

Audit and Governance Committee

Agenda

Date: Thursday, 10th December, 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

Contact: Cherry Foreman

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

To approve as a correct record the minutes of the meeting held on 24 September 2015.

5. **External Audit Annual Letter 2014/15** (Pages 9 - 20)

To consider the Annual Audit Letter for 2014/15.

6. **External Audit Certification of Claims and Returns 2014/15** (Pages 21 - 24)

To consider the key findings identified during the External Auditors' certification process for 2014/15 claims and returns.

7. **Audit and Governance Committee Annual Report 2014/15** (Pages 25 - 42)

To consider the draft Annual Report 2014/15 and agree the final version for submission to Council in December.

8. **Draft Treasury Management Strategy and Minimum Revenue Provision Statement 2016/17** (Pages 43 - 70)

To consider the proposed Treasury Management Strategy and the Minimum Revenue Provision Statement for 2016/17.

9. **Draft Risk Management Policy Statement / Strategy and Outline Framework.** (Pages 71 - 86)

To consider a new draft risk management policy statement and strategy, and an outline of the risk management framework that underpins them.

10. **Annual Governance Statement Update** (Pages 87 - 94)

To note the progress against the issues reported in the 2014/15 Annual Governance Statement (AGS), to consider the process for the production of the Statement for 2015/16, and changes to governance, risk management and audit arrangements.

11. **Internal Audit Interim Report 2015/16 and Internal Audit Charter** (Pages 95 - 120)

To consider progress against the Internal Audit Plan 2015/16, and to approve the updated Internal Audit Charter.

12. **Audit and Governance Committee Self- Assessment** (Pages 121 - 130)

To consider progress in implementing the actions arising from the 2014/15 self-assessment of the Audit and Governance Committee.

13. **Work Plan 2015/16** (Pages 131 - 144)

To consider the Work Plan and determine any required amendments.

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CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Thursday, 24th September, 2015 at Committee Suite 1,2 & 3,
Westfields, Middlewich Road, Sandbach CW11 1HZ

PRESENT

Councillor D Marren (Vice-Chair, in the Chair)

Councillors S Corcoran, R Fletcher, A Moran, A Kolker, M Simon, G Wait and S Edgar.

Councillors in attendance:

Councillors S Gardner and P Groves.

Officers in attendance:

Peter Bates – Chief Operating Officer

Anita Bradley – Head of Legal Services and Monitoring Officer

Andrew North – Corporate Manager: Governance and Audit

Judith Tench – Head of Corporate Resources and Stewardship

Alex Thompson - Corporate Manager Strategy and Reporting

Jo Wilcox – Corporate Finance Manager

Cherry Foreman – Democratic Services Officer

14 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors C Andrew, G Baxendale, M Hardy, L Smetham and A Stott.

15 DECLARATIONS OF INTEREST

With reference to various audit matters Councillors D Marren and G Wait declared personal interests by virtue of being Chairmen of Orbitas and Transport Service Solutions respectively.

16 PUBLIC SPEAKING TIME/OPEN SESSION

No members of the public wished to speak at the meeting.

17 MINUTES OF PREVIOUS MEETING

Consideration was given to the minutes of the meeting held on 25 June 2015. Additions to the preamble of the following minutes were agreed: -

Minute 10 (Whistleblowing Arrangements) - *'Serious concerns were expressed by Councillor S Corcoran at the effectiveness of whistleblowing arrangements and the protection afforded to those using the arrangements.'*

Minute 12 (Ombudsman Complaints) - *'The importance of following up appropriately was emphasised.'*

RESOLVED

That, subject to the inclusion of the above wording, the minutes of the meeting held on 25 June 2015 be approved as a correct record.

18 EXTERNAL AUDIT FINDINGS REPORT 2014/15

Grant Thornton presented the Audit Findings report on the 2014/15 Audit. An addendum was circulated at the meeting along with a copy of the representation letter from the Council to Grant Thornton which confirmed that the Group Financial Statements represented a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

The report identified the key issues considered by Grant Thornton before issuing their opinion on the Councils financial statements and its arrangements for securing economy, efficiency, and effectiveness in the use of resources. The Auditors went through the report in detail and reported that the accounts had been well prepared; no adjustments had impacted on Council reserves, there were no unadjusted misstatements for Members to consider, and an unqualified opinion would be given in respect of both the accounts and value for money.

The Chief Operating Officer extended his thanks to Grant Thornton, the accounts team and the Joint Finance Steering Group for having contributed to this being a successful process.

RESOLVED

That the Audit Findings report for 2014/15 be received, and that approval be given to for the Chief Operating Officer to sign the letter of representation.

19 2014/15 AUDIT FINDINGS AND ACTION PLAN

Consideration was given to this report which was circulated at the meeting. Grant Thornton anticipated providing an unqualified opinion in respect of both the financial statements and the value for money conclusion based on their review of the Councils arrangements to secure economy, efficiency and effectiveness in the use of its resources.

An Appendix to the report set out two recommendations, in respect of personal declaration forms and of the IT control environment, together with the Council's proposed actions to address their recommendations and a target date for implementation.

RESOLVED

That the management responses and action plan be endorsed.

20 AUDITED STATEMENT OF ACCOUNTS 2014/15

Consideration was given to the 2014/15 Statement of Accounts, including the first group accounts produced for the Council. The report provided information on the financial assets and transactions of the Group, now a complex organisation, providing approximately 500 different services to over 370,000 residents, with an annual value in excess of £750 m.

At its meeting on 25 June the Committee had received a report setting out the key elements of the council's pre-audit Statement of Accounts for 2014/15, the external audit of which was now largely complete, and for which an unqualified opinion was anticipated although a little more work remained to be done.

The report detailed amendments to the accounts and the figures that had changed as a result, a group movement in reserves statement, and group balance sheet. It was reported that the final version of the Statement of Accounts would be published on the Cheshire East website before the statutory deadline of 30 September 2015.

RESOLVED

1. That the report be received and the changes to the draft accounts be noted in accordance with the Audit Findings Report.
2. That the Committee authorise the Chairman of the Audit and Governance Committee to sign off the final accounts on completion of the audit process on its behalf, in consultation with the Chief Operating Officer.

21 TREASURY MANAGEMENT ANNUAL REPORT 2014/15

Consideration was given to this report which was due to be considered by the Cabinet at its meeting on 29 September. Regular update reports had been provided to the Cabinet during the year and this annual report took the position to that at 31 March 2015. Information included related to the management of the local authority's investments, cash flows, banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance associated with those risks.

In response to questions from Members it was agreed that they be provided with further details of the Council's investment returns. It was reported that performance would continue to be monitored through the benchmarking service provided by the Council's Treasury Management Advisors, Arlingclose; in response to a request by the Committee it was confirmed that they would be invited to attend a future meeting of the Committee.

RESOLVED

1. That the Treasury Management annual Report for 2014/15, shown in Appendix A of the report, be noted.
2. That the Council's Treasury Management Advisors, Arlingclose, be invited to attend a future meeting of the Committee.

22 ANNUAL GOVERNANCE STATEMENT 2014/15

At its meeting on 25 June the Committee had considered the draft Annual Governance Statement (AGS) which had now been amended to take into account feedback received at that meeting and subsequently from Members, Officers and the External Auditors. In addition the action plan had been updated to be as current as possible. The AGS would accompany the Statement of Accounts and be published on the Council's website.

The purpose of the AGS process was to provide a continuous review of the organisations governance arrangements so as to give assurance on the effectiveness of the process and/or address identified weaknesses in order to support the continuous improvement of the authority.

It was reported that no significant governance issues had been identified. The report summarised the small number of governance issues first raised in 2013/14, those identified in the current period that required further attention, and emerging issues which required further attention to ensure they did not become significant in the future such as public sector reform and information governance.

RESOLVED

That approval be given to the Annual Governance Statement 2014/15.

23 REPORT ON CUSTOMER FEEDBACK - COMPLAINTS, COMPLIMENTS AND THE LOCAL OMBUDSMAN

Consideration was given to this report which summarised the formal feedback received from customers during 2014/15, together with a summary of the cases dealt with by the Local Government Ombudsman (LGO). Such feedback from customers was welcomed and was used as a method of driving service improvements.

Details were given of the number of complaints received which had reduced by 35% from the previous year although it was noted that 34% of the reduction related to complaints about changes to green waste collections in autumn 2013. The number of recorded compliments had increased from 1140 to 1346, with 50% of these being related to Adult Social Care. In addition 181 suggestions had also been received. It was considered that these figures provided a good level of assurance on the performance of the Council.

With regard to complaints all customers were offered the opportunity to appeal to the LGO and the report included details on the decision notices issued to the Council. Comparisons with other authorities were given and it was shown that Cheshire East Council performs favourably with authorities in terms of the number of complaints received in relation to the large size of its population.

A discussion ensued on the increase in complaints in Development Management, some of the reasons for which were reported, and it was suggested that this could be considered further by one of the Member/Officer Work Groups.

RESOLVED

That the report be noted and that increase in complaints associated with Development Management be considered further by the relevant Member/Officer Work Group.

24 MEMBERS CODE OF CONDUCT STANDARDS REPORT

The Committee was advised of the number of complaints received under the Code of Conduct for Members which had been considered by the Monitoring Officer and the Independent Person, and of the outcome, for the period from 1 March 2015 to the end of August. The promotion of high standards of conduct, and of strong ethical governance among elected members, co-opted Members,

and Town and Parish Council Members within the Borough, was critical to the corporate governance of the authority and to the Council's decision making process across the organisation.

The report detailed the number of complaints received in respect of each paragraph of the code and compared the number of complaints made against Cheshire East Councillors with those against Town and Parish Councillors; it was requested that consideration be given as to how the time taken and cost of dealing with these complaints could be quantified.

RESOLVED

That the report be noted.

25 REVIEW OF STANDARDS ARRANGEMENTS FOR DEALING WITH CODE OF CONDUCT COMPLAINTS

At its meeting on 17 July 2014 the Council approved procedures to be followed when considering a complaint that an elected member of the Council, or of a town or parish council within its area, had failed to comply with the Council's Member Code of Conduct. Following twelve months of operation a review of the process had been carried out which showed there had been a significant increase in the speed with which complaints had been considered; the backlog of cases which existed in the previous year had been cleared and current complaints were being dealt with more efficiently and effectively.

The report set out proposals to further improve the efficiency of the process and add clarification where it was needed, the aim of which was to help people who make complaints and to encourage openness and transparency.

The report considered the two main documents used in the standards process, these being "How to make a complaint", which had not been part of the decisions made in 2014, and "Overview for considering complaints that members have breached the code of conduct" which had been adopted at that time.

RESOLVED

That it be recommended to Council:

1. That the proposed revised arrangements for dealing with complaints about members who are alleged to have breached their Council's code of conduct for members be approved.
2. That the plain English version of the guidance "How to make a complaint" at Appendix 3 of this report replace the current version of that guidance on the council website.
3. That the amended complaint form set out at Appendix 2 of the report be adopted.
4. That the amended overview document and the amended hearing procedure, set out at Appendices 4 and 5 respectively, be adopted.

26 APPOINTMENT OF INDEPENDENT PERSONS UNDER THE LOCALISM ACT 2011

The Committee was asked to approve a procedure for the recruitment of Independent Persons to Cheshire East Council. The Localism Act required that one or more Independent Persons be appointed to the Audit and Governance Committee and that their views be taken into account by the Authority when considering Code of Conduct complaints. The Council also had to make the same provision for Independent Persons to sit on any Committee/Panel that dealt with the potential dismissal of the Head of Paid Service, the Chief Financial Officer and the Monitoring Officer; it was anticipated that at least three individuals should be appointed to the role.

The report included a copy of the proposed application form and Members asked questions concerning membership of a political party, whether or not a reference from a Member of the Council should be allowable, and also concerning criminal/spent convictions. It was agreed that these points be investigated further and amended where possible bearing in mind the need to remain compliant with guidance.

RESOLVED

1. That, subject to further consideration and any resulting amendment arising from that of the above mentioned points, the proposed recruitment process outlined in the report for the appointment of Independent Persons to Cheshire East Council be approved.
2. That the Head of Legal Services and Monitoring Officer, submit a report to Council on 17 December 2015, setting out the names of the nominated candidates to the posts for approval.

27 COMMITTEE WORK PROGRAMME

Consideration was given to the Work Plan for the Committee for the remainder of the 2015/16 financial year.

The Committee asked for the following matters to be added: -

- Cheshire East Council email retention and archiving policy
- Ombudsman Complaints and how to disseminate what can be learnt from complaints upheld
- Work Programme for Member/Officer Work Groups
- Feedback to the Audit and Governance Committee from the Member/Officer Work Groups

RESOLVED

That, subject to the inclusion of the above matters, the Work Plan be approved.

28 JUDITH TENCH

The thanks and appreciation and good wishes of Members and Officers was extended to Judith Tench as she was leaving the Authority. She had attended every meeting of the Audit and Governance Committee, since the inception of

Cheshire East in 2009, firstly as an external auditor and latterly as Head of Corporate Resources and Stewardship.

The meeting commenced at 2.00 pm and concluded at 4.55 pm

Councillor D Marren (Vice-Chair, in the Chair)

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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	10 th December 2015
Report of:	Chief Operating Officer
Subject/Title:	Grant Thornton – Annual Audit Letter 2014/15
Portfolio Holder:	Councillor Peter Groves

1.0 Report Summary

- 1.1 The Annual Audit Letter summarises the External Auditors' findings from the 2014/15 audit.

2.0 Recommendation

- 2.1 That members receive and comment on the Annual Audit Letter for 2014/15.

3.0 Reasons for Recommendations

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

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 None.

7.0 Implications for Rural Communities

- 7.1 None

8.0 Financial Implications (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 There are no specific legal implications with regard to this report.

10.0 Risk Management

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

11.0 Background and Options

- 11.1 The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Grant Thornton reported the detailed findings from their audit work to those charged with governance in the Audit Findings Report on 24th September 2015.
- 11.2 As the Council's appointed auditors, representatives of Grant Thornton will attend the Committee to report their findings directly to Members.

12.0 Access to Information

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

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Designation: Corporate Finance Manager
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The Annual Audit Letter for Cheshire East Council

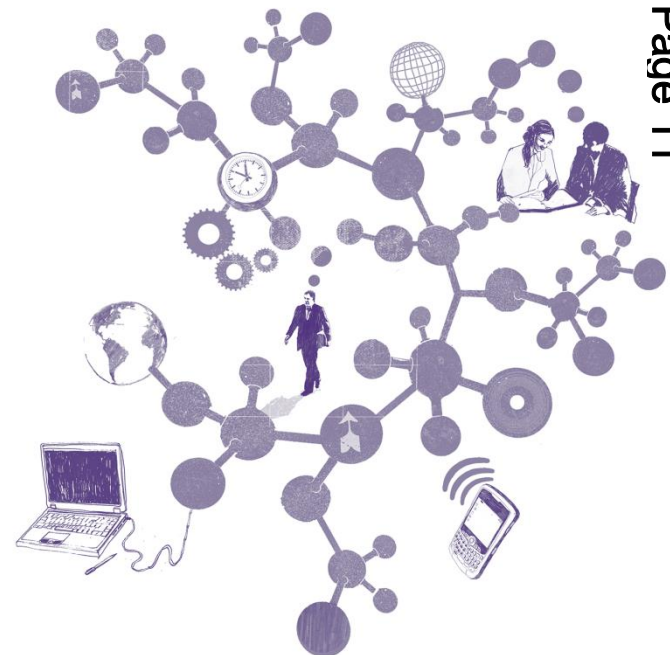
Year ended 31 March 2015

October 2015

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Contents

Section	Page
1. Key messages	3
Appendices	
A Summary of reports and audit fees	7
B How we have worked with you during the year	8

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Cheshire East Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)	<p>We reported our findings arising from the audit of the financial statements, which covered the group and the single entity accounts, in our Audit Findings Report on 24 September to the Audit Committee.</p> <p>We reported a number of amendments to the financial statements, which included adjustments for:</p> <ul style="list-style-type: none">• the timing and accounting treatment of assets when schools transfer to academy status.• the amount of capital expenditure and capital grant associated with the Council's contribution to investment in the SEMMMS relief road• disclosures within the cash flow statement• disclosures in notes to the financial statements. <p>Overall, whilst some changes impacted upon the reported income and expenditure, these changes had no impact on the Council's usable reserves and there was no financial loss to the Council. We reported that there were no 'unadjusted misstatements'.</p> <p>We issued an unqualified opinion on the Council's 2014/15 financial statements on 30 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
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Key messages continued

Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2014/15 on 30 September 2015, reporting the key messages in our audit findings report.</p> <p>The Council has effective arrangements in place which enabled it to deliver savings, addressing the financial gap, originally identified as £8.3m for 2014/15 and £6.6m in 2015/16. These funding pressures continue and the Council has identified that it needs to deliver recurrent savings of £13m for 2016/17 and then additional savings of £10.2m in 2017/18. The Council has a strong local tax base and is less dependent on government grant which reduces its exposure to the risk of reductions in government grant funding, although resources available for service expenditure may still fluctuate, particularly local funding that is derived from business rates.</p> <p>The financial gap, whilst not as large as that faced by some neighbouring Councils, represents a significant challenge. This will require the Council to continue to identify where alternative service delivery arrangements and working co-operatively with partners, alongside other service improvements, can help it to reduce costs and provide effective services.</p> <p>The Council set a net budget for 2015/16 of £246.6m. In the most recent monitoring report presented to Cabinet on 29 September 2015 the revenue costs for the year are forecast to exceed budget by £0.9m. This is a small overspend and work is underway to achieve a balanced position by the end of the financial year.</p> <p>The Council has refined its approach to the monitoring and management of capital profiling and forecasting with a clear distinction between active management to re-profile expenditure and identification of genuine slippage against committed capital schemes. Alongside budget planning and monitoring arrangements, assurance on arrangements for managing risk, treasury management information and the results of Internal Audit work, we are satisfied that the Council has adequate arrangements for financial planning, control and governance.</p> <p>The Council continues to contain its expenditure within available resources. The performance management framework provides the Council with a measure of the effectiveness of key services as mapped to its strategic 'Outcomes'. Overall these measures concluded performance across the wide range of council services to be within an acceptable range of the target or showing good progress in 2014/15. As the Council makes further changes in the way services are delivered, both as a means of securing cost savings but also to introduce commercial practices and provide incentive and opportunity for growth, the Council is also reviewing its project management arrangements. This is to ensure that these continue to provide an appropriate and effective mechanism for scrutiny and challenge, commensurate with risk and its business needs.</p>
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Key messages continued

Value for Money (VfM) conclusion	<p>In our previous VFM conclusion we referred to the progress being made by the Council to respond to the results of the OFSTED inspection in 2013 of the arrangements for the protection of children. The Council have now received the outcome of the 2015 OFSTED Inspection which covered services for children in need of help and protection, children looked after and care leavers in Cheshire East and the review of the effectiveness of the Local Safeguarding Children Board. The overall judgement from the 2015 inspection is that services 'require improvement' to be good but the inspectorate recognised and noted the significant improvements made and progress since the last inspection. Going forward, the Council will work with other stakeholders to secure further improvements.</p> <p>The Council engages in a range of partnership arrangements to pursue opportunities for efficiencies or investment and growth that support the Council's objectives. These include the Cheshire and Warrington LEP, the involvement in the public-private sector partnership which will develop and continue to run Alderley Park and the agreements with the Clinical Commissioning Groups to integrate elements of health and social care through the Better Care Fund. The risks, finance and performance of the Better Care Fund continue to be monitored and there is scope to expand the pooled fund, if greater integration can secure improve standards of care or financial efficiency.</p> <p>The implications for devolution in the North West provide further opportunities for the Council along with partners to deliver integrated services, with increased responsibility from central government.</p> <p>Overall we are satisfied that the Council has adequate arrangements in place for the prioritisation of its resources and that it has sufficient arrangements to continue to deliver efficiency and productivity improvements as part of the management of those resources.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p>
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Key messages continued

Whole of Government Accounts	<p>We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts (WGA). The Council amended their WGA return to reflect changes to the audited financial statements and other adjustments arising from the audit work.</p> <p>We reported that the Council's pack was consistent with the audited financial statements and issued our assurance statement to the NAO on 2 October.</p>
Certificate to close the audit	<p>In our report dated 30 September we explained that we could not formally conclude the audit on that date until we had completed the work necessary to issue our assurance statement on the Whole of Government Accounts consolidation pack, and we have completed our consideration of other matters that had been brought to our attention.</p> <p>These matters have now been concluded and we issued our certificate on completion of the audit on 21 October 2015.</p>
Certification of housing benefit grant claim	<p>We will certify the Council's 2014/15 housing benefit grant claim by 30 November as required by the Department for Work & Pensions. We will report our findings in our Grant Claim Letter.</p>
Audit fee	<p>Our fee for 2014/15 was £212,920 (excluding VAT) which is an increase of £6,800 above the scale fee for the year. This includes the additional work relating to the change in the Council's structure and the requirement to prepare group accounts as well as statements relating solely to the Council. This increase is subject to approval by PSAA Ltd. Further detail is included within appendix A.</p> <p>During 2014/15, the Audit Commission paid a rebate to the Council, in respect of audit fees totalling £21,074.</p>

Appendix A: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services relating to Cheshire East Council. The Council has a number of wholly owned companies and a joint venture company who have each appointed Grant Thornton LLP as their independent auditors. For completeness, we have also reported the fees relating to these companies.

Fees for audit services

	Per Audit plan £	Actual fees £
Council audit 2014/15	206,120	212,920
Grant certification 2014/15	32,500	TBC
Total audit fees	238,620	TBC

The increase in the fee for the Council audit of £6,800 relates to the additional work to consider specific matters raised with the auditor (£2,000) and also the extra work required in accordance with auditing standards, now that the Council is required to prepare group financial statements in addition to its 'single entity' accounts (£4,800). In order to minimise the impact of these additional requirements associated with the Cheshire East Group we have liaised closely with the audit team of the Councils' subsidiaries.

The actual fee for grant certification is not yet finalised as this work is not complete. The final fee will be reported in the Grant Certification Letter.

The fee variation is subject to specific approval by PSAA Ltd.

Fees for audit services for subsidiaries and joint ventures

	£
External audit fee for the four wholly owned companies:	
• Engine of the North Limited	6,250
• Ansa Environmental Services Limited	11,750
• Orbitas Bereavement Services Limited	6,250
• Transport Service Solutions Limited	6,250
External audit fee for CoSocius Limited (50% owned by the Council, 50% owned by Cheshire West and Chester Council)	13,500

Fees for other services

Service	Fees £
Audit related services	
Certification of teachers pension return (2013/14) for work completed in December 2014.	4,800
Non audit related services	
ASDM workshop provided in March 2015	6,100
Tax services provided to the Cheshire East companies	8,000
Tax services provided to Cosocius (joint venture)	2,300

Reports issued

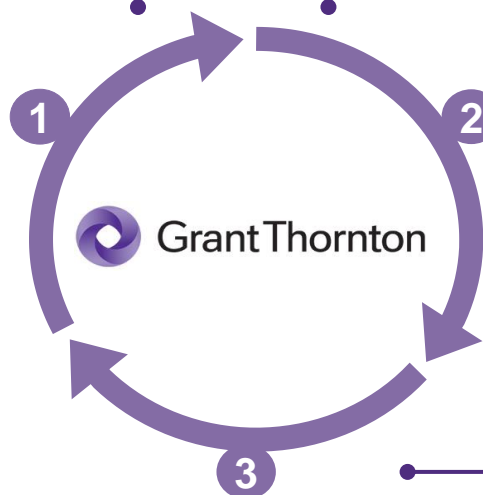
Report	Date issued
Audit plan	March 2015
Informing the audit risk assessment	March 2015
External audit updates	January and June 2015
Audit findings report	September 2015
Annual audit letter	October 2015
Grant certification letter	To be issued in December 2015

Appendix B: How we have worked with you during the year

Senior Officer Team

We:

- met regularly with the Chief Executive, Chief Operating Officer and Head of Stewardship and Governance to discuss some of your major projects and to share our insight into national local government issues
- shared our annual reports on Local Government Governance and Financial Resilience
- shared our understanding of some of the key issues facing local government through our thought leadership reports covering Welfare Reform, Alternative Delivery Models and Financial Sustainability in Local Government
- produced a bespoke summary of key financial, demographic and economic development indicators in "Where Growth Happens"
- met regularly with your key finance staff to discuss complex accounting issues and share technical knowledge
- provided support and opportunity to network with other Local Government bodies at our workshops covering taxation issues, building a successful local authority trading company, Local Government financial self sufficiency and 20:20 vision.



Audit Committee Members

We:

- met regularly with the Audit and Governance Committee to ensure you were kept up to date with the audit progress, as well as emerging issues affecting the wider local government sector
- provided independent external audit commentary and insight on the Council's issues through senior attendance at audit and governance committee
- provided regular, timely and transparent reports from our work and briefing notes on key sector developments.

Other Councillors

We:

- participated in the members' development programme, providing training and support to elected members about their governance responsibilities and shared our insight into what makes an effective audit committee.



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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 10th December 2015
Report of: Chief Operating Officer
Subject/Title: Certification Report 2014/15
Portfolio Holder: Councillor Peter Groves

1.0 Report Summary

- 1.1 The report provides a summary of the key findings that have been identified during the External Auditors' certification process for 2014/15 claims and returns.

2.0 Recommendation

- 2.1 That members receive and comment on the Certification letter which is attached as Appendix 1.

3.0 Reasons for Recommendations

- 3.1 To ensure that members consider the issues and recommendations raised within the report.

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 Financial Implications (Authorised by the Chief Operating Officer)

- 7.1 As covered in the report.

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

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

9.0 Risk Management

- 9.1 The risks associated with the findings of this report relate to a position where the Council may not meet the requirements of the audit and receive a qualified opinion.

10.0 Background and Options

- 10.1 The report summarises the findings from the certification of the 2014/15 housing benefit subsidy claim. The fee associated with the certification work is £32,500, which is consistent with the planned fee.
- 10.2 In addition, Cheshire East Council are required to obtain a reasonable assurance report on their annual Teachers Pension return. Grant Thornton have provided this report, in accordance with the terms of their contract and the Terms of Engagement set out in the guidance issued by Teachers' Pension. The reasonable assurance report was unqualified. The fee for this specific work is £4,800.

11.0 Access to Information

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

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

Appendix 1: Grant Thornton Certification Report 2014/15 for Cheshire East Council



Grant Thornton

Peter Bates
Chief Operating Officer
Cheshire East Council
Westfields
Middlewich Road
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27 November 2015

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20 Colmore Circus
Birmingham B4 6AT

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Dear Peter

Certification work for Cheshire East Council for year ended 31 March 2015

We are required to certify the Housing Benefit Subsidy claim submitted by Cheshire East Council ('the Council'). This certification takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

Arrangements for this certification of the 2014/15 Housing Benefits Subsidy claim were prescribed by the Audit Commission (before its closure in March 2015) which agreed the scope of the work with the Department for Work and Pensions, and issued auditors with a Certification Instruction. The role of making arrangements for housing benefit subsidy certification for 2015/16 and beyond has now transferred to Public Sector Audit Appointments Limited.

The indicative scale fee for this work was also set by the Audit Commission and the fee for the Council for 2014/15 is £32,500. This was based on 2012/13 certification fees, reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme. There is no variation from the planned fee and the amount of work required by the auditor to certify the is consistent with that in the 'base' year.

Overall we are pleased to report that the Council has appropriate arrangements to compile a complete, accurate and timely claim for audit certification. The claim is not subject to a qualification letter but the Council have made a small amendment to the claim. Further details of this are set out at Appendix A.

Yours sincerely

Jon Roberts
Partner
For Grant Thornton UK LLP

Chartered Accountants

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Appendix A - Details of claims and returns certified for 2014/15

Claim or return	Matters Arising
<p>Housing benefits subsidy claim</p> <p>Total subsidy claimed £86,062,942</p>	<p>As previously reported, the Council recognised that there is an anomaly in the housing benefit system that results in the misclassification of expenditure between cells 012 and 013 in the subsidy claim. To address this the Council ran a specific system enquiry to identify the cases affected.</p> <p>At the time of submission of the draft claim, the Council had reviewed some of the specific cases known to be affected by this misstatement and had correctly adjusted the claim, increasing subsidy by £449.</p> <p>However this review was only part completed, with the remaining cases reviewed during the course of the audit. The Council have amended the final version of the claim to reflect their review of the remaining cases. This increased the total subsidy claimed by a further £667.</p> <p>The Council should continue to pursue a software solution to this matter. It also continues to be important to identify the cases affected each year. However before embarking on a detailed review, the Council may wish to assess the potential impact of any amendment and may consider that the increase in subsidy that could be claimed would not be commensurate with the time to review and address this issue. We would then report that position to the DWP in a qualification letter (in common with our reporting at some other authorities similarly affected).</p>

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 10 December 2015
Report of: Chair of the Audit and Governance Committee
Title: Audit and Governance Committee Annual Report 2014/15
Portfolio Holder: Councillor Peter Groves

1.0 Report Summary

- 1.1 The purpose of the report is for the Committee to consider the draft 2014/15 Annual Report of the Audit and Governance Committee and agree the final version of the report that will go to Council on 17 December 2015.

2.0 Recommendation

- 2.1 That the Committee considers the draft Annual Report 2014/15, as attached (Appendix A) and agree the final version that will go to Council in December 2015.

3.0 Reasons for Recommendation

- 3.1 To report in accordance with the Council's Constitution. The Audit and Governance Committee's Terms of Reference include:
- To report to full Council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
 - 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 functions.

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 None.

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

8.1 None.

9.0 Risk Assessment

9.1 There is a requirement within the Council's Constitution for the Audit and Governance Committee to submit an annual report to Council. Failure to submit the record would be a breach of the Constitution.

10.0 Background and Options

10.1 Current CIPFA guidance, *Audit Committees, Practical Guidance for Local Authorities and Police* (2013) states that audit committees should report regularly on their work and at least annually report an assessment of their performance. Aspects to consider include:

- whether the committee has fulfilled its agreed terms of reference
- whether the committee has adopted recommended practice
- whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities
- whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review
- what impact the committee has on the improvement of governance, risk and control within the authority.

10.2 The requirement to submit an annual report is included within Cheshire East Council's Constitution.

11.0 Access to information

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

Name: Councillor Lesley Smetham

Designation: Chair of the Audit and Governance Committee

Tel No: 01625 426173

Email: lesley.smetham@cheshireeast.gov.uk



Audit and Governance Committee

Annual Report 2014/2015

Introduction by the Chair of the Audit and Governance Committee

I am pleased to present the annual report of the Audit and Governance Committee which outlines the Committee's work and responsibilities for the financial year 2014/15.

I hope that this Annual Report helps to demonstrate to Cheshire East residents and to the Council's other stakeholders the vital role that is carried out by the Audit and Governance Committee and the contribution it makes to the overall governance arrangements at Cheshire East Council. All the meetings are open to the public.

During the year, the Audit and Governance Committee was attended by: the Head of Resources and Stewardship and other senior members of staff, the Corporate Manager of Governance and Audit; and representatives from Grant Thornton, the Council's external auditors. This provides ongoing assurance about the Council's internal controls and systems.

The Audit and Governance Committee has played, and continues to play, a significant part in ensuring that appropriate governance arrangements have been introduced and function properly. This is an important role for the Council, and the new and emerging Alternative Service Delivery Vehicles.

We have continued to successfully develop the self-assessment arrangement. Areas for improvement have been progressed and tailored action plans developed.



Training sessions for Members of the Committee have been delivered. Assessment against the core knowledge and skill's framework is ongoing and has been developed during the year to help inform future training programmes.

I would like express my thanks to those officers and members who have supported the work of this Committee by presenting and discussing reports. The Committee has been well attended during the year with constructive questioning by members of the committee throughout. Issues that have been raised by members have been addressed and reported back to the Committee.

Finally, I would like to take this opportunity to thank Councillor John Wray for his tenure as Chair of the Committee until May this year and wish him every success in his new role with the Council.

Councillor Lesley Smetham
Chair of the Audit and Governance Committee

December 2015

Role and Statement of Purpose of the Audit and Governance Committee

Role of the Audit and Governance Committee

Audit Committees are an essential element of good governance. Good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an Audit Committee, independent from the executive and scrutiny functions.

Effective Audit Committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. They enhance public trust and confidence in the financial governance of an authority.

Statement of Purpose of the Audit and Governance Committee

- 1 The Audit and Governance Committee is a key component of the Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 It provides an independent assurance to the Council of the adequacy of the risk management framework and the internal control environment.
- 3 It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes.
- 4 It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
- 5 It promotes 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).

Review of 2014/15

Governance, Risk and Control within Cheshire East Council

The Council's framework of risk management, control and governance is assessed as adequate. (Annual Governance Statement 2014/15)

The Audit and Governance Committee outcomes for monitoring the governance, risk and control framework and arrangements of the Council during the year, include the following:

- Approving the Council's 2014/15 Statement of Accounts.
- Approving the Council's 2014/15 Annual Governance Statement.
- Reviewing the operation and compliance with the Council's Code of Corporate Governance and making recommendations on its content
- Overseeing internal audit's operations and receiving the Head of Internal Audit's Opinion.
- Monitoring the governance arrangements for the Council's Alternative Service Delivery Vehicles.
- Undertaking a self-assessment of the Committee against CIPFA guidance.
- Receiving the External Auditor's Annual Audit Letter, Audit Plans, and any other reports and significant matters deemed necessary by the External Auditor.
- Reviewing the progress and adequacy of management's response to internal and external audit recommendations
- Reviewing reports on the monitoring and review of risk management, to consider the effectiveness of arrangements.
- Monitoring the use of the council's use of its powers under the Regulation of Investigatory Powers Act 2000.

Significant assurances the Committee has received during the year include:

- **2014/15 Financial Statements Opinion (External Audit):** *"We issued an unqualified opinion on the Council's 2014/15 financial statements on 30 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council."*(October 2015)
- **2014/15 Value for Money Conclusion (External Audit):** *"On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015."* (October 2015)
- **2014/15 Internal Audit opinion:** *"The Council's framework of risk management, control and governance is assessed as adequate for 2014/15."* (June 2015)

Effectiveness of the Committee

The Committee regularly undertakes a formal review of its own effectiveness. The 2014/15 self assessment carried out with the Chair and Vice Chair against the CIPFA guidance, *Audit Committees – Practical Guidance for Local Authorities and Police 2013* and the results reported to the Committee in March 2015. The Committee assessed as compliant or partially compliant against all areas. Actions to ensure the Committee becomes fully compliant are in place, with some already implemented.

The Committee's Terms of Reference based on the CIPFA guidance were approved by Council in May 2014. The Committee's 2014/15 Work Plan was in line with the new Terms of Reference to ensure that the Committee continued to work effectively and fulfil its purpose.

