

Audit and Governance Committee

Agenda

Date: Thursday 8th December 2016
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.

It should be noted that Part 1 items of Cheshire East Council decision making and Overview and Scrutiny meetings are audio recorded and the recordings will be uploaded to the Council's website.

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.

For requests for further information

Contact: Cherry Foreman

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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.

4. **Minutes of Previous meeting** (Pages 5 - 12)

To approve as a correct record the minutes of the meeting held on 29 September 2016.

5. **Grant Thornton - Annual Audit Letter 2015/16** (Pages 13 - 34)

To receive and comment on the Annual Audit Letter for 2015/16

6. **Certification Report 2015/16** (Pages 35 - 38)

To receive and comment on the Certification letter

7. **Draft Treasury Management Strategy and Minimum Revenue Position Statement 2017/18** (Pages 39 - 64)

To receive and comment on the proposed Treasury Management Strategy and the Minimum Revenue Position Statement for 2017/18

8. **Risk Management Update** (Pages 65 - 80)

To receive an update on Risk Management

9. **Annual Governance Statement Update** (Pages 81 - 106)

To consider an update on the Annual Governance Statement

10. **Internal Audit Interim Report 2016/17 and Internal Audit Charter**
(Pages 107 - 130)

To receive a report on progress against the Internal Audit Plan 2016/17 and the updated Internal Audit Charter

11. **Revising the Council's Code of Corporate Governance** (Pages 131 - 156)

To consider the update on the revision of the Council's Code of Corporate Governance

12. **Arrangements for the Appointment of External Auditors** (Pages 157 - 162)

To consider the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits

13. **Appointment of an Independent Member to the Audit and Governance Committee**

To receive a verbal update

14. **Cardiff Checks – Feedback from Member/Officer Group** (Pages 163 - 166)

To receive an overview of the Cardiff Checks undertaken by Internal Audit and the Counter Fraud Member/Officer Sub Group during 2016

15. **Work Plan 2016/17** (Pages 167 - 178)

To consider the updated Work Plan

16. **Item Submitted by Member**

In accordance with Procedure Rule 34, Councillor Sam Corcoran has asked that the following item be included on this Agenda:

‘This Committee would like to support the companies wholly owned by Cheshire East Council and therefore suggests a review of the resourcing of internal audit and the terms of reference of the Committee to ascertain whether these allow the aspirations of the Committee to be met in this regard’

Note: Procedure Rule 34 (agenda items submitted by Members) allows a Member of the Council, by notice given to the Monitoring Officer no later than ten clear working of days before the appropriate meeting, to request that an item of business be included on the agenda of a Committee or Sub-Committee.

17. **Waivers and Non Adherence Notifications** (Pages 179 - 184)

To receive an update on the quantity and reasons for the issue of WARNs approved between 1 September and 31 October 2016.

18. Exclusion of the Press and Public

The reports relating to the remaining items on the agenda have been withheld from public circulation and deposit pursuant to Section 100(B)(2) of the Local Government Act 1972 on the grounds that the matters may be determined with the press and public excluded.

The Committee may decide that the press and public be excluded from the meeting during consideration of the following items pursuant to Section 100(A)4 of the Local Government Act 1972 on the grounds that they involve the likely disclosure of exempt information as defined in Paragraphs 1, 2 and 3 of Part 1 of Schedule 12A to the Local Government Act 1972 and public interest would not be served in publishing the information.

PART 2 - MATTERS TO BE CONSIDERED WITHOUT THE PUBLIC AND PRESS PRESENT

19. Waivers and Non Adherence Notifications

To note the approved WARNs issued between 1 September and 31 October 2016.

CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Thursday, 29 September, 2016 at Committee Suite 1,2 & 3,
Westfields, Middlewich Road, Sandbach CW11 1HZ

PRESENT

Councillor L Smetham (Chairman)
Councillor D Marren (Vice-Chairman)

Councillors G Baxendale, S Corcoran, R Fletcher, L Gilbert, M Hardy,
A Kolker, M Simon and A Stott

MEMBERS IN ATTENDANCE

Councillors C Andrew, J Clowes, J P Findlow, H Gaddum, P Groves, L Jeuda
and A Moran

OFFICERS IN ATTENDANCE

P Bates	Chief Finance Officer
B Norman	Director of Legal Services
J Griffiths	Principal Auditor
M Todd	Principal Auditor
S Smith	Customer Relations and Compliance Manager
H Sweeney	Senior Customer Relations and Compliance Officer
A Thompson	Corporate Manager Strategy & Reporting
J Wilcox	Corporate Finance Manager
D Oakeshott	Head of Professional and Commercial Services
J Ellison-Jones	Procurement Category Manager
S Mellor	Procurement Category Manager
D Moulson	Democratic Services Officer

External Auditors in Attendance (Grant Thornton)

A Rhodes and J Roberts

20 APOLOGIES FOR ABSENCE

No apologies for absence were received.

21 DECLARATIONS OF INTEREST

No declarations of interest were received in respect of the business to be transacted at the meeting.

22 PUBLIC SPEAKING TIME/OPEN SESSION

Councillor H Gaddum attended the meeting and gave notice that she wished to speak to item 5 on the agenda: External Audit Findings Report 2015/2016.

23 MINUTES OF PREVIOUS MEETING

RESOLVED

That the minutes of the meeting held on 30 June 2016 be approved subject to the following corrections:

Minute 7 Draft Annual Governance Statement 2015/2016:

Third paragraph, fourth bullet point – the words “and where the Ombudsman finds fault, the Committee to have sight of the report” to be added to the end of the sentence

Minute 16 Item Submitted by a Member

At its meeting held on 30 June 2016, the Committee considered an Item submitted by Councillor Corcoran, pursuant to Procedure Rule 34, to which the Councillor read out a prepared statement. A Member queried why the statement had not been included in the minutes of the meeting, despite the Committee agreeing to do so. As this recollection was not shared by the Committee as a whole, the matter was put to the vote.

RESOLVED: That the text of the statement read out to the meeting by Councillor Corcoran be included with the Minutes of the meeting on 30 June 2016.

24 EXTERNAL AUDIT FINDINGS REPORT 2015/16

Grant Thornton presented the Audit Findings report on the 2015/16 Audit which had been prepared in accordance with the requirements of the International Standard on Auditing (UK and Ireland) 260, the Local Audit and Accountability Act 2014 and the Audit Office Code of Practice.

The report identified the key issues considered by Grant Thornton on the Council's 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 an unqualified opinion would be given in respect of both the accounts and value for money.

Particular reference was made to the following: one adjustment had been identified affecting the Group's/Council's financial position, recommendations had been made to improve the presentation of the financial statements, the closedown timetable would be brought forward for 2017/18 and recommendations had been made relating to

strengthening IT controls. The finance department was commended for producing a good quality set of technical accounts.

During Grant Thornton's presentation, Councillor Gaddum addressed the Committee regarding a matter of concern she had raised on a previous occasion. In response to the points raised, Grant Thornton confirmed that it could not formally conclude the audit and issue an audit certificate for the year ended 31 March 2016 until the police investigation had been concluded. However it was comfortable giving the opinion that it had on the value for money statement, based on the information available to it.

A question and answer session then ensued relating to the police investigation and the arrangements for an external internal audit review, which would need to be held.

RESOLVED: That

- a) The Audit Findings Report for 2015/16 be received; and
- b) The letter of representation be signed by the Chief Operating Officer.

25 **2015/16 AUDIT FINDINGS AND ACTION PLAN**

Consideration was given to the Audit findings and action plan for 2015/16.

Grant Thornton provided an unqualified opinion in respect of the financial statements and an unqualified conclusion on the council's arrangements to secure economy, efficiency and effectiveness in the use of its resources for securing value for money.

The appendix to the report set out a number of recommendations in respect of the financial statements, which also set out the Council's proposed actions to address the auditor's recommendations.

Officers and Grant Thornton advised the Committee concerning proposed arrangements for appointing an independent internal auditor in relation to the paused audit of procurement.

RESOLVED:

That the management responses and action plan set out in Appendix 1 be endorsed.

26 **AUDITED STATEMENT OF ACCOUNT 2015/16**

Consideration was given to the 2015/16 Statement of Accounts for Cheshire East Council and the Cheshire East Group, which provided information on the financial assets and transactions of the Group.

The report detailed amendments to the statement of accounts; specifically in relation to changes to the NDR provision for appeals and a number of adjustments to the presentation of the financial statements; which affected earmarked reserves only and not the general fund reserve figures reported to the Committee in June.

RESOLVED:

1. That the report be received and the changes to the draft accounts be noted in accordance with the Audit Findings Report; and
2. That delegated authority be granted to the Chairman of the Audit and Governance Committee to sign off the final accounts on behalf of the Committee.

27 ANNUAL GOVERNANCE STATEMENT 2015/2016

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. Once finalised, the ASG would be published on the Council's website along with the Statement of Accounts.

The purpose of the AGS process was to provide a continuous review of the organisation's 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; members seeking clarity of matters pertaining to business continuity and Health and Wellbeing Board. It was confirmed that the actions identified going forward would be included in next year's statement for continuity.

At the beginning of the meeting, a correction to the minutes was agreed in regard to the Committee receiving a copy of any Ombudsman report where fault had been identified. To ensure consistency it was proposed that the wording in the statement should mirror this requirement.

RESOLVED:

That, subject to the above correction, approval be given to the Annual Governance Statement 2015/16.

28 ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE 2015/16

Consideration was given to the draft report of the Chairman of the Committee on its performance and effectiveness in 2015/16 with regard to its terms of reference and purpose.

The report included details of governance, risk and control frameworks, internal audit charter, external audit reporting arrangements, financial reporting arrangements and internal and external functions.

In considering its effectiveness the report listed the additional areas of work that had been requested by the Committee around additional assurance, these being email retention and archiving policy, Ombudsman complaints and lessons learnt, WARNs (Waiver and Record of Non-adherence), review of Cardiff checks and performance management arrangements.

RESOLVED

That the draft Annual Report for 2015/16 be approved for consideration by the Council at its meeting on 20 October 2016.

29 REPORT ON CUSTOMER FEEDBACK 2015/16

Consideration was given to the report which summarised the formal feedback received from customers during 2015/16, together with a summary of the cases dealt with by the Local Government Ombudsman (LGO).

Details were given of the feedback received, broken down into complements (1855), suggestions (177) and complaints (1565). It was noted that the number of complaints had increased by 38% from the previous year, the majority relating to Adult and Children's services. Whilst not formally recorded on the corporate feedback system, complaints from MP's on behalf of their constituents had reduced significantly (77 to 30) from 2014/15.

With regard to complaints all customers were offered the opportunity to appeal to the Local Government Ombudsman and the report included details on the decision notices issued to the Council.

RESOLVED:

That the report be noted.

30 COMPLIANCE WITH THE REGULATION OF INVESTIGATORY POWERS ACT (2000)

The Regulation of Investigatory Powers Act 2000 (RIPA) provides a regulatory framework to enable public authorities to obtain information through the use of certain covert investigatory techniques.

Consideration was given to the report, which outlined the findings of an inspection by the Office of Surveillance Commissioners on 23 May 2016. The Committee welcomed the positive outcome and noted the Inspector's

recommendation with regard to providing training and guidance for staff using the internet and social networking sites which might engage the RIPA criteria.

RESOLVED:

That the report be noted.

31 TREASURY MANAGEMENT ANNUAL REPORT

Consideration was given to the report which had been considered by Cabinet at its meeting on 12 July 2016. It was noted that the Council had complied with its legislative and regulatory requirements and had remained within all of its prudential indicators during the year.

Information was provided on the management of the local authority's investments, cash flows, capital expenditure, external borrowing, banking and property funds; on which members asked questions. It was noted that, due to the risks associated with unsecured deposits, the Council increasingly favoured secured investments or diversified alternatives such as covered bonds, non-banking investments and pooled funds

RESOLVED:

That the Treasury Management Annual Report for 2015/16, set out in appendix A of the report, be noted.

32 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, during the period from 1 March 2016 to 31 August 2016.

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 broke down complaints received with regard to the number of complaints made against Cheshire East Councillors and Town and Parish Councillors; the paragraph of the code alleged to have been breached and the outcome of each complaint, where completed.

RESOLVED:

That the report be noted.

33 APPOINTMENT OF AN INDEPENDENT MEMBER TO THE AUDIT AND GOVERNANCE COMMITTEE

The Director of Legal Services reported verbally to the Committee that arrangements to appoint an Independent member to the Audit and Governance Committee were underway; the procedure to follow that adopted for the appointment of the Independent Person to the Committee.

The makeup of the Interviewing Panel was confirmed as being the Chairman, the Vice-Chairman and Cllr Amanda Stott.

RESOLVED:

That the arrangements be noted.

34 LOCALISM ACT 2011 - GENERAL DISPENSATIONS

Consideration was given to the report which sought approval for the renewal of a number of general dispensations under the Localism Act 2011; previously approved by Audit and Governance in September 2012.

The Localism Act 2011 prevented Councillors from participating in any business of the Council where they had a Disclosable Pecuniary Interest, unless a dispensation had been sought under Section 33 of the act. To enable all members of Council to be able to be present, speak and vote at a meeting at which they would otherwise have a Disclosable Pecuniary Interest (DPI); the Committee was invited to renew the general dispensations set out in the report for a four year period.

RESOLVED:

That the general dispensations for all elected and co-opted members of Cheshire East Council, as set out in paragraph 4.4 of the report, be approved for a period of four years up to 28 September 2020.

35 COMMITTEE WORK PLAN 2016/17

Consideration was given to the Committee's Work Plan and it was agreed that the following items be added:

- Review of Cardiff checks
- Upheld complaints to Local Government Ombudsman
- Post contract assessment of procurement exercises

RESOLVED:

That the subjects listed above be added to the Committee's Work Plan.

36 WAIVERS AND NON ADHERENCE NOTIFICATIONS

The Committee considered a report on the quantity and reasons for Waiver and non Adherences (WARNs) approved between 1 June 2016 to 31 August 2016. The report also presented the approved WARNs for review.

In response to a question raised by a member relating to the number of WARN's listed, officers anticipated that numbers would start to fall from the next financial year as actions were put in place.

RESOLVED:

That the report be noted.

37 EXCLUSION OF THE PRESS AND PUBLIC

That the press and public be excluded from the meeting during consideration of the following item pursuant to Section 100(A)4 of the Local Government Act 1972 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 1 2 and 3 of Part 1 of Schedule 12A to the Local Government Act 1972 and public interest would not be served in publishing the information.

38 WAIVERS AND RECORD OF NON ADHERENCE NOTIFICATIONS

RESOLVED:

That the approved WARNs be noted.

The meeting commenced at 2.00 pm and concluded at 4.45 pm

Councillor L Smetham (Chairman)

CHESHIRE EAST COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting:	8 th December 2016
Report of:	Chief Operating Officer
Subject/Title:	Grant Thornton – Annual Audit Letter 2015/16
Portfolio Holder:	Councillor Peter Groves

1.0 Report Summary

- 1.1 The Annual Audit Letter summarises the External Auditors' findings from the 2015/16 audit.

2.0 Recommendation

- 2.1 That Members receive and comment on the Annual Audit Letter for 2015/16.

3.0 Reasons for Recommendations

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

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 None.

7.0 Implications for Rural Communities

- 7.1 None

8.0 Financial Implications

- 8.1 As covered in the report.

9.0 Legal Implications

- 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 29th September 2016.
- 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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The Annual Audit Letter for Cheshire East Council

Year ended 31 March 2016

October 2016

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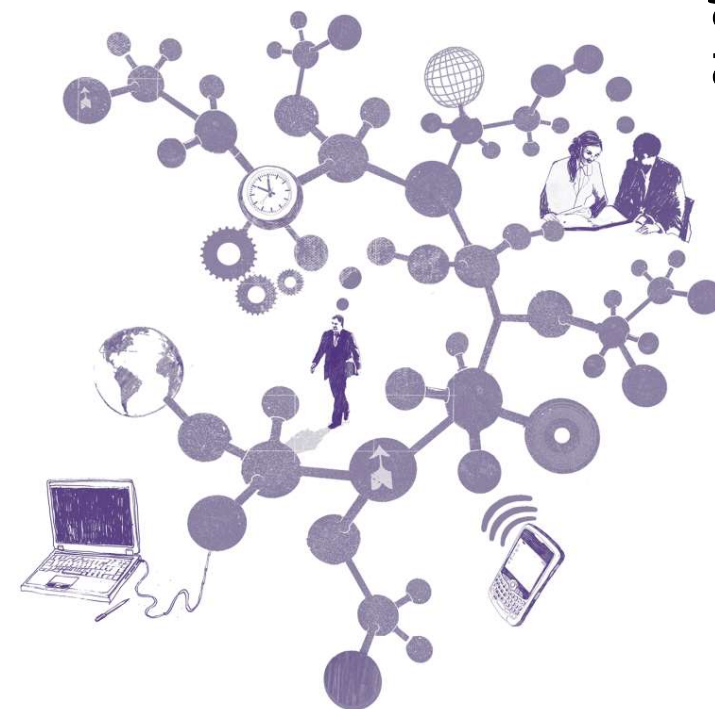
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Appendices

A Reports issued and fees

Executive summary

Purpose of this letter

Our Annual Audit Letter (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 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 29 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 29 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 14 October 2016.

Certificate

We have determined that we cannot formally conclude the audit and issue an audit certificate for the Council for the year ended 31 March 2016 in accordance with the requirements of the Act and the Code until the Police investigation involving the Council reaches its conclusion.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

Working with the Council

Overall, the Council has continued to work to deliver its statutory responsibilities and this is reflected in our unqualified opinion and value for money conclusion.

During the year, the Council has been subject to a police investigation into a specific procurement issue, which commenced in December 2015 and is not due to be completed for some time to come. We have agreed with the Council that in order to make progress with its own review of procurement arrangements, that it should engage additional support to complete a thorough review into the procurement matters, liaising appropriately with the Police so as to avoid any impact upon their investigation. As this is now part of a police investigation, the formal arrangements will need to be agreed and approved by the police.

We will continue to consider the progress with the investigation in order to determine when we may issue our certificate to formally close the audit for 2015/16.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £11,896,000, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also highlighted certain areas such as cash, officers' remuneration and exit packages and the audit fee, where we did not set a separate materiality threshold, but where we undertook more extensive testing to reflect the interest in these disclosures.

We set a lower threshold of £595,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed
- significant accounting estimates made by management are reasonable
- the overall presentation of the financial statements gives a true and fair view.

We also read the Narrative Report and Annual Governance Statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property plant and equipment</p> <p>Property, plant and equipment represents 87% of the total assets of the Cheshire East group. Their value is estimated by property valuation experts.</p> <p>The Council revalues these assets on a rolling basis.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• reviewed management's processes and assumptions for the calculation of the estimate• reviewed whether the experts used by the Council were sufficiently knowledgeable and independent for us to rely on their work• reviewed the Council instructions to its valuer and the information on the assets it gave to them• reviewed the valuer's report to understand the valuation method used and any key assumptions.• checked that the valuation had been correctly reflected in the Council's asset register and the financial statements• considered how management supported their conclusion that where assets were not revalued during the year, that these are not materially different to current/fair value. <p>We also considered the changes brought about by the implementation of IFRS 13 which affects the valuation of investment property, surplus assets and requires additional disclosures.</p> <p>We did not identify any issues to report.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability, as reflected in its group balance sheet, represents a significant estimate in the accounts and comprises 55% of its total liabilities.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• documented and walked through the key controls put in place by the Council to ensure they were designed as expected• reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation• reviewed the information provided to the actuary to calculate the pension fund liability• confirmed the reasonableness of the actuarial assumptions• checked that the Council had correctly made entries in its accounts consistent with the report from the actuary. <p>We also considered the specific changes that the Council made to its pension arrangements relating to its wholly owned companies. We concluded that the agreements in place with the companies do meet the conditions for the scheme to be accounted for as a defined contribution scheme in the accounts of the companies with the Council accounting for the assets and liabilities relating to the pension scheme.</p> <p>We did not identify any issues to report.</p>

Audit of the accounts

Risks identified in our audit plan	How we responded to the risk
<p>Employee remuneration</p> <p>The Council's expenditure on its employees in 2015/16 was £231.6 million, which represents 31% of its total expenditure (<i>source: note 18 to the financial statements</i>).</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • documented and walked through the controls in place over payroll expenditure • performed trend analysis to identify any unusual variances in pay transactions • reviewed the reconciliation between the payroll system and the general ledger • tested a sample of employee remuneration payments in the year to ensure accurately accounted for and in the correct period • agreed the disclosure of senior officers' remuneration to the information from the payroll system and supporting evidence . <p>We did not identify any issues to report.</p>
<p>Operating expenses</p> <p>The Council's operating expenditure in 2015/16 was £410.9 million, which represents 55% of its total expenditure (<i>source: note 1 to the financial statements</i>).</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • documented and walked through the controls in place over operating expenditure • reviewed the completeness and accuracy of the reconciliation between the purchase ledger and the general ledger • obtained an understanding of the accruals process and tested a sample of accruals (and other creditors balances) • tested a sample of payments after the year end to confirm these were accounted for in the correct period • tested a sample of operating expense transactions in the year to ensure these are accurately accounted for and in the correct period. <p>We did not identify any issues to report.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed accounting estimates, judgments and decisions made by management • tested journal entries • reviewed unusual and significant transactions. <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2016, meeting the 30 September 2016 deadline.

The Council had made progress in drawing forward its closedown timetable. We have worked with the Council throughout the year, to support its improvements in closedown arrangements and working papers and will continue to do so as the finance team make further preparations in readiness for the earlier deadline that will apply for 2017/18.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Audit and Governance Committee on 29 September 2016.

We identified one adjustment which affected the group and Council's reported financial position by £1.4 million, but was limited to earmarked reserves and did not affect the Council's General Fund Reserve. This change reflected an underlying error in the calculation of the accounting estimate required for the provision for appeals to business rates. Due to the nature of the complex accounting entries, the impact of this change upon the financial statements was far reaching, throughout the collection fund, all the primary statements and several supporting notes. Management have corrected for this misstatement along with a number of adjustments to improve the presentation of the financial statements.

