and control within the Council.</p> <p>This self- assessment also evaluates whether the Committee is adding value. See 6 & 18.</p>
20	Does the committee have an action plan to improve any areas of weakness?	✓			<p>This self- assessment has identified areas for improvement and these will form an action plan.</p>

Assessment key	
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Audit & Governance Committee Self Assessment

Appendix A

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
Promoting the principles of good governance and their application to decision making.	<ul style="list-style-type: none"> ▪ Providing robust review of the AGS and the assurances underpinning it. ▪ Working with key members/governors to improve their understanding of the AGS and their contribution to it. ▪ Supporting reviews/audits of governance arrangements. ▪ Participating in self-assessments of governance arrangements. ▪ Working with partner audit committees to review governance arrangements in partnerships. 	<ul style="list-style-type: none"> ▪ AGS and supporting evidence is provided to the Committee and training session held for Members. Draft AGS is brought to the Committee in June ahead of the final version in September. ▪ Pro-active in requesting reports e.g. Governance Arrangements for Alternative Service Delivery Vehicles. ▪ Member/Officer Group on governance. ▪ Governance arrangements with respect to partnerships are considered as part of the AGS review and approval process. 	4	ACTION: It was noted by Members in January 2015 that an updated Code of Corporate Governance will be presented to the June 2015 Audit and Governance Committee for consideration. The suggested approval process would be for Audit and Governance Committee to receive, review and recommend the revised Code to Cabinet. Cabinet would receive the recommended Code, and if in approval, would recommend it to Council to approve the financial and other arrangements set out in the Code. Following this process would help in raising awareness of the Code amongst Officers and Members.

Audit & Governance Committee Self Assessment

Appendix A

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
Contributing to the development of an effective control environment.	<ul style="list-style-type: none"> Monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers. 	<ul style="list-style-type: none"> The Committee monitors implementation of specific External Audit actions and also those within the AGS Action Plan. The Committee receives summary information on the number of internal audit recommendations outstanding. Senior managers do not attend the Committee in respect of this area. Member/Officer Group on Audit & Financial Statements. 	4	ACTION: The Committee has agreed to request senior managers to attend meetings if, following receipt of assurance reports, there are concerns regarding risk, control or the implementation of recommendations. It was agreed in January 2015 that from April the Chairman and Vice Chairman would work with Officers to determine how this will work in practice.
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	<ul style="list-style-type: none"> Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking. Monitoring improvements. Holding risk owners to account 	<ul style="list-style-type: none"> Regular risk management reports received at Committee, reviewing strategic (Corporate) risks. Also: regular reports on specific strategic 	4	No further actions proposed.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
	for major/strategic risks.	<p>(Corporate) risks and mitigating controls from risk owners.</p> <ul style="list-style-type: none"> ▪ Monitoring the risk maturity assessment and associated action plans and development work. ▪ Member/Officer Group on Risk Management. 		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	<ul style="list-style-type: none"> ▪ Specifying its assurance needs, identifying gaps or overlaps in assurance. ▪ Seeking to streamline assurance gathering and reporting. ▪ Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit. 	<ul style="list-style-type: none"> ▪ The Committee is proactive in requesting work and reports in certain areas. It has received the assurance framework for the AGS. ▪ The Work Plan presented to Committee includes details of how the assurance reports enable the Committee to meet its terms of reference. ▪ The results of the review of the effectiveness of 	4	No further actions proposed.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
		internal audit are reported to this Committee for consideration as part of the AGS process.		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	<ul style="list-style-type: none"> ▪ Reviewing the audit charter and functional reporting arrangements. ▪ Assessing the effectiveness of internal audit arrangements and supporting improvements. 	<ul style="list-style-type: none"> ▪ The Committee reviews the audit charter and functional reporting arrangements. ▪ Internal Audit produces interim reports and an annual report, featuring their performance indicators. From June 2014 the annual report included a new indicator – implementation of agreed recommendations within agreed timescales at the request of members. ▪ Member/Group on Audit & Accounts. 	4	No further actions proposed.

Audit & Governance Committee Self Assessment

Appendix A

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	<ul style="list-style-type: none"> ▪ Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. ▪ Reviewing the effectiveness of performance management arrangements. 	<ul style="list-style-type: none"> ▪ Responsibility for undertaking high level project/programme monitoring rests with the Executive Monitoring Board (EMB). ▪ The Committee receives update reports on the work of Internal Audit including key findings, issues of concern, and action in response to the findings and recommendations. The reports include relevant information regarding Internal Audit reviews of projects and programmes. ▪ Performance Management arrangements are not reviewed by the Committee. 	3	ACTION: <ul style="list-style-type: none"> ▪ In January 2015 Members agreed to add a briefing on performance management arrangements to the Work Plan for 2015/16. The focus will be on financial reporting and financial governance rather than on wider issues of performance and spending priorities.
Supporting the	<ul style="list-style-type: none"> ▪ Ensuring that assurance on 	<ul style="list-style-type: none"> ▪ From May 2014 the 	3	ACTION:

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
development of robust arrangements for ensuring value for money.	<p>value for money arrangements is included in the assurances received by the audit committee.</p> <ul style="list-style-type: none"> Considering how performance in value for money is evaluated as part of the AGS. 	<p>Committee's Terms of Reference make the role more explicit by including:</p> <p>8. To consider the Council's arrangements to secure value for money and to review and scrutinise assurances and assessments on the effectiveness of these arrangements.</p> <ul style="list-style-type: none"> Annually the Committee considers the external audit conclusion on value for money. In September 2014 Grant Thornton confirmed that they would be issuing an unqualified VfM conclusion. <p><i>Grant Thornton UK LLP, Audit Findings Report, September 2014.</i></p> <ul style="list-style-type: none"> The AGS process includes a 		<ul style="list-style-type: none"> In order to develop the 15/16 Work Plan Officers will benchmark what assurance other Audit Committees receive with regard to both the arrangements to ensure value for money and the progress in achieving value for money. Future reporting requirements will also need to be determined in the context of what other Committees of the Council are doing.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
		review of the Council's arrangements for securing VFM and assurance with regard to this element of governance.		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	<ul style="list-style-type: none"> ▪ Reviewing arrangements against the standards set out in CIPFA's <i>Managing the Risk of Fraud</i> (Red Book 2). ▪ Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. ▪ Assessing the effectiveness of ethical governance arrangements for both staff and governors. 	<ul style="list-style-type: none"> ▪ The Committee receives the Informing the Risk Assessment for Cheshire East report that includes assurance with regard to management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. ▪ There is an annual report to the Committee on the effectiveness of the Whistleblowing Policy. ▪ Regular updates on anti-fraud arrangements. ▪ Member/Officer Group on 	4	No further actions proposed.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above	Comments/Actions for Improvement
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	<ul style="list-style-type: none"> Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency. 	<p>Fraud.</p> <ul style="list-style-type: none"> The Committee reviews and approves a number of public facing documents e.g. Financial Statements, AGS, Annual Report and these documents are continually reviewed against best practice and improvements made to improve transparency and accountability. The Committee received, as part of the Compliance with Data Protection Act (1998), Freedom of Information Act (2000) and Environmental Information Regulations (2004) report, an update on the Protection of Freedoms Act 2012 and Transparency. 	4	No further actions proposed.

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CHESHIRE EAST COUNCIL**REPORT TO: AUDIT and GOVERNANCE COMMITTEE**

Date of meeting: 19 March 2015
Report of: Head of Corporate Resources and Stewardship
Title: ASDV Governance Review
Portfolio Holder: Councillor Peter Raynes

1.0 Introduction and Summary

1.1 This report provides the Committee with an update on the governance arrangements for Council's Alternative Service Delivery Vehicles (ASDVs). It follows the earlier report of 27 March 2014 setting out the governance structures under which Cheshire East Residents First Ltd and its subsidiary companies will operate; and the governance arrangements for other ASDVs.

1.2 While over £50m of services are now provided by ASDVs and almost 1250 staff, (685 fte), have been TUPE transferred the Council remains responsible for ensuring that it uses public funds properly and that it can demonstrate value for money. Maintaining accountability to residents, service users, businesses and local councillors is vital. The governance arrangements introduced in April 2014 sought to ensure this.

1.3 The Council's group of companies are structured under its wholly owned holding company, Cheshire East Residents First Ltd. The following companies are included in the group:

- Engine of the North - EoTN;
- Ansa, Environmental Services;
- Orbitas, Bereavement Services; and
- Transport Services Solutions - TSS.

The Council, Cheshire East Residents First and its subsidiaries will sign a formal shareholders agreement in March 2015. This agreement enables the shareholding to be formally split between the Council and its holding company from 1 April 2015.

1.4 Cheshire East Residents First is a wholly owned Council company that will hold the majority interest, (80%), in all of its subsidiaries; with the Council holding the remaining minority interest, (20%). Through this shareholding arrangement the Council can retain decisive control over important decisions – this is a key requirement of *Teckal*. (The *Teckal* exemption enables the Council to award contracts directly to its companies without going through a public procurement process.)

1.5 Everybody Sport and Leisure is a charitable trust and, as such, is not part of the group. CoSocius, a company owned jointly with Cheshire West and Chester Council, is also not part of the group. Tatton Park Enterprises is also not part of the group; it reports to the Tatton Board.

The Council expects to have a new company – Civicance - in place from early 2015/16 providing planning support and building control.

- 1.6 The Council has shared its work on ASDV governance with its external auditors, Grant Thornton, at regular stages throughout the year. That open and regular dialogue helped shape and develop these arrangements in a positive and constructive way.
- 1.7 The Head of Corporate Resources and Stewardship and the Head of Legal Services have reviewed the governance arrangements set out in the 24 March 2014 report to Cabinet - Group Structure and Governance Arrangements. This report sets out their findings from that review.

2.0 Recommendation

- 2.1 That the Committee consider and note the contents of this report.

3.0 Reasons for Recommendations

- 3.1 It is important that the Committee is reassured that the governance arrangements for the ASDVs, and the role of the Audit & Governance Committee, in respect of those arrangements, is reviewed and remains fit for purpose.
- 3.2 The Committee's Terms of Reference includes: "overseeing the Council's roles and responsibilities in respect of Corporate Governance and Audit" and "...to undertake as appropriate an assessment of wider governance issues".
- 3.3 The recommendations fit with the Council's aim of becoming a strategic commissioning council.