Outline of the Work of the Committee

This annual report sets out how the work of the Committee during 2014/15 has met the Terms of Reference on pages 7 to 11.

Additional Assurance

Additional assurance work requested by the Committee was also provided around emerging issues including;

- Better Care Fund update (November 2014)
- Payments to Directors of Council Owned Companies (November 2014)
- Compliance with Contract Rules of Procedure (November 2014)
- Disclosure of Officer Remuneration in the Statement of Accounts (March 2015)
- Alternative Service Delivery Vehicle Governance and Stewardship (March 2015)
- Managing complaints received by the Local Government Ombudsman (June 2015)

Members of the Committee

Members of the Committee during 2014/15 are set out on pages 12 to 14.

Statutory Requirements, New Guidance and Recommended Practice

During the year, the Committee has carried out a number of statutory requirements such as approving the Financial Statements and approving the Annual Governance Statement. It has also ensured that it is up to date in adopting new guidance and/or recommended practice, including:

- The annual review of the Terms of Reference, based on CIPFA guidance.
- Approving the Internal Audit Charter, based on new Public Sector Internal Audit Standards.
- Undertaking a self-assessment of the Committee, based on new CIPFA guidance.

Training and Development

The following training was carried out during the year:

- Induction for new and existing Members of the Committee
- Statement of Accounts
- Annual Governance Statement

The Member/Officer Groups continued to meet through 2014/15. The groups 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, and cover the following areas:

- Audit
- Financial Statements
- Fraud Management
- Governance
- Risk Management

In addition, Members continued to have access to copies of the CIPFA Better Governance Forum *Audit Committee Update* featuring a round-up of legislation, reports and developments of interest to Audit & Governance Committee Members.

As part of the Committee's self-assessment (reported to the Committee in March 2015), it was recognised that membership of the Committee needed to be assessed against the core knowledge and skills framework included in the new CIPFA guidance on Audit Committees. A training session in early September 2014 was held with a further session covering the knowledge and skills framework delivered in November 2014. Governance and Finance training was delivered May 2015 and September 2015.

Agendas and Minutes

The committee meetings reviewing the key outputs for the 2014/15 financial year were:

- 26th June 2014
- 25th September 2014
- 20th November 2014
- 22nd January 2015
- 19th March 2015
- 25th June 2015
- 24th September 2015

Work programme for 2015/ 2016

The Committee has an agreed work programme for 2015/16, which includes the many annual statutory requirements (e.g. approval of the Statement of Accounts, approval of the AGS etc.) of the Committee and also those regular reports and assurances it receives on External Audit, Internal Audit, Risk Management, Treasury Management, Whistleblowing and other areas. Additionally we will;

- Continue to develop the pro active nature of the Committee to facilitate actions by officers to ensure that risks are identified risks and assurances are identified as early as possible and remedial actions are taken in a timely fashion.
- Oversee the restructuring required of the Audit and Governance Committee to comply with the requirements of the Local Audit and Accountability Act 2014 (including the appointment of Independent Members)
- Continue to review governance arrangements to ensure the Council adopts the latest best practice and moves towards becoming a open and transparent public organisation
- Continue to support the work of internal and external audit and ensure that responses are given to their recommendations
- Oversee the implementation of the Public Sector Internal Auditing Standards
- Continue to help the Council to manage the risk of fraud and corruption
- Continue to develop the Audit and Governance Committee to review the risk and partnership issues and safeguarding public sector assets
- Equip existing and new Members to fulfil our responsibilities by providing more detailed and focused training on all key areas of responsibility, including financial arrangements and risk management, governance and audit planning.

This work programme is regularly reviewed to ensure that the Committee continues to work effectively and fulfil its purpose.

Audit and Governance Committee – How the Terms of Reference have been met in 2014/15: Summary

Terms of Reference of Committee	Relevant activity in 2014/15
Annual Report	
To report to full Council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.	The December 2015 Audit and Governance Committee meeting has been asked to review and approve the 2014/15 annual report for submission to the December 2015 Council meeting.
Governance, Risk and Control	
To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.	The Committee received and approved an update to the Code of Corporate Governance and also received an update on the Corporate Governance Group's ongoing work on the Governance Framework (both November 2014).
To review and approve the Annual Governance Statement and consider whether it properly reflects the 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.	The Committee received and approved the 2014/15 Annual Governance Statement in September 2015. (2013/14 Annual Governance Statement in September 2014.) An update on progress against previous AGS Action Plans is received each November and endorses the process for the production of the Annual Governance Statement. <i>Note: The draft Annual Governance Statement is brought to Committee in June with the final version to be approved at the September meeting.</i>
To monitor the effective development and operation of risk management in the council.	The Committee received update reports on Risk Management (January 2015 and March 2015).
To monitor progress in addressing risk related issues reported to the committee and to review the assessment of fraud risks and potential harm to the Council from fraud and corruption. To monitor the counter fraud strategy, actions and resources.	The Committee monitors Anti-Fraud and Corruption arrangements on an ongoing basis. The Audit and Governance committee Member/Officer sub group for anti-fraud and corruption discusses and reviews arrangements and current issues as part of their work plan. The Committee considered the Anti-Fraud and Corruption update report in January 2015.

Audit and Governance Committee – How the Terms of Reference have been met in 2014/15: Summary

Terms of Reference of Committee	Relevant activity in 2014/15
To review and monitor the Council's treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.	A Treasury Management update report was received by the audit committee in September 2014, and the Treasury Management 2014/15 Annual Report was received in September 2015. The 2015/16 Treasury Management Strategy and Minimum Revenue Position (MRP) Statement was reviewed at the January 2015 committee meeting.
Internal Audit	
To approve the internal audit charter.	The internal audit charter was approved at the November 2014 committee meeting.
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.	<i>Internal Audit:</i> The Committee approved the overall strategy and annual 2014/15 programme of audits (March 2014) and monitored progress against the plan (November 2014, January 2015, March 2015 and June 2015).
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. To consider summaries of specific internal audit reports as requested.	Internal Audit interim reports against the 2014/15 plan were received in November 2014 and January 2015, with the 2015/16 Internal Audit Plan received in March 2015. Internal Audit interim reports include a summary of internal audit completed and the significant issues arising from individual assignments.
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.	The committee are updated in the Head of Internal Audit opinion on the progress made on assessment criteria required to comply with public sector internal audit standards. The Member/Officer sub group for audit covers the requirements in detail and the actions required.
To consider the head of internal audit's annual report.	The Internal Audit Annual Report, including the annual audit opinion was presented to the Committee in June 2015. (The 2013/14 Internal Audit Annual Report was presented to the Committee in June 2014.)

Audit and Governance Committee – How the Terms of Reference have been met in 2014/15: Summary

Terms of Reference of Committee	Relevant activity in 2014/15
To support the development of effective communication with the Head of Internal Audit.	The Head of Internal Audit meets on a regular basis with the Chair and Deputy Chair of the committee. There is also a regular meeting of Member/Officer groups which meet on a regular basis to discuss a variety of assurance issues in more detail. These meetings include the Head of Internal Audit opinion.
External Audit	
To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.	The 2014/15 Audit Findings Report and Review of the Council's Arrangements for Securing Financial Resilience was presented to Committee in September 2015 by the External Auditor. (The 2014/15 Audit Findings Report was reported to the September 2014 meeting). The 2014/15 Annual Audit Letter was issued in November 2015 and will be reported to the December 2015 Committee meeting. (The 2013/14 Annual Audit Letter was reported to the November 2014 meeting.)
To consider specific reports as agreed with the external auditor.	The Committee received and considered the work of the External Auditor (all meetings during the year.)
To comment on the scope and depth of external audit work and to ensure it gives value for money	Audit and Governance Member/ Officer sub group for audit review external audit work throughout the year and assess the value that the Council receives from the work completed and reported.
To commission work from internal and external audit and to advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.	The Audit and Governance committee and the Member/Officer sub groups will consider the work plan at all meetings and commission additional work where committee members determine that additional assurance is required. The relationship between internal and external audit is reviewed at least annually together with any requirements to liaise with any other relevant agencies.
Financial reporting	
To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns	The Statement of Accounts 2014/15 was approved at Committee in September 2015. (The Statement of Accounts 2013/14 was approved at Committee in September 2014.)


Audit and Governance Committee – How the Terms of Reference have been met in 2014/15: Summary

Terms of Reference of Committee	Relevant activity in 2014/15
arising from the financial statements or from the audit that need to be brought to the attention of the Council.	
To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.	The 2014/15 Audit Findings Report and Review of the Council's Arrangements for Securing Financial Resilience was presented to Committee in September 2015 by the External Auditor. The 2013/14 Annual Audit Letter was reported to the Committee in November 2014. (The 2014/15 Annual Audit Letter will be reported to the Committee in December 2015.)
Related Functions	
To approve and monitor Council policies relating to "whistleblowing" and anti fraud and corruption.	Revised and updated whistleblowing policy arrangements were brought to the committee in June 2014 and June 2015. Fraud and corruption work monitored throughout the year.
To seek assurance that customer complaint arrangements are robust	Annual Report of Corporate Complaints and Local Government Ombudsman's Annual Review 2013/14 presented to Committee in September 2014. Annual Report of Corporate Complaints and Local Government Ombudsman's Annual Review 2014/15 presented to Committee in September 2015.
Standards	
Promoting 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).	Members Code of Conduct Standards Reports updates recording decisions relating to complaints were submitted to the Committee in November 2014, March 2015 and September 2015. Audit & Governance Committee Members have attended Complaints Hearings through the year. A Review of Standards Arrangements for Dealing with Code of Conduct Complaints was received by the committee in September 2015.
Ensuring that Members receive advice and training as appropriate on the Members Code of Conduct.	Members of the Audit & Governance Committee have been advised on the Code of Conduct during the year.

Audit and Governance Committee – How the Terms of Reference have been met in 2014/15: Summary

Terms of Reference of Committee	Relevant activity in 2014/15
Granting dispensations under the provisions of the Localism Act 2011 to enable a member or co-opted Member to participate in a meeting of the Authority.	There have been no requests for individual dispensations during 2014/15. A report to approve the procedure for the recruitment of three Independent Persons to the Council under the Localism Act 2011 was received at the September 2015 committee.

Audit and Governance Committee Members 2015

	<p>Councillor Lesley Smetham (Chair)</p> <p>Councillor Smetham became and elected member of Cheshire East Council since its beginning in April 2009 and was appointed as Chair of the Audit and Governance Committee in June 2015.</p>
	<p>Councillor David Marren (Vice Chair)</p> <p>Councillor Marren became an elected member of Cheshire East Council in May 2011 and has served on the Audit and Governance Committee since then, being Vice-Chair from January 2012 until the end of the 2011/12 municipal year. Councillor Marren was re-appointed as Vice Chair of the Audit and Governance Committee in June 2015.</p>
	<p>Councillor Chris Andrew</p> <p>Councillor Andrew became an elected member of Cheshire East Council in May 2015, and has been a member of the Audit and Governance Committee since June 2015.</p>
	<p>Councillor Gordon Baxendale</p> <p>Councillor Baxendale has been with Cheshire East Council from April 2009, and has been a member of the Audit and Governance Committee since June 2015.</p>
	<p>Councillor Amanda Stott</p> <p>Councillor Stott became an elected member of Cheshire East Council in May 2015, and has been a member of the Audit and Governance Committee since June 2015.</p>
	<p>Councillor Sam Corcoran</p> <p>Councillor Corcoran became an elected member of Cheshire East Council in May 2011 and has served on the Audit and Governance Committee since then.</p>

Audit and Governance Committee Members 2015

	<p>Councillor Rod Fletcher</p> <p>Councillor Fletcher has been an elected member of Cheshire East Council since its beginning in April 2009 and has served on the Audit and Governance Committee since May 2011.</p>
	<p>Councillor Martin Hardy</p> <p>Councillor Hardy has been an elected member of Cheshire East Council since its beginning in April 2009. He has served on the Audit and Governance Committee since its inception in June 2010 and was Vice-Chair from May 2011 to January 2012.</p>
	<p>Councillor Andrew Kolker</p> <p>Councillor Kolker has been an elected member of Cheshire East Council since its beginning in April 2009. He served as Vice-Chair of the Governance and Constitution Committee for a time and has been on the Audit and Governance Committee from June 2010 to date.</p>
	<p>Councillor Margaret Simon</p> <p>Councillor Simon has been an elected member of Cheshire East Council since its beginning in April 2009. She has served on the Audit and Governance Committee since its inception in June 2010 and was Chair for the 2010/11 year.</p>
	<p>Councillor John Wray (Chair until June 2015)</p> <p>Councillor Wray has been an elected member of Cheshire East Council since its beginning in April 2009. He joined the Audit and Governance Committee as Chair following the Council meeting on 18th July 2013. Councillor Wray retired from the committee in June 2015 to become the Chair of one the Council's overview and scrutiny committees.</p>
	<p>Councillor Louise Brown</p> <p>Councillor Brown became an elected member of Cheshire East Council in May 2011 and has served on the Audit and Governance Committee as the Vice-Chair from the 2012/13 municipal year onwards. Councillor Brown stood down as a member of Cheshire East Council in May 2015.</p>

Audit and Governance Committee Members 2015



Councillor Lloyd Roberts

Councillor Roberts became an elected member of Cheshire East Council in May 2011 and has served on the Audit and Governance Committee from the start of the 2012/13 municipal year. Councillor Roberts retired from the committee in June 2015.

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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 10th December 2015
Report of: Chief Operating Officer
Subject/Title: Draft Treasury Management Strategy and MRP Statement 2016/17
Portfolio Holder: Councillor Peter Groves

1.0 Report Summary

- 1.1 The purpose of this report is to update Members on the contents of the Council's Treasury Management Strategy for 2016/17.
- 1.2 The CIPFA Treasury Management Code of Practice requires all local authorities to make arrangements for the scrutiny of treasury management. This responsibility has been nominated to the Audit & Governance Committee.
- 1.3 The Treasury Management strategy is an important element in the overall financial health and resilience of Cheshire East Council. The strategy focuses on the management of the Council's investment and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 1.4 The key elements of the strategy for 2016/17 are for the Council to:
 - Retain capital financing costs within an affordable limit of c.£14m
 - Not enter into any overall additional external borrowing in 2016/17
 - Maintain security of investments by only using counterparties detailed in the strategy
 - Take an appropriate approach to risk if short term loans are required, by only borrowing from lenders identified in the strategy
 - Support a flexible approach to treasury management that can react to opportunities and market conditions to maximise effectiveness, whilst protecting the public funds managed within the strategy
- 1.5 The capital programme for 2016/19 is currently being updated with new proposals for future capital investment; therefore the Prudential Indicators included within the draft Treasury Management Strategy set out in Appendix A will be subject to change.
- 1.6 The Treasury Management Strategy will be updated with the final capital programme before being reported to Cabinet on 9th February 2016 and then on to Full Council for approval on 25th February 2016.

2.0 Recommendations

- 2.1 To receive and comment on the proposed Treasury Management Strategy and the MRP Statement for 2016/17 set out in Appendix A.

3.0 Reasons for Recommendations

- 3.1 The report presents the 2016/17 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2016/19, required under Part 1 of the Local Government Act 2003.
- 3.2 The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2016/17. The Strategy for 2016/17 reflects the views on interest rates of leading market forecasts provided by Arlingclose, the Council's advisor on treasury matters. It also includes the Prudential Indicators relating to Treasury Management.
- 3.3 The CIPFA Code of Practice on Treasury Management requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years.

4 Wards Affected

- 4.1 Not applicable

5.0 Local Ward Members

- 5.1 Not applicable

6.0 Policy Implications

- 6.1 Not applicable.

7.0 Implications for Rural Communities

- 7.1 Not applicable

8.0 Financial Implications (Authorised by the Chief Operating Officer)

- 8.1 Effective Treasury Management provides support towards the achievement of service priorities, it ensures that the Council's capital investment programme delivers value for money by demonstrating that capital expenditure plans are affordable, external borrowing is prudent and sustainable and treasury decisions are taken in accordance with good practice.

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

- 9.1 It is a requirement of the CIPFA's Treasury Management in the Public Services: Code of Practice, that Council receives an Annual Report on its Treasury Strategy, that Council sets Prudential Indicators for the next three years and approves an Annual Investment Strategy and an Annual MRP Policy Statement. There are stringent legislative requirements in place which dictate the way that a local authority deals with financial administration.

10.0 Risk Management

- 10.1 The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.
- 10.2 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy as no treasury management activity is without risk. The aim is to operate in an environment where risk is clearly identified and managed.
- 10.3 To reduce the risk that the Council will suffer a loss as a result of its treasury management activities down to an acceptable level a number of risk management procedures have been put in place. The procedures cover liquidity risk, credit and counterparty risk, re-financing risk, legal and regulatory risk, and fraud, error and corruption risk. These are referred to within the borrowing and investment strategies, prudential indicators and the Treasury Management Practices Principles and Schedules.
- 10.4 The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

11.0 Background and Options

- 11.1 The treasury management team work closely with the Council's advisors Arlingclose to gain the maximum benefit from their expertise and guidance, including benchmarking performance against other local authorities on a quarterly basis. The Treasury Management Strategy takes into account future borrowing requirements, based on the Council's three year capital spending plans, projected cash flow requirements and money market opportunities. The aim is to maintain control over borrowing activities, with particular regard for longer term affordability; but also to allow sufficient flexibility to respond to changes in the capital and money markets as they arise.