We identified one matter that we have asked the Council's management to address for the next financial year. This is to review provisions to ensure that any retained balances are valid liabilities, or whether the balances should be accounted for as earmarked reserves.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider but are discussing with officers how we may work together on improved arrangements next year.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2016, we agreed with the Council that it was important to make progress with the Council's own review of procurement arrangements. Given the sensitivity of this matter, we recommended that, as proposed by officers previously, the Council take this forward by engaging a suitably independent internal auditor to complete a rigorous and thorough review into the procurement matters, liaising appropriately with the Police Senior Investigating Officer on the scope and reporting implications of this work.

Overall VfM conclusion

We are satisfied that in all significant respects Cheshire East Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk as set out in the audit plan	Work carried out	Findings and conclusions
<p>Planning finances</p> <p>The Council has historically managed its finances well and has consistently achieved savings targets. It is on course to achieve a balanced budget for 2015/16. However, following the most recent settlement and changes to the expectation of levels of government grant, the scale of efficiencies and savings required has changed. This is affected by:</p> <ul style="list-style-type: none"> The removal of revenue support grant by 2019/20 but with less certainty about the funding that will arise from business rates retention or the impact of changes to New Homes Bonus The impact of demand led services, such as the cost pressures experienced in Children and Families services and Adult Social Care. 	<p>We reviewed the Council's progress in updating its medium term financial strategy, the outturn position for 15/16 and the budget plans for 16/17 and 17/18. We reviewed reports to members and met with key officers to discuss key strategic challenges and the Council's proposed response.</p>	<p>The Council has a good track record of achieving its financial plans. In 2015/16 the Council reported a modest underspend of £0.5m against its net revenue budget of £246.6m.</p> <p>The Council continues to hold a general fund reserve of £13m, only slightly above the level planned in the 2015/18 reserves strategy. Earmarked reserves have increased by £4.8m, reflecting the use of the earmarked reserves to support service spending and new sums set aside. The overall increase is mainly attributed to the approval of allocations to earmarked reserves for 'Enabling Transformation', 'Financing' and 'Business Rates'.</p> <p>The Corporate Plan 2016-2020 sets out five clear residents based outcomes, underpinned by a sixth outcome based on a responsible and efficient way of working. The Corporate Plan has formed the basis for developing proposals within the Medium Term Financial Strategy (MTFS). The Council has an rolling business planning process and timetable for the update of the MTFS through key stages to set the parameters, prepare business cases and proposals and engage in early consultation. This leads through to the release of the pre budget report in October, providing members and other interested parties with a longer timescale to review and engage in the consultation, well before the budget and associated tax base needs to be approved in February of each year.</p> <p>In February 2015, the Council had identified that it needed to deliver recurrent savings of £13m for 2016/17 and then additional savings of £10.2m in 2017/18. The budget setting process for 2016/17 has moved the Council from this position to a balanced budget for the year. Measures included an increase in council tax of 3.75% (following on from a council tax freeze for five years), savings and efficiencies and a mix of specific policy proposals for each service. The Council also received temporary transitional grant support which it has earmarked to fund 'Invest to Save' schemes, initiative to redesign the way services are provided and reduce costs in the longer term.</p> <p>The Council continues to face deficits in its revenue budget for 2017/18 and 2018/19. As the Council progresses through its planning cycle it further refines the financial assumptions, flexibility in council tax and business rates, its reserves strategy and the options for service delivery. It is working toward preparing an efficiency plan to enable the authority to secure the 4-year fixed funding deal offered by Central Government.</p> <p>The Council has demonstrated a robust planning process, which together with the quality of reporting and scrutiny, means it is well prepared to tackle the financial risks that face it in the medium term.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

Risk as set out in the audit plan	Work to address	Findings and conclusions
<p>Health and social care integration</p> <p>Whilst the Council's financial commitment to the Better Care Fund is not in itself financially significant, the Council's work with its partners towards the sustainability of adult health and social care services is an important step. Working with partners from different organisations and service areas with potentially conflicting priorities, and particular financial challenges means that projects are increasingly complex and high profile.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council was identifying, managing and monitoring these risks.</p>	<p>The Better Care Fund (BCF) partnership arrangement has been established through a formal Section 75 agreement between the Council and Eastern Cheshire Clinical Commissioning Group (CCG) and with South Cheshire Clinical Commissioning Group which provides a sound basis for partnership working and delivery of the £23.9 million BCF for 2015/16.</p> <p>The partnership has established a governance framework that includes a Joint Commissioning Leadership Team and its sub group - Better Care Fund Governance Group. Cheshire East Health and Wellbeing Board is responsible for the ongoing oversight of the delivery of the Better Care Fund plan and whilst not a signatory of the s75 partnership agreement, it has a role in gaining assurance that partners are collectively working together to deliver the plan, implement the national conditions and improve the associated performance measurements.</p> <p>Implementing the BCF in Cheshire East is a further step in bringing health and social care closer together but this needing to work with the wider Caring Together and Connecting Care pioneer programmes which began in 2014. A key achievement in 2015/16 of the pioneer programmes was the work to deliver an integrated digital care record which went live in April 2016. Other BCF schemes have been more challenging, for example the 'integrated community teams' was not implemented on time. The year end report notes that the BCF has forced some difficult issues to be discussed and addressed but that this improved working between health and social care is at a individual level rather than as a whole system wide approach.</p> <p>These arrangements provide a platform for the progress required to be made as part of the Cheshire and Merseyside footprint for the 'Sustainability and Transformation Plan'(STP), through which partners must describe how fully integrated health and social care systems will be achieved by 2020.</p> <p>The Cheshire health economy as a whole continues to face significant financial challenges and there is more to do to deliver sustainable services across health, wellbeing and social care for Cheshire. The year end BCF submission of the Health and Wellbeing Board notes that as resources become more scarce, the willingness of partners to share risks has diminished. The STP requirements and the financial and operational pressures mean that partners need to revisit plans and aspirations and ensure that their arrangements are robust if they are to deliver the required transformation and meet performance and efficiency targets.</p> <p>Overall we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for working effectively with its partners as part of the steps towards the sustainability of adult health and social care services.</p>

Risk as set out in the audit plan	Work to address	Findings and conclusions
<p>Local plan</p> <p>The Local Plan sets planning policies and allocates sites for development. It is the Statutory Development Plan for Cheshire East and is the basis for deciding planning applications. The original plan to guide development up to 2030 was submitted to the Secretary of State for Communities and Local Government in 2014, but required amendment and the Council was going through this process of independent examination. Without this formal planning framework, the Council is more vulnerable to unplanned development, budget pressures, and this poses a risk to its plans for development sites in the right places and stimulate growth in the local economy.</p>	<p>We reviewed the Council's progress to get the Local Plan in place and how the Council is addressing the risks and challenges associated with the delay.</p>	<p>The Local Plan is the Statutory Development Plan for Cheshire East and is the basis for deciding planning applications.</p> <p>Following the suspension of the examination process in 2014, the Council carried out further work to address the issues in the Local Plan Strategy and in August 2015 the local plan Inspector agreed to lift the suspension. There followed a period of additional hearings and the agreement that the next step would be for the Council to prepare a consolidated document which incorporated all of the revisions suggested to date alongside new and amended strategic sites. This document would then be subject to full public consultation.</p> <p>In the meantime, the Inspector provided the Council with further interim views in December 2015. Along with its response the Council provided its timetable for the future progress of examination. Progress was made in line with this timetable and the Council published the proposed changes to the Local Plan Strategy, including changes to policies, supporting text and new and amended site allocations on 4 March 2016 for consultation.</p> <p>Throughout 2015/16 the Council worked to provide a comprehensive set of additional evidence to address the concerns raised by the Inspector in his interim views. Although this process is not yet complete, the subsequent events continue to be in line with the timetable reported to the Inspector.</p> <p>Following consultation in March and April 2016, the proposed changes have been amended accordingly and have now been submitted to the Inspector, along with all the consultation responses. The hearing sessions are due to begin in September 2016.</p> <p>Overall we have sufficient assurance that the Council has made the expected progress towards getting the Local Plan in place.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for sustainable resource deployment</p>

Risk as set out in the audit plan	Work to address	Findings and conclusions
<p>Alternative delivery models The Council commissions services from a range of different delivery models, including companies, the leisure trust and a joint venture for support services that has now been brought to an end. The Council's arrangements to monitor the performance and governance of these 'alternative service delivery vehicles' is important to the effective delivery of its objectives.</p>	<p>We reviewed the project management and risk assurance frameworks to establish how the Council is assured that its objectives are being sufficiently met</p>	<p>The Council's arrangements for the management of performance, finance, programmes and contracts contribute to the upholding of key elements of governance arrangements within these providers.</p> <p>The Council's Commissioning Team are responsible for monitoring the revenue budget and overseeing and managing the contractual agreements and services commissioned to external companies set up by the Council.</p> <p>The wholly owned companies operate under the holding company of Cheshire East Residents First (CERF) Limited. The CERF Board met 4 times in 2015/16 and these meetings are attended by the Chairs and Directors of the CERF Board, along with Chairs and Directors of the subsidiary companies. The Board receives presentations on the financial and operational performance of each company and provides scrutiny and challenge.</p> <p>In the main, the reporting by the different companies is sufficiently detailed to trigger challenge and queries around both financial and qualitative performance. We note the further developments that are to take effect in 2016/17 particularly:</p> <ul style="list-style-type: none"> • Engine of the North – where performance information has been limited and past reporting has focussed on progress to secure capital receipts, however a suite of performance indicators are developed linked to the 2016/17 Business Plan and reflecting on the time, costs and value added by the company's activities. • TSSL – where some detailed reporting is undertaken but where we note there are new contract KPIs introduced to the monitoring framework. <p>Risks around the development of ASDVs and continuous updating of business plans are highlighted within the Council's strategic risk register and subject to continuous monitoring and action.</p> <p>One outcome of the performance monitoring and risk management framework is illustrated by CoSocius being brought to an end. In this case the Council reviewed the performance of the joint venture and assessed that its objectives were not being met and were unlikely to be met in the future without further release of equity. The Council have made the necessary assessment and reached the formal decision, in conjunction with its partner, to end the joint venture and bring the services back in house.</p> <p>This risk links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control. We concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Risk as set out in the audit plan	Work to address	Findings and conclusions
<p>Procurement arrangements The Council has faced some challenges over the robustness of its procurement arrangements. This was the subject of internal audit review and a police investigation into certain related matters is also currently underway.</p>	<p>We met with key officers and Internal Audit to review how the Council is identifying and managing any risks or perceived weaknesses in its controls over procurement.</p>	<p>In order to enhance procurement controls, the Council introduced additional controls for expenditure above £5k to include scrutiny by senior manager and also a programme of checks by IA to confirm that spending was accurate, appropriate, authorised and correctly coded. The testing of the transactions (covered October – December 2014) was published in September 2015, this reached a 'limited assurance' conclusion, and made recommendations to enhance the Council's controls and transparency.</p> <p>Internal Audit reported that a number of whistleblowing referrals were received during 2015/16 that raised concerns around procurement processes. In response, the scope of an internal audit of procurement arrangements was expanded to incorporate the testing of these concerns. This work, which included a review covering compliance with contract procedure rules and the use of WARNs (Waiver Approval Record of Non Adherences) was still taking place in late December 2015 when Cheshire Police launched an investigation regarding alleged misconduct in public office. The internal audit work was paused and remains on hold pending the outcome of the police investigations which are ongoing at this time.</p> <p>The Council has put in place improvements to procurement arrangements which include:</p> <ul style="list-style-type: none"> • improvements to the detail contained in the Corporate Contract Register and arrangements to allow an earlier assessment of those services/functions that need to be re-commissioned • consideration by service management teams to better plan ahead for contract renewals and procurement requirements • All WARN forms are reported to the Audit and Governance Committee for review and challenge • Improvements to the processes for the use of WARNs, to ensure that they include appropriate details and make a clear distinction between waivers and non adherence • introduced and strengthened the operation of the Procurement Board, with membership now including the Council's Portfolio Holder for Corporate Policy and Legal Services and involving business managers to encourage engagement and accountability at a lower level • signing up to a framework contract for the procurement of specialist professional services • reduced threshold of £5,000 for the approval of requisitions • Scrutiny of expenditure above £5,000 by Management Group Board. <p>As part of the Council's efforts to progress improvements to procurement processes, Internal Audit also carried out a review of the Council's contract management arrangements. The recommendations arising from this work cover areas such as contract management training and procedural guidance and actions have been agreed with management.</p>

Risk as set out in the audit plan	Work to address	Findings and conclusions
Procurement arrangements (continued)		<p>We met with the Police Senior Investigating Officer to determine the potential implications of their investigations on our external audit remit. We concluded that it was appropriate for us to issue our VFM conclusion but we highlighted that this was based on the information that was available to us at that time.</p> <p>On that basis we concluded that the Council has proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.</p> <p>As part of our Audit Findings report agreed with the Council in September 2016, we agreed with the Council that it was important to make progress with the Council's own review of procurement arrangements. Given the sensitivity of this matter, we recommended that the Council take this forward by engaging a suitably independent internal auditor to complete a rigorous and thorough review into the procurement matters, liaising appropriately with the Police Senior Investigating Officer on the scope and reporting implications of this work. It was also agreed that the Audit and Governance Committee would contribute to this appointment process. As this is now part of a police investigation, the formal arrangements will need to be agreed and approved by the police.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship.

An effective audit – we delivered the accounts audit by the deadline. Our audit team is knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with ongoing support as you continue to put in place improvements in closedown arrangements and working papers. We will continue to work closely with you to make further progress to enhance your own arrangements, and to prepare full financial statements for the earlier deadline that will apply for 2017/18.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided audit committee updates covering emerging issues and best practice. We have also shared our thought leadership publications which include:

- Better Together: building a successful joint venture company;
- Knowing the Ropes – audit Committee effectiveness review
- Making devolution work: a practical guide for local leaders
- Turning up the volume: the business location index

Providing training and supporting development – we met with finance staff to discuss the changes to accounting standards and the Code of Practice, and emerging issues and future developments, to support officers involved in the preparation of the Financial Statements. We also provided a briefing paper setting out the new requirements for the Narrative Report, that replaces the explanatory foreword in the financial statements. As well as working with CIPFA to present a series of accounts closedown workshops, we provided specific workshops that focussed on the accounting and governance implications of the better care fund and the complex requirements for the accounting for Highways Network Assets.

Working with the Council

Working with you in 2016/17

Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016.

The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure. The Council has to develop new accounting records to support the change in classification and valuation of the HNA. This requires considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

The nature of these changes means that finance officers need to work closely with colleagues in the highways department, which for the Council includes the external provider Ringway Jacobs, and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued three briefings which we have shared with the Council's capital team. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council.

The Council expects that much of the detailed information will be provided by their external contractor. They are using one of the standard toolkits that is endorsed and approved by CIPFA. Nevertheless there is considerable work to be done and it is important that the Council:

- has an implementation plan (in line with LAAP Bulletin 100), monitors progress against this and takes action to keep this on track
- ensures it has sufficient resources and expertise to complete the task
- obtains its own assurance over the processes of Ringway Jacobs
- obtains assurance over the accuracy of the inventory records and particularly how the completeness of those records is being determined.

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues. The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

Working with the Council

We will also continue to work with you and support you through our independent role, over the next financial year. Our focus will be on:

- An efficient audit – working with your finance team and taking an active part in your steering group, to support you as you enhance your close down arrangements and adapting our audit approach
- Improved financial processes – we will focus our work on the significant risk area of highways network asset and the high value risk areas of property, plant and equipment, pensions, operating expenses and employee remuneration
- Understanding your operational health – we will focus our value for money conclusion work on the risk areas, which are likely to include the progress made with your medium term financial plans and your work with partners
Supporting development – through our technical workshops, briefings and our regular liaison with your management and finance team, we will continue to share our insight into emerging issues and the accounting and audit implications
- Support outside of the audit – we can call upon our advisory team at any time to support you. One area that is of interest to you is our analysis tool, CFO Insights, which provides our subscribers with focussed insight on financial performance, socio-economic context and service outcomes, to help you to develop and support financial decisions.

We will also review the progress and the outcome of the Internal Audit work into procurement arrangements. We will liaise with the Police Senior Investigating Officer about the progress of their work and continue to consider the implications upon our audit. We will continue to have regard to this in determining when the audit for 2015/16 may be certified as closed.

Appendix A: Reports issued and fees

We report below our fees charged for the audit and provision of non-audit services. Cheshire East Council has established a series of arms length companies to provide services. The Boards of each of these companies have appointed Grant Thornton UK LLP as their external auditors. The financial results of these affiliates are consolidated into the Council's group accounts in 2015/16. As we are responsible for reporting on the group accounts, it is appropriate to report the fees for audit and other services provided to the Companies, to the Council's Audit and Governance Committee.

External Audit Fees

	£
Council external audit (see below)	154,590
Grant Certification (see below)	16,608
Council audit fees (excluding VAT)	171,198
External audit fees for the wholly owned companies	
• Engine of the North Limited	6,400
• ANSA Environmental Services Limited	12,000
• Orbitas Bereavement Services Limited	6,400
• Transport Service Solutions Limited	10,250
• Civicance Limited	6,250
External audit of CoSocius Limited (Cheshire East Council has 50% share)	13,500
Total audit fees (excluding VAT)	225,998

Our work on Whole of Government Accounts has just been brought to a close and we will consider the impact of this extended work upon the proposed fee.

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. The actual fee for grant certification is not yet finalised as this work is not complete.

Any proposed amendments will be discussed with the Chief Operating Officer and must also be approved by PSAA Ltd.

Fees for other services

Audit related services	£
Reasonable assurance report for teachers pension return (November 2015)	4,800
Reasonable assurance report for Local Authority Major Transport Scheme return 2014/15 submitted May 2016	5,000
Non audit related services	£
Employment taxes helpline service August 2015 – January 2016	1,250
Additional services provided to the Cheshire East Companies for 2015/16:	
• Tax compliance services for 5 wholly owned companies	7,500
• Tax compliance service for CoSocius	2,300
• VAT work for Orbitas - ongoing	TBC

Reports issued

Report	Issued
Audit Plan	March 2016
Informing the Risk Assessment	March 2016
Audit Committee Update	June 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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CHESHIRE EAST COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 8th December 2016
Report of: Chief Operating Officer
Subject/Title: Certification Report 2015/16
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 2015/16 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

- 7.1 As covered in the report.

8.0 Legal Implications

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

9.0 Risk Management

- 9.1 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 2015/16 housing benefit subsidy claim. The fee associated with the certification work is £16,608, which is consistent with the planned fee.
- 10.2 In addition, Cheshire East Council are required to obtain reasonable assurance reports on their annual Teachers Pension return and on the capital grant expenditure claim S31 AUD form for Local Transport Plan Major Projects 2015/16 (for year ending 31 March 2016). Grant Thornton has provided these reports, in accordance with the terms of their contract and the Terms of Engagement. The associated fees are £4,800 and £5,000 respectively. Both reports were unqualified and completed in accordance with the deadline.

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 2015/16 for Cheshire East Council



Grant Thornton

Peter Bates
Chief Operating Officer
Cheshire East Council
Westfields
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28 November 2016

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Dear Peter

Certification work for Cheshire East Council for year ended 31 March 2016

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 2015/16 Housing Benefits Subsidy claim has now transferred to Public Sector Audit Appointments Limited (previously prescribed by the Audit Commission) which agreed the scope of the work with the Department for Work and Pensions, and issued auditors with a Certification Instruction.

The indicative scale fee for this work was set by the Audit Commission and the fee for the Council for 2015/16 is £16,608. This was based on 2013/14 certification fees, reduced by 25 per cent, in line with the reduction also applied to the main audit fee. The amount of work required by the auditor to certify the housing benefit subsidy claim is consistent with that in the 'base' year and so there is no variation from the planned fee.

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 amendments 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 2015/16

Claim or return	Value of claim submitted to audit	Amended?	Amendment (£)	Value of certified claim	Qualified?	Comments
Housing benefits subsidy claim	Total subsidy claimed £82,115,389	Yes	Increase in total subsidy claimed £14,837	Total subsidy claimed £82,130,226	No	The amendment relates to classification adjustments required to the claim that were identified by the Council through its own enquiry procedures but that had not been actioned at the time that the draft claim was required to be submitted.

CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	8 December 2016
Report of:	Chief Operating Officer
Subject/Title:	Draft Treasury Management Strategy and MRP Statement 2017/18
Portfolio Holder:	Councillor Peter Groves

1. Report Summary

- 1.1. The purpose of this report is to update Members on the contents of the Council's Treasury Management Strategy for 2017/18.
- 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 2017/18 are for the Council to:
 - Retain capital financing costs within an affordable limit of c.£14m
 - Not enter into any external long term borrowing in 2017/18
 - Take an appropriate approach to risk if short term loans are required, by only borrowing from lenders identified in the strategy
 - Maintain security of investments by only using counterparties detailed 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 Treasury Management Strategy will be updated with the final capital programme before being reported to Cabinet on 7th February 2017 and then on to Full Council for approval on 23rd February 2017.

2. Recommendation

- 2.1 To receive and comment on the proposed Treasury Management Strategy and the MRP Statement for 2017/18 set out in Appendix A.

3. Other Options Considered

- 3.1. None

4. Reasons for Recommendation

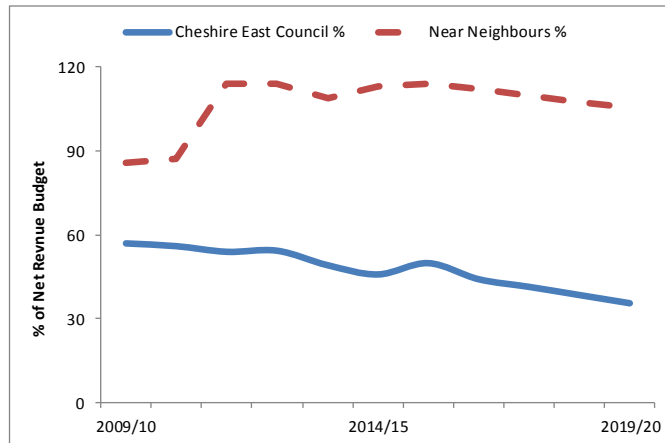
- 4.1. The report presents the 2017/18 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2017/20, required under Part 1 of the Local Government Act 2003.
- 4.2. The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2017/18. The Strategy for 2017/18 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.
- 4.3. 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.