4.0 Wards Affected

- 4.1 All

5.0 Local Wards Affected

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 The move towards more innovative, less traditional approaches to managing Council services is an exciting and necessary change in thinking to respond to a new era of public sector delivery and financial constraint. It is essential to get the balance right between effective delivery mechanisms and transparent and democratic governance linked to our Resident's First approach.

7.0 Financial Implications (authorised by the Chief Operating Officer)

- 7.1 There are no additional financial implications, other than those highlighted in this report.

8.0 Legal Implications (authorised by the Head of Legal Services)

- 8.1 The legal implications regarding the establishment of the companies were considered in reports to Cabinet in 2013 and specifically in February and March 2014.
- 8.2 The Council has the power to set up the companies under the general power of competence laid down by section 1 of the Localism Act 2011. Detailed considerations in respect of the requirements of the Companies Act 2006 were a key part of the decision making process.

9.1 Risk Management

- 9.1 The content of this report is part of the key risk that the Council fails to ensure the adequacy of governance and risk management arrangements over its commercial relationships and other service delivery arrangements, such that it is unable to account for the stewardship of public money and demonstrate its priority of ensuring quality and value of public services, in delivering its planned community outcomes.
- 9.2 Other risks recognised and being managed around governance and stewardship arrangements includes appropriate training for Members that are appointed as Non-Executive Directors of the new vehicles. In addition the establishment of a scrutiny committee with specific responsibility for the ASDVs enhances the member involvement and transparency of the company structure and delivery.

10.0 Background

Governance

- 10.1 The Council's overriding principle for the governance, stewardship and control arrangements for its ASDVs is to be resident and business led, and to ensure accountability to residents, service users, businesses and local councillors. However, the Council remains responsible for ensuring that it uses public funds properly and that it can demonstrate value for money.
- 10.2 The detailed governance and stewardship for all the council owned companies is set out below. Cabinet's control over the parent company and its subsidiaries is exercised through a number of key documents:
- articles of association;
 - directors' mandate; and
 - shareholder agreement.
- 10.3 The **articles of association** set out the objectives of each company and what its directors can and cannot do. They also include specific powers reserved for shareholders.
- 10.4 The **directors' mandate** sets out the more detailed 'set of rules' under which the company board can operate. These are particularly helpful in the context of local authority companies where the over-riding objective is to retain transparency and openness. They also have a key role in ensuring each company continues to benefit from the *Teckal* exemption

- at least initially. The directors' mandate will be signed by each director in March 2015.

- 10.5 **Cheshire East Residents First**, (CERF), held its first Board meeting in September 2014. Since then it has met regularly along with the Chairs of its subsidiaries. As the holding company its primary purpose is to hold shares in the subsidiaries that it controls. Its regular Board meetings focus on receiving and considering performance and business planning updates from each company.
- 10.6 CERF is Chaired by Cllr David Brown; Cllr David Topping and the Executive Director Strategic Commissioning are also directors. In line with expectations set out by Cabinet in March 2014 CERF met in public in December 2014 and will do so again on 20 March 2015. Cllr Peter Raynes also attends as Finance Portfolio Holder; Anita Bradley, Head of Legal Services, is the Company Secretary.
- 10.7 During this first year one of CERF's key objectives was to agree an appropriate **shareholder agreement** across the group of companies and with the Council. All parties recognised the importance of getting this key document right; this has involved detailed discussions with the boards of each company, their professional advisors and with Cabinet. The shareholder agreement is the key document between the holding company, Cabinet and the companies. It sets out, in some detail, how the shareholders will exercise control and influence over the group. The CERF Board holds the directors to account and has the key role in providing regular reports to Cabinet to ensure quality delivery and proper use of public money.
- 10.8 The shareholder agreement is particularly important for a council owned company operating under *Teckal*. It sets out how the shareholders and each company will work together to ensure that the Council exercises a decisive influence over both the strategic objectives and significant decisions of that company. This is usually done in a similar way to that which the Council exercises over its own departments - but only to the extent that this is necessary to protect the *Teckal* exemption.
- 10.9 The agreement sets out the governance principles agreed in March 2014 and includes a range of issues which are subject to prior approval by the shareholder before a decision can be made by the company boards. These include, but are not restricted to:
- changing the name or nature of the company;
 - any changes to the Articles of Association;
 - approval of business plan;
 - appointment and removal of directors and auditors;
 - remuneration of directors;
 - issuing or allotting shares;
 - borrowing money;
 - declaring or paying a dividend;
 - requirement to meet in public;
 - changes to terms and conditions;
 - acquiring or disposing of assets.

- 10.10 The agreement will be signed by each company in March 2015 and is the key mechanism for ensuring that the Council - through the parent company, Cabinet, or via appropriate delegations - exercises decisive control over its companies and continues to approve significant decisions.
- 10.11 The governance arrangements for ESAR, Tatton Park Enterprises and CoSocius are different. In each case there is scope to develop the way in which these ASDVs provide regular updates and/or reports to Cabinet.
- **ESAR:** As an independent charitable trust the Council's relationship with ESAR is, essentially, contractual. A detailed contract and performance specification is in place. The contract protects the Council's interest and ensures that its significant investment in ESAR plays an important role in achieving its key strategic outcomes.
 - To provide additional protection, the freehold of the assets used by ESAR remain with the Council. ESAR operate/access these assets through a series of leases and licences.
 - Performance monitoring against the contract is led by the Council's Executive Director of Strategic Commissioning. Regular contract monitoring and reporting is done through the Council's client management arrangements, including discussions with finance and legal colleagues to review performance and delivery. Cabinet receives regular updates through the quarterly performance monitoring processes.
 - **Tatton Park Enterprises:** a company wholly owned by Cheshire East Council. Tatton Park Enterprises, (TPE), has a very limited function solely related to Tatton Park – to provide and manage catering staff and services on a 'non-profit' basis. Following the recent review of the role of the Tatton Board the Cabinet agreed that TPE should remain accountable to that board. As a result the Tatton Board now exercise the rights of the shareholder on behalf of Cabinet as well as monitoring TPE performance against the contract. Cabinet receives regular updates through the quarterly performance monitoring processes.
 - **CoSocius:** a company owned jointly with Cheshire West and Chester Council providing mainly back office services - ICT, finance and HR. The Council together with Cheshire West and Chester Council are the sole shareholders. The overarching objective of the shareholders is to ensure a well managed company with clear strategic direction which supports each council to deliver its outcomes.
 - The councils' shared services joint committee set out and refined the governance arrangements for CoSocius, its relationship with, and between, its shareholders over a number of its meetings from 29 November 2013 and to 27 February 2015. The committee agreed to the operational transfer of contracts and staff effective from 1 May 2014. Following a nine month initial term, on

27 February 2015 the committee approved the roll forward of the contract for the full five year term, to March 2019, on 27 February 2015.

- The Council exercises its powers as shareholder in CoSocius through the Shareholder Board. Each Council has appointed a shareholder representative to act in this capacity:
 - Cllr David Brown, Deputy Leader Cheshire East Council
 - Cllr Margaret Parker, Executive Member for Governance Cheshire West and Chester Council.

The other Board members are:

- Cheshire East Council: Peter Bates, Chief Operating Officer; and Anita Bradley, Head of Legal Services
 - Cheshire West and Chester Council: Mark Wynn, Head of Finance; Karen McIlwaine, Head of Governance.
- The role of the shareholder is distinct from that of the shared services joint committee. The Joint Committee is the commissioner of services from CoSocius Ltd on behalf of the councils. When the company went live in May 2014 the committee set up a Transition Board responsible for overseeing and developing a tailored project plan and for reporting back to the Joint Committee. Between May 2014 and February 2015 the Transition Board met on a number of occasions and also held workshops with relevant members to both develop and monitor delivery the agreed work programme. The Transition Board will continue to meet during 2015/16 to review the outcome of the planned service reviews and make suitable recommendations to the joint committee. Cheshire East is represented on the Transition Board by Cllr David Brown; Mike Suarez, Chief Executive and Peter Bates, Chief Operating Officer.
 - At present the company directors are – David Hudson, Interim Managing Director and nominated officers from Cheshire East and Cheshire West and Chester councils. Now that the full contract is in place the company will appoint a chairman and review its board membership.
 - Performance monitoring against the contract is reported to the joint committee. Regular contract monitoring and reporting is done through the Council's client management arrangements, including discussions with finance and legal colleagues to review performance and delivery. Cabinet receives regular updates through the quarterly performance monitoring processes.
- 10.12 The Council has entered into a formal **contract** with all of its ASDVs. While the detail of each contract is specific to the service being commissioned, in general the contract sets out what, and how, services will be delivered. The contract is the primary document through which the Council commissions services and holds the service provider to account. The contracts are divided into four key elements:

- Contract Terms
- Output Specification
- Method Statements
- Performance Monitoring

- 10.13 **Contract Terms:** This is the main part of the contract and sets out the respective obligations of the contractor and the Council. They also set out the consequences of failure to comply with an obligation. In addition, the contract terms deal with issues such as how disagreements between the parties may be resolved. Each contract includes the arrangements for reviewing and agreeing the management fee due in each year.
- 10.14 The **output specification** sets out what the Council wishes the ASDV to do. Best practice is for the specification to set out the outcomes required by the client but not to specify how the contractor is to deliver those outcomes.
- 10.15 **Method Statements:** in this section the contractor sets out in detail how it will deliver the Council's required outcomes. The contract terms make it clear that the contractor is to deliver both the specified outcomes and what is set out in the method statements.
- 10.16 **Performance Monitoring:** in this section a number of key performance indicators are set to measure the extent to which the contractor is or is not delivering the desired outcomes. It is the responsibility of the Council to monitor the contractor's performance by reference to those key indicators.
- 10.17 Each contract includes appropriate provision in case of default by either party. These provisions depend upon the nature of the default; they include, for example, withholding or deduction of monies. Before any such provision is activated there is a full and proper dialogue with the company's managing director and the lead commissioner.

Reporting

- 10.18 Regular performance monitoring against each contract is led by the Executive Director of Strategic Commissioning through the Council's client management arrangements. This includes discussions with finance and legal colleagues to review performance and delivery. Cabinet receives regular updates through the quarterly performance monitoring processes. During 2014/15 the Executive Director of Strategic Commissioning has also provided regular reports and updates to the relevant scrutiny committee. CERF's role is limited to reviewing the performance of its subsidiaries in overall terms and not in relation to individual contracts.
- 10.19 In this first year the Council and its ASDVs have continued to learn and reflect upon the governance and stewardship of these new arrangements as well as contract monitoring and reporting on performance. There is scope to improve these arrangements to ensure that effective client and contract management is in place to deliver the best possible services to Cheshire East residents alongside effective reporting into Cabinet, Scrutiny and the Corporate Leadership Board.