12.0 Access to Information

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

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Appendices:

Appendix A – Treasury Management Strategy Statement & Investment Strategy 2016/17 – 2018/19

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Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19



Contents

1. Background
2. External Context
3. Local Context
4. Borrowing Strategy
5. Investment Strategy
6. Treasury Management Indicators
7. Other Items
8. Financial Implications

Annexes

- A. Economic & Interest Rate Forecast (Section 2.5)
- B. Existing Investment & Debt Portfolio Position (Section 3.1)
- C. Prudential indicators
- D. MRP Statement 2016/17

1. Background

- 1.1. On 23rd February 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.
- 1.2. In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.
- 1.3. The report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.
- 1.4. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

2. External Context

- 2.1 **Economic background:** Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.
- 2.2 Following the General Election, the key issue of the UK's relationship with the EU is at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.
- 2.3 China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve did not raise policy rates at its meetings in October and November, but the statements accompanying the policy decisions point have made a rate hike in December 2015 a real possibility. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.
- 2.4 **Credit outlook:** The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

- 2.5 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.
- 2.6 **Interest rate forecast:** The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.
- 2.7 A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.
- 2.8 A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at **Annex A**.
- 2.9 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.00%.
3. **Local Context**
- 3.1 The Authority currently has borrowings of £109m and investments of £78m. This is set out in further detail at **Annex B**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m
General Fund CFR	202	237	279	331	349
Less: Other long-term liabilities *	-31	-30	-28	-27	-25
Borrowing CFR	171	207	251	304	324
Less: External borrowing **	-115	-109	-102	-96	-72
Internal (over) borrowing	56	98	149	208	252
Less: Usable reserves	-87	-61	-58	-58	-56
Less: Working capital	-47	-47	-47	-47	-47
Investments (or New borrowing)	78	10	(44)	(103)	(149)

* finance leases and PFI liabilities that form part of the Authority's debt

** shows only loans to which the Authority is committed and excludes optional refinancing

- 3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum investment balance of around £20m for liquidity purposes.
- 3.3 The Authority has an increasing CFR due to the capital programme and will therefore be required to borrow up to £153m over the forecast period.
- 3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2016/17.

4. Borrowing Strategy

- 4.1 The Authority currently holds loans of £109m, a decrease of £6m on the previous year, as part of its strategy for funding previous years' capital programmes.
- 4.2 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.
- 4.3 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 4.4 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 4.5 Alternatively, the Authority may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 4.6 In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.
- 4.7 The approved sources of long-term and short-term borrowing are:
- Public Works Loan Board and any successor body
 - UK local authorities
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - UK public and private sector pension funds (except Cheshire Pension Fund)

- capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
 - European Investment Bank
- 4.8 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- operating and finance leases
 - hire purchase
 - Private Finance Initiative
 - sale and leaseback
- 4.9 The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.
- 4.10 **LGA Bond Agency:** Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report.
- 4.11 **LOBO's:** The Authority holds £17m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2016/17, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.
- 4.12 **Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.
- 4.13 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

5. Investment Strategy

- 5.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £40m and £92m. Slightly reduced levels are expected to be maintained in the forthcoming year.
- 5.2 Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk

of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- 5.3 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2016/17. This is especially the case for the estimated £20m that is available for longer-term investment. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will therefore represent a continuation of the new strategy adopted in 2015/16.
- 5.4 The Authority may invest its surplus funds with any of the counterparties in table 2 below, subject to the cash and time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks* Unsecured	Banks* Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£6m 5 years	£12m 20 years	£12m 50 years	£6m 20 years	£6m 20 years
AA+	£6m 5 years	£12m 10 years	£12m 25 years	£6m 10 years	£6m 10 years
AA	£6m 4 years	£12m 5 years	£12m 15 years	£6m 5 years	£6m 10 years
AA-	£6m 3 years	£12m 4 years	£12m 10 years	£6m 4 years	£6m 10 years
A+	£6m 2 years	£12m 3 years	£6m 5 years	£6m 3 years	£6m 5 years
A	£6m 13 months	£12m 2 years	£6m 5 years	£6m 2 years	£6m 5 years
A-	£6m 6 months	£12m 13 months	£6m 5 years	£6m 13 months	£6m 5 years
BBB+	£3m 100 days	£6m 6 months	£3m 2 years	£3m 6 months	£3m 2 years
BBB	£3m next day only	£6m 100 days	n/a	n/a	n/a
None	£1m 6 months	n/a	£10m 25 years	£50,000 5 years	£6m 5 years
Pooled funds	£12m per fund				

*Banks includes Building Societies

The above limits apply to individual counterparties and represent the maximum amount and maximum duration of any investment per counterparty.

- 5.5 **Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.
- 5.6 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank, Barclays Bank.

- 5.7 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
- 5.8 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 5.9 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.
- 5.10 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.
- 5.11 **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- 5.12 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.
- 5.13 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 5.14 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

- 5.15 **Other Information on the Security of Investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.
- 5.16 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.
- 5.17 **Specified Investments:** The CLG Guidance defines specified investments as those:
- denominated in pound sterling,
 - due to be repaid within 12 months of arrangement,
 - not defined as capital expenditure by legislation, and
 - invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of "high credit quality".
- 5.18 The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.
- 5.19 **Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£25m
Total investments (except pooled funds) domiciled in foreign countries rated below AA+	£15m
Total non-specified investments	£80m

- 5.20 **Investment Limits:** The Authority's revenue reserves available to cover investment losses are forecast to be £61m on 31st March 2016. In order that no more than 20% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £12m. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts (*e.g. King & Shaxson*), foreign countries and industry sectors as below:

Table 4: Investment Limits

Type of Counterparty	Cash limit
Any single organisation, except the UK Central Government	£12m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£12m per group
Any group of pooled funds under the same management	£25m per manager
Negotiable instruments held in a broker's nominee account	£35m per broker
Foreign countries	£12m per country
Registered Providers	£25m in total
Unsecured investments with Building Societies	£12m in total
Loans to unrated corporates	£12m in total
Money Market Funds	£12m in each (£50m in total)

- 5.21 **Liquidity management:** The Authority maintains a cash flow forecasting model to determine the maximum period for which funds may prudently be committed. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

6. Treasury Management Indicators

- 6.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.
- 6.2 **Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	100%	100%	100%

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

- 6.3 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	35%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	35%	0%
5 years and within 10 years	50%	0%
10 years and within 20 years	100%	0%
20 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

- 6.4 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£40m	£25m	£15m

7. Other Items

- 7.1 There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.
- 7.2 **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 7.3 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 7.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 7.5 **Investment Advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled by through regular meetings and periodic tendering for services.
- 7.6 **Investment Training:** The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process,

and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by our treasury management advisers, Arlingclose Limited and other relevant providers.

- 7.7 **Investment of Money Borrowed in Advance of Need:** The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.
- 7.8 The total amount borrowed will not exceed the authorised borrowing limit of £370 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

8. Financial Implications

- 8.1 Anticipated investment income in 2016/17 is £0.4 million, based on an average investment portfolio of £40 million at an interest rate of 1.00%. The budget for debt interest paid in 2016/17 is £4.1 million, based on an average debt portfolio of £106 million at an average interest rate of 3.9%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Appendix A - Arlingclose Economic & Interest Rate Forecast November 2015

Underlying assumptions:

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly more likely in December given recent data and rhetoric by committee members.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.
- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.55	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.85
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	1.10	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	1.50	1.55	1.60	1.70	1.80	1.90	2.00	2.10	2.20	2.25	2.30	2.35	2.35
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.00	2.05	2.10	2.20	2.30	2.40	2.50	2.60	2.65	2.70	2.75	2.80	2.80
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	2.95
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	3.00	3.00
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

Annex B

Existing Investment & Debt Portfolio Position

	24/11/15 Actual Portfolio £m	24/11/15 Average Rate %
External Borrowing:		
PWLB - Fixed Rate	92	3.69%
PWLB - Variable Rate	0	-
Local Authorities	0	-
LOBO Loans	17	4.63%
Total External Borrowing	109	3.83%
Other Long Term Liabilities:		
PFI	25	-
Finance Leases	5	-
Total Gross External Debt	139	-
Investments:		
<i>Managed in-house</i>		
Short-term investments:		
Instant Access	19	0.45%
Notice Accounts	3	0.75%
Fixed Term Deposits	22	0.63%
Certificates of Deposit	5	0.70%
Covered Bonds	9	0.80%
Corporate Bonds	13	0.95%
Long-term investments	-	-
<i>Managed externally</i>		
Fund Managers	4	0.61%
Property Funds	8	4.94%
Total Investments	83	1.06%
Net Debt	56	-

Annex C

Prudential Indicators revisions to 2015/16 and 2016/17 - 2018/19

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.

The Chief Operating Officer reports that the Authority had no difficulty meeting this requirement in 2015/16, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2015/2016	2016/2017	2017/2018	2018/2019	Future years
	Estimate £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Total	139.4	147.3	125.8	124.7	13.1

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2015/2016	2016/2017	2017/2018	2018/2019	Future years
	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Capital receipts	17.0	25.6	24.0	20.0	13.1
Government Grants	41.4	37.9	53.4	59.2	0.0
External Contributions	14.8	14.8	4.2	17.1	0.0
Revenue Contributions	3.8	0.1	0.0	0.0	0.0
Total Financing	77.0	78.4	81.7	96.4	13.1
Prudential Borrowing	62.5	68.9	44.1	28.3	0
Total Funding	62.5	68.9	44.1	28.3	0.0
Total Financing and Funding	139.4	147.3	125.8	124.7	13.1

Source: Cheshire East Finance

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/2016	2016/2017	2017/2018	2018/2019
	Estimate	Estimate	Estimate	Estimate
	%	%	%	%
Total	5.58	5.55	5.44	5.48

Source: Cheshire East Finance

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Capital Financing Requirement	2015/2016	2016/2017	2017/2018	2018/2019
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Total	230	237	279	331

Source: Cheshire East Finance

6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is

measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2015	£m
Borrowing	115
Other Long-term Liabilities	31
Total	146

Source: Cheshire East Finance

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2016/2017 Estimate	2017/2018 Estimate	2018/2019 Estimate
	£	£	£
Band D Council Tax	23.51	26.72	0

Source: Cheshire East Finance

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

8.4 The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.5 The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

	2015/2016 Estimate £m	2016/2017 Estimate £m	2017/2018 Estimate £m	2018/2019 Estimate £m
Authorised Limit for Borrowing	240	250	290	345
Authorised Limit for Other Long-Term Liabilities	30	28	27	25
Authorised Limit for External Debt	270	278	317	370
Operational Boundary for Borrowing	230	240	280	335
Operational Boundary for Other Long- Term Liabilities	30	28	27	25
Operational Boundary for External Debt	260	268	307	360

Source: Cheshire East Finance

9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates that the Authority has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management

The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 23rd February 2012

The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

- 10.1 These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. This Authority calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments).
- 10.2 The upper limit for variable rate exposure has been set to ensure that the Authority is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

	Existing level (or Benchmark level) at 10/12/15 %	2015/2016 Approved	2015/2016 Revised	2016/2017 Estimate	2017/2018 Estimate	2018/2019 Estimate
		%	%	%	%	%
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	0%	100%	100%	100%	100%	100%

Source: Cheshire East Finance

- 10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Authority's treasury management strategy.

11. Maturity Structure of Fixed Rate borrowing:

- 11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.
- 11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.
- 11.3 LOBOs are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment. As all LOBOs are can be called within 12 months the upper limit for borrowing maturing within 12 months is relatively high to allow for the value of LOBOs and any potential short term borrowing that could be undertaken in 2016/17.

Maturity structure of fixed rate borrowing	Level as at 31 st March 2016(based on Current Borrowing) %	Lower Limit for 2016/2017 %	Upper Limit for 2016/2017 %
under 12 months	24%	0%	35%
12 months and within 24 months	6%	0%	25%
24 months and within 5 years	14%	0%	35%
5 years and within 10 years	1%	0%	50%
10 years and within 20 years	24%	0%	100%
20 years and within 30 years	7%	0%	100%
30 years and within 40 years	17%	0%	100%
40 years and within 50 years	7%	0%	100%
50 years and above	0%	0%	100%

12. Credit Risk:

- 12.1 The Authority considers security, liquidity and yield, in that order, when making investment decisions.
- 12.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Authority's assessment of counterparty credit risk.
- 12.3 The Authority also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:
- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
 - Sovereign support mechanisms;
 - Credit default swaps (where quoted);
 - Share prices (where available);
 - Economic fundamentals, such as a country's net debt as a percentage of its GDP);
 - Corporate developments, news, articles, markets sentiment and momentum;
 - Subjective overlay.
- 12.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

Annex D - MRP Statement 2016/17

The annual Minimum Revenue Provision (MRP) Statement sets out the Council's responsibility to ensure it makes adequate provision for funding the consequences of its capital investment decisions.

Capital expenditure is expenditure that provides ongoing benefits to the Council for a period of longer than 1 year. Accounting rules require that where this capital expenditure is not funded through external contributions, external grants, capital receipts or contributions from revenue budgets it must be charged against the Council's General Fund Balances. The period over which this charge is made should reflect the length of time that the expenditure will provide benefits to the Council.

CLG's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

Prior to 2010 the major proportion of MRP relates to the more historic debt liability that was outstanding at the time the Guidance was adopted. This will continue to be charged at the rate of 4%, in accordance with option 1 of the Guidance.

New capital expenditure for each subsequent year will in general be charged in accordance with Option 3 of the Guidance, which recommends that the annual charge should broadly equate to the anticipated life, or period of benefit, which is reflective of the nature of the expenditure. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Charges will commence in the year following the creation of the capital asset, i.e, in the assets first full year of operation.

In the case of long term debtors arising from loans or other types of capital expenditure made by the Council which will be repaid under separate arrangements, there will be no minimum revenue provision made.

For those types of capital expenditure incurred by the Council which are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

The MRP Statement will be submitted to Council before the start of the 2016/17 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 10 December 2015
Report of: Corporate Manager Governance and Audit
Title: Draft Risk Management Policy Statement / Strategy and Outline Framework.
Portfolio Holder: Councillor David Brown

1.0 Report Summary

1.0 The 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 new draft risk management policy statement and strategy set out in **Appendix A**; and
- An outline of the risk management framework that underpins the policy statement / strategy in **Appendix B**.

2.0 Recommendation

2.1 That the Committee:

- (i) be advised of, and recommend the new Risk Management Policy Statement and Strategy, as set out in Appendix A, to Cabinet for approval; and
- (ii) note the Outline Framework in Appendix B.

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; and
- advising the Council on the adequacy and effectiveness of these arrangements.

3.2 Overseeing the Council's Risk Management Policy and Strategy, and their implementation in practice helps the Committee to fulfil its role.

4.0 Wards Affected

4.1 All wards.

5.0 Local Ward Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Reports to support strategic policy decisions should include a risk assessment and the identification of mitigating action.

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 Regulations 2015 require the Council to have a sound system of internal control which includes effective arrangements for the management of risk.

9.0 Risk Assessment

9.1 Effective organisational stewardship is based on strong corporate governance, which in turn relies on robust processes for corporate reporting, risk management and internal control. The existence of the Audit and Governance Committee does not remove responsibility from managers, members and leaders to manage the risks that the Council faces. It does, however, provide an opportunity and resource to focus on and improve the effectiveness of the Council's risk management arrangements.

10.0 Background and Options

10.1 Good governance requires risk management to be embedded into the culture of the Council, with members and officers at all levels recognising that risk management is part of their job. Furthermore, the Accounts and Audit Regulations 2015 state that the Council:

'must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk'.

10.2 As part of the actions to improve the Council's risk management arrangements that were reported to this Committee in January 2015, the Risk Management Policy (approved July 2014) has recently been comprehensively reviewed. This has resulted in a new Risk

Management Policy Statement and Strategy being drafted (Appendix A).

- 10.3 The Risk Management Policy Statement formally acknowledges the Council's commitment to the effective management of risks and opportunities. The aim of the Policy is not to have risk eliminated completely from Council activities, but rather to ensure that every effort is made to maximise potential opportunities and minimise the adverse effects of risk. Supporting the Policy Statement is the Strategy, which gives the scope, direction and priorities for risk management activity across the Council.
- 10.4 Underpinning the Strategy and Policy are risk management procedures that are articulated in the Framework document, an outline of which is included at Appendix B, for information. The procedures are currently being reviewed in detail in order to ensure that they meet the needs of the Council.
- 10.5 Taken together the documents provide practical guidance to assist officers and members in the identification, evaluation and control of risk that may impact upon the achievement of corporate and service level objectives and priorities.
- 10.6 The Risk Management Policy and Strategy have been endorsed by Management Group Board and Cabinet will be asked to approve the documents following reference to and recommendation from this Committee. The support by senior managers and Members will encourage those who work for the Council to take the Policy, Strategy and procedures seriously.
- 10.7 The Corporate Assurance Group and Risk Management Sub Group, which include Officer and Portfolio representation, have been involved in developing the Policy, Strategy and the procedures articulated in the framework document. The Groups will also, following approval, be involved in implementing them which will help to promote stronger awareness, understanding and ownership of the outcomes. This will include:
 - Promotion/explanation at staff meetings, through training sessions, at staff meetings and during induction sessions for new staff. The requirements of the Policy, Strategy and procedures will also be reiterated and discussed regularly at staff meetings to ensure they remain relevant.
 - Ensuring copies are easily accessible, encouraging inclusion in staff manuals and on the Council's intranet system.
- 10.8 In order to fulfil the Audit and Governance Committees responsibilities with regard to risk management at the Council, it is necessary that Members:

- have the opportunity to consider and comment on the new draft Risk Management Policy Statement and Strategy; and
- recommend its adoption to Cabinet.