5. Background/Chronology

- 5.1. 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.
- 5.2. 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.
- 5.3. A major influence on the money markets during 2016/17 has been the result of Brexit and the decision by the Bank of England to reduce the base rate to a new all time low of 0.25%. Brexit has created uncertainty and the subsequent reduction in base rates will affect future returns. However, all other factors remain the same and investments will continue to be made in line with current strategies. This will, of course, be kept under review but until more is known about the arrangements post Brexit, there is unlikely to be any significant change.

- 5.4. Over the past year, the Council has reduced the credit risk of its investments by utilising higher rated counterparties, secured bonds and UK Public sector investments (e.g other Local Authorities). Through selective use, the overall level of return on our investments has been maintained. This process will continue in 2017/18 with interest returns expected to be better than, or equivalent to, the alternative liquid investments such as money market funds where returns are gradually diminishing.
- 5.5. The Council remains committed to delivering appropriate levels of capital investment to support service improvement and local economic growth, which increases the importance of sound Treasury Management Strategy in the medium term. The current strategy is to ensure that investment in capital schemes is sustainable by controlling the consequential impact on the revenue account and council tax levels, ensuring good value for money to local businesses and residents.
- 5.6. The Council has continued its policy of utilising existing cash balances instead of taking out new long term loans in order to fund capital expenditure. This has meant that the loans portfolio has reduced as loans have been repaid.
- 5.7. At 31 March 2016 the Council had an underlying need to borrow of £225m. By having just £110m of long-term loans outstanding at that time the Council was using £115m of cash balances represented by its reserves, balances and the excess of creditors over debtors to temporarily fund capital expenditure payments. This position (i.e., where the amounts of loans outstanding is less than the underlying need to borrow) is referred to as internal borrowing.
- 5.8. It is the usual practice to have high levels of internal borrowing at a time when short term interest rates are below long term interest rates. This strategy helps reduce the net cost of interest payable to the Council as it avoids having to pay interest on new loans between 2-3% whilst only earning on average 0.75% on any cash balances held.
- 5.9. The Council currently has external borrowing of £106m. The amount of interest paid on the Council's portfolio of long term loans is mainly at fixed rates of interest (circa 3.9%). Currently long term interest rates are around 3.1%.
- 5.10. Since 1 April 2009 the level of external debt has reduced by £31m from £137m. As a percentage of the net revenue budget this is lower than the Council's nearest neighbours.

Chart 1 - Long term borrowing as a percentage of net revenue budget continues to reduce due to ongoing repayments



5.11. The rate of interest to be earned on the Council's cash balances that are temporarily invested is budgeted to be £0.3m.

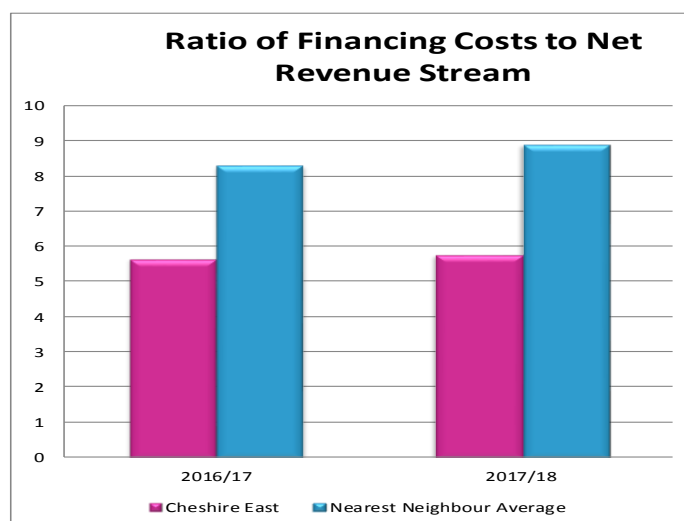
5.12. The capital financing budget is at a very prudent level of £14m, 5.8% of the 2017/18 net revenue budget. This compares favourably when compared to the Councils nearest neighbours.

Capital Financing Budget 2017/18

Capital Financing Budget	2017/18 £m
Repayment of Outstanding Debt	11.2
Contribution re: Schools Transforming Learning Communities Schemes	-0.9
Interest on Long Term Loans	4.0
Less: Interest Receivable on Cash Balances	-0.3
Net Capital Financing Budget	14.0

Source: Cheshire East Finance

Chart 2 – The revenue cost of the capital programme is lower than the nearest neighbour 'average'.



6. Wards Affected and Local Ward Members

6.1. All.

7. Implications of Recommendation

7.1. Policy Implications

7.1.1. The impact of the Treasury Management Strategy 2016/17 feeds into the assumptions underpinning the 2016/19 medium term financial strategy.

7.2. Legal Implications

7.2.1. 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.

7.3. Financial Implications

7.3.1. 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.

7.4. Equality Implications

7.4.1. Not applicable.

7.5. Rural Community Implications

7.5.1. Not applicable.

7.6. Human Resources Implications

7.6.1. Not applicable.

7.7. Public Health Implications

7.7.1. Not applicable.

7.8. Implications for Children and Young People

7.8.1. Not applicable.

7.9. Other Implications (Please Specify)

7.9.1. Not applicable.

8. Risk Management

- 8.1. The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.
- 8.2. 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.
- 8.3. 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.
- 8.4. The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

9. Access to Information/Bibliography

9.1 *CIPFA Capital Finance – The Prudential Code (2013 Edition)*

CIPFA Treasury Management in the Public Services – Code of Practice

Guidance and information provided by Arlingclose can be accessed via the Treasury Management team, Financial Strategy & Reporting.

10. Contact Information

Contact details for this report are as follows:

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Appendices:

*Appendix A – Draft Treasury Management Strategy Statement & Investment Strategy
2017/18 – 2019/20*

Treasury Management Strategy Statement and Investment Strategy 2017/18 to 2019/20



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 2.10)
- B. Existing Investment & Debt Portfolio Position (Section 3.1)
- C. Prudential indicators
- D. MRP Statement 2017/18

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.
- 1.5. **Revised strategy:** In accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

2. External Context

- 2.1 **Economic background:** The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.
- 2.2 The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.
- 2.3 Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.
- 2.4 Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.
- 2,5 The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution

(December 2016), the French presidential and general elections (April - June 2017) and the German federal elections (August - October 2017) have the potential for upsets.

- 2.6 **Credit outlook:** Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.
- 2.7 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 European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. 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 continue to fall.
- 2.8 **Interest rate forecast:** The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive, but although a low probability, this cannot entirely be ruled out later in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.
- 2.9 Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.
- 2.10 A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at **Annex A**.
- 2.11 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.75%.

3. Local Context

- 3.1 The Authority currently has borrowings of £m and investments of £m. 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

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m	31.3.20 Estimate £m
General Fund CFR					
Less: Other long-term liabilities *					
Borrowing CFR					
Less: External borrowing **					
Internal (over) borrowing					

Less: Usable reserves					
Less: Working capital					
Investments (or New borrowing)					

* 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 £m 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 2017/18.

4. Borrowing Strategy

- 4.1 The Authority currently holds loans of £106m which are reducing by £6m per 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 modestly. 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 2017/18 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 2017/18, 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 to cover unexpected or planned temporary 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
 - Salix Finance Ltd energy efficiency loans
- 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 **Municipal Bond Agency:** UK Municipal Bonds Agency plc 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 will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; 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 £23m and £94m. 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 If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
- 5.4 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to continue to diversify into more secure and/or higher yielding asset classes during 2017/18. This is especially the case for any longer-term investment. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits and money market funds. This diversification will therefore represent a continuation of the new strategy adopted over the last few years.
- 5.5 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
None	£1m 6 months	n/a	£12m 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.

- 5.6 **Credit Rating:** Investment limits are set 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. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
- 5.7 **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.
- 5.8 **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.
- 5.9 **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.
- 5.10 **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.
- 5.11 **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 the likelihood of receiving government support if needed.
- 5.12 **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.
- 5.13 **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.
- 5.14 **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.

- 5.15 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.
- 5.16 **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.
- 5.17 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.
- 5.18 **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”.
- 5.19 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.
- 5.20 **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

- 5.21 **Investment Limits:** The Authority's revenue reserves available to cover investment losses are forecast to be £84m on 31st March 2017. In order that no more than 15% 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, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

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)

- 5.22 **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:

	2017/18	2018/19	2019/20
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:

	2017/18	2018/19	2019/20
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 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 £ 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 2017/18 is £300,000, based on an average investment portfolio of £40 million at an interest rate of 0.75%. The budget for debt interest paid in 2017/18 is £4 million, based on an average debt portfolio of £99 million at an average interest rate of 4%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Annex A - Arlingclose Economic & Interest Rate Forecast

Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

[illegible]

Annex B

Existing Investment & Debt Portfolio Position

	31/10/16 Actual Portfolio £m	31/10/16 Average Rate %
External Borrowing:		
PWLB - Fixed Rate	86	3.85%
PWLB - Variable Rate	0	-
Local Authorities	0	-
LOBO Loans	17	4.63%
Other	3	-
Total External Borrowing	106	3.87%
Other Long Term Liabilities:		
PFI	25	-
Finance Leases	5	-
Total Gross External Debt	136	-
Investments:		
<i>Managed in-house</i>		
Short-term investments:		
Instant Access	33	0.32%
Notice Accounts	8	0.77%
Fixed Term Deposits	7	0.63%
Certificates of Deposit	4	0.82%
Covered Bonds	7	0.80%
<i>Managed externally</i>		
Fund Managers	12	0.66%
Property Funds	8	4.75%
Total Investments	79	0.96%
Net Debt	57	-

Annex C

Prudential Indicators revisions to 2016/17 and 2017/187 - 2019/20

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.

The key feature of the prudential system is that councils should determine the level of their capital investment - and how much they borrow to finance that investment - based on their own assessment of what they can afford, not just for the current year but also for future years.

Individual authorities are responsible for deciding the level of their affordable borrowing. Prudential limits apply to all borrowing, qualifying credit arrangements and other long-term liabilities - whether supported by government or entirely self-financed. The system is designed to encourage authorities that need and can afford to undertake capital investment to do so.

In considering the affordability of its capital plans, the authority is required to consider all of the resources currently available to it/estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years. The authority is also required to consider known significant variations beyond this timeframe.

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 2016/17, 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.

3.2 Capital expenditure will be financed or funded as follows:

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.

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.

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.

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.

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 cash flow 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.

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 31/10/16	2016/2017 Approved	2016/2017 Revised	2017/2018 Estimate	2018/2019 Estimate	2019/2020 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 2017/18.

Maturity structure of fixed rate borrowing	Level as at 31 st March 2017 (based on Current Borrowing) %	Lower Limit for 2017/2018 %	Upper Limit for 2017/2018 %
under 12 months	23%	0%	35%
12 months and within 24 months	6%	0%	25%
24 months and within 5 years	11%	0%	35%
5 years and within 10 years	0%	0%	50%
10 years and within 20 years	26%	0%	100%
20 years and within 30 years	9%	0%	100%
30 years and within 40 years	23%	0%	100%
40 years and within 50 years	2%	0%	100%
50 years and above	0%	0%	100%

Source: Cheshire East Finance

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 2017/18

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

For capital expenditure incurred before 1st April 2008 and for supported capital expenditure incurred on or after that date, MRP will be determined as 4% of the Capital Financing Requirement in respect of that expenditure. (*Option 2 in England & Wales*)

For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments or as the principal repayment on an annuity with an annual interest rate of **5.1%**, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. (*Option 3 in England and Wales*)

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

CHESHIRE EAST COUNCIL

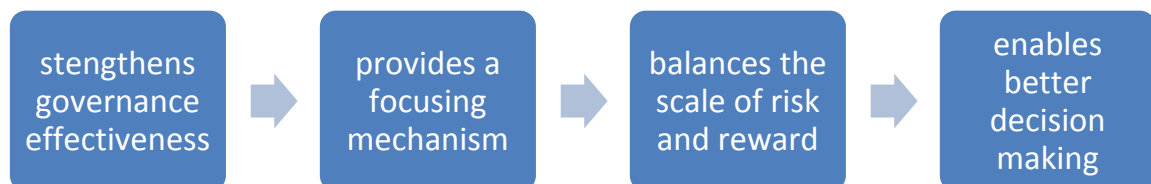
AUDIT AND GOVERNANCE COMMITTEE

Date of meeting: 8 December 2016
Report of: Bill Norman, Director of Legal Services
Title: Risk Management Update Report
Portfolio Holder: Councillor David Brown

1.0 Report Summary

1.1 The purpose of this report is to provide the Audit and Governance Committee with a summary of recent risk management work so that it may undertake an independent review of the Council's governance, risk management and control framework.

1.2 A strong risk management framework:-



1.3 At a time of constant change and austerity, when managers are dealing with competing demands, it is possible to miss risks that arise suddenly or unexpectedly. A risk is concerned with a threat or a possible future event which will adversely or beneficially affect the Council's ability to achieve its objectives. Through risk identification we anticipate eventualities and it helps us to respond to changes in need. Consideration and response to existing and new threats, and the ability to recognise and seize new opportunities, is fundamental to achieving the Council's desired outcomes in the Corporate Plan 2016-20.

1.4 This report also provides Audit and Governance with a summary of most significant threats and opportunities that may prevent or assist with the achievement of the Council's desired outcomes.

2.0 Recommendation

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

3.0 Reasons for Recommendations

3.1 The Council must be able to demonstrate effective risk management and internal control systems. Such systems cannot eliminate all risks, but it is the role of Audit and Governance Committee to provide independent assurance that they are robust and effective and take account of the corporate risks the Council is willing to take to achieve its strategic outcomes, and for ensuring that an appropriate risk culture is in place.

3.2 Learning from risk management judgements gives us a key competitive advantage enabling our leaders and managers to act proactively on their accountabilities, and facilitate strategic thinking so that we are more able to mitigate threats and exploit opportunities to enable innovation and provide better value for public money.

3.3 The benefit of a strong risk management framework from a governance viewpoint is that it embraces risk perspectives from across the whole organisation and gives a greater level of

confidence that management have properly and adequately fulfilled their responsibility in operating an effective system of internal control. This in turn gives confidence to Members, Officers and Partners to support a higher appetite for risk, at a time when major change is necessary and desirable.

4.0 Cheshire East Council Corporate Plan 2016-20 – Corporate Risk Update

4.1 Achievement of the Council Corporate Plan brings both risk challenges and opportunities. Cabinet and the Corporate Leadership Team work to ensure that the vision, culture and organisational structure are fully aligned, as the Council works as one to increase efficiency and undertakes major programmes to innovate as effectively and cost efficiently as possible. Against the backdrop of continued fiscal austerity, the Council is looking to the future with a sense of confidence in its ability to deliver on an ambitious agenda, whilst recognising that priorities change over time and that the Council must therefore be flexible in its approach to providing services and achieving its outcomes.

4.2 However, as we look to 2020, there will also be new risks arising:-

- ✗ from the shift from grant funding to a reliance on self-funding and in rethinking sources of income
- ✗ from a focus on delivering outcomes rather than services alone
- ✗ from the need for reinvestment in resources and services, ranging from health and social care to education and infrastructure
- ✗ from the potential and power of digital and data to transform services and engage businesses, residents and communities

and opportunities arising:-

- ✓ from devolution to deliver both growth and whole system reform
- ✓ from influencing debate on legislative agendas
- ✓ from new collaborations across the public and private sector
- ✓ from ambitious regeneration projects to stimulate local growth

4.3 The Council needs to ensure that it has the risk capacity and capability to match its ambition and to manage new and existing risks. Work on the risk management framework to date includes:-

- An updated Risk Management Policy Statement and Strategy
- A framework of procedures
- Risk Registers held by all Teams/Departments
- A “Bottom Up” and “Top Down” approach to risk registers
- Work in progress on top risks being escalated and monitored through Directorate Risk Registers

4.4 The tables below inform the Audit and Governance Committee on progress against the corporate risks. Attached at **Appendix A** is a more detailed definition of these risks including the Risk Owner, Cabinet Strategic Lead, and comments on the net risk rating. **Appendix B** shows a heat map of the threats and opportunities.

Table 1: 4 Highest Rated Corporate Risks

Ref	Type	Risk Title	Rating	Direction
CR1	Threat	Increased Demand for People Services	12 High	↑
CR2	Threat	NHS Funding and Sustainability and Transformation Plan (STP) Impact	12 High	↑
CR3	Threat	Financial Resilience	12 High	↔
CR4	Threat	Contract and Relationship Management	12 High	↔

Table 2: Risk Watch List

Ref	Type	Risk Title	Rating	Direction
CR5	Threat	Information Security and Cyber Threat	9 Medium	↑
CR6	Threat	Countering Fraud and Corruption	6 Medium	↔
CR7	Threat	Cheshire East Local Plan Adoption	9 Medium	↔
CR8	Threat	Community Cohesion	8 Medium	↔
CR9	Threat	Increased Major Incidents	6 Medium	↔
CR10	Threat	Business Continuity	6 Medium	↔
CR11	Threat	Employee Engagement and Retention	6 Medium	↔

Table 3: Opportunity Risks

Ref	Type	Risk Title	Rating	Direction
CRO1	Opportunity	EU Exit, Single Market and Local Growth	6 Medium	↔
CRO2	Opportunity	Devolution	9 Medium	↑
CRO3	Opportunity	Partnership Working	12 High	↑
CRO4	Opportunity	Regeneration Funding	12 High	↑

- 4.5 The Audit & Governance Committee may consider receiving a short briefing at future meetings from the Risk Owners / Managers of the highest corporate risks. (For this purpose,

short briefing means attending the meeting and being able to talk through the risk to explain the risk and controls.)

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

5.0 Wards Affected and Local Ward Members

- 5.1 Risk management is inherent in everyone's role and responsibilities but no specific ward members have been consulted on this report.

6.0 Implications of Recommendation

- 6.1 **Policy:** Risk management is integral to the overall management of the authority and, therefore, key policy implications and their effective implementation are considered within team and department risk registers and as part of the risk management framework.

- 6.2 **Financial:** There are no financial implications in relation to this report. However, a risk around financial resilience is included as a corporate risk and general reserves are focused on the Council's potential exposure to risk. In addition, where a particular area has been identified as specific risk or investment opportunity, then an amount will be earmarked for that specific purpose as part of the Medium Term Financial Strategy (MTFS) process.

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

7.0 Risk Management

- 7.1 This report relates to overall risk management; the Audit and Governance Committee should know about the most significant risks facing the Council and be assured that the risk management framework is operating effectively. The content of this report aims to achieve the following risk objectives:-

Key Risks
That Cheshire East Council properly develops, implements and demonstrates an effective risk management framework
That Cheshire East Council applies its risk management policy consistently across the Council
That Cheshire East Council recognises risks and makes correct decisions to tolerate, treat, transfer or terminate threats or to exploit, share, enhance or ignore opportunities

8.0 Access to Information/Bibliography

8.1 Risk Management Policy Statement and Strategy

The updated Risk Management Policy was approved by Cabinet at its meeting on 10 February 2016. The background papers relating to this report can be inspected by contacting the report writer:

Name: Bill Norman
 Designation: Director of Legal Services
 Tel No: 01270 685850
 Email: bill.norman@cheshireeast.gov.uk


Top 4 Corporate Risks

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR 1 Threat	Increased Demand for People Services (Cause) Risk that Cheshire East's local social, economic and demographic factors lead to an increase in the level of need and demand for adults and children's care services, (threat) such that the capacity of the Council's systems in these areas is unable to continue to absorb the pressures, (impact) resulting in a possible lack of continuity of social workers/service providers, unmet need, potential safeguarding issues, and difficulty in achieving the Council's outcomes that people live well and for longer, and have the life skills and education they need to thrive.	Executive Director of People	Joint: Portfolio Holder, Adult Care and Integration Portfolio Holder, Children and Families	12 High ↑	Likelihood of this risk occurring has been scored as 'likely' as it is known that both adult demand, and children's demand is increasing alongside population growth, and longer life expectancy for both adults and children with complex needs. Taking a prudent approach to the risk scoring, if the increase in demand was significant the impact of this risk if it were to materialise could be critical with possible safeguarding issues due to the nature of the service delivery areas. Further work is planned to mitigate the impact of this risk in both service areas but presently the net score is 12 high risk.
CR 2 Threat	NHS Funding and STP Impact (Cause) Risk that due to the financial deficit in the NHS, the five-year Sustainability and Transformation Plan (STP) to reshape the delivery of NHS services across the wider region, may cause a reduction in Cheshire East Council shared service delivery and NHS service delivery, (threat) shifting costs and demand which places additional strain on Council resources (impact) resulting in unmet need and potential difficulty in achieving the Council's outcomes that people live well and for longer and local communities being strong and supportive.	Executive Director of People	Joint: Portfolio Holder, Communities and Health Portfolio Holder, Adult Care and Integration	12 High ↑	The STP is being drawn up on a regional basis and the likelihood of this risk occurring has been scored as 'likely' because there are significant financial issues to be addressed. If this results in a shift in costs and demand to the Council this could have a critical impact on the achievement of the corporate outcomes and performance, with long term high costs. Further work is planned to mitigate the likelihood and impact of this this risk through joint scrutiny work. The net score is presently 12 high risk.



Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR 3 Threat	Financial Resilience (Cause) The reduction in funding from Central Government means the Council projects significant funding gaps over the next four years, (threat) there is a possibility that the Council does not adapt its financial plans in sufficient detail quickly enough, either by deferring the difficult decisions about services, using over-optimistic planning assumptions, or not rethinking sources of income. This may result in (impact) difficulties in closing and managing the budget gaps, financial stress and may impede the Council's ability to meet its statutory requirements, and deliver all of its intended outcomes and objectives in full.	Chief Operating Officer	Portfolio Holder, Finance and Assets	12 High ↔	This risk is not exclusive to Cheshire East, and is presently a national risk for local government although Cheshire East is in a significantly better position than many other local authorities. The Council's financial plans focus on meeting increasing demand for expenditure on services, particularly in social care, with a strategy of local taxation and tax base growth alongside efficiency and productivity savings. As such the overall net risk rating is 12, high risk and will require constant monitoring.
CR4 Threat	Contract and Relationship Management: (Cause) Risk that the Council does not improve the effectiveness of its contract management arrangements, including skilled staff, to manage contracts and ongoing relationships with the Council's providers, in a timely manner (Threat) such that contractual arrangements may not be robustly specified, or that they fail to deliver expected outcomes and/or within contracted costs and/or within expected timescales and/or fail to comply with contract agreements. (Impact) This will affect the Council's ability to achieve all of its priorities and outcomes, realise agreed savings to ensure better value for money, and may have a detrimental effect on the Council's reputation for failing to deliver on our promises.	Chief Operating Officer	Portfolio Holder, Corporate Policy and Legal Services	12 High ↔	The Council has a significant number of large value and service critical contracts with public, private and voluntary organisations. A recent audit of this area has resulted in a number of recommendations to improve the effectiveness of this control area with specified timescales. When this mitigation has been fully implemented and embedded this should reduce both the likelihood and impact of this risk. Presently the net risk rating is 12 high risk.


Corporate Risks – Watch List

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR5 Threat	Information Security and Cyber Threat (Cause) Risk that as the Council continues to move towards using new technology systems to reduce costs and fulfil communication, accessibility and transaction requirements, (threat) it becomes increasingly at risk of a security breach, either malicious or inadvertent from within the organisation or from external attacks by cyber-criminals. (Impact) This could result in many negative impacts, such as distress to individuals, legal, financial and reputational damage to the Council, possible penetration and crippling of the Council's IT systems preventing it from delivering its Corporate Outcomes.	Chief Operating Officer	Portfolio Holder, Finance and Assets	9 Medium ↑	The Council handles large quantities of data on a daily basis and receives a large amount of emails, around 54 million this financial year. Of this volume 76% is malware, viruses or spam. The risk of a security breach of some nature is 'likely', the likelihood of this risk is increasing globally as the number of incidents of corporate and public sector bodies having their IT systems hacked and data being stolen is rising. Existing mitigation controls reduce the likelihood, the Council has a number of technologies to reduce the risk of infection; this approach is known as layered defence or defence in depth so that if the infection evades one technology then others will stop any incursion but this is a constantly changing digital arena. If the risk materialises there is the potential of a 'major' impact on the corporate plan which may affect services in one or more areas for a short period and so the net risk rating is 9 Medium risk and is on the 'watch' list.

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR6 Threat	Countering Fraud and Corruption: (Cause) Risk that the Council fails to have proper, adequate, effective and efficient management arrangements, policies and procedures in place to mitigate the risk of fraud and corruption, particularly in a time of financial austerity, (threat) such that public money is misappropriated. (Impact) This would result in a loss of funds to the Council, have a detrimental effect on services users, a negative impact on the Council's ability to achieve all of its priorities, value for money, and may have a negative impact on the Council's reputation.	Chief Operating Officer	Portfolio Holder, Finance and Assets	6 Medium 	In line with CIPFA Code of Practice guidance, the Council's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users. Although the Council has a robust anti-fraud and corruption framework, as the Council commissions and lengthens its supply chain with uncertainty of the level of controls and assurance arrangements within the chain, the likelihood of this risk is increased. Alongside this, change of key personnel due to the organisational restructuring may also increase the risk of unexplained or suspicious expenditure. The impact of this risk should it occur is a 3 'significant' as the amount of funds at risk could be significant and jeopardise financial resources to achieve the outcomes. As the Council's maturity levels increase in this area the risk should reduce, at present, the overall net risk rating is 6 medium risk and is on the 'watch' list.

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR7 Threat	Cheshire East Local Plan Adoption: (Cause) Risk that there are delays to the adoption of the Cheshire East Local Plan Strategy, (threat) resulting in further delays to the planning framework, (impact) leaving Cheshire East vulnerable to unwanted development, budget pressures, loss of public and government confidence, and impacting upon Cheshire East's ability to provide the right type of housing and development sites in the right places and stimulate growth in the local economy affecting the achievement of all of the Council's outcomes.	Executive Director of Place	Portfolio Holder, Housing and Planning	8 Medium ↔	Whilst we have made this a corporate priority, put in substantial additional resource and followed all the guidance we can, the examination of the Strategy itself is outside of our control and we are unable to mitigate this risk completely, as such the likelihood of this risk has been scored as 2 'Unlikely'. The impact of this risk on the Council's outcomes is critical and therefore is scored at 4. The net risk rating is therefore an 8 Medium Risk and is on the 'watch' list whilst we await an outcome.
CR8 Threat	Community Cohesion: (Cause) Risk that low socio economic status (including job insecurity, poor quality employment, housing and health inequalities); negative national political attitudes towards social groups, and ethnic diversity, in some parts of Cheshire East (threat) creates perceptions of unfairness, rumour and animosity, affecting community cohesion and resilience, (impact) impacting upon the Council's ability to ensure that all of its local communities are strong and supportive, that people live well and for longer and that Cheshire East is a green and sustainable place.	Executive Director of People	Portfolio Holder, Communities and Health	6 Medium ↔	The likelihood of this risk occurring just falls into the likely category because of the number of areas of deprivation in Cheshire East and experience of some recent minor incidents. The impact on the Council objectives could be significant if the risk materialised as there could be material costs to restoring cohesion. As such this risk is a 6 Medium Risk and is on the 'watch' list.

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR9 Threat	Increased Major Incidents (Cause) Risk that there is a lack of capacity, planned reserves and resources to deal with an increased frequency and severity of major environmental incidents which affect Cheshire East (e.g. extreme weather events, flooding, sinkholes, fire incidents, chemical incidents, dangerous structures, pandemic, or deliberate incidents such as terrorist acts) such that (threat) the Council needs to shift capacity and resources away from day to day operational activity and may be unable to sustain an effective response or to act in a timely manner alongside emergency partners, (impact) resulting in potential public safety issues and a reduced level of achievement across all of its intended outcomes.	Executive Director of Place	Portfolio Holder, Highways and Infrastructure	6 Medium 	<p>The net risk rating for this risk is 6 medium. Whilst it is unlikely that there will be a significant increase in the number of severe incidents this is outside of our control and if this was to materialise the impact on the Council's objectives would be major.</p> <p>There have been a number of major incidents recently that the Council has responded well to (e.g. Bosley incident, Poynton flooding, and Big Mill Congleton) which highlight this risk for inclusion on the 'watch' list and the risk score will be reviewed if and when any further incidents occur.</p>
CR10 Threat	Business Continuity (Cause) Risk that an internal or external incident occurs which renders the Council unable to utilise part or all of its infrastructure (such as buildings, IT systems etc) such that (threat) the Council is unable to deliver some, or in extreme cases all of its services and (impact) putting residents at risk for a period of time and resulting in a reduced achievement of Corporate Plan outcomes over the longer period.	Chief Operating Officer	Portfolio Holder, Policy and Legal Services	6 Medium 	<p>The net risk rating is 6 medium.</p> <p>Whilst the majority of incidents are outside of the Council's control this risk remains unlikely but could have a major impact if it materialised.</p> <p>Contingency planning to reduce the impact requires improvement and so this risk is on the 'watch' list.</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR11 Threat	Employee Engagement and Retention (Cause) Risk that as demand increases and resources decrease, the Council's most skilled and experienced staff may feel under more pressure and become less engaged, and (threat) because of the specialist nature of some of the roles, the Council is less able to recruit and retain core professional employees (e.g. social workers, solicitors and planners). This may result in (impact) high recruitment costs and loss of talent and organisational knowledge which may have a damaging impact on service users and the Council being unable to fully deliver across all of its outcomes.	Chief Operating Officer	Portfolio Holder, Policy and Legal Services	6 Medium 	Whilst the employee engagement score has increased, the Council recognises that retention of skilled staff remains a threat and is an area it needs to keep improving. Increase in demand with fewer resources is likely and may impact on core areas which could be significant. This risk is a medium risk and is on the watch list.

Corporate Risks – Opportunity Risks



Ref & Type	Risk Description (Including cause, opportunity and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CRO 1 Opp'ty	EU Exit, Single Market and Local Growth (Cause) Keeping abreast of discussions about exiting the EU and access to the single market means that the Council can anticipate which areas are going to be significantly affected in Cheshire East e.g. changes in demand, changes to economic sectors, including the rural economy, and the labour market in the local area, significant impacts on local companies, possible successor regional aid funding schemes, changes to state aid and procurement laws. (Opportunity) This creates an opportunity to seize the initiative and influence the debate on the new UK legislative agenda for how a new regime should be shaped, including more entrepreneurial models that (impact) may benefit Cheshire East's local economy and local growth.	Executive Director of Place	Portfolio Holder, Regeneration	6 Medium ↔	<p>Note that risk scoring for opportunities is the opposite way around to threats so a better risk outcome is to travel towards a higher score.</p> <p>The likelihood of this risk is presently unlikely as this is a possible opportunity which has yet to be fully investigated by management.</p> <p>The impact is relatively unknown but could be significant to Cheshire East's rural and local economy.</p> <p>The net risk rating is 6 Medium Risk and is worth further investigation.</p>

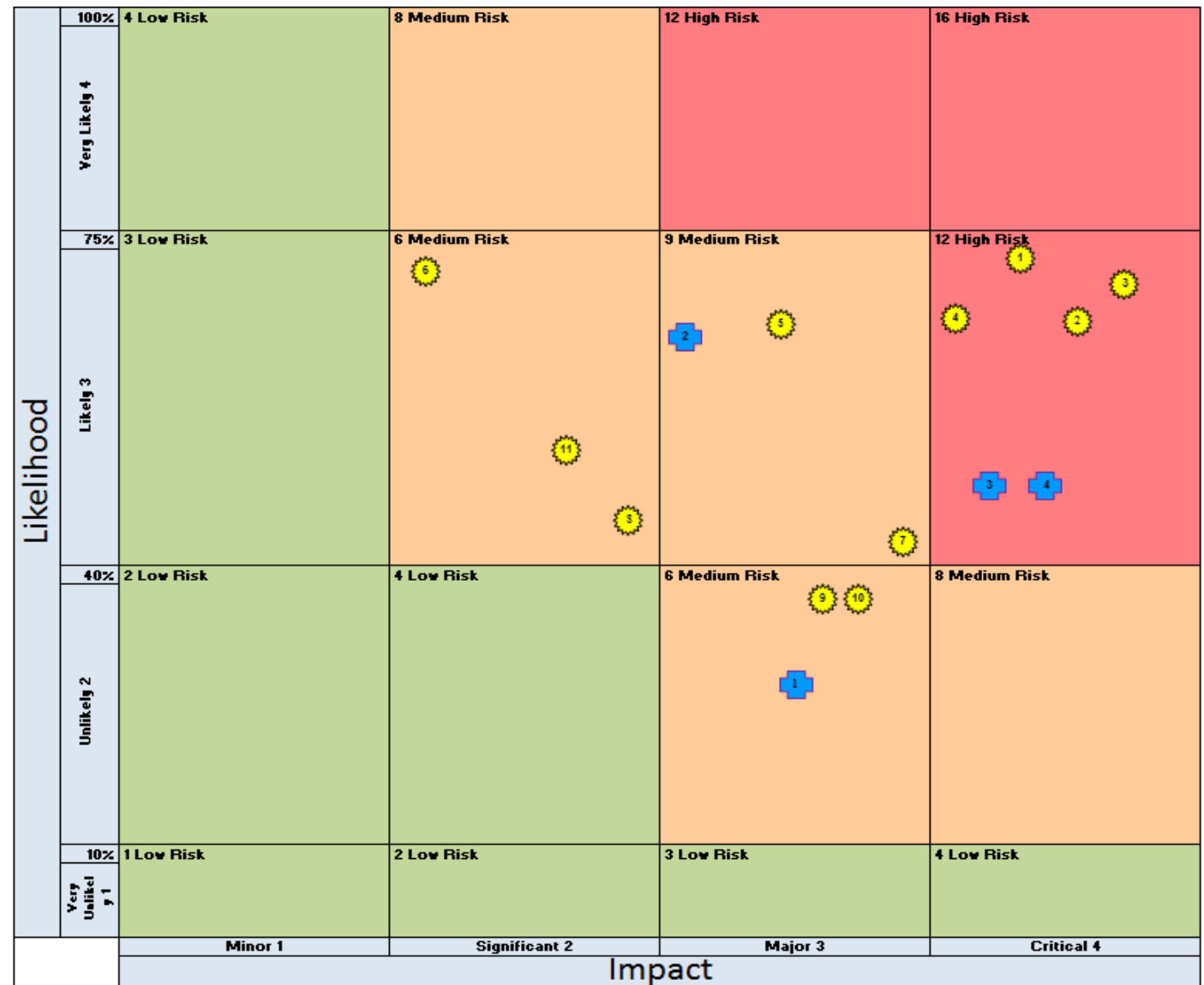
Ref & Type	Risk Description (Including cause, opportunity and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CRO 2 Opp'ty	Devolution (Cause) Central Government has been working with various cities and sub-regions to achieve devolution of powers and funding from central government to local areas which presents an opportunity for Cheshire East to (opportunity) work with key partners to bring an informed, coherent and persuasive case to secure more funding and powers through a devolution deal which would (impact) support Cheshire East's outcomes of protecting and enhancing its Quality of Place, improving local economic growth assisting with the achievement of all of its corporate outcomes.	Executive Director of Place	Portfolio Holder, Policy and Legal Services	9 Medium ↑	Cheshire East is committed to the devolution agenda and will work with its sub-regional partners to secure the best possible agreement for the Borough. The likelihood is presently a high likely and the impacts are thought to be significant. The net risk rating is 9 Medium Risk.
CRO3 Opp'ty	Partnership Working (Cause) Public Service delivery is currently under-going reform, impacting upon capacity and resources of agencies and organisations partnered by the Council and other public sector agencies. (Opportunity) This presents an opportunity for co-production with joint strategic planning to reduce contradictory and duplication of efforts, minimise delivery gaps, exploit new business models and maximise best use of public and private sector resources to (impact) achieve joint and complementary objectives and assist with the achievement of the Council's corporate outcomes.	Executive Director of People	Portfolio Holder, Communities and Health	12 High ↑	The Leaders' Board is working with the Council's key strategic partners, including Town and Parish Councils, and the Voluntary, Community and Faith Sector to exploit this opportunity and so the likelihood of this risk is presently 'likely' and may be achievable but requires careful management. The impact could see a major increase in the Council's ability to achieve one or more strategic outcomes. The net risk rating is 12 High Risk but requires further work and monitoring to ensure that the opportunity comes to fruition.

Ref & Type	Risk Description (Including cause, opportunity and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CRO4 Opp'ty	Regeneration Funding (Cause) The Council has a number of ambitious regeneration and development initiatives (e.g. Crewe Regeneration including HS2, and Macclesfield Regeneration) involving many third party organisations. (Opportunity) There is an opportunity to create the right conditions and confidence to lever in significant investment (public and private) to deliver these initiatives and to create (impact) further significant growth and prosperity in the Borough.	Executive Director of Place	Portfolio Holder, Regeneration	12 High ↑	<p>Cheshire East has one of the strongest economies in the UK and so the likelihood of this risk is presently 'likely' and may be achievable but requires careful management.</p> <p>The impact could see a major increase in the Council's ability to achieve one or more strategic outcomes.</p> <p>The net risk rating is 12 High Risk but requires further work and monitoring to ensure that the opportunity comes to fruition.</p>

Cheshire East Council Corporate Risks Heat Map (November 2016)

Corporate Risk Titles	
Threat	
CR1	Increased Demand for People Services
CR2	NHS Funding and STP Impact
CR3	Financial Resilience
CR4	Contract and Relationship Management
CR5	Information Security and Cyber Threat
CR6	Countering Fraud and Corruption
CR7	Cheshire East Local Plan Adoption
CR8	Community Cohesion
CR9	Increased Major Incidents
CR10	Business Continuity
CR11	Employee Engagement and Retention
Opportunity	
CRO1	EU Exit, Single Market and Local Growth
CRO2	Devolution
CRO3	Partnership Working
CRO4	Regeneration Funding

Threat	
Opportunity	



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

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 8th December 2016
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 Committee of the proposed production process for the 2016/17 Annual Governance Statement.

2.0 Recommendation

- 2.1 That the Committee
 - (i) note the progress against the issues reported in the 2015/16 AGS, including the feedback from Corporate Assurance Group on each item;
 - (ii) consider and endorse the process for the production of the 2016/17 AGS.

3.0 Reasons for Recommendation

- 3.1 Under the Accounts and Audit Regulations (England) 2015, local authorities are required 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 current 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 Director of Legal Services)

8.1 The production of the AGS is required by the Accounts and Audit Regulations (England) 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 has been carried out to existing timescales, as will the 2016/17 process.

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 2015/16

- 10.1 The 2015/16 AGS reported to the Audit and Governance Committee in September 2016 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 Corporate Leadership 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 through normal management processes and will be 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:
Business Continuity Planning	Corporate Manager Governance and Audit	<i>Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.</i>
Local Economic Partnerships	Director of Economic Growth and Prosperity in consultation with Chief Operating Officer	<i>Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.</i>
Project Management	Chief Operating Officer	<i>Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.</i>
New Service Delivery Models	Chief Operating Officer	<i>Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.</i>
Information Governance	Chief Operating Officer	<i>Corporate Assurance Group has considered the update provided and recommends that as substantial and significant progress has been made in implementing actions to manage this issue have been completed, the issue will now be removed from the AGS update and monitored locally.</i>
Review of Contract Awards – Core Fit	Chief Operating Officer	<i>Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.</i>
Closure of CoSocius Ltd	Chief Operating Officer	<i>Corporate Assurance Group has considered the update provided and recommends that as substantial and significant progress has been made in implementing actions to manage this issue have been completed, the issue will now be removed from the AGS update and monitored locally.</i>
Council Funding	Chief Operating Officer	<i>Corporate Assurance Group has considered the update provided and recommends that this issue, recognised in the last AGS as a “continuing governance issue” remains on the AGS progress update.</i>
Health and	Strategic Director of	<i>Corporate Assurance Group has</i>

Description (Summarised)	Responsibility	Feedback to the Audit and Governance Committee:
Social Care Integration	Adult Social Care and Health	<i>considered the update provided and recommends that this issue, recognised in the last AGS as a “continuing governance issue” remains on the AGS progress update.</i>

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 2016/17 AGS will be prepared in line with the requirements of updated CIPFA/SOLACE guidance; the *Delivering Good Governance in Local Government* framework and against a revised Code of Corporate Governance. These are the subject of a report elsewhere on the Committee’s agenda.

10.9 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.

10.10 The review of the effectiveness of the Council's governance framework for 2016/17 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, but are not limited to:

- 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).

10.11 The AGS will be considered by the Corporate Leadership Team 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 Corporate Leadership Team and consideration by the Audit and Governance Committee in June 2016.

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: Chief Operating Officer

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Annual Governance Statement 2015/16
Progress Updates for December 16 Audit & Governance Committee

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Annual Governance Statement 2015/16
Progress Updates for December 16 Audit & Governance Committee

Description:
Business Continuity Planning
Current and tested business continuity plans are not consistently in place across all service areas.
Background:
Included in the 2013/14 AGS, not as a significant governance issue, but required further attention during 2014/15.
Responsibility:
Corporate Manager Governance and Audit
Proposed Action
<i>This is the action initially proposed when the issue was first reported</i>
Develop Business Continuity Planning to ensure service delivery in the event of business disruption.
Progress update for AGS 2015-16
<p>Heads of Service were asked to identify their business critical activities. The responses have been reviewed to ensure that there are no significant gaps.</p> <p>Due to continuing austerity as the Council services are reorganised over 2016, all services remain under review.</p> <p>Guidance documents have been developed and are being cross checked against national best practice prior to implementation across services.</p>
Progress update November 2016
Further progress on BCP was planned following the appointment of a temporary Risk and Business Continuity Officer. Whilst there has been an interim appointment, the post has recently become vacant. In the absence of the Corporate Manager Governance and Audit, the Director of Legal Services and the Principal Auditors will review resource requirements for Risk and Business Continuity to progress the issue.
Recommendation from CAG to A&G
Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.

Annual Governance Statement 2015/16
Progress Updates for December 16 Audit & Governance Committee

Description:
Local Economic Partnerships Governance arrangements outlining the relationship between the Council, as accountable body, and the Local Economic Partnership (LEP) are out of date.
Background:
Included in the 2013/14 AGS, not as a significant governance issue, but required further attention during 2014/15.
Responsibility:
Director of Economic Growth and Prosperity in consultation with Chief Operating Officer
Proposed Action
This is the action initially proposed when the issue was first reported
Governance arrangements need to be developed that are sufficiently “future proofed” to accommodate further anticipated changes to the role of the LEP and its sub groups and the Council’s relationship with it.
Progress update for AGS 2015-16
<p>Accountable Body Operational Management: Council Officers from Economic Growth and Prosperity, Finance, Legal and Audit have held several working group meetings to discuss the touch points with the LEP to manage the operational aspects of its Accountable Body Function, and working relationships amongst council functions. The relationship between the Council’s Accountable Body duties and the additional duties imposed on Council when the Council is in receipt of LEP funds, particularly finance, have also been considered.</p> <p>Further Actions :</p> <ul style="list-style-type: none"> • Internal working group meetings continue to be held on a regular basis to share knowledge and learning • The Council establishes regular service review meetings with the LEP team • Protocols are put in place to differentiate between the Council as Accountable Body and the Council as the recipient of LEP funds <p>Accountable Body Strategic Governance: The Council’s COO sits on the LEP’s Performance and Investment Committee where relevant matters associated with the Accountable Role are discussed.</p> <p>Further Actions :</p> <ul style="list-style-type: none"> • The COO continues to sit on the Performance and Investment committee offering critical challenge as the Accountable Body. • Relational governance is established the AC operational group and the COO <p>Other Governance Relationships: The Council sits on various boards and committees associated with the business and functional delivery of the LEP. Typically, officers with the most relevant experience and knowledge sit on technical boards and there is further political representation on the LEP board by the Leader.</p> <p>Further Actions:</p> <ul style="list-style-type: none"> • MGB receives an update paper communicating governance arrangements of the LEP, which the Council participates in.
Progress update November 2016
Governance Arrangements The Council is represented on the appropriate LEP boards and committees associated with the

Annual Governance Statement 2015/16
Progress Updates for December 16 Audit & Governance Committee

business and functional delivery of the LEP. Typically, officers with the most relevant experience and knowledge sit on technical boards and there is further political representation on the LEP board by the Leader.