- 10.20 While Cabinet has received regular updates through the Council's established quarterly performance monitoring processes this needs to be more explicit and cover all of the ASDVs. The Chief Operating Officer and Executive Director of Strategic Commissioning will discuss and agree improvements in reporting processes with Cabinet. These will then be shared with the ASDVs and appropriate mechanisms put in place for 2015/16.
- 10.21 The accounts of ANSA, Orbitas, EoTN and TSS will be consolidated into the Council's Financial Statements. From 2015/16 onwards the CERF Board's intention is that it will prepare and publish group accounts; these will then be consolidated into the Council's financial statements along with the disclosures required for any other Council owned companies.

Audit

- 10.22 The Council's external and internal auditors both have the right to inspect the accounts, books and records of all Council owned companies and the power to visit and inspect at any time.
- 10.23 The Council's internal auditors also provide services on request including routine audit work, advice and special investigations. The work planned for 2015/16 is included in the Council's internal audit plan that is also presented to this committee in March 2015.
- 10.24 All of the companies in the CERF Group are also subject to external audit – each company has appointed Grant Thornton. The audits will be conducted by the firm's commercial team. The Council and its companies are working with the Grant Thornton to ensure that the requirements of international financial reporting standards relating to consolidated financial statements are met.

Learning

- 10.25 The Council set up its first company, Tatton Park Enterprises in late 2012. That was followed by Engine of the North in May 2013 and others from April 2014 onwards. In most instances the Council adopted a 'lift and shift' approach transferring services and staff to provide the services set out in each contract. This initial phase has been very much a learning opportunity for both the ASDVs and the Council and as a result a number of changes have been made. This is in line with expectations and has enabled both the Council and its ASDVs to ensure that any early learning is reflected in an agile, practical and better way to meet the residents' needs.
- 10.26 This learning has been achieved through an open and transparent approach and includes the development of the parent company and group structure. There have been regular meetings between client managers and the officers of the companies as well as between the parent company, the various chairmen and relevant portfolio holders.
- 10.27 In May 2014, the lead officers in both the companies and the Council held a workshop to identify the learning and update the ASDV framework handbook. That workshop, together with the learning from drafting and agreeing the contract documentation for Ansa and Orbitas, enabled the Council to progress the Transport Solutions and Civicance,

(the Planning Support and Building Control company), proposals in a more efficient way.

- 10.28 More recently the client officers have been negotiating the management fees for 2015/16. This process, including the ongoing reviews of support service buy back, has also been done through open dialogue and engagement with the ASDVs. This has enabled any issues and concerns to be resolved in a pragmatic way. In future years that dialogue will start even earlier to ensure that there is adequate time for full engagement and better alignment to both the Council and the ASDVs business planning and budget setting processes.
- 10.29 The governance arrangements set out in this report will continue to be reviewed to ensure an appropriate balance between the proper governance and stewardship of public money alongside *doing things differently* and using innovative new approaches to service delivery. The Head of Legal Services and the Head of Corporate Resources and Stewardship have commissioned an independent peer review of the Council's governance of its ASDVs. The outcome of that review will also be reported to this committee.
- 10.30 The Council's external auditors are also considering the governance of ASDVs as part of their 2014/15 value for money work. The outcome of their work will be reported to this committee in September 2015.

11.0 Access to Information

- 11.1 The background papers relating to this report are:
Cheshire East Ltd – Group Structure and Governance
Arrangements; Cabinet Report 24 March 2014
<http://moderngov.cheshireeast.gov.uk/ecminutes/documents/s33670/Group%20Structure%20and%20Governance%20Arrangements%20-%20report%20final.pdf>

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CHESHIRE EAST COUNCIL

Audit & Governance Committee

Date of Meeting:	19 th March 2015
Report:	Chief Operating Officer
Subject/Title:	Disclosure of Officers' Remuneration in the Statement of Accounts
Portfolio Holder:	Councillor Peter Raynes

1.0 Report Summary

- 1.1 This report provides details of the disclosure requirements for Officers' Remuneration both in terms of the Financial Statements and the recommended practice on Data Transparency.
- 1.2 The Audit Findings report considered by members at the September 2014 meeting included a recommendation from the External Auditors' Grant Thornton that there was scope for the Council to reduce the length of its disclosure in the Statement of Accounts on Officers' Remuneration.
- 1.3 At the September meeting it was agreed to provide a report to members and consider the scope of the disclosure prior to the production of the 2014/15 Statement of Accounts.

2.0 Recommendations

- 2.1 That the Committee:
- consider the requirements under the Accounts and Audit (England) 2011 regulations and the Local Government Transparency Code on the level of disclosure on Officers' pay details.
 - note the decision of the Chief Operating Officer to continue to disclose Officers' Remuneration to tier 3 to meet the requirements of the Accounts and Audit (England) 2011 regulations and the Local Government Transparency Code

3.0 Reasons for Recommendations

- 3.1 To ensure compliance with the Accounts and Audit Regulations 2011 and the requirements under the Local Government Transparency Code 2014.

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 (authorised by the Chief Operating Officer)

8.1 As covered in the report.

9.0 Legal Implications (authorised by the Head of Legal Services)

9.1 Regulation 4 of the Accounts and Audit (Amendment Number 2) (England) Regulations 2009 (SI2009 No. 3322) first introduced a legal requirement for reporting remuneration of senior employees to increase transparency and accountability in Local Government.

9.2 The disclosure requirements on Officers' Remuneration for the financial statements are governed by the Accounts and Audit (England) Regulations 2011 (Statutory Instrument 2011/817) Part 3.

9.3 The Department for Communities and Local Government (DCLG) published the Local Government Transparency Code in October 2014. The Local Government (Transparency Requirements) (England) Regulations 2014 regulates the Code which sets out key principles for local authorities in creating greater transparency through the publication of public data, this includes a number of themes including staff salaries.

10.0 Risk Management

10.1 There is a risk that the Council will not meet its statutory reporting requirements if this report is not considered.

11.0 Background

Disclosure Requirements for the Financial Statements

11.1 There are two related disclosures required by the Accounts and Audit (England) 2011 regulations:

- figures for the number of officers whose remuneration was £50,000 or more, grouped in £5,000 bands; and
- the individual remuneration of senior employees.

For the second disclosure senior employees are defined as all those:

- a) whose salary is £150,000 or more; and
- b) whose salary is £50,000 and meet the criteria of being a:-
 - Statutory Chief Officer;
 - non Statutory Chief Officer, who for all or most of the duties report directly to the Head of Paid Service;
 - person who has responsibility for the management of the authority, to the extent that the person has power to direct or control the major activities of the authority (in particular activities involving expenditure of money), whether solely or collectively.

11.2 The definition means that it is possible for some highly paid officers to be excluded from the note. Unless they report directly to the chief executive or to members, their lack of involvement in the major activities of the authority would lead to them being excluded. For example, head teachers are not included in the note.

11.3 Where the senior employee's salary is £150,000 or more per year, they must be identified by name and job title. Where the senior employee's salary is less than £150,000, only their job title should be disclosed.

11.4 Details of the 2013/14 disclosure are provided in Appendix A. Applying the above criteria the following tiers of employees were included:

1. Chief Executive - Head of Paid Service
2. Direct reports to Chief Executive; Statutory and Non Statutory Officers (Corporate Leadership)
3. Direct reports to the Corporate Leadership (3rd tier)

11.5 As the management restructure was underway in 2013/14 there were a number of instances where more than one person held a relevant post during the financial year. As a result the note was longer than it would usually have been.

11.6 Having compared the content of the Council's disclosure to other local authorities, some choose to limit the disclosure to officers at tier 2. When comparing the Council's disclosure with its *nearest statistical neighbours* only four out of fourteen report to the tier 3.

11.7 Details of the proposed disclosure for 2014/15 are set out in Appendix B, this is comparable to the disclosure in prior years and includes officers at

tiers 1 to 3. If the Council were to reduce the scope of the disclosure, the note would list tiers 1 and 2 only.

Disclosure Requirements under the Local Government Transparency Code 2014.

- 11.8 The Code recognises the information that local authorities are already required to publish on senior salaries under the Accounts and Audit (England) Regulations 2011.
- 11.9 In addition to this requirement, local authorities must publish a link on their website to the published data or place the data itself on the website together with a list of responsibilities (for example, the services and functions they are responsible for, budget held and number of staff) and details of bonuses and 'benefits-in-kind', for all employees whose salary exceeds £50,000.
- 11.10 The key differences between the requirements under this Code and the Regulations are the addition of the list of responsibilities.
- 11.11 The Code also requires an annual publication of:
- an organisation chart covering staff in the top three levels of the organisation.
 - Details of the pay multiple, defined as the ratio between the highest taxable earnings for the given year and the median earnings figure of the whole of the authority's workforce.
- 11.12 The Information Commissioners guidance on personal data about employees specifies that information relating only to a post, without reference to an identifiable individual who holds that post, can be published as it does not constitute personal data. Only employees whose salaries are more than £150,000 have to be named.
- 11.13 The guidance issued by DCLG under the code specifies the following levels of the organisation to be included:
- 1 for top level (i.e., Chief Executive)
 - 2 for second level (i.e., Director)
 - 3 for third level (i.e., Service manager)
- 11.14 In accordance with the Code, the Council should ensure that the information it publishes gives readers a clear and accurate understanding of the way the workforce is organised and how public money is spent on senior pay and reward.

- 11.15 In order to meet the requirements of the Local Government Transparency Code and in accordance with the guidance issued by DCLG the Council will continue to disclose Officers' Remuneration to tier 3 of the organisation on both its website and also in its financial statements.