11.0 Access to Information

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

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RISK MANAGEMENT

POLICY STATEMENT & STRATEGY

2015-2017



TABLE OF CONTENTS

Risk Management Policy Statement.....	3
Risk Management Strategy.....	4
1 Introduction.....	4
2 What do we mean by 'risk'?.....	4
3 What are the real benefits of Risk Management?.....	6
4 What do we want to achieve with Risk Management?.....	6
5 Risk management priorities over the next 12 months;.....	7
6 Reporting and monitoring arrangements;.....	8
7 Update of the Strategy and Policy Statement.....	8

RISK MANAGEMENT POLICY STATEMENT

Cheshire East Council's three year plan sets out the Council's outcomes for residents first. In this regard the Council recognises it has a duty of care to its stakeholders, residents, employees, Members and partners. This encompasses having high standards of governance, acknowledging that the management of opportunities and risks is a key principle of effective corporate governance and a key contributor to a sound control environment and the Annual Governance Statement.



The Council seeks to adopt recognised best practice in the identification, evaluation and cost effective / proportional control of risks and opportunities to ensure that they are managed at acceptable levels. Risk management within Cheshire East Council is about managing our threats and opportunities and striving to create an environment of 'no surprises'. By managing our threats we will be in a stronger position to deliver the business objectives and outcomes to our residents. By managing our opportunities we will be in a better position to demonstrate improved services and better value for money.

We recognise that risks are inherent within our service delivery, and some are unavoidable. As an organisation it can impact in many ways, whether financially, politically, on our reputation, environmentally, or to our service delivery. Successful risk management is about ensuring there is the correct level of control in place to provide sufficient protection from harm, without stifling our development. As an organisation with a range of stakeholders with differing needs and expectations this can be a challenge. We must ensure decisions taken as a Council include consideration of potential impacts for all of our stakeholders, and whether the benefits of taking our actions outweigh the risks.

Overall the Council's attitude to risk is to operate in a culture of creativity and innovation, in which risks are identified, are understood and pro-actively managed, rather than avoided. We need to have the structures and processes in place to ensure that the risks and opportunities of Council activities, partnerships and other joint working arrangements are identified, assessed and managed in a consistent way. We will not shy away from risk; instead seek to pro-actively manage it. This will allow us to meet the needs of our residents today, and the future challenges ahead.

The Cabinet and Management Group Board are fully committed to effective risk management and see it as part of our responsibility to deliver an effective public service to the residents of Cheshire East.

The big challenge we face is to ensure that all levels of staff are aware of risks and are managing them, so I look forward to everyone making governance and risk a great success!

Councillor David Brown, Deputy Leader and Portfolio Holder for Highways (Including Risk Management responsibility)

RISK MANAGEMENT STRATEGY

1 Introduction

- 1.1 The Council has adopted a Risk Management Policy Statement, Strategy and Framework to ensure a focused and structured approach to the management of risk arising from Council activities. This will ensure that risk management is an integral part of good governance, recognising the importance of effective identification, evaluation and management of key corporate and operational risks.
- 1.2 This is endorsed by the increased focus on the importance of corporate governance to public sector bodies. The Council has also has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2015.

‘A relevant authority must ensure that it has a sound system of internal control which – includes effective arrangements for the management of risk’.

- 1.3 The Policy Statement, Strategy and Framework have the full support of the Council and the Management Group Board. All elected Members and employees have a responsibility for and contribution to make in terms of risk management.

2 What do we mean by ‘Risk’?

The definition of risk used within Cheshire East is:

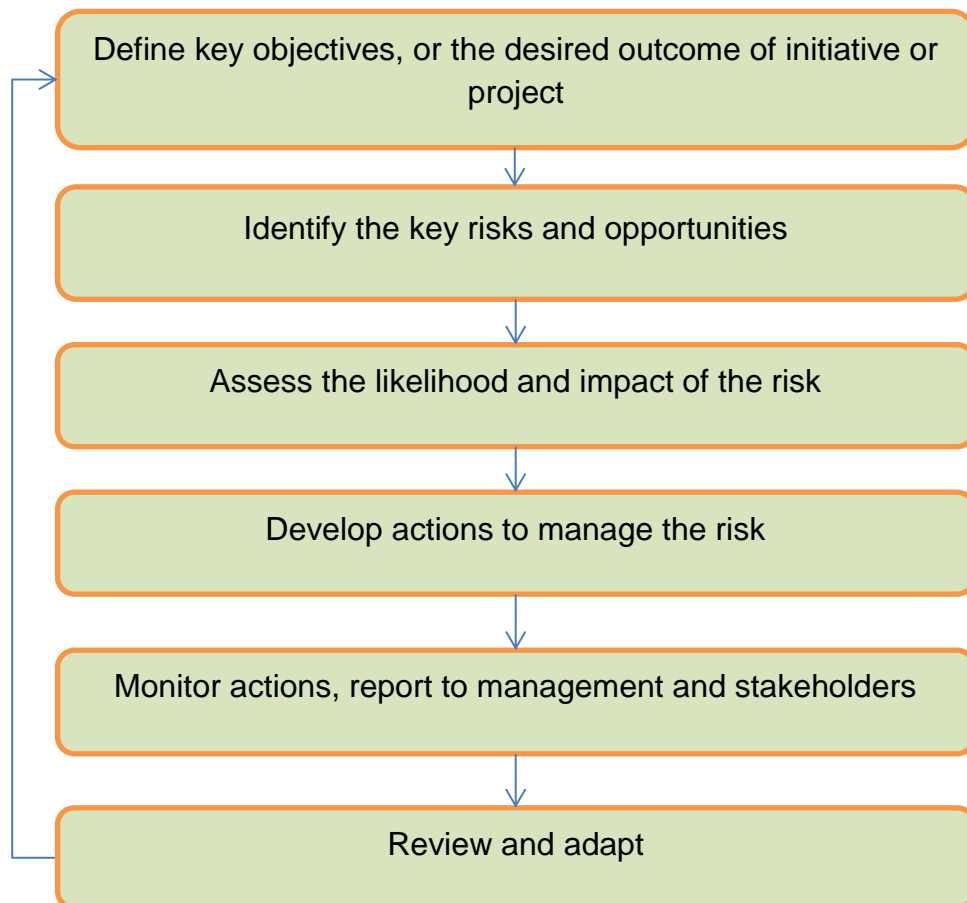
- 2.1 **Risk** can be a threat or an opportunity. A threat is a possible future event or action which will adversely affect the Council’s ability to achieve its stated objectives and to successfully deliver approved strategies. An Opportunity is an event or action that will enhance the Council’s ability to achieve its objectives and deliver approved strategies.
- 2.2 It is typically assessed using two dimensions, one of which is the impact of the threat or the opportunity, representing the consequences to the Council’s intended outcomes. The second dimension is the frequency or likelihood of the risk occurring, representing the probability of the threat or opportunity happening.
- 2.3 **Risk Management** is the process by which risks are identified, evaluated and managed, such that objectives are more likely to be achieved, damaging actions or events are avoided or minimised and opportunities maximised. Good risk management increases the probability of success, and reduces the probability of failure and uncertainty of achieving Cheshire East’s overall objectives.
- 2.4 CIPFA Solace, Delivering good governance in Local Government states that;

good governance requires that risk management is embedded into the culture of the organisation, with members and managers at all levels recognising that risk management is part of their job. At the highest level, risk management must be

closely aligned to the organisation's strategic objectives, ensuring that there is a clear focus, at the top of the organisation, on those significant risks that would prevent the organisation achieving its key business objectives. An authority should, therefore, be able to demonstrate that risk management has been embedded in its corporate business processes, including:

- *strategic planning*
- *financial planning*
- *service delivery*
- *policy making and review*
- *project management*
- *performance management*

2.5 The following diagram illustrates the Risk Management methodology which is a continuous cycle;



3 What are the real benefits of Risk Management?

Benefits of Risk Management

- 3.1 Risk management will strengthen the ability of the Council to achieve its objectives and enhance the value of services by;
- Increasing the chances of success and reducing the chances of failure;
 - Assisting the delivery of creative and innovative projects;
 - Reducing unexpected and costly surprises;
 - Ensuring a more efficient use of resources;
- 3.2 The Council should not be afraid of identifying a risk or feel identifying a risk is a failure. Identification of a risk provides an opportunity for improvement and success!

4 What do we want to achieve with Risk Management?

- 4.1 Cabinet have previously assessed the risk maturity of the Council as between risk aware and risk defined with a target minimum standard of risk managed, which is defined as:

‘An enterprise approach to risk management developed and communicated, risk embedded in key processes. Active engagement and risk based decision making’.

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

- 4.2 The priorities for 2015/17 detailed in section 5 set out how we intend to achieve this overall objective.

5 Risk management priorities over the next 18 months;

- 5.1 In order to move towards the Council's target risk maturity; the following actions are priorities for the next 18 months;
- 5.2 Development of a risk management framework underpinning the Policy Statement and Strategy that clarifies;
- how the Council's senior managers and elected Members intend to manage risk – being explicit about what needs to be accomplished, how, by when, and who is responsible for what, recognising that embedding risk management and strong controls in the daily and regular business of the Council is an iterative process.
 - the scope of the risk management activity in the Council – being explicit about how all of the risks faced by the organisation are being considered, starting at the strategic level and cascading down into the Council's structure as considered appropriate
 - how to develop a consistent approach to the identification, monitoring and review of service risks informing the business planning process.
 - the detailed methodology for risk management including risk identification, evaluation, treatment and monitoring.
 - The cyclical reporting arrangements for key corporate risks.
- 5.3 To set up a working risk subgroup of the Corporate Assurance Group with nominated 'risk champions' from services responsible for co-ordinating the responses to risk; and to contribute to the development of the framework to ensure that it is working effectively throughout the Council.
- 5.4 To critically examine and challenge commissioning plans so that risk is being considered appropriately at the business planning stage to ensure risk activity is focused on the delivery of the key organisational objectives.
- 5.5 To review the Corporate strategic risks facing Cheshire East Council, examining, challenging and supporting the risk assessment process to ensure consistency and gain assurance that strategic risks are being actively managed and monitored; including comprehensively revisiting and updating the Corporate Risk Register.
- 5.6 Establish the Council's risk capabilities, the outcome of which will inform a training programme to ensure that everyone involved understands the principles of risk management and their particular responsibilities in this regard, providing them with the necessary skills and knowledge to fulfil their responsibilities.

- 5.7 To develop and agree a more detailed risk maturity improvement plan to move the Council towards the accepted standard of Risk Managed, as agreed by Cabinet.

6 Reporting and monitoring arrangements

- 6.1 Service risk 'champions' will review risks as necessary through their Senior Management Teams (SMT's). The minimum reporting arrangements for assurance purposes through the Corporate Assurance Group, Management Group Board, Audit and Governance Committee, and Cabinet will be;
- An annual report on risk management activity;
 - An interim update report on risk management activity;
 - An annual review and report on the overall effectiveness of risk management and internal control by the Head of Internal Audit.
- 6.2 Please also refer to the Risk Management Framework which outlines the risk management roles and responsibilities and the governance structure of risk management.

7 Update of the Strategy and Policy Statement

- 7.1 The next update of the strategy and policy statement will be March 2017, thereafter annually in March.

RISK MANAGEMENT

DRAFT FRAMEWORK OUTLINE



Table of contents

Section 1: Introduction

- 1.1 The Council's Risk Management (RM) Policy statement, Strategy and Framework
- 1.2 Purpose and rationale for Risk Management and the framework
- 1.3 Embedding Risk Management
- 1.4 Implementation of the Council's RM Policy Statement and Strategy
- 1.6 Engaging in the process
- 1.5 Review Dates

Section 2: Risk Management Basics

- 2.1 What do we mean by Risk?
- 2.2 The Risk Management Methodology
- 2.3 RM in context
- 2.4 RM Definitions
- 2.5 When should we use risk management techniques?
- 2.6 How should the framework be used?
- 2.7 Who should be involved?
- 2.8 Getting the balance right

The Risk Management Methodology:

Section 3: The Risk Management Process Step 1 - Identify Risk

- 3.1 Be clear about your objectives
- 3.2 Consider the full scope of risks
- 3.3 Identify your risks
- 3.4 Record your risks
- 3.5 Opportunities rather than threats

Section 4: The Risk Management Process Step 2 - Evaluate Risk

- 4.1 Estimating likelihood and impact
- 4.2 Taking account of current controls
- 4.3 Scoring and recording risks
- 4.4 Risk tolerance
- 4.5 Preparing a Management Action Plan

Section 5: The Risk Management Process Step 3 - Treating Risk

- 5.1 Addressing your primary risks
- 5.2 The need for co-ordination
- 5.3 Record the key details
- 5.4 Scoring Your Risk after controls
- 5.5 Risk Classification
- 5.6 Positive risk opportunities
- 5.7 Business Continuity Management

Section 6: The Risk Management Process Step 4 - Monitoring and Reviewing Risk

- 6.1 Risk tracking
- 6.2 Keeping RM on the agenda
- 6.3 Risk management and business planning
- 6.4 Reporting to management and stakeholders

Section 7: Roles and Responsibilities

Section 8: Reporting and Escalation

8.1 Reporting frequency

APPENDICIES

APPENDIX 1 – Categories of risk

APPENDIX 2 – Risk Assessment form (Commissioning Plan Template)

APPENDIX 3 – Risk Scoring Chart

APPENDIX 4 – Corporate Risk Stewardship Form

APPENDIX 5 – Corporate Risk Register template (Blank)

APPENDIX 6 – Escalation procedure

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 10 December 2015
Report of: Corporate Assurance Group
Title: Annual Governance Statement (AGS) Update
Portfolio Holder: Councillor Peter Groves

1.0 Report Summary

- 1.1 The purpose of this report is to provide assurance that the Annual Governance Statement (AGS) is underpinned by an appropriate framework of assurance and to allow the Committee to monitor the implementation of actions to improve governance arrangements and respond to emerging issues.
- 1.2 The report also informs the Committee of a number of ongoing developments in governance and audit arrangements.

2.0 Recommendation

- 2.1 That the Committee:
 - (i) note the progress against the issues reported in the 2014/15 AGS, including the feedback from Corporate Assurance Group on each item;
 - (ii) consider and endorse the process for the production of the 2015/16 AGS;
 - (iii) and note the changes to governance, risk management and audit arrangements.

3.0 Reasons for Recommendation

- 3.1 Legislation requires local authorities to prepare an Annual Governance Statement and to report publicly on the effectiveness of governance and control. The Audit and Governance Committee is responsible for reviewing and then approving the AGS prior to being signed by the Leader of the Council and the Chief Executive.
- 3.2 The process of preparing the governance statement should in itself add value to the effectiveness of the Council's corporate governance and

internal control framework. Good governance enables the Council to better meet the challenges of pursuing its vision, delivering ambitious objectives against a background of continued financial pressures, by underpinning that vision with mechanisms for control and management of risk.

- 3.3 In accordance with best practice the Audit and Governance Committee should undertake a number of activities to discharge its responsibilities in relation to the AGS including:
- ensuring that the AGS is underpinned by a framework of assurance
 - monitoring the implementation of action plans or recommendations to improve governance arrangements
 - receiving reports and assurances over changes to the governance framework and control environment as they are established

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 Not applicable.

7.0 Financial Implications (Authorised by the Chief Operating Officer)

- 7.1 In reviewing assurance arrangements, the Committee should bear in mind that the assurance process has a cost to the Authority and it should therefore be proportional to the risk.
- 7.2 The production of the AGS is designed to align with the production of the Council's Financial Statements (draft by end of June) and will be published alongside the audited accounts (approved by the end of September).

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

- 8.1 The production of the AGS is required by the Accounts and Audit Regulations 2015 and the process outlined is designed to meet this obligation.
- 8.2 Under the new Regulations, the existing certification dates will be brought forward by the accounting year 2017/18. This will change the June 30 date to May 31, and the September 30 to July 31. Consultation on the future of Local Audit began in June 2014, giving three years notice to allow

authorities and auditing firms time to adjust. The production of the 2015/16 AGS will be carried out to existing timescales.

9.0 Risk Assessment

- 9.1 An assurance framework that does not support the production, approval and on-going review of the AGS and associated management actions can result in problems with the integrity of the Council's Statement and lead to missed opportunities to strengthen the control environment and the management of risk.

10.0 Background

Progress against items reported in the AGS 2014/15

- 10.1 The 2014/15 AGS reported to the Audit and Governance Committee in September 2015 included governance issues and proposed actions to be implemented.
- 10.2 A detailed update on the actions proposed to improve the Council's governance arrangements and respond to emerging issues is included at Appendix A for consideration by Members.
- 10.3 Each update has been considered by the Corporate Assurance Group. In reviewing the updates, the Group considered the assurances provided in order to determine;
- whether the required action has been completed appropriately
 - whether the issues are being sufficiently and effectively managed or
 - whether there are further issues or concerns arising.
- 10.4 The Corporate Assurance Group, with endorsement from Management Group Board, has concluded on which items should be considered as completed, and which require further monitoring. These decisions are summarised in Table 1.
- 10.5 Where items are removed from the progress update which is reported to the Audit and Governance Committee, they will still continue to be monitored by the Corporate Assurance Group and Management Group Board, and re-escalated if necessary through the ongoing AGS production and monitoring cycle.