An Action Plan is being developed and will be under constant review to ensure that the Governance Arrangements are sufficiently “future proofed” to accommodate future changes and the Council’s relationship with the LEP. A designated officer has now been appointed to ensure that all actions are carried out and ongoing actions are followed up.

Some of the actions have already been completed or are underway. These include actions such as :

- The Executive Director of Place should undertake an annual review of membership of the LEP Sub-groups and regular updates are provided to CLT on workstreams.
- Executive Director to provide regular thematic updates on key areas of work including devolution and Local Growth Fund bids
- More regular reporting across the full breadth of LEP work including LEP funding secured
- CLT receives an update paper communicating governance arrangements of the LEP, which the Council participates in.
- Better communication between CEC and the LEP and also with CEC Members and Officers

Accountable Body

The Council’s COO sits on the LEP’s Performance and Investment Committee where relevant matters associated with the Accountable Role are discussed

An Action Plan is being developed and will be under constant review to ensure that the Council’s management and operational aspect of its Accountable Body Function are carried out responsibly. A designated officer has now been appointed to ensure that all actions are carried out and ongoing actions are followed up.

Some of the actions have already been completed or are underway. These include actions such as:

- Officers from the Place Directorate, Finance, Legal and Audit have held several working group meetings to discuss the touch points with the LEP to manage the operational aspects of its Accountable Body Function, and working relationships amongst council functions.
- Internal meetings continue to be held on a regular basis to share knowledge and learning.
- Protocols are put in place to differentiate between the Council as Accountable Body and the Council as the recipient of LEP funds
- The Council establishes regular service review meetings with the LEP team - these meetings have been held periodically but membership needs to be reviewed on a regular basis and attendance from the LEP needs to be agreed.

Recommendation from CAG to A&G

Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.

Annual Governance Statement 2015/16
Progress Updates for December 16 Audit & Governance Committee

Description:
<p>Project Management</p> <p>The Council has a significant number of key projects currently in implementation and planned for the future. These include</p> <ul style="list-style-type: none"> • ambitious economic regeneration plans; and • ongoing commissioning reviews leading to new improved service delivery arrangements. <p>The Council is aware that if any of these are not delivered as planned it could result in aspects of service failure for residents, reputational issues or increased financial pressure.</p>
Background:
Emerging issues identified in the 2013/14 Annual Governance Statement which required further attention and monitoring to ensure they did not become significant governance issues
Responsibility:
Chief Operating Officer
Proposed Action
This is the action initially proposed when the issue was first reported
The Council's revised project and programme management approach is now an established part of the governance framework. Through its member led Executive Monitoring Board (EMB), all major change programmes and projects are subject to scrutiny and challenge at both development and delivery stage. The Council's new scrutiny committees also have an overview and help to highlight any issues and mitigate this risk.
Progress update for AGS 2015-16
<p>The Executive Monitoring Board (EMB) revised and updated its Terms of Reference and membership in January 2016, putting scrutiny and oversight of ongoing project progress at the very centre of its working programme.</p> <p>An improved monthly highlight reporting process for projects was implemented in February 2016. Co-produced with the Cheshire & Warrington Local Enterprise Partnership, this gives greater visibility and control on all projects from inception through to realisation of benefits.</p> <p>The Commissioning Timeline also enables these projects to be monitored alongside other related activities (e.g. contracts, consultations, budget changes etc.) and this has been approved in principle by the Chief Executive, Deputy Chief Executive and Chief Operating Officer. This is now a central part of the monthly EMB agenda, and to support this a new 'Project Health Check' process was introduced by EMB in May 2016.</p> <p>All lessons learnt from 21 previous project closure reports have been summarised and reported to Management Group Board and informal Cabinet and this report is published on the internal intranet.</p>
Progress update November 2016
<p>The Council has continued to strengthen its governance arrangements in relation to project and programme management in 2016. Amendments to the Council's Finance Procedure Rules came into effect on 1st August 2016 which formally aligned the Constitution with the Executive Monitoring Board's revised Terms of Reference and extended remit. The membership of EMB has also been expanded from two Cabinet Members to three, and enhanced by the active involvement of the Executive Directors of People and Place.</p> <p>The strategic review of Corporate Services has seen the Project & Programme Management and Business Improvement teams come together under the overall banner of Professional Services and this new team will continue to drive forward effective project and change management in both the Council and its partner organizations.</p> <p>Continuous improvement is embedded through the Programme Management Office (PMO) Action Plan which has been audited, reviewed and refreshed in October 2016. Progress has continued on</p>

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implementing the actions contained within it, including the collation and reporting of quarterly performance indicators for projects and programmes in 2016/17 for the first time, continued training provision and updated guidance on Centrale and the further development of a robust performance management framework for linking projects to other Council activities through the Business Intelligence Programme.
Recommendation from CAG to A&G
Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.

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Description:
<p>New Service Delivery Models</p> <p>The Council launched four new service delivery vehicles in April and May 2014. Service areas transferred to these new companies were initially completed on a 'lift' and 'shift' basis to maintain existing arrangements. Further work is now being done to ensure that the Council maximises the benefit of these new arrangements.</p> <p>Two new vehicles were launched in early 2015: Transport Service Solutions Ltd (1st January 2015) and Civicance (1st April 2015)</p>
Background:
Emerging issues identified in the 2013/14 Annual Governance Statement which required further attention and monitoring to ensure they did not become significant governance issues
Responsibility:
Chief Operating Officer
Proposed Action
<p>This is the action initially proposed when the issue was first reported</p> <p>Senior Officers to continue to work with the directors of the new companies and the Leisure Trust to clarify roles and responsibilities and to ensure that the requirements of the new commissioning plans and new contracts – and the benefit to residents – are fully achieved.</p>
Progress update for AGS 2015-16
<p>With the exception of CoSocius, all of the ASDV companies returned positive outturns in their pre-audited financial statements. All the individual companies have Management Boards meeting regularly to discuss objectives and the performance of the companies.</p> <p>The Chairs and Managing Directors of companies regularly attend the holding company, CERF Ltd, to discuss and challenge performance, share and resolve issues, and seek ways to maximise benefit for the residents of Cheshire East.</p>
Progress update November 2016
<p>The Council has entered into a formal contract with all of its ASDVs. While the detail of each contract is specific to the service being commissioned, in general the contract sets out what, and how, services will be delivered. The contract is the primary document through which the Council commissions services and holds the service provider to account.</p> <p>Roles and responsibilities are clearer with Commissioning Managers in place in the relevant Directorates to manage these contracts.</p> <p>The CERF Board meets on a regular basis and as the holding company its primary purpose is to hold shares in the subsidiaries that it controls. The regular CERF Board meetings focus on receiving and considering performance and business planning updates from each company.</p> <p>CERF Ltd's vision is to contribute to the Council's Resident's First values through encouraging and supporting the ASDVs in maintaining, improving and growing their businesses in a sustainable manner, and to deliver robust and transparent governance to ensure accountability and compliance with the established governance framework.</p>
Recommendation to CAG:
Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.

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Description:
<p>Information Governance</p> <p>Effective information governance practices are critical in an organisation like the Council which deals with significant amounts of personal and sensitive information every day. They ensure that data is handled in accordance with the relevant legislation, as well as providing accurate and available information for decision making purposes.</p> <p>Within Cheshire East Council, the Chief Operating Officer is the Senior Information Risk Owner (SIRO), and the Corporate Manager ICT is the Deputy SIRO. The Deputy SIRO chairs the Information Governance group (formerly called the SIRO working group) which reports into the Corporate Assurance Group.</p> <p>The Information Governance Group has a programme of work which includes improving information management practices in the Council.</p> <p>Breaches of the Data Protection Act have been reported to the Information Commissioners Office (ICO) in year. The ICO findings have not resulted in fines; they have required additional actions to be undertaken, including training. These have been completed as required.</p> <p>The Council has formalised and communicated an incident breach reporting process, and recognises that there is a need to improve compliance with information governance best practices.</p> <p>There have been regular Council wide communications reminding staff of the importance of good information management practices, and these have been supported by improved internal guidance on the Council's intranet pages.</p>
Background:
Specific issues arising identified in the 2014/15 Annual Governance Statement as needing action and monitoring by the Council to ensure that they do not become significant governance issues
Responsibility:
Chief Operating Officer
Proposed Action
This is the action initially proposed when the issue was first reported
<p>Continue to raise awareness about good information management practices across Service Management Teams, and general awareness amongst all Council staff and Members. Staff Induction, team meetings and personal development reviews will also be used to promote awareness and engagement.</p> <p>The adoption and validation of the Council's Information Asset Register with individual services will improve understanding of data held, as well as clarifying ownership of data and associated roles and responsibilities.</p> <p>A training programme targeting information governance is in development and will be released across the Council in a phased manner during 2015. This aims to improve understanding of personal and corporate responsibilities in relation to data handling.</p>
Progress update for AGS 2015-16
<p>The SEEDS training has been launched in Children's Services and will be rolled out across the organisation on a phased basis.</p> <p>Data Protection and Freedom of Information training has been added to the corporate training agenda for this year; Six half day sessions, 3 on Data Protection and 3 on Freedom of Information are being delivered by an external training provider to officers across the Council.</p>

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The Information Asset Register will continue to be updated and has a direct connection to the Electronic Document and Records Management System (EDRMS) project adopting SharePoint as the Council's corporate electronic document records management system.

This includes scanning all archived Children's, Adults and Highways paper records, and meeting compliance standards by adopting records retention schedules and classification metadata.

The Data Protection Act 1998 will be replaced by the EU General Data Protection Regulation in May 2018. Work is underway to identify the key changes in the legislation and to determine what needs to be done to ensure CEC compliance with the new regulation.

The Information Governance Group met regularly throughout 2015/16, managing a programme of proactive improvement and responding to reported data related incidents, providing updates to the SIRO, Corporate Assurance Group, and Management Group Board.

Progress update November 2016

The Information Asset Register will continue to be updated and has a direct connection to the Electronic Document and Records Management System (EDRMS) project adopting SharePoint as the Council's corporate Electronic Document Records Management System. This includes scanning all archived Children's, Adults and Highways paper records, and meeting compliance standards by adopting records retention schedules and classification metadata.

The Data Protection Act 1998 will be replaced by the General Data Protection Regulation in May 2018. Work is underway to identify the key changes in the legislation and to determine what needs to be done to ensure CEC compliance with the new regulation. An action plan has been developed and the detailed planning and implementation will be run as a project in a formal structured approach. The approach and methodology has been approved by MGB and the project will be delivered under the IADM programme.

The Information Governance Group has met regularly throughout the year, managing a programme of proactive improvement and responding to reported data related incidents, providing updates to the SIRO, Corporate Assurance Group, and Management Group Board. The NHS approach for scoring is being followed to increase consistency.

The SEEDS training has been rolled out across Cheshire East. Data Protection and Freedom of Information training has been given to all senior managers.

Whilst awareness of good information practices has increased and the authority has good working practices to record and manage, the likelihood of an incident will always exist but will be reduced as the maturity of Information Assurance increases.

Recommendation from CAG to A&G

Corporate Assurance Group has considered the update provided and recommends that as substantial and significant progress has been made in implementing actions to manage this issue have been completed, the issue will now be removed from the AGS update and monitored locally.

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Description:
Review of Contract Awards re Core Fit <p>Following concerns raised about the awarding of contracts by the Council, the Council's Internal Audit team were asked by the Chief Executive to consider the issues raised as part of an ongoing audit of the Council's procurement arrangements. This work was underway in the third quarter of 2015/16. However, in late December 2015, following the launch of a police investigation by Cheshire Constabulary regarding alleged misconduct in public office, the internal audit work was suspended, pending the outcome of the police investigations which is ongoing at this time. The internal audit work will continue once the police investigation concludes.</p>
Background:
Governance issue arising in 2015/16
Responsibility:
Chief Operating Officer
Proposed Action
<p>This is the action initially proposed when the issue was first reported</p> <p>A number of improvements increasing the transparency of the Council's procurement arrangements have already been made. For example;</p> <ul style="list-style-type: none"> • Waivers and Records of Non Adherence (WARN) forms are reported individually and in full to the Audit and Governance Committee. • The Audit and Governance Committee receive reports on the quantity and reasons for Waiver's and Non Adherences (WARNs) approved. • The Council has both introduced and strengthened the operation of the Procurement Board, with membership of the Council's Portfolio Holder for Corporate Policy and Legal Services. • The Audit and Governance Committee Anti-fraud Member/Officer Sub Group carries out sample checking on procurement activity ahead of each meeting and reports back on any non-compliance issues; there have been none found to date. • The Council has developed its Contracts Register to allow an earlier assessment of those services/functions that need to be re-commissioned. • The Procurement Team have reduced the threshold to £5,000 for requisitions that have to be approved, in order to prevent procurement activity being undertaken without appropriate approvals. • A £5,000 expenditure report is run monthly and sent to MGB members to scrutinise. From this a sample of transactions are selected and managers asked to provide details of budgetary controls applied. • National reporting requirements include £500 spend report which is completed monthly. Contracts awarded over £5,000 to be reported quarterly. Invitation to tenders and quotes above £5,000 to be reported quarterly.
Progress update for AGS 2015-16
n/a
Progress update November 2016
<ul style="list-style-type: none"> • Audit and Governance Committee have received reports (thematic report and individual review) on WARNs at last three sessions and will do so again at the December 2016 meeting. • Procurement Board has continued to meet and progress improvement in procurement practices across the Council • Audit and Governance Committee will receive an update report on the findings of the Cardiff Checks which have been carried out to date by the Anti-Fraud Member/Officer Sub Group at the December 2016 meeting • Contracts Register update has enabled earlier engagement on re-procurement exercises • Over £500 expenditure reports continue to be published, now available with other data sets as part of the Council's "Open Data" site; https://opendata.cheshireeast.gov.uk/ • Police investigation is ongoing

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<ul style="list-style-type: none"> Discussion on what internal work can be recommenced, and who should carry it out is in progress between the Police and the Council.
Recommendation from CAG to A&G
Corporate Assurance Group has considered the update provided and recommends that this issue remains on the AGS progress update.

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Description:

Closure of CoSocius Ltd

From 1st May 2014 to 1st April 2016, CoSocius Ltd delivered ICT and Transactional Services as a limited company jointly owned by Cheshire East Council and Cheshire West and Chester Council. During that period, the Councils took the decision to disaggregate the company and from 1st April 2016, the functions reverted to being delivered as in house Council Shared Services.

At a meeting of the Shared Services Joint Committee, held 2nd October 2015, the current operating position of CoSocius and the future delivery model for the services it provided was discussed.

The Committee concluded that the original objectives for creating CoSocius were no longer sufficiently relevant given the current financial and technical environments, with the added background of sustained pressure on local government finances. It would therefore be timely to reconsider the most appropriate way to continue with service deliver.

The Shared Services Joint Committee approved a decision to begin a program of work to be undertaken to establish an alternative delivery model for the services being provided by CoSocius. This resulted in the return of those services to in-house provision through shared service arrangements.

An exercise was undertaken amongst stakeholders in the two Councils and the former company to identify the lessons learned from CoSocius. The key learning points as reported to Shared Services Joint Committee on 20th May 2016 are repeated below:

In taking the decision to terminate CoSocius Members were keen to ensure that lessons from its creation, existence and demise were captured to enable both Councils to learn from this experience. Consequently research was undertaken with key stakeholders involved with predecessor ICT and Transactional shared services, CoSocius Limited and / or the new sharing arrangements to ascertain: what had worked well, what could have been improved and the skills and training needed to support any alternative service delivery models going forward.

The findings are summarised below but it should be recognised that these relate to CoSocius alone and must not be considered in any way as a reflection of any other companies operated by either Council.

Key Learning Points from CoSocius were:

- The business case for change to a commercial entity needs to be robust and demonstrate a fundamental understanding of the market place. It needs to be based on credible data and take full account of investment requirements to make the operation truly commercial
- People developing and delivering a separate legal entity need to fully understand the workings of a commercial operation and design-in specific **requirements** tailored to the market (e.g. suitably qualified staff, resources training plan etc.)
- The company needs to have the right people in the right roles to take it **forward** and make it a success – they need to balance core business with developing new business
- Expectations need to be realistic – developing and embedding an appropriate culture is paramount to a successful commercial operation. This can take time to achieve (months not days) depending on the **type** of service.
- Company governance needs to be robust with clear lines on roles, responsibilities and independence
- Client / Supplier relationships need to be truly commercial but not adversarial and not unduly influenced by previous working relationships - the **focus** should be on managing / meeting business needs and securing workable solutions
- Contract performance issues need to be addressed but at an appropriate level to avoid undue negative impact on company employees

The company needs to ensure that it employees are adequately trained in the skills needed to operate in a commercial environment and should not be reliant on public sector experience

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alone. Training should focus on commercial awareness and skills development including customer care, business relationship and contract management, governance and influencing skills.
Background:
Governance issue arising in 2015/16
Responsibility:
Chief Operating Officer
Proposed Action
This is the action initially proposed when the issue was first reported
<p>At the October 2015 meeting, the Shared Service Joint Committee agreed to</p> <ul style="list-style-type: none"> • CoSocius operation as a standalone and commercially focused company ceasing on 1st April 2016, with the termination of each Council's operating agreement with CoSocius with effect from 31st March 2016. • ICT and Transactional Services (HR and Finance) reverting to in-house delivered shared services, with the transfer of staff and contracts effective 1 April 2016. • Transactional Services to be delivered in a shared service hosted by Cheshire West and Chester Council. This includes HR/Payroll, Income, Payments and Finance and Reporting. • ICT Services to be delivered in a shared service hosted by Cheshire East Council. This includes Core ICT, Application Support and ICT Projects. <p>The Committee agreed an initial 6 month transition period, during which time both shared services will progress actions identified to address financial pressures and restructure in order to achieve the agreed Target Operating Models for service delivery.</p> <p>Agreement was also given to a subsequent period for the delivery model, of up to 18 months, during which time consideration needs to be given to agreeing the most appropriate arrangements for service delivery.</p> <p>The reversion of services from CoSocius back to the two Councils occurred on time and with no significant disruption to service delivery. Progress on the transfer and operation of services will be reported to the Joint Officers Board and the Shared Services Joint Committee during 2016-17.</p>
Progress update for AGS 2015-16
n/a
Progress update November 2016
<p>Progress reports on the development of the Transactional Service Centre and the ICT Service were made to the September 2016 meeting of the Shared Services Joint Committee. The Committee were asked to agree to the extension of the initial 6 month transition period, ending October 2016 by a further 6 months to allow both services to facilitate the continuation of the design of each service and ensure each Council is able to deliver Business Cases, ensure ICT strategies are reviewed, develop business plans and target operating models; all critical in ensuring requirements are understood and can be delivered.</p> <p>Service delivery in both areas has continued, with no major loss of availability or performance in either area.</p>
Recommendation from CAG to A&G
Corporate Assurance Group has considered the update provided and recommends that as substantial and significant progress has been made in implementing actions to manage this issue have been completed, the issue will now be removed from the AGS update and monitored locally.