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

Email: Joanne.wilcox@cheshireeast.gov.uk

Appendix A – Disclosure Note as per Statement of Accounts 2013/14

Job Title / Name 2013/14	Salary, Fees and Allowances	Expenses Allowances	Compensation for Loss of Employment	Employer's Pension Contribution	TOTAL
	£	£	£	£	£
Chief Executive - Interim (to 30 June 2013) - Kim Ryley	39,296	113	0	0	39,409
Chief Executive (from 1 Aug 2013) - Mike Suarez	107,500	129	0	22,300	129,929
Director of Strategic Commissioning	134,708	0	0	30,040	164,748
Director of Children's Social Care	97,500	114	0	21,743	119,357
Head of Early Intervention and Prevention	90,020	128	0	20,074	110,222
Corporate Manager Education Strategy	76,969	322	0	17,163	94,454
Head of Integrated Safeguarding	75,005	0	0	16,726	91,731
Head of Environmental Protection and Enhancement	72,606	1,218	0	16,191	90,015
Head of Public Protection and Enforcement	73,295	32	0	16,345	89,672
Director of Adult Social Care and Independent Living	92,209	184	0	20,563	112,956
Principal Manager Care4CE	60,366	82	0	13,462	73,910
Head of Communities (from 16 December 2013)	23,441	28	0	5,227	28,696
Director of Economic Growth and Prosperity	90,206	84	0	20,766	111,056
Head of Development (from 29 April 2013)	73,783	0	0	16,452	90,235
Head of Strategic and Economic Planning	69,087	183	0	15,586	84,856
Corporate Manager Strategic Infrastructure	64,025	97	0	14,277	78,399
Visitor Economy, Culture and Tatton Park Manager	59,896	0	0	13,357	73,253
Principal Manager – Built Environment Protection Planning and Place Shaping Manager	52,905	116	0	11,724	64,745
	39,459	0	0	8,799	48,258
Director of Public Health (from 1 April 2014)	140,993	0	0	18,094	159,087
Head of Strategic Commissioning and Safeguarding	76,962	27	0	17,163	94,152
Corporate Manager Health Improvement	61,098	0	0	13,625	74,723
Principal Manager - Regulatory and Health Protection	52,572	68	0	11,724	64,364
Chief Operating Officer and Section 151 Officer - Interim (to 30 September 2013, contracted-in)	102,600	9,226	0		111,826
Chief Operating Officer and Section 151 Officer (from 1 October 2013)	60,260	74	0	13,380	73,714
Head of Performance Customer Services and Capacity (to 31 October 2013)	49,465	50	0	11,031	60,546
Head of Corporate Resources and Stewardship [Deputy S151 Officer] (from 21 January 2014)	15,451	0	0	3,501	18,952
Corporate Manager Resources	71,212	0	0	15,880	87,092
Corporate Manager ICT	56,773	0	0	12,660	69,433
Corporate Manager Challenge and Innovation	64,176	0	0	14,311	78,487
Corporate Manager Commissioning	58,959	20	0	13,148	72,127
Corporate Manager Commissioning	56,043	45	0	13,148	69,236
Corporate Manager Business Intelligence and Data	55,780	0	0	12,439	68,219
Head of HR and Organisational Development	90,320	0	0	20,141	110,461
Head of People and Organisational Development	67,013	0	0	15,256	82,269
Principal Manager HR Delivery	64,852	0	0	14,462	79,314
Head of Governance and Democratic Services	76,842	123	0	15,571	92,536
Head of Legal Services and Monitoring Officer - Interim (to 18 June 2013, agency basis)	43,625	0	0		43,625
Head of Legal Services and Monitoring Officer - Interim (from 10 June 2013 to 2 March 2014, agency basis)	136,322	8,213	0		144,535
Head of Legal Services and Monitoring Officer (from 3 February 2014)	12,054	0	0	2,688	14,742
Legal Team Manager (to 30 November 2013)	39,764	0	53,534		93,298
TOTAL	2,845,412	20,676	53,534	539,017	3,458,639

Appendix B - 2014/15 Proposed Officers Emoluments Disclosure (Tiers 1 to 3)

1. Chief Executive – Head of Paid Service Named Officer – Mike Suarez
2. Direct reports to Chief Executive; Statutory and Non Statutory Officers (Corporate Leadership)
 - Executive Director of Strategic Commissioning
 - Chief Operating Officer
 - Director of Economic Growth & Prosperity
 - Director of Public Health
 - Director of Children's Services
 - Director of Adult Social Care and Independent Living
 - Head of Legal Services & Monitoring Officer
3. Direct reports to Corporate Leadership (3rd tier)
 - Head of Corporate Resources & Stewardship
 - Corporate Manager Commissioning (2 posts)
 - Head of People & Organisational Development
 - Head of Governance & Democratic Services
 - Head of Strategic & Economic Planning
 - Head of Assets
 - Visitor Economy, Culture and Tatton Park Manager
 - Head of Investment
 - Corporate Manager Strategic Infrastructure
 - Corporate Manager Education Strategy
 - Head of Early Help and Prevention
 - Children's Improvement and Development Manager
 - Head of Integrated Safeguarding
 - Corporate Manager Commissioning – Highways
 - Corporate Manager Health Improvement
 - Head of Communities
 - Corporate Manager – Communications & Media
 - Head of Adult Social Care Transformation
 - Service Manager Care 4ce
 - Principal Manager Adult Care Services
 - Principal Manager Mental Health & Learning Disability Services

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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	19 th March 2015
Report of:	Chief Operating Officer
Subject/Title:	Grant Thornton 2014/15 Audit Plan for Cheshire East Council
Portfolio Holder:	Councillor Peter Raynes (Finance)

1.0 Report Summary

- 1.1 The Audit Plan for the year ending 31 March 2015 is set out in Appendix 1.

2.0 Recommendation

- 2.1 That members receive and comment on the Audit Plan for 2014/15

3.0 Reasons for Recommendations

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

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 None.

7.0 Implications for Rural Communities

- 7.1 None

8.0 Financial Implications

- 8.1 The Audit Plan sets out the level of fees for the audit work specified by the external auditors.
- 8.2 The audit fees as set out on page 14 of the report are £238,620 for the main Council audit and grant certification work and £4,800 for other audit services

relating to the teachers pension return. The fees will be met from within the existing revenue budget.

9.0 Legal Implications

9.1 None.

10.0 Risk Management

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

11.0 Background and Options

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

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

11.3 The Audit Plan sets out the key phases of the audit and provides details of the risk based approach to the work programme.

11.4 The Audit Plan sets out the requirements for the audit of the Group Accounts. The audit will consider the Council's assessment of the group boundary and the adequacy of the determination of those entities that are to be included within Group Accounts in 2014/15. The auditors will also review the approach to align the accounting policies, review the consolidation adjustments and assess whether the disclosures within the group financial statements are in accordance with the Code requirements.

11.5 Grant Thornton will be attending the meeting to answer any questions raised by members on the 2014/15 Audit Plan.

12.0 Access to Information

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

Name: Joanne Wilcox

Designation: Corporate Finance Manager

Tel No: (01270) 685869

Email: Joanne.wilcox@cheshireeast.gov.uk

The Audit Plan for Cheshire East Council

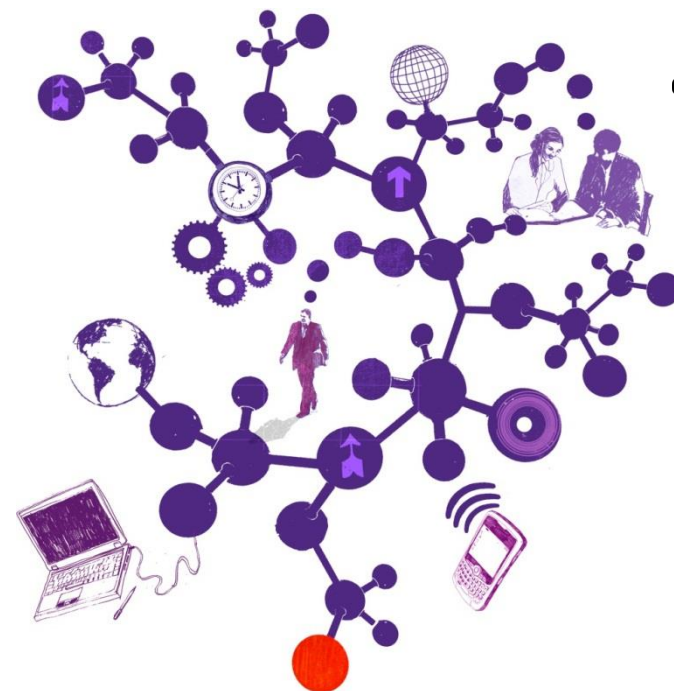
Year ended 31 March 2015

March 2015

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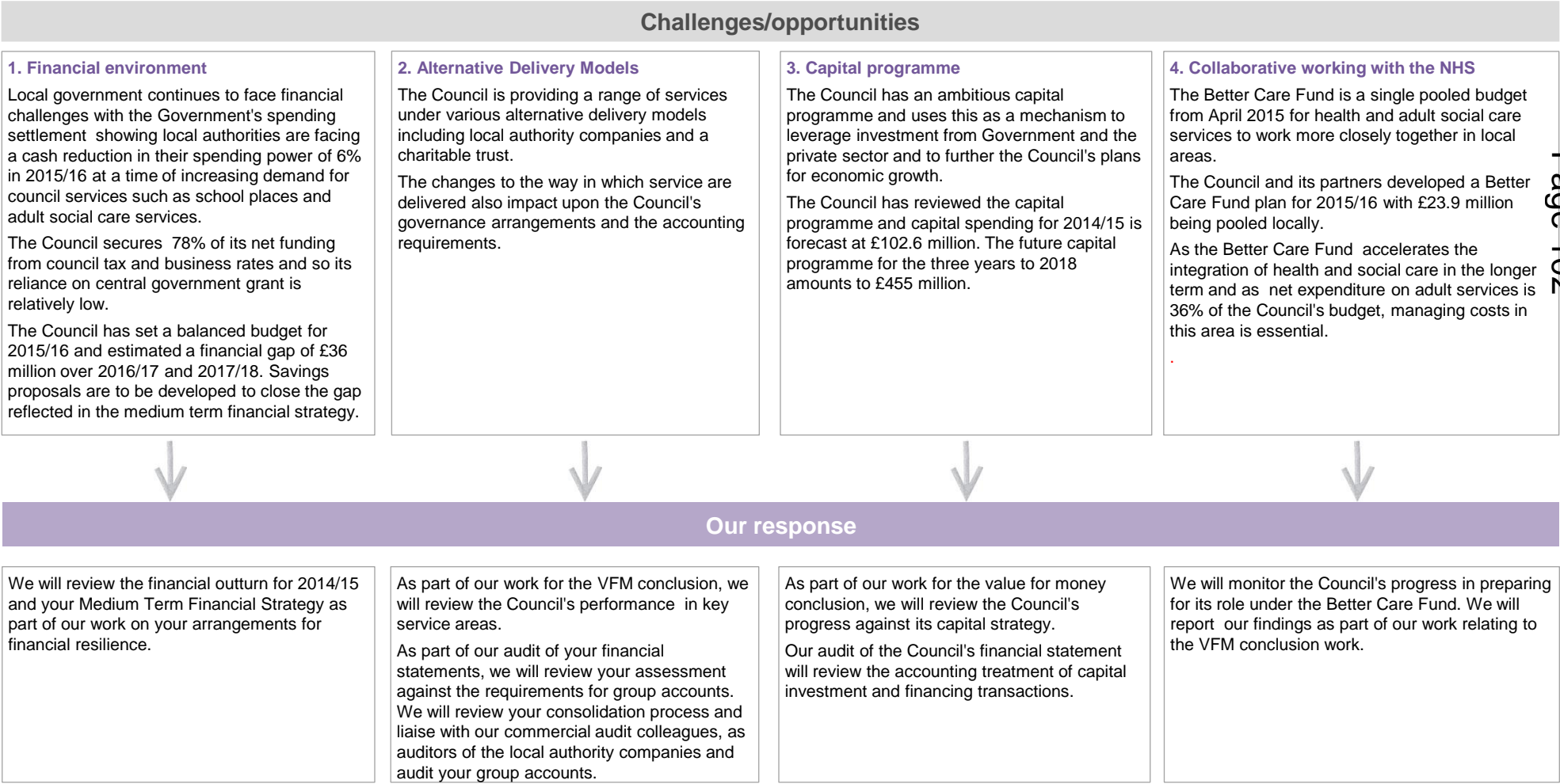
The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible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