Table 1 – Summary of Decisions

Description (Summarised)	Responsibility	Feedback to the Audit and Governance Committee:
Information Asset Register (Principle 3)	Chief Operating Officer	Corporate Assurance Group has considered the update provided and recommends that as the actions required to manage this issue have been completed, the issue will now be removed from the AGS update and monitored locally as described.
Business Continuity Planning (Principle 1)	Corporate Manager Governance and Audit	Corporate Assurance Group has considered the update provided and recommends that as there is an action plan in place and being progressed, the issue is now being managed sufficiently to remove it from the AGS update and be monitored locally as described.
Local Economic Partnerships (Principle 1)	Director of Economic Growth and Prosperity/Chief Operating Officer	Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.
Council Funding (Principle 1)	Chief Operating Officer	Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.
Project Management (Principle 4)	Chief Operating Officer	Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.
New Service Delivery Models (Principle 3)	Chief Operating Officer	Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.
Health and Social Care Integration (Principle 2)	Director of Adult Social Care and Independent Living	Corporate Assurance Group has considered the update provided and recommend that this issue is being sufficiently managed by the arrangements introduced to remove it from the AGS update and be monitored locally as described.
Public Service Reform - The Care Act (Principle 4)	Director of Adult Social Care and Independent Living	Corporate Assurance Group has considered the update provided and recommend that this issue is being sufficiently managed by the arrangements introduced to remove it from the AGS update and be monitored locally as described.
Information Governance (Principle 3)	Chief Operating Officer	Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.

Production of the 2015/16 Annual Governance Statement (AGS)

10.6 In order to provide assurance that:

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

The Council is required to:

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

10.7 These requirements were introduced by the revised CIPFA/SOLACE Good Governance Framework (2012) and are necessary to meet the statutory requirement initially set out in the Accounts and Audit (England) Regulations 2011 and now in the Accounts and Audit (England) Regulations 2015.

10.8 The Audit and Governance Committee has, through its terms of reference, been delegated some governance responsibilities. These include considering the findings from reviewing the effectiveness of the Council's governance arrangements and approving the AGS. It is considered good practice to agree the process for preparing the AGS, including the framework of assurance that underpins it, with Members in advance.

10.9 The review of the effectiveness of the Council's governance framework for 2015/16 will be informed by the work of Internal Audit, senior managers and comments made by the External Auditors and other review agencies/inspectorates. The sources of assurance include:

- Senior management assigned with the ownership of risks and delivery of services through the risk management process
- The Section 151 Officer and the Monitoring Officer in meeting statutory responsibilities
- Internal Audit through the annual and interim reports
- External Audit through its reports to those charged with governance
- Outcomes from other review agencies and inspectorates
- Service managers who independently sign off on the adequacy of controls within their service areas via disclosure statements

- Other internal assurance providers (ICT Security etc.) via completion of questionnaires
- Designated officers who complete AGS self-assessment questionnaires (in this way compliance with the Council's Code of Corporate Governance will be evidenced).

10.10 The AGS will be considered by the Management Group Board on an ongoing basis with work being co-ordinated by the Corporate Assurance Group who will:

- review and update the Code of Corporate Governance and governance framework as necessary
- identify systems, processes and documentation that provide evidence of compliance including:
 - agreeing content and format of Management Disclosure Statements, self- assessments and questionnaires
- identify the individuals responsible for monitoring, reviewing and providing assurance on the systems, processes and documentation identified
- consider the extent to which the Council complies with the principles and elements of good governance set out in the CIPFA/SOLACE Framework using:
 - Self-assessment of the Organisation's performance against its Code of Corporate Governance
 - Completion of Disclosure Statements/Internal Assurance Provider questionnaires
 - Assessment of significant delivery partner governance arrangements
 - Self-assessment of Internal Audit against the Public Sector Internal Audit Standards
 - Assessment of the effectiveness of the Audit and Governance Committee
 - Consideration of sources of external assurance as applicable (External Audit, Ofsted, Care Quality Commission etc.)
 - Assessment of the effectiveness of mitigating actions for approved corporate risks
 - Consideration of the Annual Internal Audit Opinion Report
- identify issues that have not been addressed in the Council and consider how they should be addressed, including items reported in previous Annual Governance Statements
- identify the individuals who would be responsible for undertaking the actions that are required.
- produce the draft AGS, and co-ordinate its approval including review by Management Group Board and consideration by the Audit and Governance Committee in June 2016.

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

- 10.11 As previously reported to the Committee, the Corporate Governance and Risk Management Groups were merged during 2014/15 to form the Corporate Assurance Group. The Corporate Assurance Group is supported by sub groups for Information Governance and Operational Risk Management and is attended by the Portfolio holders for Risk and Governance. Task and finish groups will also be convened to address specific items if necessary. Together, they provide a high-level focus on risk management, control and governance arrangements and provide essential support for the production and approval of the AGS.
- 10.12 Audit and Governance Committee received a revised Code of Corporate Governance in June 2015. It is anticipated that the Code will be adopted before the end of the 2015-16 year. As there were no significant changes to the content of the Code, only the format, the review of effectiveness which informs the AGS can be carried out against the revised Code.
- 10.13 The CIPFA/SOLACE Joint Working Group on Good Governance in Local Government have recently consulted on a revised Framework for Delivering Good Governance in Local Government. A fundamental review is being undertaken to ensure that the guidance remains fit for purpose. The updated Framework and accompanying guidance is expected to be published early in 2016.
- 10.14 Organisations may be expected to reflect the updated guidance in preparing the 2015/16 Statements. The impact of this will not be clear until the updated guidance is published. Should there be a substantial change in the advised approach to preparing the Statement, or to the content and format of the Statement, it is proposed that these concerns would be discussed with members of the Corporate Assurance Group and the Member/Officer Group for Corporate Governance in the first place, reporting back to Audit and Governance Committee as necessary.

11.0 Access to information

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

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 10 December 2015
Report of: Corporate Manager Governance and Audit
Title: Internal Audit Interim Report 2015/16 & Internal Audit Charter
Portfolio Holder: Councillor Peter Groves

1.0 Report Summary

1.1 The purpose of the report is to:

- i) update the Audit and Governance Committee on progress against the Internal Audit Plan 2015/16, revisions to the plan and to summarise work during the first half of 2015/16 (see Appendix A).
- ii) present the updated Internal Audit Charter for approval by the Committee (see Appendix B).

2.0 Recommendation

2.1 That the Committee:

- i) note the issues identified, endorse the approach to achieving adequate audit coverage in the remainder of 2015/16 and discuss future audit issues and ways of working as appropriate.
- ii) approve the updated Internal Audit Charter.

3.0 Reasons for Recommendation

3.1 This interim report addresses emerging issues in respect of the whole range of areas to be covered in the annual report, due in June 2016.

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

4.0 Wards Affected

4.1 All wards.

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Chief Operating Officer)

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

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

8.1 The requirement for an internal audit function flows from s151 of the Local Government Act 1972 requiring Councils to “make arrangements for the proper administration of their financial affairs” and the Accounts and Audit Regulations 2011 requiring a relevant body to “undertake an adequate and effective internal audit ...”

9.0 Risk Assessment

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

10.0 Background

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

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

10.3 The Public Sector Internal Audit Standards state that the purpose, authority and responsibility of internal audit must be formally defined in an Internal Audit Charter. The Charter establishes Internal Audit’s position within the organisation, including the nature of functional and administrative reporting, authorises access to records, personnel and physical properties relevant to

the performance of engagements; and defines the scope of Internal Audit activities. Final approval of the Internal Audit Charter resides with the Audit and Governance Committee as per the Terms of Reference.

10.4 The Internal Audit Charter was first approved by the Committee in November 2013. This has now been reviewed and updated for the following:

- Changes in reporting arrangements following the departure of the Head of Corporate Resources and Stewardship:

Para 5.1 "The Corporate Manager Governance and Audit will report functionally to the Audit and Governance Committee and administratively (i.e. day to day operations) to the Corporate Manager - Professional and Commercial Services on an interim basis. This administrative reporting line will be subject to review following the appointment of the Director of Resources."

- Confirmation that the Corporate Manager Governance and Audit has unrestricted access to both the Chair of the Audit and Governance Committee and the Chief Executive:

Para 5.2 "The Corporate Manager Governance and Audit will communicate and interact directly with the Chair of the Audit and Governance Committee as appropriate and will also have free and unfettered access to the Chief Executive."

- Inclusion of work for other bodies in examples of non assurance work that may be carried out:

Para 7.4 Internal Audit may also undertake non-assurance work including fraud related and consultancy work, at the request of the organisation, and work for other bodies, subject to there being no impact on the core assurance work and the availability of skills and resources

- Latest review date i.e. November 2015.

11.0 Access to information

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

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Internal Audit

Interim Report 2015/16

April – September 2015

www.cheshireeast.gov.uk

Internal Audit
First Floor, Westfields
Cheshire East Council
Sandbach CW11 1HZ

Internal Audit Interim Report 2015/16 April – September 2015

1 Introduction

- 1.1 In accordance with the United Kingdom Public Sector Internal Audit Standards (PSIAS), the first Internal Audit Interim Report 2015/16 for Cheshire East Council contains “emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 1.2 Internal Audit is required, at the end of the year, to form an opinion on the overall adequacy and effectiveness of the organisation’s control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified.
- 1.3 The interim report contains the following:
- a summary of the audit work carried out in 2015/16 to date (Section 2)
 - any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (See Sections 2.08-2.10 and Section 3)
 - comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets (Section 4)
 - comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 5)

- other developments, including the Internal Audit Charter (Section 6)

2 Summary of Audit Work 2015/16

- 2.1 This is the first 2015/16 interim report on progress against the Internal Audit Plan. A summary comparison of the 2015/16 Audit Plan with actuals for the half year to 30 September 2015 is shown on page 3 (with comments on variances).
- 2.2 During the first half of the year, audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised a mix of risk based auditing, regularity, investigations and the provision of advice to officers.

Internal Audit Interim Report 2015/16 April – September 2015

Summary Comparison of Audit Plan 2015/16 and Actuals¹

Area of Plan		Plan		Actuals (to 30/9/15)		Comments on coverage
		Days	%	Days	%	
Chargeable Days		1366		643		
Less: Corporate Work		350		201		Includes operational risk management duties
Available Audit Days:		1016	100	442	100	
Corporate Governance and Risk		56	6	32	7	
Anti-Fraud and Corruption	Proactive Reviews	75	7	41	9	Ongoing work on corporate arrangements including detailed risk assessment to assist planning of further work
	Reactive Investigations	30	3	17	4	Mainly assistance to HR investigations and testing whistleblowing concerns
Chief Operating Officer (COO)	Key Financial Systems	227	22	61	14	Schools Audit Programme commenced in September and the majority of audits will take place in the second half of the year.
	Corporate Core & Cross Service	135	13	65	15	Additional work on Procurement as per para 2.48/2.50
Strategic Commissioning	Children's Social Care & Education	78	8	53	12	Majority of work in this area has commenced during this period
	Adult's Social Care	115	11	26	6	Planned work due to commence during Q3/Q4
	Public Health	30	3	0	0	Planned work due to commence during Q3/Q4
	Communities	15	2	6	1	Ongoing review commenced end of Q2
Economic Growth & Prosperity		55	6	47	11	Additional work was completed on LEP
Providing Assurance to External Organisations		75	7	45	10	See para 2.36-2.40
Advice & Guidance		30	3	21	5	Reactive work based upon demand from services
Other Chargeable Work		95	9	28	6	Includes grant certification work; Bus Service Operators Grant, Transport Development Excellence for the LEP, various Highways grants and Family Focus Programme. Some grants require annual certification, some quarterly.
Total Audit Days		1016	100	442	100	

¹ The allocation of chargeable days figures have been reviewed since it was reported to Committee to reflect best practice as identified by benchmarking exercise.

Internal Audit Interim Report 2015/16 April – September 2015

Summary of Audit Work to support the overall opinion

Area	Description of Audit Work	Output
Assurance Work	Audits with formal assurance level.	Audit Reports
Project Health Checks	Assessment of whether the required elements to deliver projects successfully are in place and operating effectively.	Audit Reports
Schools	Assessment against Schools Financial Value Standard and completion of thematic reviews.	Audit Reports
Supporting Corporate Governance	Support and contribution to production of the Annual Governance Statement, including assurance statements from Heads of Service.	Annual Governance Statement, and supporting evidence
	Support and contribution to update reports from the Corporate Governance Group.	Reports to Management Group Board
	Support and contribution to AGS Action Plan, Compliance with Contract Procedure Rules reports etc.	Report to Audit & Governance Committee
Risk Management	Development of Strategy, Policy and Framework Support and Contribution to the Corporate Assurance Group including update reports.	Reports to Audit & Governance Committee
Counter Fraud	Review of Anti-Fraud and Corruption arrangements.	Report to Audit & Governance Committee
	National Fraud Initiative – co-ordination of matches and investigation work.	Results published on Cabinet Office website/update reports to Corporate Assurance Group/Investigation Reports.
	Investigations	Investigation Reports
Technical Enabler Group (TEG)	Support and contribution to TEG, which supports the Executive Monitoring Board (EMB).	Gateway Progress Report detailing TEG Outcome for use by EMB.
Consultancy & Advice	Ad-hoc consultancy and advice provided to services.	Various – reports etc.
Statutory Returns/ Grant Claims	Audit/assurance work on programme/project and subsequent report to statutory/funding body.	Return/Claim sign off
Implementation of Recommendations	Targeted follow up of audit recommendations based on audit opinion/recommendation.	Follow up reports/action plans/Key Corporate Indicator (see: Implementation of Audit Recommendations, (2.41 to 2.47)

Internal Audit Interim Report 2015/16 April – September 2015

Assurance Work

- 2.3 A summary of the reports produced in the first half of 2015/16 with the formal assurance level is included below (some of the audit reports are still at draft stage i.e. awaiting management comments).
- 2.4 The assurance levels reported in the table below include a combination of opinions at a broad level for the Council as a whole (macro-level opinion) and opinions on individual business processes or activities within a single organisation, department or location (micro-level opinion).
- 2.5 Where control weaknesses are identified recommended actions are agreed with management to ensure that the control environment is improved to an acceptable level.
- 2.6 Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority.

Summary of reports by assurance level

Assurance Level	Half year to 30/9/15 Audit Reports	Full Year 2014/15 Audit Reports
Good	0	2
Satisfactory	0	7
Limited	6	11
No	1	0

- 2.7 Further detail is provided on those audits with 'Limited' or 'No' assurance during the period under review.

Limited Assurance Reports

- 2.8 In each case a number of recommendations have been made. When implemented these will address the identified weaknesses and improve the control environment.
- 2.9 All actions from these audits have been, or are currently being, agreed with management and progress on implementation will be monitored through normal processes. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the 2015-16 Annual Governance Statement process.
- 2.10 It should be noted that Internal Audit's risk based approach includes focussing on areas where issues are known or expected to exist. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels.

Internal Audit Interim Report 2015/16 April – September 2015

Summary of Assurance Reports 2014/15

Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Salary Overpayments	Macro system subject to review due to concerns raised by management about the level of overpayments.	Limited	Concerns around the timely notification of leavers leading to salary overpayments. Lack of detailed guidance for the recovery of salary overpayments through salary deductions, resulting in ad-hoc and often inappropriately long instalment arrangements. Actions have been raised to minimise the level of overpayments going forward, identify any overpayments in a timely manner and to formalise the recovery process.	All actions agreed Final Report Issued
Care Leavers	Micro system subject to review due to complex qualification criteria for payments and no previous audit coverage.	Limited	The arrangements in place for identifying and categorising Care Leavers are operating well. However, the risks around administering and accounting for payments to Care Leavers are not being sufficiently managed. A number of recommended actions to further improve the control environment and provide effective governance over the payments to Care Leavers were agreed.	All actions agreed Final Report Issued
Planning Follow up	Detailed follow up due to nature of findings in previous audit review.	Limited	Only three of the eight previously agreed actions had been implemented fully and although action has been taken to implement each of the remaining five actions, elements are outstanding. There, therefore, remains a risk of the Council not providing a complete, accurate and up to date Public Register of Planning Applications in accordance with the Town & Country Planning Act. Actions were agreed with management to ensure that the remaining issues from the previous audit are addressed and the recommendations fully implemented.	All actions agreed Final Report Issued
Free Early	Micro system subject to	Limited	Although many of the areas tested were well managed, the	All actions agreed

Internal Audit Interim Report 2015/16 April – September 2015

Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Education Entitlement	review due to high value of payments processed and risk of fraudulent payment requests.		risk of exposure to fraudulent claims was not fully mitigated by the processes in place and the design of the current controls. As such, a small number of recommended actions to further improve the control environment and governance arrangements were made.	Final Report Issued
Procurement >£5k	Macro system with work requested by MGB to provide assurance that procurement processes are subject to robust controls.	Limited	Controls to ensure adherence with the Council's 5 key principles of control and transparency are being adhered to require further development. The review also highlighted issues around Schemes of Delegation and Oracle workflow requirements in terms of budget holder authorisations. A number of actions were agreed with management to improve the robustness of controls operating in relation to Procurement transactions.	All actions agreed Final Report Issued (previously reported to Committee as draft but further work carried out in agreeing actions with management)
Right To Buy	Micro system identified nationally as a growing fraud risk. Subject to review to confirm, and address, concerns that no controls were in place.	None	Appropriate arrangements were not in place to provide assurance that the risk of RTB fraud is mitigated by the organisations that process applications to purchase properties. Further to this, controls are not in place within the Council to ensure that all income due from Registered Social Landlords for the sale of former council houses is received.	All actions agreed Final Report Issued
Local Enterprise Partnership - Accountable Body ²	Review carried out as part of the duties as the accountable body.	No Opinion was given	There had been insufficient operational implementation to give a formal audit opinion on the effectiveness of the recently introduced framework. However, our review of the framework identified a number of specific points which could benefit from further definition to ensure greater clarity about roles and responsibilities in its operation	Draft report issued

² External Organisation

Internal Audit Interim Report 2015/16 April – September 2015

Schools

- 2.11 The Department for Education requires the Council's Section 151 Officer to sign off an Annual Assurance Statement. That statement confirms:
- the number of School's Financial Value Standard (SFVS) self-assessment returns received; and
 - that an appropriate audit programme is in place to provide adequate assurance over the standard of financial management, and the regularity and propriety of spending in schools.
- 2.12 During Quarter 1 of this financial year a Consolidated Schools Report was issued that confirmed the audit approach and summarised the findings of the work undertaken by Internal Audit during 2014/15.
- 2.13 The report concluded that the majority of controls reviewed were operating effectively within schools and that the SFVS returns, on the whole are an accurate reflection of the controls and processes in operation at schools with only minor amendments required. This provided the Section 151 Officer with sufficient assurance to facilitate the sign of the Annual CFO Assurance Statement.
- 2.14 Work is now underway on the 2015/16 Schools Audit Programme which will conclude the 3 year cycle to carry out a full 'Keeping Your Balance' audit at our secondary schools.