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Description:
<p>Council Funding</p> <p>On-going and future changes to the financial framework - including several changes to national funding regimes - will increase the Council's reliance on self-financing. Many of these arise from changes to benefit administration, reductions in government grant and more schools becoming academies.</p> <p>While the Council is in a strong position it needs to accelerate its transition to a full commissioning model to ensure that the quality and cost base of services are appropriate and meet the needs of local residents and businesses within the future level of available resources.</p>
Background:
Recognised as a "Continuing Governance Issue" in the 2015/16 AGS, which had been included in previous Statements.
Responsibility:
Chief Operating Officer
Proposed Action
This is the action initially proposed when the issue was first reported
n/a
Progress update for AGS 2015-16
<p>The Council's approach to the continuing financial challenges, linked to austerity, are being addressed through a range of activities and communication channels.</p> <p>Senior accountants are fully engaging, with government and professional bodies (such as CIPFA, SCT, RSN & UTS), in the review of local government finance. Responses have been provided to consultations and regular seminars and meetings have been attended to ensure that issues relevant to Cheshire East Council are being discussed.</p> <p>Estimates have been developed with the Portfolio Holder, and Cabinet members, around the main funding sources. This includes Council Tax levels, tax base growth, potential Business Rates growth and the diminishing grant position. The revised Corporate Plan also introduces the Council's commitment to developing a self-financing approach to achieving outcomes.</p> <p>The Council's increasing level of collaboration with public sector partners, such as health services and neighbouring local authorities, is also subject to significant review and work is ongoing in line with CIPFA's Aligned Public Services model.</p> <p>The best fit of service providers, also described in the Corporate Plan, remains a key element of the Council's approach. Contract management, with its strong links to achieving outcomes, is also developing as a key feature of the Council's control framework.</p>
Progress update November 2016
<p>The Council recently launched its pre-budget consultation for 2017/20. This outlines a set of proposals designed to support residents and balance the finances of the Council for the period 1st April 2017 to 31st March 2020.</p> <p>The proposals include the option to increase Council Tax by up to 3.99% each year. Overall this deals with less than half of the potential funding shortfall. Importantly 2% of the potential Council Tax increase will be dedicated to meet the rising costs in Adult Social Care. This is a change from previous policies that have frozen Council Tax, but the reductions in government grant and ongoing care cost pressures make this an appropriate proposal at this stage.</p> <p>To provide greater support and certainty around funding levels the Council has accepted an offer from government to fix general grant levels over the next three years. The 'offer' will see our grant funding reduce to nil by 2020 and accelerates our ambition to be self sufficient. This approach provides some certainty which helps with medium term planning, but we are still waiting for clarification about other funding sources such as New Homes Bonus, Non-Domestic Rates and School's funding. The options presented in the consultation document still therefore rely on</p>

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<p>significant levels of estimates.</p> <p>Promoting economic growth and development is significant in these proposals. Business growth can result in additional income being retained for local investment, subject to certain thresholds. This supports the Council’s approach to invest in economic growth through unlocking development land and supporting inward investment. The Council is maximising the benefit of the business rates retention scheme by continuing to pool with Greater Manchester councils and taking part in a growth pilot, one of only two in the country. Both of these initiatives aim to retain as much local Business Rates as possible.</p>
<p>Recommendation from CAG to A&G</p>
<p>Corporate Assurance Group has considered the update provided and recommends that this issue, recognised in the last AGS as a “continuing governance issue” remains on the AGS progress update.</p>

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Description:
<p>Health and Social Care Integration</p> <p>The Council is a key partner in the delivery of integrated health and social care and is a signatory of the Better Care Fund (BCF) submission to NHS England. This is a high profile programme of change which the Council is working with the two Clinical Commissioning Groups, (CCGs), and the three acute providers in the Borough. BCF is part of a staged process to focus and increase joint working with the NHS seeking to improve the health and wellbeing outcomes for Cheshire East residents, with one of the initial aims of the work programme being to reduce non-elective admissions to hospitals locally.</p> <p>The initial Plans submitted in April 2014 did not include details of specific schemes, financial plans, risk assessment or fully developed key performance indicators</p>
Background:
Recognised as a "Continuing Governance Issue" in the 2015/16 AGS, which had been included in previous Statements.
Responsibility:
Strategic Director of Adult Social Care and Health
Proposed Action
This is the action initially proposed when the issue was first reported
n/a
Progress update for AGS 2015-16
<p>The BCF Governance Group, overseen by Cheshire East's Health and Wellbeing board continues to meet on a monthly basis to oversee the governance of the Cheshire East BCF.</p> <p>Feedback was expected from NHS England and the Association of Directors of Social Services (ADASS) in June 2016 regarding Cheshire East's plans for BCF in 2016/17. The expected status is "approved with support".</p> <p>At the time of submission, there were areas requiring further work and attention including:</p> <ul style="list-style-type: none"> • Final agreement for expenditure plans • Lack of a Delayed Transfers of Care (DToC) plan for South Cheshire Clinical Commissioning Group • Assurance that DToC is a standing item on Systems Resilience Group agendas. <p>These areas had to be addressed by the end of June 2016 to avoid escalation to national level of assurance; these areas have now all been addressed within timescale. The BCF plan for Cheshire East has been approved.</p> <p>In April 2016 Mersey Internal Audit Agency published a report on the BCF arrangements in operation over 2015/16 which contained three key "medium" ranked recommendations;</p> <ul style="list-style-type: none"> • Failure to identify and effectively manage BCF risks • CEC and CCG's Programme Management Office approaches to the BCF are not co-ordinated. • Poor Information Governance <p>These were included on the BCF risk register. The risk register and the risk assessment process have been reviewed and improved, to ensure that mitigating actions are Specific, Measurable, Assignable, Realistic and Time-related (SMART). Red rated risks are reviewed and updated on a monthly basis to ensure action is taking place to address.</p> <p>A piece of work took place to look at Programme Management Office approaches across CCGs and LAs. This had already been done by PMO leads and good practice has been shared by them and adopted accordingly to ensure more consistent approaches. We also agreed a number of actions between us to streamline reporting processes.</p> <p>Work on Information Governance is still ongoing but is the priority item on the agenda for the BCF Governance Group in to establish any gaps and allocate necessary actions.</p>
Progress update November 2016
Previously the description and actions regarding this issue have focussed on the Better Care Fund

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(BCF), as a nationally required programme designed to encourage integration between health and social care at Health & Wellbeing Board level. Whilst this requirement remains, and is likely to do so until at least 2019, there have been other significant developments regarding health and social care integration that the council may wish to consider and monitor as part of its governance.

These include, most prominently, the development of the Cheshire and Merseyside Sustainability and Transformation Plan, which was submitted to NHS England in October 2016. If assured, this plan is likely to be the main strategic driver regarding health and social care integration. The plan contains details regarding the future model of the two transformation programmes in Cheshire East: Caring Together in Eastern Cheshire CCG and Connecting Care in South Cheshire CCG.

In order to provide readers with an update on the previously highlighted issues and to provide a clear audit trail, the remainder of this section will update on the previously highlighted issues regarding BCF.

The BCF Governance Group continues to meet on a monthly basis to oversee the governance of the Cheshire East BCF. This group is overseen by, and reports to, Cheshire East's Health and Wellbeing Board.

Cheshire East's BCF plan for 2016/17 was fully assured by NHS England and ADASS and the previously reported areas requiring work were met within the required timescales to achieve this. Implementation of the 2016/17 plan is well underway. And a programme of evaluation of all BCF schemes is underway with completion expected by the end of December 2016. The findings of this will inform the content of the Cheshire East BCF for 2017/19 – this will be a two-year plan in line with Clinical Commissioning Groups' two-year planning requirements for this period.

In April 2016 Mersey Internal Audit Agency published a report on the BCF arrangements in operation over 2015/16 which contained three key "medium" ranked recommendations;

- Failure to identify and effectively manage BCF risks
- CEC and CCG's Programme Management Office approaches to the BCF are not co-ordinated.
- Poor Information Governance

These were included on the BCF risk register and mitigating actions undertaken accordingly:

- The risk register and the risk assessment process have been reviewed and improved, to ensure that mitigating actions are Specific, Measurable, Assignable, Realistic and Time-related (SMART). Red rated risks are reviewed and updated on a monthly basis to ensure action is taking place to address.
- A piece of work took place to look at Programme Management Office approaches across CCGs and LAs. This had already been done by PMO leads and good practice has been shared by them and adopted accordingly to ensure more consistent approaches. We also agreed a number of actions between us to streamline reporting processes.
- Work on Information Governance is still ongoing but is the priority item on the agenda for the BCF Governance Group in to establish any gaps and allocate necessary actions.

In October 2016, MIAA confirmed that it will be conducting a follow-up review of the Cheshire East BCF through South Cheshire CCG. This commenced 7th November 2016. Findings will be reported back to the CCG and then to the BCF Governance Group.

Recommendation from CAG to A&G

Corporate Assurance Group has considered the update provided and recommends that this issue, recognised in the last AGS as a "continuing governance issue" remains on the AGS progress update.

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 8 December 2016
Report of: Corporate Manager Governance and Audit
Title: Internal Audit Interim Report 2016/17 & Internal Audit Charter
Portfolio Holder: Councillor Rachel Bailey

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 2016/17, revisions to the plan and to summarise work during the first half of 2016/17 (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 2016/17 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 2017.

3.2 The Internal Audit Charter is reviewed periodically (as a minimum annually) by the Corporate Manager Governance and Audit and presented to the Corporate Leadership Team 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 Director 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 as follows:

- Confirmation of reporting arrangements by removal of reference to 'interim basis' and Director of Resources:

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 Director of Legal Services."

- Update references to Management Group Board to Corporate Leadership Team.
- Latest review date i.e. November 2016.

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 2016/17

April – September 2016

www.cheshireeast.gov.uk

Internal Audit
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Cheshire East Council
Sandbach CW11 1HZ

Internal Audit Interim Report 2016/17 April – September 2016

1 Introduction

- 1.1 In accordance with the United Kingdom Public Sector Internal Audit Standards (PSIAS), the first Internal Audit Interim Report 2016/17 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 2016/17 to date (Section 2)
 - any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (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 2016/17

- 2.1 This is the first 2016/17 interim report on progress against the Internal Audit Plan. A summary comparison of the 2016/17 Audit Plan with actuals for the half year to 30 September 2016 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.

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Summary Comparison of Audit Plan 2016/17 and Actuals

Area of Plan		Plan		Actuals (to 30/9/16)		Comments on coverage
		Days	%	Days	%	
Chargeable Days		1458		597		Reduced availability due to long term absence and vacancy. Additional temporary resource approved for Q3/Q4
Less: Corporate Work		420		193		Includes operational risk management duties
Available Audit Days:		1038	100	404	100	
Corporate Governance and Risk		87	8	20	5	
Anti-Fraud and Corruption	Proactive Reviews	75	7	27	7	Coordination of NFI in preparation for October data upload
	Reactive Investigations	30	3	32	8	Assistance to investigations and testing whistleblowing concerns
Chief Operating Officer (COO)	Key Financial Systems	250	24	63	16	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	115	11	70	29	Majority of work in this area has commenced during this period
Strategic Commissioning	Children's Social Care & Education	95	9	14	4	Planned work due to commence during Q3/Q4
	Adult's Social Care	95	9	30	7	Planned work due to commence during Q3/Q4
	Public Health	10	1	16	4	Work will continue in Q3/Q4
	Communities	50	5	30	7	Includes review of Air Quality Management
Economic Growth & Prosperity		75	7	5	1	Planned work due to commence during Q3/Q4
Providing Assurance to External Organisations		60	6	20	5	See para 2.31-2.34
Advice & Guidance		26	3	15	4	Reactive work based upon demand from services
Other Chargeable Work		70	7	62	15	Includes grant certification work; Bus Service Operators Grant, CWLEP Local Growth Fund, and Family Focus Programme. Some grants require annual certification, some quarterly
Total Audit Days		1038	100	404	100	

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Summary of Audit Work to support the overall opinion

Area	Description of Audit Work	Output
Assurance Work	Audits with formal assurance level.	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 data extract, submission and investigation of matches.	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))

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Assurance Work

- 2.3 A summary of the reports produced in the first half of 2016/17 with the formal assurance level is included below (some of the audit reports may still be 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.
- 2.7 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.

Summary of reports by assurance level

Assurance Level	Half year to 30/9/16 Audit Reports	Full Year 2015/16 Audit Reports
Good	1	6
Satisfactory	1	5
Limited	6	8
No	1	1
Total	9	20

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

Limited Assurance Reports

- 2.9 In each case a number of recommendations have been made. When implemented these will address the identified weaknesses and improve the control environment.
- 2.10 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 Annual Governance Statement process.

Internal Audit Interim Report 2016/17 April – September 2016

Summary of Assurance Reports 2016/17

Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Housing Benefit Fraud Controls	Identified for review as part of the detailed Fraud Risk Assessment	Good	On the whole the identified risks were found to be managed effectively with a small number of lower level actions to further improve the control environment.	All actions agreed Final Report Issued
PATROL ¹	Cheshire East Council is the Host Authority to the PATROL Joint Committee & Bus Lane Adjudication Service Joint Committee.	Satisfactory	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.	Final Report Issued
Children's Direct Payments	Included on Audit Plan due to fraud risk and also identified as potential area for review during planning meetings with Heads of Service.	Limited	Inconsistent level of challenge applied to allocated budgets. Needs and outcomes not consistently recorded or set out in a way that they can be easily monitored and reviewed. No agreed Direct Payment Policy or formal documented procedures in place. Signed Agreements are not in place for all Direct Payments.	All actions agreed Final Report Issued
Contract Management	At the request of the COO to further progress the ongoing work to improve procurement.	Limited	Effective contract management is reliant more upon the skills and initiative of individual commissioners and contract managers, rather than being underpinned by robust processes supported by detailed guidance, training and oversight.	All actions agreed Final Report Issued
PMO Action Plan	Detailed follow up of the consolidated Programme Management Office (PMO) Action Plan that was developed in response to a series of project health checks.	Limited	Although the majority of the actions were in progress some key areas had not been completed. The Action Plan required consideration with Management to ensure that that actions remain valid, appropriate priority levels are allocated to them and a formal monitoring and escalation process undertaken until the outstanding actions are implemented.	All actions agreed Final Report Issued

¹ External Organisation

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Audit Report	Driver/ Background	Assurance Level	Key Findings/Actions (for 'Limited' and 'No' Assurance reports)	Management Response
Attendance Management	The Head of Strategic HR requested an Internal Audit review of attendance management, specifically the reporting, recording and management of sickness	Limited	Although there are policy and procedures in place to manage attendance, testing identified a number of inconsistencies in the application of the prescribed framework and guidance.	All actions agreed Final Report Issued
Key Financial Systems - "Off Oracle" purchasing and payments	Review of feeder systems as part of the 2015/16 Key Financial Systems work	Limited	Lack of training in relation to VAT guidance including the required level of documentation. Difficulties in identifying payments relating to specific children due to issues in Oracle recording unique reference numbers from feeder systems.	All actions agreed Final Report Issued
Adult Social Care Provider Invoices	Significant value of payments processed annually	Limited	Schemes of Delegation required review and update. A standard approach to monitoring credit transactions was required.	All actions agreed Final Report Issued
Air Quality Management	At the request of Chief Executive in response to anomalies being discovered in DEFRA return.	None	The audit confirmed that inaccurate information had been submitted to DEFRA. As part of the audit work, accurate records were produced to inform latest submission. Recommended actions were raised for an external investigation to be carried out. This is currently ongoing.	All actions agreed Draft 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.	Final Report Issued

² External Organisation

Internal Audit Interim Report 2016/17 April – September 2016

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 The School's Audit Programme for 2016/17 will cover the following 3 work areas:
- A thematic review on the effectiveness of performance related pay arrangements at 4 High Schools;
 - A thematic review of purchase card and imprest arrangements at 11 primaries, 1 special school and the Pupil Referral Unit;
 - An audit review of the School's Finance Team.
- 2.13 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. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin".

- 2.14 Findings from all three work areas will inform a consolidated schools report which provides assurance to the Chief Operating Officer and the Director of People. This will also inform the completion of the Annual CFO Assurance Statement by the Chief Operating Officer under Section 151 responsibilities.

Supporting Corporate Governance

- 2.15 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).
- 2.16 During the first half of this financial year Internal Audit has coordinated, on behalf of Management, the production of the Council's AGS for 2015/16 by:
- collecting evidence for and production of the 2015/16 Annual Governance Statement.
 - contribution to and production of Audit & Governance Committee reports on Corporate Governance.
 - Principal Auditor 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 and ensure that the findings have been considered when determining the 2015/16 AGS action plan.

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- Audit work in contribution to and production of CAG reports to Corporate Leadership Team.

Risk Management

- 2.17 Internal Audit assisted in the management of Risk through:
- Delivery of a risk based audit plan; and
 - Audit Manager representation on and contribution to the Corporate Assurance Group (CAG) - to advise on risk management, control, and governance issues identified through audit work.
 - Development and roll out of a Risk Management Policy, Strategy and Framework
- 2.18 Formal reports with regard to the risk management process are made throughout the year to Corporate Leadership Team, Cabinet and Audit and Governance Committee.
- 2.19 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 sits within Internal Audit.
- 2.20 Work has been carried out during the first half of the year to embed the Risk Management Policy, Strategy and Framework within the organisation.
- 2.21 It should be noted that as no additional resource had been provided to complete this work it was necessary to allocate

it to a Senior Auditor and that there was therefore a reduction of 0.4 fte in the level of resource available for core assurance work.

- 2.22 However, approval has been granted to appoint a Risk and Business Continuity Officer on a 6 month contract to ensure that Risk Management is progressed effectively.

Counter Fraud

- 2.23 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.
- 2.24 Work has been completed to ensure that the extraction and submission of data was carried out within deadlines for the latest National Fraud Initiative data matching exercise. This was successfully completed on 10 October 2016.
- 2.25 Additional work will continue during quarter 3 to prepare for the receipt and investigation of matches in January 2017 and to ensure that Cheshire East is suitably prepared for supplementary data submissions during December 2016.
- 2.26 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.

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Consultancy and Advice

- 2.27 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.
- 2.28 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

- 2.29 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.
- 2.30 During 2016/17 this has included work on the following grants which were successfully signed off and submitted to the appropriate central government department:

Family Focus (year to date)	£57,000
Bus Service Operators Grant 2015-16	£348,000
CWLEP Local Growth Fund 2015-16	£14,520,000
Total	£14,925,000

Work for Other Bodies

- 2.31 In addition to the work described above, Internal Audit carried out the following work for external bodies.
- 2.32 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.
- 2.33 Better Care Fund – joint review of governance arrangements with Mersey Internal Audit Agency.
- 2.34 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.

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Implementation of Audit Recommendations

- 2.35 Throughout 2016/17, 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.
- 2.36 Audits with ‘limited’ or ‘no’ assurance are subject to more detailed review. In addition, key systems (e.g. Payroll, Accounts Payable) are audited each year with recommendations followed up as part of the work.
- 2.37 In response to concerns around the low level of implemented recommendations detailed in the Annual Internal Audit Report presented to the June 2016 meeting of Audit and Governance Committee, the COO made a commitment to assist in improving this indicator.
- 2.38 Internal Audit has reacted to this commitment by working proactively with managers to ensure that recommendations

are acted upon and improvements in the control environment implemented.

- 2.39 This has resulted in the highest recorded percentage of recommendations implemented since Cheshire East Council was created and demonstrates a significant improvement since 2015/16 as detailed in the table below:

Implementation of agreed recommendations as at 30 September 2015

On time	After the agreed date	Total implemented	In progress, part implemented or overdue	Superseded or no longer valid
2015/16 ³				
52%	19%	71%	29%	0
2016/17 ⁴				
39%	50%	89%	11%	3

- 2.40 Whilst these figures show that a high percentage of agreed recommendations are implemented, a large proportion are still put in place after the agreed deadline. This is an area for

³ Updated from Annual Report to Include actions issued in 2015/16 but due for implementation in 2016/17

⁴ Revised to take account of actions that were not due for implementation as at 30.09.16

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improvement that will be subject to further attention during the second half of the year.

- 2.41 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 CLT as necessary.

Ongoing Work

- 2.42 The following audits commenced during the first half of the year, with work ongoing in the third quarter of 2016/17:
- Procurement – a piece of work has commenced to review the control and use of Purchase Cards.
 - Schools Audits – Assurance to S151 Officer in accordance with the schools audit programme.
 - Children's Centres – assurance around the level of control in place around financial and performance management.

- School Capacity Return (SCAP) – assurance around the controls in place to ensure that accurate forecasts are produced.
- Highways Asset Revaluation – validation of the data upon which the revaluation is based.

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

- Personal Budgets
- Adult Safeguarding
- Key Financial System reviews

Reliance placed on the work of other assurance bodies

- 2.44 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.

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- 3.2 The findings and opinions of 2016/17 Internal Audit work will be considered in preparing the 2016/17 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	2016/17 Actual	2016/17 Target	2015/16 Actual	Comments on 2016/17 Actuals
% of Audits completed to user's satisfaction	94%	92%	96%	Above Target
% of significant recommendations agreed	100%	90%	100%	Above Target
Productive Time (Chargeable Days)	83%	80%	77%	Above Target
Draft report produced promptly (per Client Satisfaction Form)	90%	95%	97%	Slightly below target as reduced resources caused delay in review process.

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 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 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 In light of the continued absence of the Corporate Manager Governance and Audit and the ongoing vacancy of the Audit

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Manager post, resource within the team remains a risk. As such, approval has been received during the first half of the year to recruit a Senior Auditor and a Risk and Business Continuity Officer on a temporary basis.

- 6.2 Both of these posts have been filled, with the appointments commencing at the beginning of quarter 3.
- 6.3 The high profile audit of procurement and the use of WARNs that has been on hold since December 2015 due to an ongoing police investigation remains outstanding. Additional details relating to this have been provided to members outside of this Interim Report.
- 6.4 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.

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 Director of Legal Services.

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 Director of Legal 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.
- 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.

Internal Audit Charter

7 Responsibility

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

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

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

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

Internal Audit Charter

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

- 7.4 Internal Audit may also undertake non-assurance work including fraud related and consultancy work, at the request of the organisation, 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 Corporate Leadership Team 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 Corporate Leadership Team 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 Corporate Leadership Team 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 Corporate Leadership Team 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 Corporate Leadership Team and the Audit and Governance Committee on Internal Audit's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Corporate Leadership Team 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 Corporate Leadership Team 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: 8th December 2016
Report of: Director of Legal Services
Title: Revising the Council's Code of Corporate Governance
Portfolio Holder: Councillor Peter Groves

1.0 Report Summary

- 1.1 The purpose of this report is to update the Committee on the revision of the Council's Code of Corporate Governance and an associated review of the Council's governance arrangements.

2.0 Recommendation

- 2.1 To consider the updated Code of Corporate Governance and recommend it to Cabinet.

3.0 Reasons for Recommendation

- 3.1 To ensure that the Council has proper and effective governance arrangements in place.

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 Good governance leads to good management, good performance and good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. However, there

are costs associated with embedding and continuing good governance practices, and as the Council's organisational structures develop, the costs associated with governance need to be monitored to ensure they remain proportionate.

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

- 8.1 The Council must adopt a Code of Corporate Governance which has been produced to the standards prescribed in the best practice guidance in order to prepare the Annual Governance Statement (AGS). The best practice guidance is recognised as the CIPFA Framework *Delivering Good Governance in Local Government*, which has recently been updated and was issued earlier in 2016.
- 8.2 The AGS is used by the Council to report publically on the extent to which the Council has complied with its adopted Code, which is a requirement of the Accounts and Audit Regulations (England) 2015.

9.0 Risk Assessment

- 9.1 Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. Failure to develop and maintain a local Code of Corporate Governance and publish an AGS means the Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

10.0 Background

Local Government Corporate Governance

- 10.1 Good governance is about ensuring that the Council does the right things, in the right way, in a timely, open, and accountable manner. It must therefore include the systems, processes, cultures and values by which services are directed and controlled, and by which we are accountable to, and engage with our stakeholders and communities.
- 10.2 CIPFA and the Society of Local Authority of Chief Executives (SOLACE) have provided best practice guidance on establishing a local Code of Corporate Governance. This was originally published in 2001, refreshed in 2007 and 2012 and has most recently updated been updated earlier in 2016; the *Delivering Good Governance in Local Government* framework.
- 10.3 The Council's Code of Corporate Governance was first approved by the Governance and Constitution Committee in November 2009. The Code

has subsequently been reviewed and updated to reflect best practice and organisational changes, firstly in November 2013 and a revised format was agreed to in January 2015. Cheshire East Council's existing Code has been consistent with the principles of the former CIPFA/SOLACE Framework.