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Understanding your business

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



Developments relevant to your business and the audit

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

Developments and other requirements

1. Financial reporting

- Changes to the CIPFA Code of Practice
- Adoption of new group accounting standards which affect how local authorities account for services delivered through other entities and joint working with partners
- Accounting for schools including changes to the recognition of land and buildings on the Council's balance sheet.

2. Legislation

- Local government finance settlement
- Care Act 2014

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

5. Other requirements

- The Council is required to submit a Whole of Government Accounts (WGA) pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

Our response

Through our discussions with management and our substantive testing we will consider whether:

- the Council complies with the requirements of the CIPFA Code of Practice
- schools are accounted for correctly and in line with the Code and accounting standards
- your application of group accounting requirements is appropriate.

We will also consider the progress made against issues raised in the 2013/14 audit.

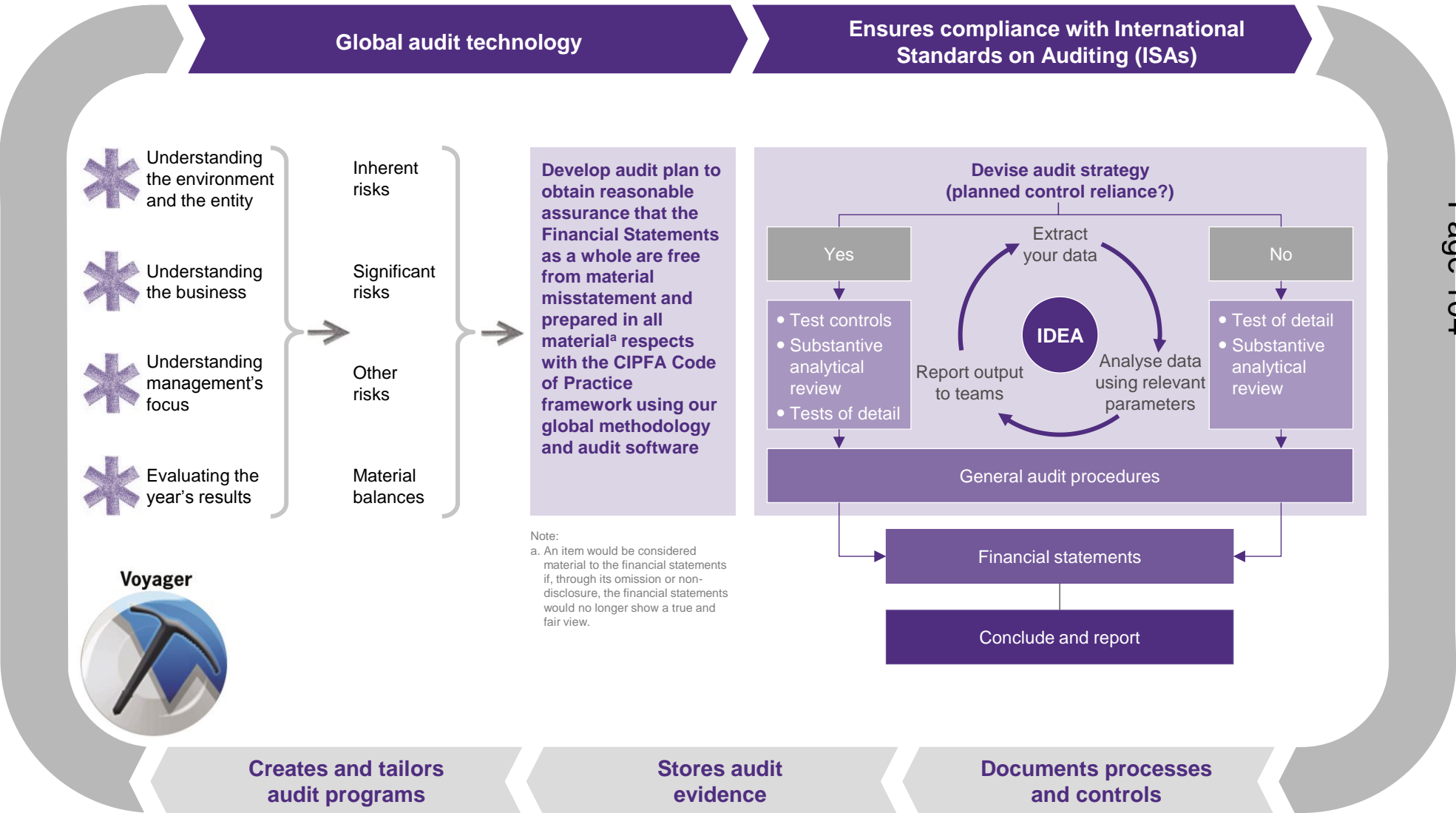
- We will discuss the impact of legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

- We will review the arrangements the Council has in place for the production of the AGS.
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.

- We will monitor the Council's financial performance throughout the year through review of reports, consideration of the medium term financial plans and discussion with management.
- We will undertake a review of Financial Resilience as part of our VFM conclusion.

- We will carry out work on the WGA pack in accordance with requirements.
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

Our audit approach



Significant risks identified

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

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

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheshire East Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• the culture and ethical frameworks of local authorities, including Cheshire East Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Work planned: <ul style="list-style-type: none">• Discuss with management the rationale and evidence to support key accounting estimates and judgements.• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Other risks identified

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

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

Other reasonably possible risks	Description	Work programme
Operating expenses	Creditors understated or not recorded in the correct period (operating expenses understated)	<p>We will document the processes and controls in place around the accounting for operating expenses and carry out walkthrough tests to confirm the operation of controls.</p> <p>We will carry out testing including:</p> <ul style="list-style-type: none"> the completeness of the subsidiary system interfaces and control account reconciliations obtaining an understanding of the accruals process and testing a sample accruals cut off testing of purchase orders and goods received notes (both before and after year end). <p>Testing will also cover a sample of operating expenses covering the period 1/4/14 to 31/3/15 to ensure they have been accurately accounted for and in the correct period.</p>
Employee remuneration	Employee remuneration accrual understated (remuneration expenses not correct)	<p>We will document the processes and controls in place around the accounting for employee remuneration and carry out walkthrough tests to confirm the operation of controls.</p> <p>We will carry out testing including:</p> <ul style="list-style-type: none"> the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements a review of monthly trend analysis of total payroll substantive testing of senior officer remuneration. <p>Testing will also cover a sample of employee remuneration payments covering the period 1/4/14 to 31/3/15 to ensure they have been accurately accounted for and in the correct period.</p>
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p>We will document the processes and controls in place around the accounting for welfare benefits and carry out walkthrough tests to confirm the operation of controls.</p> <p>We will perform the initial testing of benefit expenditure in accordance with the HBCOUNT methodology required to certify the housing benefit subsidy claim.</p> <p>We will review the reconciliation between the benefits system and general ledger.</p>

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Council has completed an initial assessment against the requirements of *IFRS 10 consolidated financial statements* and *IFRS 11 Joint arrangements* and determined that Group Accounts will be prepared to incorporate the financial results of four wholly owned subsidiary companies (Ansa Environmental Services Ltd, Orbitas Bereavement Services Ltd, Transport Service Solutions Ltd & East Cheshire Engine of the North Ltd) along with CoSocius Ltd as a joint venture. The Council has determined that other subsidiaries & associates (Cheshire East Residents First Ltd, Tatton Park Enterprises Ltd, Cheshire & Warrington Enterprise Ltd) may be excluded from the group accounts on the basis that this does not have a material impact. Investment in other entities such as Everybody Sport and Leisure Trust (ESAR) are not to be consolidated as the Council does not have 'control'.

We will consider the Council's assessment of the group boundary and the adequacy of the determination of those entities that are to be included within Group Accounts in 2014/15. We will also review the approach to align the accounting policies, review the consolidation adjustments and assess whether the disclosures within the group financial statements are in accordance with the Code requirements. Our work will also consider the adequacy of the specific disclosures for interests that are not incorporated into the group accounts. The table below considers whether the 'components' to be consolidated into the group accounts are anticipated to be individually

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Cheshire East Residents First Ltd: <ul style="list-style-type: none"> Ansa Environmental Services Ltd Orbitas Bereavement Services Ltd Transport Solutions Ltd Engine of the North Ltd 	Yes (to be reassessed based on the financial impact for each of the companies)	Targeted	<p>At this stage we have identified no specific risks of material misstatement.</p> <p>Nevertheless this is the first year of operation for the new companies and of the preparation of group financial statements and so there are additional challenges and some risk of error as these new arrangements are established.</p> <p>We will inform the Audit and Governance Committee of any changes to this assessment.</p>	<p>Liaison with the finance team to discuss any complex matters, emerging issues or areas of difficulty.</p> <p>Liaison with the auditors of the Council's companies (also Grant Thornton UK LLP but a separate team).</p> <p>Specific (targeted) scope procedures to be performed depending on the arrangements for the holding company and the significance of each of the components.</p> <p>Review of the Council's consolidation of the financial results of the subsidiary into the group accounts.</p>
CoSocius Ltd : 50% joint venture interest which commenced trading with effect from 1 May 2014.	No	Analytical	N/A	Analytical procedures at the group level - desktop review of the Council's consolidation of the financial results of the joint venture into the group accounts using the 'equity' method.