- 2.15 Thematic reviews are also taking place at a number primary schools to obtain assurance around the application of the recently introduced performance related pay for teachers.
- 2.16 A total of 22 schools will be visited during the second half of the year. Individual reports will be produced and issued to schools detailing any areas of weakness identified and any actions required to address these weaknesses and improve the control environment.

Supporting Corporate Governance

- 2.17 In accordance with Regulation 6 of the Accounts and Audit Regulations 2015 the Council is required, each financial year, to conduct a review of the effectiveness of the system of internal control and publish an Annual Governance Statement (AGS).
- 2.18 During the first half of this financial year Internal Audit has assisted Management in the production of the Council's AGS for 2014/15 by:
- collecting evidence for and production of the 2014/15 Annual Governance Statement.
 - contribution to and production of Audit & Governance Committee reports on Corporate Governance.
 - Audit Manager representation on and contribution to the Corporate Assurance Group (CAG) in order to advise on risk management, control, and governance issues that have been identified through audit work

Internal Audit Interim Report 2015/16 April – September 2015

and ensure that the findings have been considered when determining the 2014/15 AGS action plan.

- Audit work in contribution to and production of CAG reports to Management Group Board.

Risk Management

2.19 Internal Audit assisted in the Management of Risk through:

- Delivery of a risk based audit plan; and
- Audit Manager representation on and contribution to the Corporate Assurance Group (CAG) - to advise on risk management, control, and governance issues identified through audit work.
- Development of a Risk Management Policy, Strategy and Framework

2.20 Formal reports with regard to the risk management process are made throughout the year to Management Group Board, Cabinet and the Audit and Governance Committee.

2.21 As previously reported, responsibility for monitoring and facilitating the implementation of effective risk management practices and reporting risk-related information up and down the organisation now sits within Internal Audit.

2.22 Work has been carried out during the first half of the year to develop a Risk Management Policy, Strategy and Framework.

2.23 It should be noted that as no additional resource has been provided to complete this work it has been necessary to allocate it to a Senior Auditor and that there is therefore a reduction of 0.4 fte in the level of resource available for core assurance work.

Counter Fraud

2.24 Internal Audit has provided advice and guidance to both Human Resources colleagues and Service Managers to support them in the completion of a small number of investigations. Where required, action has been taken in accordance with the appropriate policies. There are no significant issues arising from this work to bring to the attention of the Committee.

2.25 As previously reported, following a successful bid to the Government's Counter Fraud Fund during 2014/15, a Counter Fraud Analyst was appointed by Warrington Borough Council to work on behalf of Cheshire East, Cheshire West and Cheshire, Warrington and Halton Councils. This officer is now in post and is currently coordinating a data sharing protocol between the 4 authorities that will allow data matching to be carried out to identify suspected fraudulent activity in Procurement and Insurance.

2.26 The smart phone app that was also subject to funding from the Counter Fraud Fund is currently at the prototype stage and is expected to be available before the end of the year.

Internal Audit Interim Report 2015/16 April – September 2015

- 2.27 Work continued in ensuring that the matches received as part of the National Fraud Initiative data matching exercise are being investigated by the appropriate services.
- 2.28 A detailed fraud and bribery risk assessment has been produced by Internal Audit in conjunction with appropriate managers. This has raised awareness of fraud across the Council and provided managers with the opportunity to consider whether they have appropriate controls in place to mitigate the identified risks. A number of pieces of assurance work are currently underway to test the effectiveness of controls detailed in the assessment.
- 2.29 Work is also underway to review Cheshire East's wider counter fraud arrangements in light of the transfer of Housing Benefit Fraud team to the DWP in December 2015. This will require the production of a new Fraud and Corruption Policy, a Counter Fraud Strategy and a Fraud Response Plan.
- 2.30 A detailed update on all fraud related activities will be provided to Members in the Annual Fraud Report which will be presented to the March 2016 meeting of this Committee.

Technical Enabler Group (TEG)

- 2.31 Internal Audit continues to be a key member of the Technical Enabler Group (TEG) which supports EMB and

comprises senior officers representing key corporate enablers.

Consultancy and Advice

- 2.32 During the year, Internal Audit has continued to support management with the provision of advice - at the specific request of management. The nature and scope of these engagements are generally aimed at improving governance, risk management and control and contribute to the overall audit opinion as well as building good relationships across the Council.
- 2.33 So far this year, advice and guidance has included the application of Finance and Contract Procedure Rules, suspected scams/frauds in schools and across the council, management of client monies in social care settings and the development of performance management information to support the sign off of grant claims.

Statutory Returns/Grant Claims

- 2.34 Internal Audit is often required to certify statutory returns and grant claims. This may be related to funding provisos or similar. In most cases the work required is either an audit or an assurance statement on a specific programme/project.

Internal Audit Interim Report 2015/16 April – September 2015

- 2.35 During 2015/16 this has included work on the following grants which were successfully signed off and submitted to the appropriate central government department:

Family Focus 1 st quarterly Return	£1,600
Flood Defence Scheme	£5,000
Transport Development Excellence Grant	£42,000
Bus Service Operators Grant 2014-15	£347,865
Local Transport Plan Block Grant 2014-15	£10,956,000
Additional Highways Maintenance Grant 2014-15	£795,000
Pothole Specific Grant 2014-15	£1,862,407
Total	£14,009,872

Work for Other Bodies

- 2.36 In addition to the work described above, Internal Audit carried out the following work for external bodies.
- 2.37 PATROL (Parking and Traffic Regulations Outside London) – Cheshire East Council is the Host Authority to the PATROL Joint Committee & Bus Lane Adjudication Service Joint Committee. In accordance with the Service Level Agreement the Council has delivered the Body's Internal Audit service and is responsible for the completion of Section 4 of the Small Bodies Annual Return

- 2.38 Better Care Fund – joint review of governance arrangements with Mersey Internal Audit Agency.

- 2.39 Orbitas – detailed audit review of Macclesfield Cemetery and provision of Investigating Officer for associated disciplinary investigation and hearing.

- 2.40 Leisure Centre Contracts - a review is underway into the status of a contract for the use of a leisure centre and the associated funding requirements. The report is currently being drafted.

Implementation of Audit Recommendations

- 2.41 Throughout 2015/16, Internal Audit has continued to carry out a range of follow up exercises to ensure recommendations are implemented. This work is done in a number of different ways:
- Major pieces of audit work, such as the AGS have detailed action plans which are monitored and reported separately to the Committee.
 - Investigations – follow up work is usually dependent on both the nature of the investigation and any recommendations made e.g. a follow up audit may be done at the request of management.
 - Formal assurance audits.

Internal Audit Interim Report 2015/16 April – September 2015

- 2.42 Audits with ‘limited’ or ‘no’ assurance are subject to more detailed review. In addition, key systems (e.g. Payroll, Accounts Payable) are audited each year with recommendations followed up as part of the work.

Implementation of agreed recommendations as at 30 September 2015

On time	After the agreed date	Total implemented	In progress, part implemented or overdue
2014/15 ³			
36%	39%	75%	25%
2015/16 ⁴			
57%	14%	71%	29%

- 2.43 The figures detailed above show that whilst a high percentage of agreed recommendations are implemented, a large proportion are put in place after the agreed deadline.
- 2.44 A common theme that continues to lead to delays in implementation of audit recommendations is the ownership of actions. Structural changes mean that actions transfer to

managers not involved in the original audit work. In most cases there is no formal handover of actions when a manager leaves the authority or moves to a different role.

- 2.45 In some cases the scale of change now means that the original recommendation is no longer appropriate. In these circumstances Internal Audit liaises with managers to agree a more appropriate action.
- 2.46 The timely implementation of audit recommendations is a good indicator of both the effectiveness of Internal Audit in securing action and the Council’s commitment and capacity to improve. Internal Audit will continue to work with senior managers to improve this important indicator, to include the escalation of common themes or emerging patterns in relation to agreed recommendations (high and medium rated) that are not being progressed, to the COO, Corporate Assurance Group and MGB as necessary.
- 2.47 As previously reported the COO has made a commitment to further improve this indicator. He will work with Internal Audit and the Management Group Board to ensure this happens.

Ongoing Work

- 2.48 The following audits commenced during the first half of the year, with work ongoing in the third quarter of 2015/16:

³ Updated from Annual Report to Include actions issued in 2014/15 but due for implementation in 2015/16

⁴ Revised to take account of actions that were not due for implementation as at 30.09.15

Internal Audit Interim Report 2015/16 April – September 2015

- Procurement – a piece of work has commenced upon the request of the Chief Executive around compliance with Contract Procedure Rules and the use of WARN's.
- Schools Audits – Assurance to S151 Officer in accordance with the schools audit programme.
- HR Policy – second line of defence review to obtain assurance around the effectiveness of HR policies.
- Council Tax Fraud Controls – assurance around the effectiveness of controls identified as part of the fraud risk assessment process.
- NDR Fraud Controls – as per Council Tax above.
- Payments > £5k – assurance around the level of challenge applied by Heads of Service to monthly expenditure reports.
- Foster Care Payments – assurance around the controls in place for what is a high value and complex payment system.
- Parking Enforcement – requested by Head of Communities.

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

- Personal Budgets
- Adult Safeguarding

- Monitoring of Provider Invoices
- Performance Management
- Key Financial System reviews

2.50 The review of procurement detailed above has taken priority over other pieces of work and taken up resources that were not planned. As such, the audit plan will need to be reviewed and areas to be audited re-assessed and prioritised to ensure that there is a clear focus on assurance work for the remainder of the year. The changes will be reported in the interim report to this Committee in March 2016.

Reliance placed on the work of other assurance bodies

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

3 Annual Governance Statement

3.1 Each year the Council produces an Annual Governance Statement that explains how it makes decisions, manages its resources and promotes its values and high standards of conduct and behaviour. Any significant issues that are assessed as falling short of the Council's expected high standards are reported in the Annual Governance Statement.

Internal Audit Interim Report 2015/16 April – September 2015

- 3.2 The findings and opinions of 2015/16 Internal Audit work will be considered in preparing the 2015/16 AGS. The contents of this interim report will form part of that process.

4 Internal Audit Performance

- 4.1 Internal Audit's performance is measured against a number of performance indicators which are detailed in the table below. The performance relating to the implementation of recommendations is detailed earlier in this report.

Performance Indicator	2015/16 Actual	2015/16 Target	2014/15 Actual	Comments on 2015/16 Actuals
% of Audits completed to user's satisfaction	95%	92%	96%	Above target
% of significant recommendations agreed	100%	90%	99%	Above target
Productive Time (Chargeable Days)	75%	80%	82%	Will increase in Q3/Q4 due to focus on assurance work
Draft report produced promptly (per Client Satisfaction Form)	100%	95%	94%	Above target

Benchmarking

- 4.2 Benchmarking is an important tool to help identify areas for review, drive improvement and deliver better value for money. In recognition of this, Internal Audit is a member of the CIPFA Benchmarking Club.
- 4.3 Through the Benchmarking Club, staffing cost data is collected for the internal audit function in order to derive the number of audit days available and the cost per audit day. The number of audit days per £million authority gross revenue turnover is compared and further analysed by type of audit, system audited and type of risk. There is also comparison and analysis of the cost per auditor and the number of chargeable days per auditor.
- 4.4 This year's exercise has been completed and the results received. The results are currently being analysed and an improvement plan drawn up. Progress on improvements will be shared with the Committee as part of the regular Internal Audit reports.

5 Compliance with the Public Sector Internal Audit Standards

- 5.1 Regulation 6 of the Accounts and Audit Regulations 2015 requires the Council to conduct an annual review of the effectiveness of its system of internal control and prepare an annual governance statement. A review of internal audit that includes the contribution made by the audit committee

Internal Audit Interim Report 2015/16 April – September 2015

should form part of the review of internal control required by Regulation 6.

- 5.2 This review has been carried out by self- assessing compliance with the Public Sector Internal Audit Standards (PSIAS).
- 5.3 The review, completed by the Audit Managers concluded that, although there are areas for improvement, the internal audit service is being delivered to the required standard. This contributes to the assurances received for the AGS and was shared with members of the Committee as part of the AGS process in September.
- 5.4 An improvement action plan has been drawn up and will be monitored on an ongoing basis. Progress on improvements will be shared with the Committee as part of the regular Internal Audit reports.

6 Other Developments (including Internal Audit Charter)

- 6.1 As Members will be aware, the Head of Corporate Resources and Stewardship left the Council during September 2015. This has impacted upon the reporting lines for the Head of Governance and Audit and interim arrangements have been put in place until a new Director of Resources has been appointed.
- 6.2 These interim arrangements are that the Corporate Manager Governance and Audit will therefore report to the Corporate Manager Professional and Commercial Services.

- 6.3 The Internal Audit Charter was approved by the Committee in November 2014, with review due on an annual basis. A revised and updated version, that takes account of changes in structural and operational responsibility, is included as Appendix B.

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Internal Audit Charter

1 Introduction

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

2 Role

- 2.1 The requirement for an internal audit function in local government is detailed within the Accounts and Audit Regulations 2015, which states that a relevant body must:
- ‘undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’.
- 2.2 The standards in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [‘the Standards’].

3 Professionalism

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

4 Authority

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

Internal Audit Charter

5 Organisation

- 5.1 The Corporate Manager Governance and Audit will report functionally to the Audit and Governance Committee and administratively (i.e. day to day operations) to the Corporate Manager – Professional and Commercial Services on an interim basis. This administrative reporting line will be subject to review following the appointment of the Director of Resources.

The Audit and Governance Committee will:

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

- 5.2 The Corporate Manager Governance and Audit will communicate and interact directly with the Chair of the Audit and Governance Committee as appropriate and will also have free and unfettered access to the Chief Executive.

6 Independence and Objectivity

- 6.1 Internal Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
- 6.2 Any assurance activity in areas where the Corporate Manager Governance and Audit has operational responsibility will be carried out by auditors with no involvement in the process and overseen by the Corporate Manager – Professional and Commercial Services, thus maintaining independence and objectivity in line with the PSIAS.
- 6.3 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

Internal Audit Charter

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

7 Responsibility

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

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

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

Internal Audit Charter

- 7.3 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 and report which is timed to inform the Annual Governance Statement and is based on an objective assessment of the framework of governance, risk management and control.
- 7.4 Internal Audit may also undertake non-assurance work including fraud related and consultancy work, at the request of the organisation, and work for other bodies, subject to there being no impact on the core assurance work and the availability of skills and resources.
- 7.5 The Corporate Manager Governance and Audit will be made aware of major new systems and proposed initiatives. The Corporate Manager Governance and Audit will consider what if any audit work needs to be done to help ensure risks are properly identified and evaluated and appropriate controls built in.

8 Role of Internal Audit in Fraud Related Work

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

9 Internal Audit Plan

- 9.1 At least annually, the Corporate Manager Governance and Audit will submit to the Management Group Board and the Audit and Governance Committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next financial year. The Corporate Manager Governance and Audit will communicate the impact of resource limitations and significant interim changes to the Management Group Board and the Audit and Governance Committee.
- 9.2 The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of the Management Group Board and the Audit and Governance Committee. The Corporate Manager Governance and Audit will review and adjust the plan, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the Management Group Board and the Audit and Governance Committee through periodic activity reports.

Internal Audit Charter

10 Reporting and Monitoring

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

11 Quality Assurance and Improvement Programme

- 11.1 Internal Audit will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of Internal Audit and identifies opportunities for improvement.
- 11.2 The Corporate Manager Governance and Audit will communicate to the Management Group Board and the Audit and Governance Committee on Internal Audit's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting:	10 December 2015
Report of:	Chairman of the Audit and Governance Committee
Title:	Audit and Governance Committee Self- Assessment
Portfolio Holder:	Councillor Peter Groves

1.0 Report Summary

- 1.1 This report advises Members on progress in implementing the actions arising from the 2014/15 self-assessment of the Audit and Governance Committee against good practice and the evaluation of its effectiveness that was reported in March 2015.
- 1.2 Members are asked to consider the progress made in implementing the agreed actions and whether there is scope to do more.

2.0 Recommendations

- 2.1 That the Committee note:
- (i) the progress in relation to the implementation of actions to improve its effectiveness and determine any required amendments; and
 - (ii) that the self-assessment of the Audit and Governance Committee against good practice and the evaluation of its effectiveness for 2015/16 will be brought to the March 2016 meeting.

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 Regulations 2015 requires the Council to conduct an annual review of the effectiveness of its system of internal control and prepare an annual governance statement. A review of internal audit that includes the contribution made by the audit committee should form part of the review of internal control required by Regulation 6.