- 10.4 In the new framework, the existing six core principles to seven principles drawn from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC 2014). The table below maps the original principles to the new ones, and shows whilst there are differences, the core values are shared.

Old Principles		New Principles	
1	Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas:	C	Defining outcomes in terms of sustainable economic, social and environmental benefits
2	Members and officers working together to achieve a common purpose with clearly defined functions and roles	E	Developing the entity's capacity including the capacity of its leadership and the individuals within it
3	Promoting the values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour	A	Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
4	Taking informed and transparent decisions which are subject to effective scrutiny and managing risks	F	Managing risks and performance through robust internal control and strong public financial management
5	Developing the capacity and capability of members and officers to be effective	E	Developing the entity's capacity including the capacity of its leadership and the individuals within it
5	Engaging with local people and other stakeholders to ensure robust public accountability	B	Ensuring openness and comprehensive stakeholder engagement
		D	Determining the interventions necessary to optimise the achievement of the intended outcomes
		G	Implement good practices in transparency, reporting and audit to deliver effective accountability

Principles A and B are described in the Framework as “permeating” the implementation of Principles C-G. It is also noted that “good governance is dynamic, and that the entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.”

- 10.5 The Council's Code of Corporate Governance articulates the expected standards, principles and values by which Cheshire East Council Officers and Members will operate. There should be clear links between the principles of the Code, and the governance framework of strategies, policies and procedures which underpin the Code.

Revising the Code of Corporate Governance

- 10.6 Each local authority has responsibility for setting out its commitment to the principles of good governance included in the framework, determining its own governance structure, or local code underpinned by those principles, and for ensuring it operates effectively in practice.
- 10.7 The recommendation is to update the Council's Code of Corporate Governance to fully adopt the new principles described in the revised CIPFA/SOLACE guidance to ensure that the Council adheres to best practice in its governance arrangements. The revised Code of Corporate Governance is shown in detail in Appendix A.
- 10.8 The updated Code will be used to facilitate the necessary review of the Council's Corporate Governance arrangements for the purposes of producing the next Annual Governance Statement in 2016/17. The process for producing the Annual Governance Statement is covered elsewhere on the Committee's agenda; (AGS 2015/16 Update)
- 10.9 The Code will be reviewed, and tailored as necessary in the light of operational experience and in response to any issues highlighted in self-assessing against the Code, which is a fundamental part of the Annual Governance Statement assurance gathering process
- 10.9 The review will examine the continuing relevance of the principles and sub principles of the Code, and provides an opportunity to ensure that the evidence sources used to demonstrate compliance with the Code are as wide ranging and comprehensive as possible. Failure to capture all relevant evidence may undermine the quality of the AGS process, and increase the risk of significant governance issues emerging outside of the AGS process

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

Code of Corporate Governance

Draft for Audit and Governance Committee 8/12/2016

1. Introduction

- 1.1. Corporate Governance is about the systems, processes and values by which organisations operate and by which they engage with and are held accountable to their stakeholders.
- 1.2. Cheshire East Council is committed to the principles of effective corporate governance and has therefore adopted a Code of Corporate Governance which follows the guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), entitled “Delivering Good Governance in Local Government – Framework” (2016 Edition).
- 1.3. The guidance defines the seven core principles, that underpin the governance framework of a local authority:
 - A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
 - B. Ensuring openness and comprehensive stakeholder engagement
 - C. Defining outcomes in terms of sustainable economic, social and environmental benefits
 - D. Determining the interventions necessary to optimise the achievement of the intended outcomes
 - E. Developing the entity’s capacity including the capacity of its leadership and the individuals within it.
 - F. Managing risks and performance through robust internal control and strong public financial management
 - G. Implement good practices in transparency, reporting and audit to deliver effective accountability
- 1.4. Good governance leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. It enables the Council to pursue its vision effectively as well as underpinning that vision with mechanisms for control and the management of risk.
- 1.5. Cheshire East Council has a robust governance framework in place. The policies, procedures and arrangements which comprise the framework demonstrate that the Council continually seeks to ensure it is and remains, well governed, through integration of the core principles of the CIPFA/SOLACE framework into all aspects of the Council’s conduct and operation.
- 1.6. Cheshire East Council, as a commissioning Council increasingly works with a range of other organisations to deliver services and achieve its corporate objectives. There is a need to ensure the Council’s governance standards are shared with our delivery partners, and that the Council has mechanisms in place to monitor compliance with these expectations.

- 1.7. The Chief Operating Officer is responsible for ensuring the Code is reviewed annually, and the outcome of the review, along with adoption of any revision to the Code is reported to the Audit and Governance Committee for approval as the Annual Governance Statement.
- 1.8. The Council produces an Annual Governance Statement to report publicly on how the Council has complied with its own Code of Corporate Governance, including how the effectiveness of these arrangements during the year has been monitored.
- 1.9. The production of the Annual Governance Statement is required for compliance with the Accounts and Audit Regulations (England) 2015, and the Statement is presented to the Audit and Governance Committee annually in conjunction with the Statement of Accounts.
- 1.10. The following tables identify the means by which Cheshire East Council will achieve the core and supporting principles of its Code of Corporate Governance, along with examples of the evidence associated with them.

A - Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
Behaving with integrity	Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation.	<ul style="list-style-type: none"> • Code of Conduct for Officers and Members • Induction for Officers and Members • Performance Development Process
	Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles).	<ul style="list-style-type: none"> • Communication of shared values to members, staff, residents and partners • Leader's Announcements to Council • "FIRST" values and behaviours • Corporate Plan
	Leading by example and using the above standard operating principles or values as a framework for decision making and other actions.	<ul style="list-style-type: none"> • Declarations of interests in meetings • Conduct at meetings • Standards Committee
	Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that effectively.	<ul style="list-style-type: none"> • Anti-fraud Policy • Register of staff interests • Register of gifts and hospitality • Whistleblowing policy • Complaints policies • Recorded declaration of interests at meetings
Demonstrating strong commitment to ethical values	Seeking to establish, monitor and maintain the organisation's ethical standards and performance.	<ul style="list-style-type: none"> • Constitution Committee • Council's Constitution
	Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation.	<ul style="list-style-type: none"> • FIRST "values and behaviours"

A - Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
	Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values.	<ul style="list-style-type: none"> • Procurement rules • Performance development process
	Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation.	<ul style="list-style-type: none"> • Documented shared values in partnership working • Finance and Contract Procedure rules
Respecting the rule of law	Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations.	<ul style="list-style-type: none"> • Statutory provisions • Constitution • Schemes of delegation
	Creating the conditions to ensure that the statutory officers, other key post holders, and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements.	<ul style="list-style-type: none"> • Job description/person specifications • Terms of reference for Committees • Democratic services • Compliance with CIPFA's Statement on the Roles of the Chief Financial Officer in Local Government
	Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders.	<ul style="list-style-type: none"> • Reports to Committee's, including legal implications • Open data website • Scrutiny function
	Dealing with breaches of legal and regulatory provisions effectively.	<ul style="list-style-type: none"> • Monitoring Officer function and provisions • Legal advice
	Ensuring corruption and misuse of power are dealt with effectively.	<ul style="list-style-type: none"> • Anti-fraud policy • Whistleblowing policy

B: Ensuring openness and comprehensive stakeholder engagement		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
Openness	Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness.	<ul style="list-style-type: none"> • Publication Scheme/Compliance with the Local Government Transparency Code 2015 • Opportunity for public speaking provided in Committee Meetings • Variety of communication channels available; Customer Service Centres, Online Reporting and Forms, Social Media and Customer Call Centres • Acceptance of paper/online petitions • Pay policy statement • Authority's website • Corporate Plan • Financial Statements • Published Committee agendas, papers and minutes
	Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If this is not the case, a justification for the reasoning for keeping a decision confidential should be provided.	<ul style="list-style-type: none"> • Published Committee agendas, papers and minutes including decision record • Committee report format and clearance procedure
	Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about criteria, rationale and considerations used. In due course, ensuring that	<ul style="list-style-type: none"> • Decision making protocol • Committee report format and clearance procedure

B: Ensuring openness and comprehensive stakeholder engagement		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
	the impact and consequences of those decisions are clear.	<ul style="list-style-type: none"> • Published Committee agendas, papers and minutes including decision record • Published calendar of meetings
	Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/course of action.	<ul style="list-style-type: none"> • Consultation • Consultation results • Digital influence panel • Pre-budget consultation strategy • Research and consultation team
Engaging comprehensively with institutional stakeholders	Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably.	<ul style="list-style-type: none"> • Consultation • Consultation results/ record • Digital influence panel • Pre-budget consultation strategy
	Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively.	<ul style="list-style-type: none"> • Sustainable Community Strategy • Commissioning Plans
	Ensuring that partnerships are based on trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit.	<ul style="list-style-type: none"> • Sustainable Community Strategy • Commissioning Plans • Documented partnership arrangements; Memorandums of Understandings, Terms of Reference etc.
Engaging with individual citizens and service users effectively.	Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes.	<ul style="list-style-type: none"> • Consultation • Consultation results/ record • Equality Impact Assessments • Documented partnership arrangements; Memorandums of

B: Ensuring openness and comprehensive stakeholder engagement		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
		Understandings, Terms of Reference etc.
	Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement.	<ul style="list-style-type: none"> • Sustainable Community Strategy • Research and Consultation team
	Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs.	<ul style="list-style-type: none"> • Sustainable Community Strategy • Joint strategic needs assessment • Research and Consultation team
	Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account.	<ul style="list-style-type: none"> • Research and Consultation team • Published Consultation results
	Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity.	<ul style="list-style-type: none"> • Consultation • Consultation results/ record • Research and Consultation team • Published Committee agendas, papers and minutes including decision record
	Taking account of the impact of decisions on future generations of tax payers and service users.	<ul style="list-style-type: none"> • Published Committee agendas, papers and minutes including decision record • Consultation • Consultation results/ record • Research and Consultation team

C: Defining outcomes in terms of sustainable economic, social, and environmental benefits		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
Defining outcomes	Having a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions.	<ul style="list-style-type: none"> • Corporate Plan • Medium Term Financial Strategy • Sustainable Community Strategy • Annual Budget Book
	Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer.	<ul style="list-style-type: none"> • Corporate Plan • Commissioning Plans • Service/Team Plans • Sustainable Community Strategy
	Delivering defined outcomes on a sustainable basis within the resources that will be available.	<ul style="list-style-type: none"> • Quarterly Performance Reports – Cabinet and Scrutiny Committee
	Identifying and managing risks to the achievement of outcomes.	<ul style="list-style-type: none"> • Quarterly Performance Reports – Cabinet and Scrutiny Committee • Risk Management Strategy and Policy • Risk Management Group • Audit reports and action plans
	Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available.	<ul style="list-style-type: none"> • Commissioning Strategies • Contracts/SLAS • Business Intelligence/Research and Consultation
Sustainable economic, social and environmental benefits	Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decision about service provision.	<ul style="list-style-type: none"> • Corporate Plan • Medium Term Financial Strategy • Capital Programme • Annual Budget Book • Published Committee agendas, papers and minutes including

C: Defining outcomes in terms of sustainable economic, social, and environmental benefits		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
		decision record
	Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints.	<ul style="list-style-type: none"> • Published Committee agendas, papers and minutes including decision record • Risk Management Strategy and Policy • Risk Management Group • Corporate Plan • Medium Term Financial Strategy
	Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs.	<ul style="list-style-type: none"> • Programme Management Office • Project Management • Business Planning Process • Published Committee agendas, papers and minutes including decision record • Risk Management Strategy and Policy • Risk Management Group • Corporate Plan • Medium Term Financial Strategy • Business Intelligence/Research and Consultation • Pre-budget consultation strategy
	Ensuring fair access to services.	<ul style="list-style-type: none"> • Sustainable Community Strategy • Research and Consultation team • Published Committee agendas,

C: Defining outcomes in terms of sustainable economic, social, and environmental benefits		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
		papers and minutes including decision record.

D: Determining the interventions necessary to optimise the achievement of the intended outcomes		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
Determining interventions	Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided.	<ul style="list-style-type: none"> • Programme Management Office • Project Management • Business Planning Process • Published Committee agendas, papers and minutes including decision record • Risk Management Strategy and Policy • Committee report format and clearance procedure • Calendar of Committee Meetings
	Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts.	<ul style="list-style-type: none"> • Corporate Plan • Medium Term Financial Strategy • Pre-budget consultation strategy
Planning interventions	Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets	<ul style="list-style-type: none"> • Committee report format and clearance procedure • Calendar of Committee Meetings
	Engaging with internal and external stakeholders in determining how	<ul style="list-style-type: none"> • Sustainable Community Strategy

D: Determining the interventions necessary to optimise the achievement of the intended outcomes		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
	services and other courses of action should be planned and delivered.	<ul style="list-style-type: none"> • Research and Consultation team • Programme Management Office • Project Management • Business Planning Process
	Considering and monitoring risks facing each partner when working collaboratively, including shared risks.	<ul style="list-style-type: none"> • Risk Management Strategy and Policy
	Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances.	<ul style="list-style-type: none"> • Programme Management Office • Project Management • Business Planning Process • Published Committee agendas, papers and minutes including decision record
	Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured.	<ul style="list-style-type: none"> • Commissioning arrangements • Programme Management Office • Project Management • Quarterly Performance Reports – Cabinet and Scrutiny Committee
	Ensuring capacity exists to generate the information required to review service quality regularly	<ul style="list-style-type: none"> • Commissioning arrangements; contracts, specifications etc. • Compliments and Complaints processes
	Preparing budgets in accordance with objectives, strategies and the medium term financial plan	<ul style="list-style-type: none"> • Corporate Plan • Medium Term Financial Strategy • Capital Programme • Annual Budget Book • Quarterly Performance Reports –

D: Determining the interventions necessary to optimise the achievement of the intended outcomes		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
		Cabinet and Scrutiny Committee
	Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy.	<ul style="list-style-type: none"> • Sustainable Community Strategy • Corporate Plan • Medium Term Financial Strategy • Capital Programme • Annual Budget Book • Quarterly Performance Reports – Cabinet and Scrutiny Committee
Optimising achievement of intended outcomes	Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints	<ul style="list-style-type: none"> • Corporate Plan • Medium Term Financial Strategy • Capital Programme • Annual Budget Book • Quarterly Performance Reports – Cabinet and Scrutiny Committee
	Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term.	<ul style="list-style-type: none"> • Programme Management Office • Project Management • Business Planning Process • Pre-budget consultation strategy • Medium Term Financial Strategy • Annual Budget Book • Quarterly Performance Reports – Cabinet and Scrutiny Committee
	Ensuring the medium term financial strategy sets the context for ongoing decision on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage.	<ul style="list-style-type: none"> • Programme Management Office • Project Management • Business Planning Process • Pre-budget consultation strategy

D: Determining the interventions necessary to optimise the achievement of the intended outcomes		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
		<ul style="list-style-type: none"> • Medium Term Financial Strategy • Annual Budget Book • Quarterly Performance Reports – Cabinet and Scrutiny Committee
	Ensuring the achievement of “social value” through service planning and commissioning.	<ul style="list-style-type: none"> • Project Management • Business Planning Process • Social Value Policy

E Developing the entity’s capacity , including the capacity of it’s leadership and the individuals within it		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
Developing the entity’s capacity	Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness.	<ul style="list-style-type: none"> • Strategic Asset Management Plan • Quarterly Performance Reports – Cabinet and Scrutiny Committee
	Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently.	<ul style="list-style-type: none"> • Benchmarking exercises • Research and Consultation team
	Recognising the benefits of partnerships and collaborative working where added value can be achieved.	<ul style="list-style-type: none"> • Sustainable Community Strategy • Published Committee agendas, papers and minutes including decision record
	Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources.	<ul style="list-style-type: none"> • Workforce Strategy • Reports to Staffing Committee
Developing the capability of the entity’s	Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the	<ul style="list-style-type: none"> • Job descriptions/personal specifications

E Developing the entity's capacity , including the capacity of it's leadership and the individuals within it		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
leadership and other individuals.	relationship and that a shared understanding of roles and objectives is maintained.	<ul style="list-style-type: none"> • Member/Officer Code of Conduct • Constitution • Financial and Local Schemes of Delegation
	Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body.	<ul style="list-style-type: none"> • Constitution • Financial and Local Schemes of Delegation
	Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority.	<ul style="list-style-type: none"> • Job descriptions/personal specifications • Member/Officer Code of Conduct • Constitution • Financial and Local Schemes of Delegation
	Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risk by:- <ul style="list-style-type: none"> • Ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged. • Ensuring members and offices have the appropriate skills, knowledge resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis. • Ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance 	<ul style="list-style-type: none"> • Induction processes • Personal development process • Role of scrutiny • Democratic Services/Member support • Workforce strategy

E Developing the entity's capacity , including the capacity of it's leadership and the individuals within it		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
	weaknesses both internal and external.	
	Ensuring that there are structures in place to encourage public participation.	<ul style="list-style-type: none"> • Research and Consultation team • Digital influence panel • Sustainable Communities Strategy
	Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections	<ul style="list-style-type: none"> • Member training and skills development framework
	Holding staff to account through regular performance reviews which take account of training or development needs.	<ul style="list-style-type: none"> • Induction processes • Personal development process
	Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing.	<ul style="list-style-type: none"> • Workforce Strategy • Personal development process • Reports to Staffing Committee

F: Managing risks and performance through robust internal control an strong public financial management		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
Managing risk	Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making.	<ul style="list-style-type: none"> • Risk management strategy and policy • Committee report format and clearance procedure
	Implementing robust and integrated risk management arrangements and ensuring that they are working effectively.	<ul style="list-style-type: none"> • Risk management strategy and policy • Reports to Audit and Governance Committee • Annual Governance Statement assurance gathering

F: Managing risks and performance through robust internal control and strong public financial management		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
	Ensuring that responsibilities for managing individual risks are clearly allocated.	<ul style="list-style-type: none"> • Risk management strategy and policy • Corporate/strategic risk register • Directorate/Team risk registers
Managing performance	Monitoring service delivery effectively including planning, specification, execution and independent post implementation review.	<ul style="list-style-type: none"> • Quarterly Performance Reports – Cabinet and Scrutiny Committee • Benchmarking exercises • Calendar of Committee Meetings
	Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook.	<ul style="list-style-type: none"> • Committee report format and clearance procedure • Committee work programmes • Calendar of Committee Meetings • Published Committee agendas, papers and minutes including decision record • Officer decision notices
	Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making.	<ul style="list-style-type: none"> • Terms of reference and Work Programmes for Scrutiny Committees • Annual Scrutiny report to Council • Published Committee agendas, papers and minutes including decision record • Member training and development
	Providing members and senior management with regular reports on service delivery plans on progress towards outcome achievement.	<ul style="list-style-type: none"> • Calendar of Committee Meetings • Committee report format and

F: Managing risks and performance through robust internal control an strong public financial management		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
		clearance procedure
	Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements).	<ul style="list-style-type: none"> • Finance and contract procedure rules • Programme Management Office • Advice and guidance from the Finance and Accountancy team
Robust internal control	Aligning the risk management strategy and policies on internal control with achieving objectives.	<ul style="list-style-type: none"> • Risk management strategy and policy • Annual Audit Plan • Audit Reports
	Evaluating and monitoring risk management and internal control on a regular basis.	<ul style="list-style-type: none"> • Risk management strategy and policy • Reports to Audit and Governance Committee
	Ensuring effective counter fraud and anti-corruption arrangements are in place.	<ul style="list-style-type: none"> • Anti-Fraud and Corruption Strategy • Whistleblowing Policy • Reports to Audit and Governance Committee
	Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor.	<ul style="list-style-type: none"> • Annual Governance Statement • Maintaining and resourcing an effective internal audit function • Reports to Audit and Governance Committee
	Ensuring an audit committee or equivalent group/function, which is independent of the executive and accountable to the governing body: - Provides a further source of effective assurance regarding	<ul style="list-style-type: none"> • Self-assessment of the Audit and Governance Committee against best practice, defined in "Audit

F: Managing risks and performance through robust internal control and strong public financial management		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
	arrangements for managing risk and maintaining an effective control environment - That its recommendations are listened to and acted upon.	Committees: Practical Guidance for Local Authorities and Police"
Managing data	Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data.	<ul style="list-style-type: none"> • ICT Code of Practice and associated ICT policies • Information assurance policy • Information Asset Register • Mandatory Information Governance training • Data Protection Officer • Data protection policy
	Ensuring effective arrangements are in place and operating effectively, when sharing data with other bodies.	<ul style="list-style-type: none"> • Data sharing protocol • Data sharing register • Appointed Caldicott Guardian and deputies
	Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring.	<ul style="list-style-type: none"> • Information Asset Register • Information assurance policy • Information governance training
Strong public financial management	Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance.	<ul style="list-style-type: none"> • Corporate Plan • Business planning process • Quarterly Performance Reports – Cabinet and Scrutiny Committee
	Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls	<ul style="list-style-type: none"> • Budget monitoring arrangements • Quarterly Performance Reports – Cabinet and Scrutiny Committee

G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
Implementing good practice in transparency Implementing good practices in reporting Assurance and effective accountability	Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.	<ul style="list-style-type: none"> • Committee report format and clearance procedure • Published Committee agendas, papers and minutes including decision record • Open data website
	Striking a balance between providing the right amounts of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand.	<ul style="list-style-type: none"> • Compliance with the Local Government Transparency Code 2015 • Open data website • Committee report format and clearance procedure
	Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way.	<ul style="list-style-type: none"> • Annual financial statements • Annual governance Statement • External Audit reports
	Ensuring members and senior management own the results reported.	<ul style="list-style-type: none"> • Annual Governance Statement • Reports to Audit and Governance Committee • Published Committee agendas, papers and minutes including decision record
	Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement).	<ul style="list-style-type: none"> • Annual Governance Statement

G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
	Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate.	<ul style="list-style-type: none"> • Annual Governance Statement
	Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations.	<ul style="list-style-type: none"> • Publication of financial statements in line with best practice guidance
	Ensuring that recommendations for corrective action made by external audit are acted upon.	<ul style="list-style-type: none"> • External Audit reports • Reports to Audit and Governance Committee • Self-assessment of the Internal Audit function against the best practice guidance; “Public Sector Internal Audit Standards” and CIPFA’s “Statement on the Role of the Head of Internal Audit” • Internal Audit Charter
	Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon.	<ul style="list-style-type: none"> • External Audit reports • Reports to Audit and Governance Committee • Self-assessment of the Internal Audit function against the best practice guidance; “Public Sector Internal Audit Standards” and CIPFA’s “Statement on the Role of the Head of Internal Audit” • Internal Audit Charter
	Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations.	<ul style="list-style-type: none"> • Assurance gathering process for the Annual Governance Statement

G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability		
Supporting principles	Behaviours and actions that demonstrate good governance	Evidenced in practice at Cheshire East Council by:
		<ul style="list-style-type: none"> • Reports to the Audit and Governance Committee
	Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement.	<ul style="list-style-type: none"> • Annual Governance Statement
	Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met.	<ul style="list-style-type: none"> • Sustainable Community Strategy • Commissioning arrangements

CHESHIRE EAST COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting:	8 th December 2016
Report of:	Chief Operating Officer
Subject/Title:	Arrangements for the Appointment of External Auditors
Portfolio Holder:	Councillor Peter Groves

1.0 Report Summary

- 1.1 The report summarises the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.
- 1.2 The Council will need to consider the options available and put in place new arrangements. The deadline for appointments is 31 December 2017.
- 1.3 The available options are:
 - A. Establish a stand alone Auditor Panel to make the appointment on behalf of the Council;
 - B. Explore the establishment of local joint procurement arrangements with neighbouring authorities; or
 - C. Opt-in to the national Sector Led Body, Public Sector Audit Appointments Ltd (PSAA).
- 1.4 The report recommends Option C.
- 1.5 In order to opt into the national Sector Led body, a decision will be required at a meeting of the full Council in time to submit a formal acceptance to PSAA by the required date of 9 March 2017.

2.0 Recommendation

- 2.2 That the Audit and Governance Committee recommend to Council to accept the invitation from Public Sector Audit Appointments Ltd to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

3.0 Reasons for Recommendations

- 3.1 The Local Government Association (LGA) and the Department of Communities and Local Government (DCLG) have approved the PSAA to become the sector led body. The PSAA is a not-for-profit company which already administers the current audit contracts.

- 3.2 A sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than any procurement undertaken locally. Without the national appointment, the Council would need to establish a separate independent audit panel, which could be costly and time consuming.
- 3.3 PSAA can ensure the appointed auditor meets and maintains the required quality standards and can manage any potential conflicts of interest much more easily than the Council.
- 3.4 Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector and this Council going forward into the medium and long term.

4.0 Wards Affected

- 4.1 All.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 None.

7.0 Implications for Rural Communities

- 7.1 None

8.0 Financial Implications

- 8.1 Current external audit fees levels are likely to increase when the current contracts end in 2018, regardless of the procurement option.
- 8.2 Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

9.0 Legal Implications

- 9.1 The arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will apply for audit of the accounts of principal local authority bodies from 2018/19 onwards. Auditor appointments must be made for 2018/19 audits by 31 December 2017, as required by Section 7 of the Act. Appointments may be made by the audited body itself, by groups of audited bodies, or by a specified appointing person.

- 9.2 The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) on a transitional basis to PSAA by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.
- 9.3 Under these transitional arrangements, the company is currently responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.
- 9.4 In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of the accounts from 2018/19 of principal authorities that choose to opt into its arrangements.

10.0 Risk Management

- 10.1 The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting into the sector led approach through PSAA.

11.0 Background and Options

- 11.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 11.2 The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 11.3 The 'appointing person', PSAA is inviting the Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.

The principal benefits from such an approach are as follows:

- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;

- PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
- Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
- It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
- The overall procurement costs would be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel';
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

11.4 The scope of the audit will be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow.

Other Options

11.5 If the Council did not opt in there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees; this excludes current and former elected members or officers and their close families and friends. This means that elected members will not have a majority input to assessing bids choosing which audit firm to award a contract for the Council's external audit.

11.6 Alternatively the Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

11.7 Neither of these options is recommended as both these options would be more resource intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

12.0 Access to Information

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

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CESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 8 December 2016
Report of: Corporate Manager Governance and Audit
Title: Cardiff Checks – Feedback from Member/Officer Group
Portfolio Holder: Councillor Rachel Bailey

1.0 Report Summary

- 1.1 This report provides the Audit and Governance Committee with an overview of the Cardiff Checks undertaken by Internal Audit and the Counter Fraud Member/Officer Sub Group during 2016.

2.0 Recommendation

- 2.1 That the Committee:
- i) note the findings from the report, and;
 - ii) consider whether the Cardiff Checks provide them with the required level of assurance with regards to procurement and whether they wish them to continue.

3.0 Reasons for Recommendation

- 3.1 The Committee should consider the level of assurance provided to it by the completion of these additional procurement checks and balance this against the cost to the organisation in order to be satisfied that it is proportional to the risk.

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 Director of Legal Services)

8.1 None.

9.0 Risk Assessment

9.1 None.

11.0 Background and Options

11.1 In December 2015 Audit and Governance Committee agreed that the completion of a series of Cardiff Checks would be added to the work programme for the Counter Fraud Member/Officer Group.

11.2 These checks, which involve checking samples of procurement transactions against a series of standard procurement questions, have been completed in advance of the March, June and September 2016 Audit and Governance Committee meetings with the findings fed back to the Counter Fraud Member/Officer Group.

11.3 The transactions to be tested were chosen by Members from the 'Council Payments over £500' report and Internal Audit completed the testing schedule and gathering of evidence which was provided to the next meeting of the Member/Officer Group. Following the first round of testing, it was agreed with Members that social care payments would be excluded from the sample as they follow a different procurement methodology.

11.4 A total of 16 transactions have been tested with the values ranging from £526 to £569k with the following results:

- i) 11 of the 16 transactions were found to be fully compliant with the expected process.
- ii) 2 of the 16 transactions did not have a contract in place. In investigating these anomalies, it was established that Procurement were already aware of both instances and were actively engaged with the respective services to ensure that appropriate action was taken to rectify these matters. It should be noted that the value of these transactions was £649.20 and £867.50.
- iii) 1 of the transactions identified above was also non-compliant with regards to retaining paperwork to evidence that goods/services had been received and budget checks had not been carried out prior to committing the individual item of expenditure. It should be noted that this specific transaction was for £649.20 and the service had in place a process for inspecting work carried out but not for retaining a central record of this. Budget checks were found to be undertaken on a monthly basis.
- iv) A further transaction for £1,447.27 was found to have no retained copy of the goods received note but this was deemed to be a minor issue as the goods had been receipted on Oracle and it was possible to confirm receipt via other records.

- v) The final 2 anomalies were deemed to be minor and related to the level of detail being recorded on the Purchase Order. However, in investigating these transactions, it was confirmed that they were supported by a detailed management agreement and collective funding agreement respectively.
- 11.5 The findings from the Cardiff Checks have been fed back to Procurement and the services responsible for the transactions and will also be taken into consideration when scoping the reviews of Key Financial Systems that will take place during quarters three and four of 2016/17.
- 11.6 Members are asked to take assurance that the majority of transactions tested were found to have been procured in accordance with Finance and Contract Procedure Rules and that, in the main, identified anomalies were minor and in relation to retention of supporting documentation. Where this was not the case, it was reassuring that Procurement were already working with the services.
- 11.7 Unless Members request otherwise, Internal Audit will continue to undertake Cardiff Checks in line with agreed approaches in order to provide Audit and Governance Committee with the additional levels of assurance it has requested with regards to procurement transactions.

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: 8 December 2016
Report of: Corporate Manager Governance and Audit
Title: Work Plan 2016/17
Portfolio Holder: Councillor Rachel Bailey

1.0 Report Summary

- 1.1 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;
 - note that the plan will be brought back to the Committee throughout the year for further 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 Director of Legal Services)

- 8.1 The Work Plan for 2016/17 takes account of the requirements of 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.

- 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: Principal Auditor

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Work Plan 2016/17

		Terms of Reference - May 2014	
Agenda Item	Description	No	Detail
8th December 2016			
Grant Thornton - Annual Audit Letter 2015/16	Summary of the External Audit findings from 2015/16 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 2015/16 claims and returns.	31	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
Draft Treasury Management Strategy and MRP Statement	Update on the contents of the Council's Treasury Management Strategy for 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.	17	To review and monitor the Council's Treasury Management arrangements in accordance with the CIPFA Treasury Management Code of Practice.
Risk Management Policy Review.	A report on the progress on the implementation against the Risk Management Strategy and review of the Corporate Risk Register.	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 2016/17 and Internal Audit Charter	Progress report against the Internal Audit Plan 2016/16. Review of Internal Audit Charter in accordance with Public Sector Internal Audit	12	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed

Work Plan 2016/17

	Standards	<p>actions, including calling managers to explain lack of progress.</p> <p>18 To approve the Internal Audit Charter.</p> <p>21 To approve significant interim changes to the risk-based Internal Audit Plan and resource requirements.</p> <p>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:</p> <p>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.</p> <p>b) Regular reports on the results of the Quality Assurance and Improvement Programme.</p> <p>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.</p> <p>25 To consider summaries of specific internal audit reports as requested.</p>
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Work Plan 2016/17

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 was published April 16r, with current expectations that organisations would produce their 16/17 AGS with reference to the new guidance.</p>	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
Appointment of the External Auditor post 2017/18	<p>The report provides information on the requirement for Local Authorities to appoint an External Auditor and the process to be undertaken in doing so.</p> <p>The current arrangements conclude upon completion of the 2017/18 audit.</p>	4	It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
Appointment of an Independent Member to the Audit and Governance Committee. (Verbal Update)	Update on the progress towards the recruitment of the Independent Audit and Governance Committee Member.		The co-option of an independent member is intended to bring additional knowledge and expertise to the Committee and reinforce its political neutrality and independence.
Feedback from Counter Fraud Member/Officer Groups	The report provides an update on the outcome of the 'Cardiff Check' procurement reviews that have been undertaken by the Counter Fraud Member/Officer Sub Group.	44	The Committee may establish standing and time-bound working groups (which may but need not be politically balanced) to consider any matters within the terms of reference of the Committee
WARNS	<p>Report to update Committee on the quantity and reasons for WARNs approved since the last Committee.</p> <p>Approved WARNs will also be presented as a Part 2 item.</p>		As requested by Members at December 2015 meeting

Work Plan 2016/17

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 Council's procurement arrangements	An audit of the Council's procurement arrangements will be resumed following the completion of the current police investigation. The findings of this audit will be shared with the Committee.	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.
Fraud Update	Presentation on the latest national and local situation with regards to countering fraud and corruption.	13 14 15	To review the assessment of fraud risks and potential harm to the Council from fraud and corruption To make recommendations to the Executive on the Council's arrangements for deterring, preventing, detecting and investigating fraud. To monitor the counter fraud strategy, actions and resources
Upheld Complaints to the Local Government Ombudsmen	Members have requested that they receive a report where there is a complaint is upheld by the Local Government Ombudsmen. This will need to be a standing agenda item, and will require ongoing co-ordination between the Compliance Manager, Democratic Services, the responsible service and the Chair/Vice Chair to establish <ul style="list-style-type: none"> if there have been any upheld complaints to be reported on to the next agenda 		

Work Plan 2016/17

	<ul style="list-style-type: none"> the appropriate part of the agenda for the report to be considered clarity on the purpose of the report, the nature of the assurances to be provided in the report, and that this process doesn't duplicate any existing process or reporting. 		
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	<p>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.</p> <p>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.</p>
Work Programme for Member/Officer Working Groups	<p>Forward looking programme of meetings and agenda items to:</p> <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 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. 	44	The Committee may establish standing and time-bound working groups (which may but need not be politically balanced) to consider any matters within the terms of reference of the Committee.
Feedback from	The outcome of Member/Officer Groups work which,	44	The Committee may establish standing and time-bound working groups (which may but

Work Plan 2016/17

Member/Officer Working Groups	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.		need not be politically balanced) to consider any matters within the terms of reference of the Committee.
Governance Update for the Council's Alternative Service Delivery Vehicles.	The report provides information on the governance arrangements within the Councils ASDV's	25	To review the Council's governance arrangements for ASDV's.
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.
Business Continuity Plans Report.	A report on the progress of the implementation of the Council's Business Continuity arrangements.	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. At the request of Members in June 2016.
Report on the responses to the staff survey.	A report summarising the responses to the staff survey.	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. At the request of Members in June 2016.

Work Plan 2016/17

Independent assessment of post procurement /contract delivery	Assurance on the effectiveness of contract delivery/procurements.		At the request of Members in September 2016 following discussion on WARNS and Procurement.
Audit and Governance Committee Self-Assessment	Progress against the 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.
Impact on the Council of the negotiations to leave the European Union (EU).	Assurance on the Council's plans and arrangements in response to the negotiations to leave the EU, with the formation of the new government, subsequent national and local policies and potential financial consequences.	11	To monitor progress in addressing risk related issues reported to the Committee.

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of meeting: 8th December 2016
Report of: Chief Operating Officer
Title: Waivers and Non Adherences (WARNs)
Portfolio Holder: Councillor Paul Findlow

1.0 Report Summary

1.1 The purpose of the report is to:

- i) update the Audit and Governance Committee on the quantity and reasons for Waiver and Non Adherences (WARNs) which have been approved between 1st September 2016 to 31st October 2016.
- ii) present the approved WARNs to the committee for review.

2.0 Recommendation

2.1 That the Committee:

- i) note the quantity and reason of WARNs
- ii) note the approved WARNs between 1st September 2016 and 31st October 2016

3.0 Reasons for Recommendation

3.1 The Audit and Governance Committee has a key role in overseeing governance arrangements and requirement to review all approved WARNs from September to October 2016. The WARN process forms part of our Contract Procedure Rules (CPRs), which are intended to promote good Procurement and Commissioning practice, transparency and clear public accountability. This process is seen as sector leading as very few Authorities have procedures in place with the robustness that is provided from our approach.

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 Council's Constitution (Finance Procedure Rule B25) explains that the Corporate Leadership Team (CLT) are responsible for working within their respective budget limits and to utilise resources allocated to them in the most efficient, effective and economic way.

7.2 Along with comments from Procurement and Legal Officers, Finance Officer's are invited to make comments in respect of each WARN, to help ensure Finance Procedure Rules are adhered to in this regard (e.g. that the relevant Service has identified sufficient existing budget to cover the proposal; and also that the Service has considered how to achieve best value for money via this particular recommended course of action).

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

8.1 All employees must ensure that they use any Council or other public funds entrusted to them through their job role in a responsible and lawful manner.

8.2 Employees must also seek to ensure value for money and take care to avoid the risk of legal challenge to the Council in relation to the use of its financial resources. The Council's Officer Delegations, Finance and Contract Procedure Rules and Operating Procedures must, therefore, be followed at all times. This report sets out compliance with Contract Procedure Rules.

9.0 Risk Assessment

9.1 Item 18 on the Council's Corporate Risk Register considers Governance. The focus is the risk that processes are not complied with, which increases the likelihood of legal challenge causing significant financial and reputational risk to the Council. This includes procurement processes.

9.2 The corporate risk is owned by the Chief Operating Officer and at the last review was rated as a nine (where 0 is the lowest rating and 16 is the maximum level). The risk level has remained constant and is kept under the review of the Corporate Procurement Board.

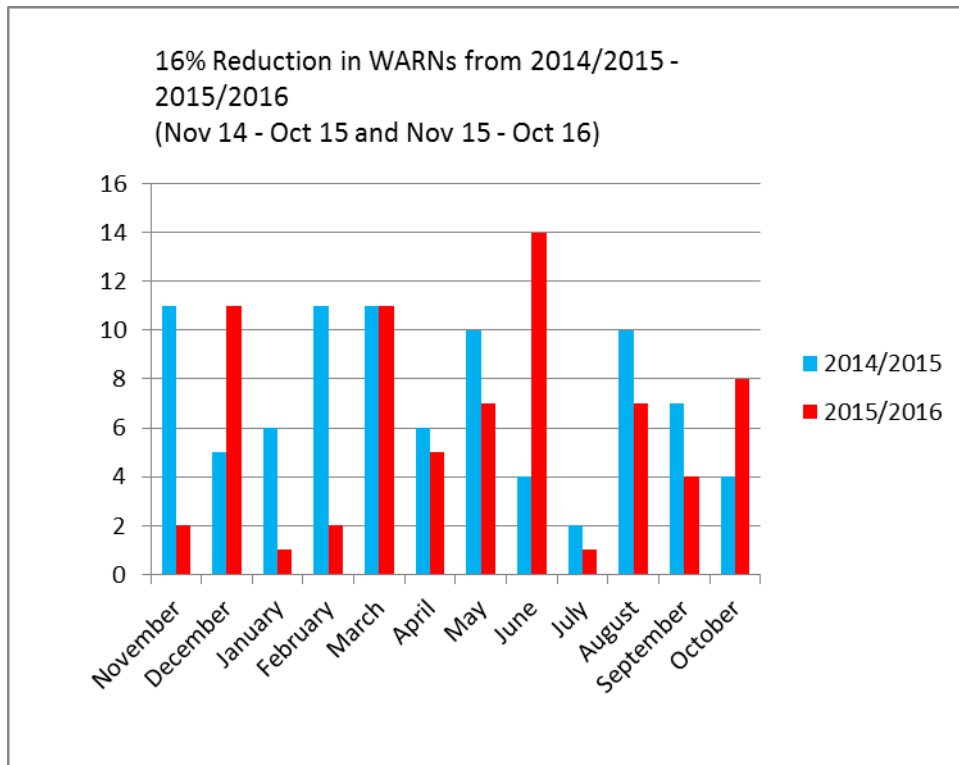
10.0 Background

10.1 All WARNs approved in the period between the Audit and Governance Committee will be presented to the following Committee. However the cut off period for reporting the WARNs will be the end of the month previous to writing the report. The cut off period for this report is the 31st October 2016.

- 10.2 The number of WARNs being presented to the December Audit and Governance Committee is 12, 4 waivers to the Contract Procedure Rules and 8 non adherence.
- 10.3 All WARNs will be presented to the Audit and Governance Committee without any information being redacted. However they will be presented in part 2 of the Committee as they may contain commercially sensitive information or Officer details below the salary grade Cheshire East release under FOI. The main report will be will be presented in part 1.
- 10.4 All WARNs are analysed and presented to the Procurement Board where trends are identified and solutions put in place for repeat WARNs in category areas.
- 10.5 The WARN process records the following;
- Waivers to the Contract Procedure Rules – These are agreed waivers in accordance with 5.2.1 of the Contract Procedure Rules.
 - Non Adherence to the Contract Procedure Rules – This is a breach of the Contract Procedure Rules in accordance with 5.3.1.
- 10.6 A summary of WARNs for the reporting periods 2014-2015 and 2015-2016 is set out below, also providing the total number of WARNs for the period April – October 2016:

WARNs	2014-2015	2015-2016	2016-17 Apr 16 – Oct 16
Non Adherence to CPRs	20	25	24
Waiver to the CPR's	62	45	22
Grand Total	82	70	46

As you can see from the above the number of non-adherences has increased, this is due to the control mechanisms that are now in place within our procedures which enables the procurement function to capture non compliance within services i.e. the workflow threshold has decreased from £10k to £5k.



The number of WARNs for the period November 2015 to October 2016 has reduced by 16% compared to the same period the previous year. This is due to forward planning using the contracts register to drive procurement activity.

The number of WARNs for this reporting period 1st September 2016 – 31st October 2016 per service area and the reasons is detailed below.

The ICT WARNs are related to the review and recommissioning of services following the changed management structure and inheriting the shared services arrangements for both Councils. There are approximately 300 contracts that are to be reviewed, recommissioned and then procured. The work is starting to resolve previous issues, hence the requirement for a limited number of Non Adherence's mentioned below.

September 2016 – October 2016 WARNs Per Service

Row Labels	Waiver to Requirements of Competition	Non Adherence to CPRs	Grand Total
Adults	1	0	1
Strategic Commissioning (ANSA)	0	2	2
Environmental Health	1	0	1
Democratic Services	0	1	1
Children's	0	1	1
ICT Services	1	3	4
Regeneration	1	1	2
Grand Total	4	8	12

Table 1:

Code	Description of Category/code
A	Genuine Emergency – which warrant an exception to the requirements
B	Specialist Education or Social Care Requirements
C	Genuine Unique Provider – e.g. from one source or contractor, where no reasonably satisfactory alternative is available.
D	Compatibility with an existing installation and procurement from any other source would be uneconomic given the investment in previous infrastructure
E	In-depth Knowledge, skills and capability of project/services already in existence with consultants/providers carrying out related activity – therefore procuring new consultants/skills would be uneconomic given the investment in previous, related work.
F	No valid tender bids received, therefore direct award can be substantiated
G	Lack of Planning
H	Other – Any other valid general circumstances up to the EU threshold
I	No time to undertake a tendering exercise, therefore extension necessary to avoid non-provision of deliverables
J	Procurement from any other source would be uneconomic at this time
K	Added value being offered by the Provider(s)
L	Extension is best option as highlighted in request form

Table 2:

Row Labels	Waiver to Requirements of Competition	Non Adherence to CPRs	
Adults	1	0	1
G	1	0	1
Strategic Commissioning (ANSA)	0	2	2
G	0	2	2
Environmental Health	1	0	1
A	1	0	1
Democratic Services	0	1	1
G	0	1	1
Children's	0	1	1
G	0	1	1
ICT Services	1	3	4
D	0	1	1
E	1	1	2
G	0	1	1
Regeneration	1	1	2
E	1	0	1
G	0	1	1
Grand Total	4	8	12

10.7 There are currently 3 WARNs in progress, 1 non adherence and 2 waivers.

11.0 Access to information

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Designation: Category Manager

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