Value for money

Value for money

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

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

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

We undertake a risk assessment to identify areas of risk to our VfM conclusion. Following on from our work in 2013/14 we will review progress against our recommendations in 2013/14 (at Appendix A) and undertake work in the following areas to address the risks identified:

- Review the Council's progress in developing its financial strategy for 2015/16 and beyond and how changes to the delivery of services, with the Council's move to become a strategic commissioning council, are reflected in governance arrangements and financial plans.
- Review the developments in the Council's capital planning and reporting process.
- Review the Council's progress in preparing for its role under the Better Care Fund.

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

Interim audit work

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

	Work to be performed	Outcome of the work to be performed
Internal audit	<p>We complete a high level review of internal audit's overall arrangements.</p> <p>We also review internal audit's work on the Council's key financial systems to date.</p>	<p>We will conclude whether the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work will identify whether there are any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We complete walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p>	<p>We will conclude whether our work has identified any weaknesses which impact our audit approach.</p>
Entity level controls	<p>We will obtain an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>We will conclude whether our work has identified any material weaknesses which are likely to adversely impact on the Council's financial statements</p>
Review of information technology controls	<p>We carry out a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also follow up the issues raised last year.</p> <p>As the Council uses Oracle which is an inherently complex financial system, our IT specialists will carry out this review.</p>	<p>We will conclude whether our work identifies any material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

Interim audit work continued

	Work performed	Outcome of the work to be performed
Journal entry controls	<p>We review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>We will carry out testing on journals for months 1-10.</p>	The work will identify whether there any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.
Value for Money Conclusion	We will carry out an initial review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.	The work will inform our conclusion on the arrangements to secure value for money.
Early substantive testing	<p>We will carry out early and/or part year testing in the following areas:</p> <ul style="list-style-type: none"> - sample of employee remuneration payments - sample of operating expenses payments - PFI accounting models and disclosures - employee remuneration trend analysis - agreement of significant grant notifications - group accounts assessment - precept demands - PPE opening balances - related party transactions - NDR appeals process - bank reconciliation. 	The work will inform our approach to the audit of the Council's accounts and contribute to the assurance for material items.
Other work to be performed	We will follow up the Council's progress in implementing the recommendations made our Audit Findings report for 2013/14 (Appendix A)	The work will inform our approach to the audit of the Council's accounts and also our conclusion on the arrangements to secure value for money.

Key dates



Date	Activity
January – February 2015	Planning
March 2015	Interim site visit
March 2015	Presentation of initial audit plan to Audit and Governance Committee
July 2015 September 2015	Year end fieldwork
September 2015	Audit findings clearance meeting
September 2015	Report audit findings to those charged with governance (Audit and Governance Committee)
September 2015	Sign financial statements opinion

Fees

Fees

	£
Council audit	206,120
Grant certification	32,500
Total fees (excluding VAT)	238,620

Our fee assumptions include:

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

It is important to note that the introduction of group accounting requirements is a change in the scope of the audit that requires additional audit work to meet the requirements of International Standards on Auditing (ISA) 600. This additional work is not reflected in the scale fee previously determined by the Audit Commission. The proposed amendment will be discussed with the Chief Operating Officer and must also be approved by the Public Sector Audit Appointments Ltd (successor body to the Audit Commission).

Other Audit Services

	£
Reasonable Assurance report for teachers pension return December 2014	4,800
Total fees (excluding VAT)	4,800

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'
- The actual certification fees for 2014/15 may be higher or lower than the indicative fee determined by the Audit Commission and stated above, because the auditor is required to undertake more or less work compared to 2012/13 on which the fee is based.

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence

Independence and ethics

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

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

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

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

Safeguards to mitigate the threat to the independence of the auditor

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

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

We have discussed these safeguards with the Council's Leader, Chief Executive and Chief Operating Officer. We have also discussed and agreed these safeguards with the Audit Commission. The following safeguards are in place for 2014/15:

- Judith withdrew from the audit team as soon as she advised her interest in applying for the role at the Council and alternative arrangements were put in place to discuss and finalise the Annual Audit Letter and to certify two grant claims. This concluded the 2012/13 audit.
- For the 2013/14 audit all senior members of the team were replaced by individuals who have not previously worked with Judith.
- As an additional safeguard the team are from another Grant Thornton region (Midlands) and are headed up by the Regional Lead Partner for the Midlands - Jon Roberts. Your audit team also includes Allison Rhodes and Lisa Morrey.
- The audit engagement team will not conduct any meetings with Judith without another Council officer being present. This additional safeguard will continue until January 2016.
- In addition we confirm that Judith has no residual financial relationships with the firm.

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

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

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

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

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

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

Appendices

Appendix A: Key issues and recommendations 2013/14

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>Property, plant and equipment and capital accounting:</p> <p>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>Recommendations:</p> <ul style="list-style-type: none">• 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• 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.• 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.	<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>PFI liability and disclosures:</p> <p>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>Recommendation: 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>Receipts in advance:</p> <p>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>Recommendations:</p> <ul style="list-style-type: none"> • 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. • We recommend that the Council reviews its remaining balances held as receipts in advance. 	<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>Financial Governance</p> <p>Our work on the VFM Conclusion resulted in a number of recommendations to further improve aspects of financial governance.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • 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. • Include key unit cost information within the performance management framework as a measure of financial performance alongside service delivery outcomes. • 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. 	<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"> • develop the role of the Committee; • further develop the approach to agenda planning; • provide an appropriate focus for debate; and • implement the improvement actions agreed in June 2014 in response to the effectiveness self-assessment. <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>Alternative Service Delivery Vehicles</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>Recommendation:</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"> • 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 • embed quarterly monitoring of the operational and financial performance of its companies, within its usual reporting processes. <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>Better Care Fund</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>Recommendation:</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>Recommendations:</p> <ul style="list-style-type: none"> 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. Continue to improve procurement arrangements, effectively linking these with contract management and commissioning activities to avoid duplication and maximise savings to be secured. Continue to implement the recommendations arising from the Ofsted inspection and improvement notice regarding the arrangements for the protection of children. 	<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>



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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting: 19th March 2015
Report of: Corporate Manager Governance and Audit
Title: Internal Audit Plan 2015/16
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

- 1.0 The purpose of this report is for the Committee to receive and approve the Summary Internal Audit Plan for 2015/16.

2.0 Recommendations

- 2.1 That the Committee:
- i) approve the Summary Internal Audit Plan 2015/16 (Appendix A); and
 - ii) note that a more detailed Internal Audit Plan will be developed and produced in the first quarter of 2015/16, that will be discussed and agreed with the relevant Member/Officer group.

3.0 Reasons for Recommendations

- 3.1 The Council's Internal Audit Charter, developed in accordance with the Public Sector Internal Audit Standards (PSIAS), requires the Corporate Manager Governance and Audit to submit an annual internal audit plan to the Audit and Governance Committee for review and 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 In accordance with the PSIAS, the Audit and Governance Committee should ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in

accordance with appropriate professional standards for internal auditors. No general contingency allocation has been included at this stage.

- 7.2 The Summary Internal Audit Plan 2015/16 has been prepared, based on current resources, to cover the core areas of work required to deliver an annual audit opinion. Once the detailed audit plan has been set, this will be compared to resource availability and where there is an imbalance between the two, the Committee will be informed of proposed solutions.
- 7.3 Matters that jeopardise the delivery of the detailed audit plan or require significant changes to it will be identified, addressed and reported to the Committee.

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

- 8.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit (England) Regulations 2011. The latter states that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.
- 8.2 The guidance accompanying the Regulations recognises that with effect from 1st April 2013, the Public Sector Internal Audit Standards (PSIAS) represent “proper internal audit practices”. The PSIAS apply to all internal audit service providers within the UK public sector.

9.0 Risk Assessment

- 9.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council that these arrangements are in place and operating properly.
- 9.2 The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Organisation's objectives.
- 9.3 The Council needs to form its own view about the level of audit coverage and the optimum resources to be devoted to internal audit. No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence-based opinion.
- 9.4 The Audit and Governance Committee should, therefore, seek assurance that the best use of the internal audit resource is made within the Council's assurance framework. In particular, Members should seek confirmation that the audit plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the Annual Governance Statement.

10.0 Background

- 10.1 All principal local authorities subject to the Accounts and Audit (England) Regulations 2011 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS). The Standards state that the provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive (or equivalent) to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Internal audit can also, where resources and skills exist, provide additional services. Additional services would normally be advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.
- 10.2 In order to ensure that internal audit resources continue to be focussed on areas where assurance is most needed, particularly during periods of change, it is essential that clients' needs are understood. Consequently, a wide ranging consultation process took place with key stakeholders including Senior Management, Strategic Risk Owners/Managers and other assurance providers in order to establish priorities for audit activity in 2015/16.
- 10.3 Following the consultation process the proposed audit activity was collated and matched against the internal audit resources available and prioritised accordingly and a risk-based summary internal audit plan for 2015/16 (Appendix A) prepared. In accordance with the PSIAS the plan is fixed for a period of no longer than one year. It outlines the assignments to be carried out, their respective priorities (by differentiating between assurance and other work) and the estimated resources needed. Corporate Leadership Board has considered the plan prior to presentation to the Audit and Governance Committee.
- 10.4 The plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the Annual Governance Statement. However, it is proposed that a more detailed audit plan will be developed and produced in 2015/16 as a number of factors progress and the impact on the current level of audit resource becomes known. These include:
- outcomes of the business/commissioning planning process for 2015/16
 - establishing whether the centralised risk management resource adequately reflects the risk maturity and requirements of the Council and what impact this will have on the audit resource following the transfer of the function to Internal Audit in 2014
 - establishing the impact on audit resource following a decision to transfer responsibility for the Corporate Business Continuity Management functions to the Corporate Manager Governance and Audit from 1 April 2015
 - Determining the impact on audit resources with regard to assurance engagements for functions over which the Corporate Manager Governance and Audit has responsibility

- understanding the impact of the successful Counter Fraud Fund bid (a joint Cheshire bid for funding to appoint a member of staff to carry out proactive fraud work)
- determining the requirement to use specialists, e.g. IT or contract and procurement auditors
- outcomes from collaborative working including the development of the Quality Assurance and Improvement Programme (QAIP) and in particular the external assessment against the PSIAS (i.e. the Definition of Internal Auditing, the Code of Ethics and the Standards themselves) for compliance
- confirmation on the Alternative Service Delivery Vehicles' specific requirements for internal audit and risk management

10.5 In accordance with the Council's Internal Audit Charter the Audit and Governance Committee is asked to review and approve the summary internal audit plan 2015/16. In doing, so Members should consider whether the:

- scale and breadth of activity is sufficient to allow Internal Audit to provide an independent and objective audit opinion that can be used to inform the AGS
- level of resources in any way limits the scope of Internal Audit, or prejudices the ability to deliver a service consistent with the Standards
- level of non-assurance work has an adverse impact on the core assurance work.