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 Regulations 2015.

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 Regulations 2015.

10.0 Background

10.1 Regulation 6 of the Accounts and Audit Regulations 2011 required the Council to conduct an annual review of the effectiveness of its internal audit. The 2014/15 review included a self-assessment of the Audit and Governance Committee against good practice and an evaluation of its effectiveness using the recommended practice contained within 'Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition)'. The outcome of the review was reported to Committee in March 2015 and can be summarised as follows:

Self-assessment Against Good Practice 2014/15		
Meeting recommended practice	Number	Actions Arising
Yes	16	2
Partly	4	2
No	0	0
Total	20	4

Evaluation of the Effectiveness of the Audit and Governance Committee 2014/15			
Assessment Key: Level and criteria		Outcome of 2014/15 Assessment	Actions Arising
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	2
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	4

10.2 The Audit and Governance Committee endorsed the actions arising from the self-assessment and evaluation in March 2015. Progress in implementing the agreed actions is included at Appendix A of this report. In order to ensure that improvement opportunities are not missed and facilitate compliance with the Accounts and Audit Regulations Members are asked to consider the progress made and whether there is scope to do more.

10.3 It should be noted that Regulation 5 of the Accounts and Audit Regulations 2015, which came into force on 1 April 2015, removed the requirement for an annual review of internal audit. This is because the review of internal audit, including the contribution made by the audit committee, should form part of the annual review of the effectiveness of the system of internal control required by Regulation 6. In order to comply with Regulation 6 of the 2015 Regulations:

- a self-assessment of the Audit and Governance Committee against good practice and the evaluation of its effectiveness for 2015/16 will be brought to the March 2016 meeting

- the review of the effectiveness of Internal Audit will be carried out by self-assessing compliance with the Public Sector Internal Audit Standards (PSIAS)
- the detailed results of the overall review will then be reported to this Committee for consideration as part of the annual governance statement process.

11.0 Access to Information

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

Name: Councillor Lesley Smetham

Designation: Chairman of the Audit and Governance Committee

Tel No: 01625 426173

Email: lesley.smetham@cheshireeast.gov.uk

Action Plan following the Self- Assessment Against Good Practice – 2014/15

Self-Assessment Against Good Practice Questions			
Good Practice Question ¹		Action ²	Progress
Audit committee purpose and governance			
4	Is the role and purpose of the audit committee understood and accepted across the authority?	To invite newly elected members to attend an Audit and Governance Committee meeting. To be actioned from May 2015.	To be discussed with the Senior Member Development Officer and actioned from January 2016.
Membership and support			
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	<p>Members of the Committee to be assessed against the core knowledge and skills framework.</p> <p>This could then be used to establish a programme of support that involves regular briefings and updates as well as formal training programmes.</p> <p>Process to be looked at in more detail by the Chairman and Vice Chairman from April 2015.</p>	<p>A draft training schedule is being drawn up that will initially cover the core areas of knowledge³ that all Committee Members should seek to acquire.</p> <p>Details regarding the specialist knowledge (other areas of specialist knowledge and experience, for example in accountancy, audit, governance and risk management, that will add value to the Committee) of Members to be requested by the Chair.</p> <p>The core skills identified by CIPFA are not unique to the role of Audit & Governance Committee Member and hence contact will be made with the Senior Member Development Officer to establish whether existing training and development plans for elected members include similar skill or competency training opportunities.</p> <p>Training opportunities to be delivered from December 2015.</p>

¹ Taken from Appendix D - **AUDIT COMMITTEES \ PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES AND POLICE** 2013 EDITION

² Agreed at Audit & Governance Committee January 2015 and/or Audit & Governance Committee March 2015

³ Core Knowledge, specialist skills and core skills taken from Appendix C - **AUDIT COMMITTEES \ PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES AND POLICE** 2013 EDITION

Action Plan following the Self- Assessment Against Good Practice – 2014/15

Self-Assessment Against Good Practice Questions			
Good Practice Question		Action	Progress
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 to meet separately with the Chairman and Vice Chairman from April 2015.	Chair and Vice Chair have full access to External Auditors outside formal meetings as necessary. This includes the opportunity, either before or after the Audit and Governance Committee, for the Chair and Vice Chair to meet informally with the External Auditor, independent of the presence of those officers with whom the Auditor must retain a working relationship.
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 Chairman to seek feedback from meeting participants including External Audit.	Chair to seek feedback from the External Auditor ⁴ and meeting participants ⁵ looking at whether: <ul style="list-style-type: none"> • The work of the Committee is focused on improvement, securing agreement on actions and reaches a clear conclusion; • the Committee operates at a strategic level and avoids straying into minor issues or operational detail that are more effectively addressed elsewhere; and • the Committee takes a non-political approach to meetings and discussions

⁴ At informal, as necessary, meetings referred to in point 16 and more specifically as part of 2016/17 self- assessment commencing January 2016.

⁵ Meeting participants are to include Chief Operating Officer or appropriate senior and qualified substitute, Head of Legal Services and Monitoring Officer and Corporate Manager Governance and Audit, with feedback provided at Committee briefing with Chair and Vice Chair commencing November 2015.

Action Plan following the Self- Assessment Against Good Practice – 2014/15

Evaluating the Effectiveness of the Audit Committee ⁶			
Area where the audit committee can add value	Self-Assessment See key below	ACTION ⁷	Progress
Promoting the principles of good governance and their application to decision making.	4	An updated Code of Corporate Governance to 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.	The revised Code of Corporate Governance was presented to the Committee in June 2015. The formal approval process includes Cabinet and Council from January 2016.

⁶ Taken from Appendix E - **AUDIT COMMITTEES \ PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES AND POLICE** 2013 EDITION

⁷ Agreed at Audit & Governance Committee January 2015 and/or Audit & Governance Committee March 2015

Action Plan following the Self- Assessment Against Good Practice – 2014/15

Evaluating the Effectiveness of the Audit Committee			
Area where the audit committee can add value	Self-Assessment See key below	ACTION	Progress
Contributing to the development of an effective control environment.	4	<p>The Committee 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.</p> <p>The Chairman and Vice Chairman, from April 2015, would work with Officers to determine how this will work in practice.</p>	<p>In the first instance the Audit and Governance Committee will hold to account those responsible for the implementation of recommendations and action plans through the review of internal and external audit reports, monitoring of risk registers and other key strategies as well as receiving briefings from Risk Managers on key strategic Risks.</p> <p>If, however, audit or other assurance reports presented to the Audit and Governance Committee conclude that Senior Management has accepted a level of risk that may be unacceptable to the Council because:</p> <ul style="list-style-type: none"> Of a failure to agree actions which address weaknesses that give rise to significant risks; or agreed actions have not been effectively implemented by the agreed date. <p>the Committee will raise such matters with the appropriate Senior Manager. The Committee will then make recommendations for action to Senior Management or refer matters to other committees or Council as necessary.</p>
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance	3	To add a briefing on performance management arrangements to the Work Plan for 2015/16. To focus on financial reporting and financial governance rather than on wider issues of performance and spending priorities.	A report on Performance Management Arrangements is included on the Audit and Governance Committee Agenda for 17 March 2016.

Action Plan following the Self- Assessment Against Good Practice – 2014/15

arrangements.			
Evaluating the Effectiveness of the Audit Committee			
Area where the audit committee can add value	Self-Assessment See key below	ACTION	Progress
Supporting the development of robust arrangements for ensuring value for money.	3	In order to develop the 15/16 Work Plan Officers to 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.	<p>Benchmarking with comparator authorities indicates that audit committees receive assurance as part of the AGS process because the AGS should be focused on outcomes and value for money, and the external audit opinion on value for money. This is consistent with the Audit and Governance Committee's Work Plan.</p> <p>The Chair and Vice Chair have, however, requested the Performance Report referred to above to include assurance regarding benchmarking activities at Cheshire East Council.</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.		

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 10 December 2015
Report of: Corporate Manager Governance and Audit
Title: Work Plan 2015/16
Portfolio Holder: Councillor Peter Groves

1.0 Report Summary

- 1.0 The report presents an updated Work Plan (Appendix A) to the Committee for consideration.

2.0 Recommendation

- 2.1 That the Committee:
- consider the Work Plan and determine any required amendments that will enable it to fulfil its responsibilities; and
 - note that the plan will be periodically brought back to the Committee for development and approval.

3.0 Reasons for Recommendations

- 3.1 The Audit and Governance Committee has a key role in overseeing and assessing the Council's risk management, control and corporate governance arrangements. It advises the Council on the adequacy and effectiveness of these arrangements. A forward looking programme of meetings and agenda items is necessary to enable the Committee to fulfil 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 Accounts and Audit Regulations 2015 revoke the Accounts and Audit Regulations 2011 (S.I. 2011/817), although those regulations continue to have effect in relation to financial years ending on or before 31st March 2015.
- 8.2 The Work Plan for 2015/16 needs therefore to take account of the requirements of the Accounts and Audit (England) Regulations 2011 and The Accounts and Audit Regulations 2015.

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

10.0 Background and Options

- 10.1 Aspects of the Audit and Governance Committee agenda are determined by statutory requirements such as the Statement of Accounts and Annual Governance Statement. Outside these agenda items, the Committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference. The Committee is asked to consider the contents of the Work Plan (Appendix A) and establish any amendments that will enable it to meet its responsibilities. In doing so it should be noted that the following changes have been made to the programme that was discussed in September 2015:

- The anti- fraud and corruption report which includes details in respect of the annual review of the Anti- Fraud and Corruption Policy and arrangements against best practice has been deferred until March 2016.
- The presentation regarding the assurance framework for Health and Wellbeing has been removed from the Work Plan. This follows a similar presentation to the Health and Adult Social Care Overview and Scrutiny Committee on 5th November at which Members of the Audit and Governance Committee attended.
- It has been noted that reports relating to work programmes for Member/Officer Working Groups and feedback from Member/Officer Working Groups may, following discussions between Members and the Corporate Manager Governance and Audit, require allocating to specific agendas.

10.2 In order to help with their deliberations, Members are asked to consider whether:

- the inclusion of each item on its agenda results in added value; as
 - 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; as
 - an audit committee should operate at a strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers
 - the number and frequency of reports should be proportional to the risk in order to give the core business of an audit committee sufficient focus and attention and to avoid lengthy and thus unproductive meetings.

10.3 The Work Plan will be re-submitted to the Committee for further development and approval.

11.0 Access to Information

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

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Designation: Corporate Manager Governance and Audit

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Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
10 Dec 2015			
Grant Thornton - Annual Audit Letter 2014/15	Summary of the External Audit findings from 2014/15 audit. The letter will also confirm the final audit fee.	31	To consider the external auditor’s annual letter, relevant reports, and the report to those charged with governance.
Certification Report	The report provides a summary of the key findings that have been identified during the External Auditors’ certification process for 2014/15 claims and returns.	31	To consider the external auditor’s annual letter, relevant reports, and the report to those charged with governance.
Audit and Governance Committee Annual Report 2014/15	Annual Report of the Chair of the Audit & Governance Committee to Council.	39	To report to full Council on a regular basis on the committee’s performance in relation to the terms of reference.
		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 <i>For a local authority, CIPFA’s judgement is that the audit committee should report directly to council, as the council itself most closely matches the body of ‘those charged with governance’</i>
Draft Treasury Management	Update on the contents of the Council’s Treasury Management Strategy for	17	To review and monitor the Council’s Treasury Management arrangements in accordance with the

Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
Strategy and MRP Statement	2016/17. The CIPFA Treasury Management Code of Practice requires all local authorities to make arrangements for the scrutiny of treasury management. This responsibility has been nominated to the Audit & Governance Committee.		CIPFA Treasury Management Code of Practice.
Draft Risk Management Policy Statement/Strategy and Outline Framework	Update report including the outcomes of a review of the Risk Management Policy.	10	To monitor the effective development and operation of risk management in the council.
Annual Governance Statement (AGS) Update	Assurance Framework that underpins the Council's AGS & update on actions to improve governance arrangements and respond to emerging issues.	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
Internal Audit Interim Report 2015/16 and Internal Audit Charter	Progress report against the Internal Audit Plan 2015/16. Review of Internal Audit Charter in accordance with Public Sector Internal Audit Standards.	12	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions, including calling managers to explain lack of progress.
		18	To approve the Internal Audit Charter.
		21	To approve significant interim changes to the risk-based Internal Audit Plan and resource requirements.

Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
		23	To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include: a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work. b) Regular reports on the results of the Quality Assurance and Improvement Programme. c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
		25	To consider summaries of specific internal audit reports as requested.
Audit and Governance Committee Self- Assessment	A report giving an update on the progress of the actions arising from the 2014/15 self- assessment.	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 2015/16	Review of 2015/16 Work Plan to ensure comprehensive coverage of the Committee's responsibilities.	All	

Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
17 March 2016			
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 2015/16 Audit Plan for Cheshire East Council.	External Audit's planned work for the audit of financial statements and the value for money conclusion 2014/15.	33	To comment on the scope and depth of external audit work and to ensure it gives value for money.
Internal Audit Interim Report	Progress report against the Internal Audit Plan 2015/16.	12	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions, including calling managers to explain progress.
		21	To approve significant interim changes to the risk-based Internal Audit Plan and resource requirements.
		23	To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include: a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work. b) Regular reports on the results of the Quality Assurance and Improvement Programme. c) Reports on instances where the internal audit function

Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
		25	does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement. To consider summaries of specific internal audit reports as requested.
Internal Audit Plan 2016/17.	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.
Members' Code of Conduct: Standards Report	The report gives details of the numbers and outcomes of complaints under the Code of Conduct for Members between the period September 2015 to February 2016.	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).
Performance Management Arrangements.	Receive a briefing to better understand the Council's performance management arrangements. The focus will be on financial reporting and financial governance rather than on wider issues of performance and spending priorities.	8	At the request of Members in January 2015. 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.
Compliance	An update on how Cheshire East Council	6	To review the Council's corporate governance

Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
with Data Protection Act (1998), Freedom of Information Act (2000) and Environmental Information Regulations (2004).	fulfils its obligations under the Data Protection Act (1998) and the Freedom of Information Act (2000) (including the Environmental Information Regulations (EIR)). It also highlights volumes of requests, trends and current and future issues.		arrangements against the good governance framework and consider annual governance reports and assurances.
Compliance with the Regulation of Investigatory Powers Act (2000) (RIPA)	This report provides an update on how the Council has complied with RIPA legislation during 2014/15 and the number of RIPA applications which have been authorised to date.	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
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.
Risk Management Update Report	Update report on Risk Management.	10	To monitor the effective development and operation of risk management in the council.
		11	To monitor progress in addressing risk related issued reported to the committee.
Annual Anti- Fraud and Corruption	Annual review of Anti- Fraud and Corruption Policy and arrangements	13	To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.

Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
Report	against best practice.	15	To monitor the counter fraud strategy, actions and resources.
		40	To approve and monitor Council policies relating to “whistleblowing” and anti- fraud and corruption .
Cheshire East Email and Archiving Policy	Report updating Members on the Council’s Email and Archiving Policy.		At the request of Members in September 2015.
Lesson Learned from Ombudsman Complaints	Report addressing the dissemination of lessons learned from upheld Ombudsman complaints.		At the request of Members in September 2015.
Work Plan	Forward looking programme of meetings and agenda items 2016/17 to ensure comprehensive coverage of the Committee’s responsibilities.	All	
<i>It should be noted that the following items will be presented to the Committee but have not, as yet, been allocated to a specific agenda</i>			
Review of the Code of Corporate Governance	<p>In response to the CIPFA/SOLACE review of the <i>Framework: Delivering Good Governance in Local Government</i> to ensure that it remains ‘fit for purpose’.</p> <p>The finalised Framework and new guidance will be published early next year, with current expectations that organisations would produce their 15/16</p>	6	To review the Council’s corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
	AGS with reference to the new guidance.		
Assessment of the Committee against the core knowledge and skills framework.	Members of the Committee to be assessed against CIPFA's core knowledge and skills framework. <i>Process to be looked at in more detail by the Chairman and Vice Chairman prior to placing on the Committee's agenda.</i>		At the request of Members in March 2015.
<i>It should be noted that the following items may require reports to the Committee but has not, as yet, been allocated to a specific agenda</i>			
Value for Money Arrangements.	Assurance with regard to both the arrangements to ensure value for money and the progress in achieving value for money.	8	To consider the Council's arrangements to secure value for money and to review and scrutinise assurance and assessments on the effectiveness of these arrangements. At the request of Members in March 2015. Subject to an exercise to benchmark what assurance other Audit Committees receive. Future reporting requirements will also be determined in the context of what other Committees of the Council are doing.
Work Programme for Member/Officer Working Groups	Forward looking programme of meetings and agenda items to: <ul style="list-style-type: none"> enable individual Members to become more involved in specific areas of the Committee's work as a means of developing in-depth knowledge and expertise 		At the request of Members in September 2015.

Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
	<ul style="list-style-type: none"> • address some of the more time consuming aspects of the Committee's work. • ensure that the Committee continues to work effectively and fulfils its purpose. 		
Feedback from Member/Officer Working Groups	The outcome of Member/Officer Groups work which, where possible, will be fed back to the Committee during the relevant agenda item. However, some of the feedback may, at the request of the Committee, require specific reports.		At the request of Members in September 2015.
Emerging Issues Report.	A report from the External Auditor highlighting emerging national issues and developments which might be of relevance to Cheshire East.	31	To consider the external auditor's annual report, relevant reports, and the report to those charged with governance.

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