11.0 Access to Information

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

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Summary Internal Audit Plan 2015-16

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Cheshire East Council - Summary Internal Audit Plan 2015/16

1 Introduction

- 1.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council that these arrangements are in place and operating properly.
- 1.2 The provision of assurance is, therefore, the primary role for internal audit. This role requires the Corporate Manager Governance and Audit to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control (i.e. the control environment).
- 1.3 A risk based Internal Audit plan is produced each year to ensure that:
- the scale and breadth of activity is sufficient to allow the Corporate Manager Governance and Audit to provide an independent and objective opinion to the Council on the control environment
 - audit activity focuses on areas where assurance is most needed
- 1.4 This document sets out Cheshire East Council's Summary Internal Audit Plan for 2015/16 and includes how the internal audit service will be delivered and

developed in accordance with the Internal Audit Charter and how the plan links to the Council's objectives and priorities.

2 Responsibilities and Objectives of Internal Audit

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

Cheshire East Council - Summary Internal Audit Plan 2014/15

3 Summary and Process

- 3.1 The Plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation. It is, therefore, presented at a summary level.
- 3.2 The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework.
- 3.3 The Plan has been prepared by taking the following into account:
- Adequacy and outcomes of the Authority's risk management, performance management and other assurance processes.
 - Internal Audit's own risk assessment.
 - Cheshire East Council's Three Year Plan 2014/2017.
 - Consultation with key stakeholders e.g. Corporate Leadership Board (CLB), Senior Management including Strategic Risk Owners/Managers, External Audit, Internal Audit staff, Cheshire West and Chester Internal Audit.
- 3.4 The Plan will be further defined in the first quarter of 2015/16, through the following:
- Outcomes from the Strategic Risk Management Process.

- Outcomes from the business/commissioning planning process, including key organisational objectives and priorities and risks to achieving them.
- Outcomes from the Annual Governance Statement process.
- Further consultation with key stakeholders (e.g. Senior Managers).

The Plan will need to take account of the following:

- whether the centralised risk management resource adequately reflects the risk maturity and requirements of the Council and the impact this will have on the audit resource following the transfer of the function to Internal Audit in 2014
- the impact on audit resource following a decision to transfer responsibility for the Corporate Business Continuity Management function to the Corporate Manager Governance and Audit from 1 April 2015
- the impact on audit resources with regard to assurance engagements for functions over which the Corporate Manager Governance and Audit has responsibility
- the impact of the successful Counter Fraud Fund bid (a joint Cheshire bid for funding to appoint a member of staff to carry out proactive fraud work)

Cheshire East Council - Summary Internal Audit Plan 2014/15

- the requirement to use specialists, e.g. IT or contract and procurement auditors
- outcomes from collaborative working including the development of the Quality Assurance and Improvement Programme (QAIP) and in particular the external assessment against the PSIAS (i.e. the Definition of Internal Auditing, the Code of Ethics and the Standards themselves) for compliance
- confirmation on the Alternative Service Delivery Vehicles' specific requirements for internal audit and risk management

4 Key Themes and Outputs

4.1 There are a number of key themes emerging within the 2015/16 Internal Audit Plan, including:

- Governance of partnership and commissioning arrangements
- Programme and Project Management – the delivery of change
- Maintaining and developing the Performance Management Framework

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

- **Assurance Audits** - On completion of the audit an opinion report is issued to management on the risks

and controls of the area under review. This builds up to the annual audit opinion on the control environment that is reported to the Audit and Governance Committee.

- **Consulting Services** - advisory in nature and generally performed at the specific request of the organisation. The nature and scope of the consulting engagement should aim to improve governance, risk management and control and should contribute to the overall opinion.

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

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

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

- **Corporate Governance and Risk**

Cheshire East Council - Summary Internal Audit Plan 2014/15

- Support and contribution to production of the Annual Governance Statement (AGS)
 - Production of Assurance Statements to support the AGS (from Senior Managers)
 - Development of the Council's Assurance Framework
 - **Statutory Returns**
 - Internal Audit may be required, as a stipulation of funding or similar, to carry out an audit/give assurance on the programme/project or aspects, thereof, and report back to the statutory/funding body.
 - **Anti Fraud & Corruption**
 - National Fraud Initiative – results are recorded on the Audit Commission secure website, update reports presented to the Corporate Assurance Group.
 - **Follow Up**
 - Monitoring implementation of audit recommendations and targeted follow up of recommendations based on audit opinion/recommendation rating, where necessary.
 - **Advice and Guidance**
 - The exact nature and scope of any internal audit work, is agreed in advance with the manager.
- 4.5 Other work that will not necessarily inform the annual opinion includes:
- **Corporate Work**
 - Responsibility for centralised risk management function
 - Responsibility for centralised business continuity management function
 - Supporting the Audit and Governance Committee including production of reports
 - External Audit liaison
 - Support and contribution to Corporate Working Groups
 - Regional Collaboration
 - **Anti Fraud and Corruption and Whistleblowing Reports**
 - At the request of management, Internal Audit may assist with the investigation of suspected fraud and corruption/reports and referrals received under the Council's Whistleblowing Policy

Cheshire East Council - Summary Internal Audit Plan 2014/15

- Awareness raising
- Supporting the production of Corporate Policies and Procedures

- 4.6 In accordance with CIPFA guidance the Corporate Manager Governance and Audit should be made aware of major new systems and proposed initiatives to help ensure risks are properly identified and evaluated and appropriate controls built in. Some of the work described in 4.5 contributes to this awareness.
- 4.7 The assurance framework will be further reviewed and developed during 2015/16 to highlight existing sources of assurance provision, ensuring effective planning and efficient deployment of resources.
- 4.8 In addition time has been allocated in the plan for the service to be developed and improvements made.
- 4.9 Internal Audit also provides services to PATROL, as Cheshire East Council is the host Council. From 2014/15 there is provision for CoSocius to request services from Internal Audit.

5 Resources

- 5.1 The resources currently available are outlined below:

Audit Year	2014/15	2015/16
Maximum Days	2400	2114
Unavailable Working Days – Annual Leave, Bank Holidays, Estimated Sick Leave, Estimated Special Leave	586	370
Available Working Days	1814	1744
Non Chargeable Sub Total	364	378
Chargeable Days	1450	1366

- 5.2 The Summary Internal Audit Plan 2015/16 has been prepared, based on current resources, to cover the core areas of work required in order to deliver an annual audit opinion. A contingency figure is normally included to recognise that the plan needs to be flexible to be able to reflect the changing risks and priorities of the Council. The plan does include a small amount of time for advice and guidance. It does not include an additional contingency.
- 5.3 As described in 3.4, further work will now take place in the first quarter of 2015/16 to produce a more detailed plan for the year.

Cheshire East Council - Summary Internal Audit Plan 2014/15

- 5.4 Where there is an imbalance between the work plan and the resources available, the Audit and Governance Committee will be informed of proposed solutions. The more detailed Audit Plan will be discussed and agreed by the Member/Officer group responsible for Audit.
- 5.5 In further defining the audit plan, areas of work may be highlighted which the Internal Audit function is not currently sufficiently staffed/skilled to provide assurance on, for example, specialist ICT audits. In these cases, the Council may wish to consider procuring external audit resource to provide the necessary assurance.
- 5.6 Significant matters which jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and brought to the attention of the Corporate Leadership Board and Audit and Governance Committee.
- 5.7 Internal Audit's key priority will always be to deliver the assurance programme of work in order to provide the Council with an informed annual audit opinion.

6 Progress Reporting

- 6.1 During the year, Internal Audit will produce interim progress reports for the Audit and Governance Committee, detailing key issues arising from audits and

progress made against the Audit Plan. Any significant matters affecting the delivery of the plan or requiring changes to the plan will also be reported to the Committee.

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

7 Quality Assurance and Improvement Programme

- 7.1 During 2015/16 Internal Audit will maintain a quality assurance and improvement programme that covers all aspects of its activity. The programme will include an evaluation of Internal Audit's compliance with the PSIAS and an evaluation of whether internal auditors apply the Code of Ethics. The programme will also assess the efficiency and effectiveness of Internal Audit and identifies opportunities for improvement.
- 7.2 The Corporate Manager Governance and Audit will communicate to the Corporate Leadership Board and the Audit and Governance Committee on Internal Audit's quality assurance and improvement programme, including results of ongoing internal assessments and

Cheshire East Council - Summary Internal Audit Plan 2014/15

external assessments conducted at least every five years.

Performance Indicators

- 7.3 Internal Audit has a number of existing Performance Indicators that are reported to the Audit and Governance Committee through the year via interim reporting and the Annual Report. For 2015/16 these are:

Performance Indicator	2015/16 Target	2014/15 Target	2013/14 Actual
Percentage of Audits completed to user's satisfaction	tbc	92%	89%
Percentage of significant recommendations agreed	tbc	90%	93%
Productive Time (Chargeable Days)	tbc	80%	82%
Draft report produced promptly (per Client Satisfaction Form)	tbc	95%	78%

- 7.3 As requested by the Audit & Governance Committee, a new Performance Indicator on the implementation of internal audit recommendations within timescale was introduced during 2014/15 (Target 90%, 75% within

timescale). 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

Benchmarking

- 7.4 Benchmarking is a vital tool to help drive improvements and deliver value for money. In 2015/16, Internal Audit will take part in the CIPFA Benchmarking Club.
- 7.5 Through the Benchmarking Club, staffing (central and local) cost data is collected for the internal audit function in order to derive the number of audit days available and the cost per audit day. The number of audit days per £million authority gross revenue turnover is compared and further analysed by: type of audit, system audited and type of risk. There is also comparison and analysis of the cost per Auditor and the number of chargeable days per auditor.
- 7.6 Results from the Benchmarking Club will be shared with the relevant Committee and relevant Member/Officer Group, as appropriate.

Audit Theme/Area <i>Identified Key Areas</i>	Drivers/Risks	2015/16 Planned Audit Days	2015/16 Planned %
Chargeable Days		1366	
Less: Corporate Work		183	
<i>Includes:</i> Corporate Management, Executive Monitoring Board, Performance Development Review Process, Responsibility for Centralised Risk Management and Business Continuity Management functions.	Corporate requirements		
Available Audit Days		1183	100%
Corporate Governance and Risk		223	19%
<i>Includes:</i> Audit and Governance Committee: Member Liaison and Development, Reports to A&G (Internal Audit and taken on behalf of others), Committee Administration and Work Plan development. Corporate Groups - Technical Enabler Group Supporting Corporate Governance, - Support and production of AGS, Corporate Assurance Group and associated working groups. External Audit - Grant Thornton Liaison Regional Collaboration - Working with regional internal audit partners Reviewing corporate and operational risk management	Statutory requirement/supporting the overall provision of assurance and the annual internal audit opinion.		
Anti Fraud and Corruption - Proactive Reviews		75	6%
<i>Includes:</i> National Fraud Initiative, Developing an anti-fraud culture, Review of associated policies, Proactive assurance reviews including Council Tax & NNDR	Statutory requirement – NFI/ Responding to fraud trends/ Awareness raising.		
Anti Fraud and Corruption - Reactive Investigations		30	3%
Will be undertaken as necessary after appropriate risk assessment.	In response to demand.		
Chief Operating Officer - Key Financial Systems		227	19%
<i>Includes:</i> Accounts Payable, Accounts Receivable, Payroll, Housing Benefits, General Ledger, Capital Budget Monitoring, Schools Financial Value Standard establishment visits.	Provision of assurance to S151 Officer on identified high risk areas/Review of new arrangements and follow up of		

Audit Theme/Area <i>Identified Key Areas</i>	Drivers/Risks	2015/16 Planned Audit Days	2015/16 Planned %
	previous recommendations/Potential risk of mis-statement in the Authority's financial statements.		
Chief Operating Officer - Corporate Core and Cross Service		170	14%
<i>Includes:</i> Performance Management Framework, Project and Programme Management, Second Line of Defence Reviews, Procurement, Information Assurance, supporting lean reviews, ICT.	Key Corporate and Cross service risks/Assurance relating to specific service areas reporting to COO.		
Strategic Commissioning		30	3%
<i>Includes:</i> Council owned companies – commissioning arrangements	Assurance on commissioning arrangements.		
Strategic Commissioning - Children's Social Care & Education		73	6%
<i>Includes:</i> Family focus programme, Foster Care Payments, Care Leavers, Nursery Education Grant.	Key departmental and service risk areas.		
Strategic Commissioning - Adult's Social Care		75	6%
<i>Includes:</i> Adults Financials System, Provider Contract Management, Better Care Fund.	Key departmental and service risk areas.		
Strategic Commissioning –Safeguarding		15	1%
<i>Includes:</i> Personal Budgets	Key departmental and service risk areas.		
Strategic Commissioning -Public Health		30	3%
<i>Includes:</i> Performance Management and reporting, commissioning of services	Key departmental and service risk areas.		
Strategic Commissioning -Communities		10	1%
<i>Includes:</i> Parking Enforcement	Key departmental and service risk areas.		

Audit Theme/Area <i>Identified Key Areas</i>	Drivers/Risks	2015/16 Planned Audit Days	2015/16 Planned %
Economic Growth and Prosperity		25	2%
<i>Includes:</i> Local Enterprise Partnership.	Key departmental and service risk areas.		
Providing Assurance to External Organisations		75	6%
<i>Includes:</i> <i>CoSocius/PATROL/Others to be confirmed.</i>	Host Authority arrangement (PATROL)/Assurance provided to External Organisations.		
Advice and Guidance		30	3%
<i>Includes:</i> Provision of ad-hoc advice and guidance to services as requested during 15/16.	Add value and improve overall governance, risk management and control processes within the organisation.		
Other Chargeable Work		95	8%
<i>Includes:</i> Consultancy (specific nature and scope to be agreed In advance with client), General certification of grants & Audit follow up audits & reporting Note: Contingency is currently zero.	Specific requests from services/Follow up implementation of recommendations, including further testing or additional work where necessary.		
Total Audit Days		1183	100%

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 19 March 2015
Report of: Corporate Manager Governance and Audit
Title: Work Plan 2014/15 and 2015/16
Portfolio Holder: Councillor Peter Raynes

1.0 Report Summary

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

2.0 Recommendation

2.1 That the Committee:

- i. note the changes to the 2014/15 Work Plan since it was last discussed in January
- ii. consider the draft agenda for June 2015 and determine any required amendments
- iii. note that the 2015/16 plan will be brought back to the Committee in June for development and approval.

3.0 Reasons for Recommendations

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

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Chief Operating Officer)

- 7.1 When reviewing the Work Plan, Members will need to consider the resource implications of any reviews they wish to carry out both in terms of direct costs and in terms of the required officer support.

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

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

9.0 Risk Assessment

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

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

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

10.0 Background and Options

- 10.1 A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities has been attached at Appendix A of this report. The Committee is asked to consider the contents of the Work Plan and establish any changes that will enable it to meet its responsibilities. In doing so it should be noted that:

- following revisions to the Council's Contract Procedure Rules (adopted on 1 January 2015) responsibility for receiving reports regarding non adherence with the Rules has transferred from the Audit and Governance Committee to the Procurement Board. The half yearly update report has, therefore, been removed from the March Agenda; and
- further discussion in the specialist Member/Officer groups is necessary in order to draft a Work Plan that extends beyond June

2015. It is proposed, therefore, that the draft Plan for the remainder of 2015/16 will be brought back to Committee in June for approval.

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

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

11.0 Access to Information

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

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Designation: Audit Manager

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Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
19 March 2015			
Risk Management Update Report.	Update report on Risk Management and attendance by a Corporate Risk Owner to explain their mitigation.	10	To monitor the effective development and operation of risk management in the council.
		11	To monitor progress in addressing risk related issues reported to the committee.
Informing the External Audit Risk Assessment for Cheshire East Council.	A report that facilitates compliance with International Standards on Auditing (UK and Ireland).	32	To consider specific reports as agreed with the external auditor.
Grant Thornton 2014/15 Audit Plan for Cheshire East Council.	External Audit's planned work for the audit of financial statements and the value for money conclusion 14/15.	33	To comment on the scope and depth of external audit work and to ensure it gives value for money.
Internal Audit Plan 2015/16.	Approval of risk based Internal Audit Plan for following year.	20	To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
Audit and Governance Committee Self-Assessment.	Self- assessment of the effectiveness of the Committee, which feeds into the AGS process.	28	To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.

Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
Members Code of Conduct Complaints Update.	Update on the number and outcome of complaints.	5	To promote high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).
Update of Governance of ASDVS	An update on governance arrangements for alternative service delivery vehicles (ASDVs).		At the request of Members.
Disclosure of Officers' Remuneration in the Statement of Accounts.	This report provides details of the disclosure requirements for Officers' Remuneration both in terms of the Financial Statements and the recommended practice on Data Transparency.		At the request of Members.
Work Plan 2014/15 and 2015/16.	Forward looking programme of meetings and agenda items 2015/16 to ensure comprehensive coverage of the Committee's responsibilities.	All	
June 2015			
External Audit – Update Report.	To consider an update report from Grant Thornton in delivering their responsibilities as external auditors.	31	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
Internal Audit Annual Report 14/15.	Opinion on the overall adequacy and effectiveness of the Council's control environment for 14/15.	24	<p>To consider the head of internal audit's annual report:</p> <p>a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.</p> <p>b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.</p>
Corporate Risk Management Group Annual Report 14/15 & Risk Management Policy Review.	Annual Report of the Corporate Risk Management Group, an update of the Risk Management Policy.	10	To monitor the effective development and operation of risk management in the council.
Draft Annual Governance Statement (AGS) 14/15.	Draft AGS 13/14 for comment/agreement; final version to be approved at September meeting.	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
		7	To review and approve the Annual Governance Statement and consider whether it properly reflects the

Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
		8	<p>risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.</p> <p>To consider the Council's arrangements to secure value for money and to review and scrutinise assurances and assessments on the effectiveness of these arrangements.</p>
Draft Pre-Audit Statement of Accounts 2014/15.	This report introduces the 2014/15 pre-audit statement of accounts to the Committee for consideration and comment.	36	To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
Whistleblowing Policy.	To provide the Committee with an update on the effectiveness of the Council's Whistleblowing Policy and a breakdown of the number of reports received during 2013/14.	40	To approve and monitor Council policies relating to "whistleblowing" and anti- fraud and corruption.
Code of Corporate Governance – Review and Update	To provide the Committee with a revised Code of Corporate Governance as agreed at January 2015 meeting.	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances
Work Plan.	Forward looking programme of meetings and agenda items 2015/16 to ensure comprehensive coverage of the	All	

Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
	Committee's responsibilities.		
<i>The following Terms of Reference may require reports to the Committee in order for it to fulfil its duties.</i>			
		19	To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations
		22	To make appropriate enquiries of both management and the head of internal audit.
		26	To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
		27	To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
		29	To support the development of effective communication with the head of internal audit.
		34	To commission work from internal and external audit.
<i>The following Terms of Reference may require reports to Cabinet in order for the Committee to fulfil its duties</i>			
		14	To make recommendations to the Executive on the Council's arrangements for deterring, preventing, detecting and investigating fraud.
		16	To advise the Executive on responses to audit management letters, reports and investigations and reviewing whether agreed external audit or inspection

Work Plan 2014/15

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
			recommendations have been implemented as timetabled.
		30	To review and make recommendations to the Executive regarding the effectiveness of internal audit to include ensuring the internal audit function is adequately resourced, to review its strategy, receive, challenge and approve its annual plan and monitor its delivery and to review significant audit findings and monitor progress by managers in implementing agreed recommendations.
<i>The following Terms of Reference may require inclusion in the Annual Report or separate reports to Council in order for the Committee to fulfil its duties</i>			
		35	To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
		38	To report to those charged with governance on the committee's findings conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions