

Audit and Governance Committee

Agenda

Date:	Thursday, 16th March, 2017
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.

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

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

For requests for further information

Contact: Cherry Foreman

Tel: 01270 686463

E-Mail: cherry.foreman@cheshireeast.gov.uk with any apologies

4. **Minutes of Previous Meeting** (Pages 5 - 16)
To approve the minutes of the meeting held on 8 December 2016.
5. **Appointment of an Independent Member to the Audit and Governance Committee - Update** (Pages 17 - 18)
To approve the co-option of a candidate to become a member of the Committee.
6. **Grant Thornton 2016/17 Audit Plan for Cheshire East Council** (Pages 19 - 42)
To receive and comment on the Audit Plan for 2016/17.
7. **External Audit Risk Assessment for Cheshire East** (Pages 43 - 76)
To consider this report and managements response to Grant Thornton the Council's External Auditors.
8. **Risk Management Update** (Pages 77 - 84)
To consider this report on the most significant corporate risks.
9. **Members Code of Conduct Standards Report** (Pages 85 - 90)
To note the report for the period 1 September 2016 to 28 February 2017.
10. **Compliance with Data Protection Act (1988), Freedom of Information Act (2000) and Environmental Information Regulations (2004)** (Pages 91 - 96)
To note the performance of the Council in responding to requests for information, and also ongoing and future developments.
11. **Compliance with the Regulation of Investigatory Powers Act (2000) (RIPA)** (Pages 97 - 100)
To note the report on the number of applications received and the arrangements in place to ensure the Council complies with legislation.
12. **Information Governance Update**
To receive a presentation on the rise of global cyber threats, the number of malware attacks and the Council's Data Classification tool.

13. **Internal Audit Interim Report 2016/17** (Pages 101 - 106)

To consider progress against the Internal Audit Plan, revisions to it, and future audit issues.

14. **Internal Audit Plan 2016/17** (Pages 107 - 126)

To approve the Summary Internal Audit Plan for 2017/18.

15. **ASDV Governance Arrangements**

To receive a presentation on the arrangements in place to ensure that ASDV's are subject to appropriate governance, and that controls are in place to identify and manage risk.

16. **Work Plan 2016/17** (Pages 127 - 142)

To consider the Work Plan for the Committee.

17. **Waivers and Non Adherence Notifications** (Pages 143 - 150)

To receive an update on the quantity and reasons for the issue of WARNs approved between 1 November 2016 and 31 January 2017.

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 and 2 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 November 2016 and 31 January 2017.

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CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Thursday, 8th December, 2016 at Committee Suite 1,2 & 3,
Westfields, Middlewich Road, Sandbach CW11 1HZ

PRESENT

Councillor G Baxendale (Chairman)
Councillor D Marren (Vice-Chairman)

Councillors S Corcoran, L Gilbert, A Kolker, M Simon and A Stott

OFFICERS IN ATTENDANCE

Peter Bates	Chief Operating Officer
Joanne Butler	Business Manager, Chief Executive's Office
Janet Ellison-Jones	Category Manager, Procurement
Josie Griffiths	Principal Auditor, Shared Services and Partnerships
Steve Mellor	Category Manager, Procurement
Bill Norman	Director of Legal Services and Monitoring Officer
Alex Thompson	Head of Finance & Performance
Michael Todd	Principal Auditor, Fraud
Jo Wilcox	Corporate Finance Manager
Julie Zientek	Democratic Services Officer

EXTERNAL AUDITOR IN ATTENDANCE (GRANT THORNTON)

Jon Roberts

39 APOLOGIES FOR ABSENCE

Apologies were received from Councillors R Fletcher and M Hardy.

40 DECLARATIONS OF INTEREST

The External Auditor declared that the arrangements for the appointment of External Auditors were on the agenda for consideration later in the meeting.

41 PUBLIC SPEAKING TIME/OPEN SESSION

There were no members of the public wishing to speak.

42 MINUTES OF PREVIOUS MEETING

The following comments were received:

- Councillor Marren queried the lack of detail around the comments made by Councillor Gaddum.

- Councillor Corcoran sought clarification on the status of the internal audit paused as a result of the police investigation. It was agreed that an update would be provided in private session.

RESOLVED

That the minutes of the meeting held on 29 September 2016 be approved, subject to an amendment to minute 28 (Annual Report of the Audit and Governance Committee 2015/16) to change the wording of the resolution as follows:

‘RESOLVED

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

43 GRANT THORNTON - ANNUAL AUDIT LETTER 2015/16

The Committee considered the Annual Audit Letter, which summarised the External Auditors’ findings from the 2015/16 audit. The Letter was intended to communicate key messages to the Council and external stakeholders, including members of the public.

The External Auditor reported that an unqualified opinion on the Council’s financial statements had been given. Grant Thornton were also satisfied that the Council had proper arrangements in place to ensure economy, efficiency and effectiveness in its use of resources. They had determined that they could not formally conclude the audit and issue an audit certificate until the police investigation reached its conclusion.

In response to a query regarding the reason for the increase in fees for the ASDVs, the External Auditor stated that he would provide the detail, as he did not have the specific information to hand.

In response to a query regarding how the Council’s finances would be affected by South Cheshire Clinical Commissioning Group being in special measures and no longer obliged to contribute to the Better Care Fund (BCF), the External Auditor stated that this was not a matter for this report as it was a backwards-looking document.

The Chief Operating Officer commented that this did not directly impact on the Council’s finances but that the issue was about determining the impact on the BCF objectives in relation to the residents of Cheshire East. He went on to agree to take this question to the Strategic Director of Adult Social Care and Health for consideration.

Councillor Corcoran then asked Grant Thornton for their view on the BCF and Jon Roberts responded that their national experience was that the BCF had not been used to date to achieve the intended objectives and that within the NHS it had been overtaken by the STP. He went on to

discuss the funding issues within the NHS and social care and the linkages between the two.

With regard to the Highways Network Asset, the External Auditor was asked for his view on value for money and the capital spend by Ringway Jacobs, the external provider. It was confirmed that the audit did not go down into specific projects.

Following a query regarding the completion of the internal audit, the Director of Legal Services and Monitoring Officer advised the Committee that discussion on this matter should take place without the press and public present, in order to avoid compromising the police investigation.

RESOLVED

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 involved the likely disclosure of exempt information as defined in Paragraph 7 of Part 1 of Schedule 12A to the Local Government Act 1972 and public interest would not be served in publishing the information.

The External Auditor, the Director of Legal Services and Monitoring Officer and the Chief Operating Officer then answered Members' questions regarding the police investigation and the internal audit arrangements.

RESOLVED

That the press and public be readmitted to the meeting during consideration of the following items.

The Chief Operating Officer reported that the deadlines for publishing the 2017/18 Statement of Accounts were being shortened, and that it was planned to have a 'dummy run' to achieve the earlier deadlines a year earlier than required. There would therefore be two additional meetings of the Audit and Governance Committee in 2017/18.

RESOLVED

1. That the Annual Audit Letter for 2015/16 be received and noted.
2. That it be noted that there will be two additional meetings of the Audit and Governance Committee in 2017/18, to reflect and accommodate changes in the reporting deadlines for certifying the statement of accounts and the approval and publication of the audited accounts.

44 CERTIFICATION REPORT 2015/16

The Committee considered a report summarising the key findings that were identified during the External Auditors' certification process for 2015/16 claims and returns.

The report summarised the findings from the certification of the 2015/16 housing benefit subsidy claim.

In addition, the Council was 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). Both reports provided by Grant Thornton were unqualified and completed in accordance with the deadline.

RESOLVED

1. That the Certification Letter be received and noted.
2. That the Committee congratulates the Chief Operating Officer and his team in the light of the External Auditor's very positive comments.

45 DRAFT TREASURY MANAGEMENT STRATEGY AND MINIMUM REVENUE POSITION STATEMENT 2017/18

The Committee considered a report of the Chief Operating Officer which updated Members on the contents of the Council's Treasury Management Strategy for 2017/18.

The report detailed the key elements of the Strategy for 2017/18 and reported that the Treasury Management Strategy would be updated with the final capital programme before being reported to Cabinet on 7 February 2017 and then to Full Council for approval on 23 February 2017.

Following discussion on Borrowing Strategy, the Head of Finance and Performance agreed to provide the Committee with information on future borrowing options and an explanation of the strategy.

RESOLVED

That the proposed Treasury Management Strategy and Minimum Revenue Provision Statement for 2017/18, as set out in Appendix A of the report, be received and noted.

46 RISK MANAGEMENT UPDATE

The Committee considered a report of the Director of Legal Services and Monitoring Officer, the purpose of which was to provide a summary of recent risk management work. The report also provided a summary of the

most significant threats and opportunities that may prevent or assist with the achievement of the Council's desired outcomes.

In response to a query regarding whether risk was being managed with respect to the ASDVs, it was confirmed that ASDVs were subject to external audit. In addition, their business plans and individual risks were reviewed by the holding company.

Following discussion on Threats CR1 and CR2, it was agreed that the Committee would receive a briefing on healthcare and funding, and the risk to the Council, at its next meeting.

RESOLVED

1. That the report be noted.
2. That the Committee receive a briefing on healthcare and funding, and the risk to the Council, at its next meeting.

47 ANNUAL GOVERNANCE STATEMENT UPDATE

The Committee considered a report of the Corporate Assurance Group, the purpose of which was to provide assurance that the Annual Governance Statement was 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.

The report also detailed the proposed production process for the 2016/17 Annual Governance Statement.

Following discussion on the governance arrangements with respect to the Local Economic Partnership, it was agreed that the terms of reference for the upcoming review by Internal Audit, would be agreed by the Chief Operating Officer and subsequently shared with the Committee.

In response to a request for further information regarding the closure of CoSocius Ltd, the Chief Operating Officer provided context around the shared arrangements and reporting to Joint Shared Services Committee. He went on to report that much had been learned from the experience and that lots of work had been undertaken to ensure that mistakes are not repeated. It was agreed that the Chief Operating Officer would provide Members with links to reports presented to the Shared Services Joint Committee.

RESOLVED

1. That the progress against the issues reported in the 2015/16 Annual Governance Statement, including the feedback from the Corporate Assurance Group on each item, be noted.

2. That the process for the production of the 2016/17 Annual Governance Statement be endorsed, subject to the inclusion of an audit of the Local Economic Partnership by Internal Audit.
3. That the Chief Operating Officer provides Members with links to publicly available reports to Shared Services Joint Committee regarding the closure of CoSocius Ltd.

48 INTERNAL AUDIT INTERIM REPORT 2016/17 AND INTERNAL AUDIT CHARTER

The Committee considered a report regarding progress against the Internal Audit Plan 2016/17, revisions to the plan and a summary of the work carried out during the first half of the year.

Following a discussion around performance indicators it was agreed that, in future, the indicator relating to the implementation of recommended actions would be expanded to include low level actions.

It was further agreed that the Chief Operating Officer would give consideration as to the most appropriate way in which non implemented recommendations could be identified and the officers responsible called to Committee to offer an explanation as to why the recommended actions allocated to them had not been addressed.

It was noted that the internal audit of air quality management had been completed, but that the findings had not been reported to Members. It was explained that whilst the Internal Audit work had been completed, this had led to an external investigation that was currently ongoing. This investigation was subject to three stages, the first of which was understood to be complete. Assurance was provided that, upon completion of all stages, the outcomes would be reported openly and publically to Cabinet.

The Chief Operating Officer reported that he would seek clarification as to the planned timescale for completing the investigations and inform Members accordingly.

Councillor Corcoran asked for confirmation that the external investigations will not delay the establishment of Air Quality Management Areas (AQMAS) where they were necessary, and the Director of Legal Services and Monitoring Officer provided assurance that the reports will not delay the establishment of AQMAS.

RESOLVED

That the issues identified be noted and the approach to achieving adequate audit coverage in the remainder of 2016/17 be endorsed. The performance indicator relating to implementation of audit recommendations will be expanded to include low level actions.

49 REVISING THE COUNCIL'S CODE OF CORPORATE GOVERNANCE

The Committee considered a report regarding the revision of the Council's Code of Corporate Governance and an associated review of the Council's governance arrangements.

The Council's Code of Corporate Governance was first approved by the Governance and Constitution Committee in November 2009. The Code had been reviewed and updated to reflect best practice and organisational changes. Best practice guidance on establishing a local Code of Corporate Governance was provided by CIPFA and the Society of Local Authority of Chief Executives (SOLACE); this guidance had been updated in 2016.

The Council's Code of Corporate Governance had been updated in order to fully adopt the new principles described in the revised CIPFA/SOLACE guidance, to ensure that the Council adhered to best practice in its governance arrangements. The updated Code would 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.

RESOLVED

That Cabinet be recommended to adopt the updated Code of Corporate Governance, as set out in Appendix A to the report, subject to the following amendment:

That under core principle E, the wording of the supporting principle 'leadership and other individuals' be subject to a minor amendment to clarify the respective roles of Members and officers using language derived from the Council's existing Member/Officer Relations Protocol.

50 ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS

The Committee considered a report summarising the options and 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.

It was recommended that the Council opted-in to the Public Sector Audit Appointments Ltd (PSAA), which had been approved by the Local Government Association and the Department of Communities and Local Government to become the sector-led body and the Head of Finance and Performance explained that the deadline for making a decision was 9 March 2017.

RESOLVED

That it be recommended to Council that 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 be accepted.

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

The Director of Legal Services and Monitoring Officer reported that the job description and person specification were with the Communications team, who would ensure press coverage. If this did not yield results, the appointment would be advertised.

RESOLVED

That the arrangements be noted.

52 CARDIFF CHECKS – FEEDBACK FROM MEMBER/OFFICER GROUP

The Committee considered a report regarding the Cardiff Checks undertaken by Internal Audit and the Counter Fraud Member/Officer Sub Group during 2016.

It was reported that five additional Cardiff Checks had been undertaken on procurement transactions since the report had been written. The results of four of the checks had been received and these had confirmed that there had been no variation from standard procedures. Testing had not been completed on the final transaction due to resource issues in the service, but any matters arising would be communicated to Members.

RESOLVED

1. That the findings from the report be noted.
2. That Internal Audit and the Counter fraud Member/Officer Group continue to undertake Cardiff Checks in line with the previously agreed approach.

53 WORK PLAN 2016/17

Consideration was given to the Committee's Work Plan.

It was agreed that the description of the Risk Management Policy Review item be amended to read: 'To monitor the effective development and operation of risk management in the council, *including the review and discussion of specific risk.*' and that the following items be added to the work programme for the March meeting of the Committee:

- An update on the roll-out of the scheme for the security classification of emails and the wider Protective marking scheme
- An update on SPAM and cyber attacks

Discussion also took place around the following items that were included in the Work Plan but had not been allocated to a specific agenda:

- Staff Survey – in response to a request for an update to be brought to the March 2017 Committee, Councillor Simon explained that Corporate Scrutiny had received such a briefing and that there were no matters that required discussion at Audit and Governance Committee.
- Review of the Council's Procurement Arrangements – the Chief Operating Officer sought agreement to amend the description of this item to reflect that, subject to police agreement, an audit would be scoped and completed to provide assurance that the arrangements currently in operation are robust and proportionate to the identified risks.

It was agreed that the staff survey should be removed from the Work Plan and that the suggested amendments to the review of procurement be accepted.

RESOLVED

That, subject to the above additions and amendments, the Committee Work Plan be approved.

54 ITEM SUBMITTED BY MEMBER

In accordance with Procedure Rule 34 (agenda items submitted by Members), Councillor S Corcoran had asked that the following item be included on the 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.'

The Chief Operating Officer reported that ASDVs were able to request assistance and that the capacity of officers to comply with such requests was kept under review. He also agreed that a report would be brought back to the March 2017 Committee to provide Members with an update on the arrangements in place to ensure that ASDV's are subject to appropriate governance and that controls are in place to identify and manage risk.

RESOLVED

That the Committee considers a report on the existing arrangements and the opportunities for ASDVs to request assistance at its next meeting, on 16 March 2017.

55 WAIVERS AND NON ADHERENCE NOTIFICATIONS

The Committee considered a report updating them on the quantity and reasons for Waiver and Non Adherences (WARNs) approved between 1 September and 31 October 2016.

The report also compared the total number of WARNs for the period April – October 2016 with the figures for the reporting periods 2014-2015 and 2015-2016. It was noted that the number of non-adherences had increased due to the control mechanisms that were now in place within the Council's procedures which enabled the procurement function to capture non compliance within services. The number of WARNs for the period November 2015 to October 2016 had reduced by 16% compared to the same period the previous year, due to forward planning using the contracts register to drive procurement activity.

The numbers of WARNs issued per service area for the reporting period 1 September 2016 – 31 October 2016 were also given.

It was noted that clarity was being sought regarding redaction prior to the publication of all WARNs, and that a report would be considered at the next meeting of the Transparency Working Group. Details of waivers for contracts over a certain value appeared on a governance website.

RESOLVED

That the report be noted.

56 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

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 involved 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.

57 WAIVERS AND NON ADHERENCE NOTIFICATIONS

The Committee considered details of the approved WARNs issued between 1 September and 31 October 2016.

RESOLVED

1. That the approved WARNs be noted.
2. That full details of one of the non-adherences, selected by Audit and Governance Committee Members, be considered at the next meeting of the committee, on 16 March 2017.
3. That details of serial non-adherences be considered at the next meeting of the committee, on 16 March 2017.

The meeting commenced at 2.00 pm and concluded at 4.20 pm

Councillor G Baxendale (Chairman)

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting: 16th March 2017
Report of: Director of Legal Services
Title: Update on the Appointment of an Independent Person to the Audit and Governance Committee
Portfolio Holder: Councillor Paul Findlow

1.0 Report Summary

- 1.1 The Council at its meeting on 22nd October 2015 amended the Audit and Governance Committee's membership to include the appointment of an independent person who is not an elected councillor. The appointment process for the independent person was agreed at the 30th June 2016 meeting of the Audit and Governance Committee; to follow a similar process for the recruitment of Independent Persons for considering code of conduct complaints, except that the Committee itself would be asked to approve the co-option of the recommended candidate.
- 1.2 Following public advertisement at the start of this year, three applicants were interviewed by the appointment panel on 3rd March 2017. Following the interview process, and subject to references successfully being obtained, the appointment panel recommend the co-option of one of the candidates to the Audit and Governance Committee. The name of the candidate will be circulated to Members prior to the commencement of the Audit and Governance Committee on 16th March.

2.0 Recommendations

- 2.1 That the Committee approve the co-option of the recommended candidate.

3.0 Reasons for Recommendations

- 3.1 To ensure the Committee is compliant with the membership changes at the recommended by the Constitution Committee and approved by Council on 22nd October 2015.

4.0 Wards Affected

- 4.1 All wards.

5.0 Policy Implications

- 5.1 Not applicable.

6.0 Financial Implications (Authorised by the Chief Operating Officer)

- 6.1 There are no significant financial implications which arise as a consequence of the co-option of the recommended candidate. The independent candidate is entitled to claim travel and subsistence expenditure and a meeting allowance consistent with the arrangements in place for other non-elected, co-opted committee members.

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

- 7.1 The co-option is required to ensure the Committee complies with the updated membership changes approved by Council and included in the Constitution.

8.0 Risk Assessment

- 8.1 The co-option of an independent member is designed to reinforce political neutrality as well as supplementing the skills and knowledge in the committee.

9.0 Background

- 9.1 In accordance with the agreed arrangements, a person specification and role profile for the Audit and Governance Committee's independent member was drawn up in accordance with best practice from other authorities and the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 9.2 The role was advertised on the Council's website, supported by a press release, which was picked up in a number of local newspapers and websites, as well as mentions on the Council's social media channels. This attracted a number of well qualified applicants.
- 9.3 Following a structured interview process, applicants were interviewed on 3rd March 2017, by the agreed appointment panel of the chairman, vice chair and Councillor Amanda Stott. The Director of Legal Services was present during the interviews. The panel agreed on the preferred candidate and references are being taken up. The name of the candidate will be circulated prior to the Audit and Governance Committee on 16th March 2017.

10.0 Access to Information

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

Name: Josie Griffiths

Designation: Principal Auditor

Tel No: 01270 685860

Email: josie.griffiths@cheshrieeast.gov.uk

CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	16 th March 2017
Report of:	Chief Operating Officer
Subject/Title:	Grant Thornton 2016/17 Audit Plan for Cheshire East Council
Portfolio Holder:	Councillor Peter Groves

1.0 Report Summary

- 1.1 The Audit Plan for the year ending 31 March 2017 is set out in Appendix 1.

2.0 Recommendation

- 2.1 That members receive and comment on the Audit Plan for 2016/17.

3.0 Reasons for Recommendations

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

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 None.

7.0 Implications for Rural Communities

- 7.1 None

8.0 Financial Implications

- 8.1 The Audit Plan sets out the level of fees for the audit work specified by the external auditors.
- 8.2 The audit fees as set out on page 19 and 20 of the report and will be met from within the existing revenue budget.

9.0 Legal Implications

9.1 There are no specific legal issues associated with this report.

10.0 Risk Management

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

11.0 Background and Options

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

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

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

11.4 The Audit Plan sets out the requirements for the audit of the Group Accounts. The audit will consider the Council's assessment of the group boundary and the adequacy of the determination of those entities that are to be included within Group Accounts in 2016/17. The auditors will also review the approach to align the accounting policies, review the consolidation adjustments and assess whether the disclosures within the group financial statements are in accordance with the Code requirements.

11.5 Grant Thornton will be attending the meeting to answer any questions raised by members on the 2016/17 Audit Plan.

12.0 Access to Information

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

Name: Peter Bates

Designation: Chief Operating Officer

Tel No: (01270) 686013

Email: peter.bates@cheshireeast.gov.uk

Appendix 1: Grant Thornton Certification Report 2016/17 for Cheshire East Council

The Audit Plan for Cheshire East Council

Year ended 31 March 2017

8 March 2017

Jon Roberts

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The Audit and Governance Committee
Cheshire East Council
Westfields
Middlewich Road
Sandbach
CW11 1HZ

8 March 2017

Dear Members of the Audit and Governance Committee

Grant Thornton UK LLP
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20 Colmore Circus
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T 0121 212 4000
www.grant-thornton.co.uk

Audit Plan for Cheshire East Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Cheshire East Council, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Jon Roberts (Engagement Lead)

Chartered Accountants

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Understanding your business and key developments

Key Challenges and Opportunities

Financial plans

With reductions in government grant, alongside increasing demand for services and increased costs, Cheshire East Council identified that it needs to find an additional £100m by 2020 through savings and additional income.

With increases to council tax, alongside efficiency measures and economic growth, the medium term financial plan presents a balance financial position over the next three years.

Integration with health sector

There are significant changes taking place across the NHS as the NHS Cheshire and Merseyside Sustainability and Transformation Plan is intended to find a solution to a financial gap of over £900m through to 2021. The Council's involvement in this 'system wide' planning, builds on the programmes of "Connecting Care" and "Caring Together."

The financial position in the NHS locally, may impact on the Council, as steps are taken to reduce healthcare spending.

Economic growth and development

Working with partners and through the emerging Northern Gateway Partnership, the Council is working to deliver sustainable planned economic growth, including housing and employment, building on HS2 investment and other major infrastructure projects.

The Council is seeking to maximising the benefit of the business rates retention scheme by continuing to pool with Greater Manchester councils and taking part in a growth pilot, - initiatives aiming to retain as much local Business Rates as possible.

Key performance indicators

Measure	Value
Outturn forecast at quarter 3	£1.7m overspend
Particular pressures are seen in key services of: <ul style="list-style-type: none">Adult social care and public healthChildren's social care	Overspends £3.2m (3.4%) £1.5m (4.7%)

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

You are planning to prepare your draft accounts for 2016/17 to the earlier timescale and we propose to carry out our audit work by the end of July.

You have brought forward your Audit and Governance Committee meeting to reflect these future arrangements.

Highways network asset (HNA)

In November 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17 (due to delays in obtaining updated central rates for valuations).

CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It currently anticipates that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

Our response

- We will discuss with you your progress in preparing for an earlier closedown and audit by 31 July, and share any good practice or areas of improvement.
- As part of our interim audit we will consider your progress in preparing the adjustments to the prior year comparative figures and then (as part of our opinion on your financial statement)s, in whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops
- We will review the Council's progress in addressing it's costs pressures and working with partners, as part of our work in reaching our VFM conclusion.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £11,896k (being 1.8% of gross revenue expenditure). In the previous year, we determined materiality to be £11,896k (being 1.8% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £595k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements.	Due to public interest in these disclosures and to ensure transparency..	£20,000
Disclosure of related party transactions in the notes to the financial statements.	Due to public interest in the transactions with related entities, we have set a a materiality level of £20k to inform our audit approach and our reporting to you. We recognise that in compiling the disclosure, the CCG will apply its own assessment of materiality and (as required by IAS24) also have regard to materiality from the perspective of the other party.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheshire East Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited The culture and ethical frameworks of local authorities, including Cheshire East Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Cheshire East Council.
Management over-ride of controls	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	Work planned: <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation Review of unusual significant transactions

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have planned to address these risks.

Significant risk	Description	Audit procedures
Valuation of property, plant and equipment	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	Work planned: <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	Work planned: <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. • We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have planned to address these risks.

Significant risk	Description	Audit procedures
Telling the story	<p>CIPFA has been working on the 'Telling the Story' project, to streamline the financial statements and improve accessibility to the user, which has resulted in changes to the 2016/17 Code.</p> <p>The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, segmental reporting disclosures and a new Expenditure and Funding Analysis and subjective analysis disclosure has been introduced.</p> <p>The change in presentation to the CIES and MIRS being primary statements, is a change in accounting policy and therefore prior year restatement will be required.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements. • We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We will review the new disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Documented the processes and controls in place around the accounting for operating expenses Walkthrough of your controls in place over operating expenses. Testing of a sample of operating expenditure transactions up to month 9 to ensure these are accurately accounted for and in the correct period. <p>Further work planned:</p> <ul style="list-style-type: none"> Review the completeness of subsidiary interfaces and control account reconciliations Obtain an understanding of the accruals process and test a sample of accruals (and other creditors balances) Cut off testing of a sample of payments after the year end Test a sample of operating expenses transactions month 10 to year end to ensure these are accurately accounted for and in the correct period

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Other risks	Description of risk	Audit procedures
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> Documented the processes and controls in place around the accounting for operating expenses Walkthrough of your controls in place over payroll expenditure Review the completeness of the payroll reconciliation between the subsidiary system and the ledger (completed to Month 9) Reviewed trend analysis of monthly payroll runs to Month 9 <p>Further work planned:</p> <ul style="list-style-type: none"> Review of the year-end reconciliation of your payroll system to the general ledger Update the trend analysis of the monthly payroll runs for the year Review the senior officers remuneration disclosures and test a sample of senior officers remuneration payments Test a sample of employee remuneration payments in the year to ensure accurately accounted for and in the correct period (some testing in this area is underway)

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Property, plant and equipment
- Investments (long term and short term)
- Long and short term debtors
- Cash and cash equivalents
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes
- Group consolidation

Group audit scope and risk assessment

In accordance with ISA (UK and Ireland) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Council has assessed the requirements of *IFRS 10 consolidated financial statements* and *IFRS 11 Joint arrangements* and determined that Group Accounts will be prepared to incorporate the financial results of six wholly owned subsidiary companies (Ansa Environmental Services Ltd, Orbitas Bereavement Services Ltd, Transport Service Solutions Ltd, East Cheshire Engine of the North Ltd, Civicance Ltd and Cheshire Skills and Growth Ltd) consolidated into the parent company CERF which will then be consolidated into the Council's single entity accounts. The Council has determined that other subsidiaries & associates (Tatton Park Enterprises Ltd, Cheshire & Warrington Enterprise Ltd) may be excluded from the group accounts on the basis that this does not have a material impact. Investment in other entities such as Everybody Sport and Leisure Trust (ESAR) are not to be consolidated as the Council does not have 'control'. The District Heating joint venture remained dormant in 2016/17.

We will consider the Council's assessment of the group boundary and the adequacy of the determination of those entities that are to be included within Group Accounts in 2016/17. The table below considers whether the 'components' to be consolidated into the group accounts are anticipated to be individually significant or whether the risk of material misstatement can be addressed by applying analytical procedures at the group level.

Component[/s]	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
Wholly owned companies: <ul style="list-style-type: none">Ansa Environmental Services LtdOrbitas Bereavement Services LtdTransport Solutions LtdEngine of the North LtdCivicance LtdCheshire Skills and Growth Ltd	Not individually significant components	Analytical	At this stage we have identified no specific risks of material misstatement. This will be the first year of the operation of Cheshire Skills and Growth Ltd, however arrangements in place mirror those of the other companies so there no additional risks identified. We will inform the Audit and Governance Committee of any changes to this assessment.	Liaison with the finance team to discuss any complex matters, emerging issues or areas of difficulty. Liaison with the auditors of the Council's companies (also Grant Thornton UK LLP but a separate team). Analytical procedures at the group level - desktop review of the Council's consolidation of the financial results of the subsidiaries into the group accounts, including the adjustments to align accounting policies and remove the inter group transactions.

Key changes within the group:

- CoSocius Ltd brought back in house 31.3.16 therefore no longer consolidated as a Joint Venture. Accounted for as a shared service
- Cheshire Skills and Growth Ltd new subsidiary from 1.4.16 under the CERF parent company.
- CERF – subsidiaries to be consolidated into CERF and the CERF will be consolidated into the Council's accounts.

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of Grant Thornton will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the Grant Thornton audit documentation and meeting with appropriate members of management.

Value for Money

Background

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

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of sound governance• Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management• Reliable and timely financial reporting that supports the delivery of strategic priorities• Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions• Managing and utilising assets effectively to support the delivery of strategic priorities• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities• Commissioning services effectively to support the delivery of strategic priorities• Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

Our initial risk assessment is based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we consider:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

As we identify significant risks as part of our interim audit visit, we will first discuss these with management and communicate these to you. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

Reporting

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

We will include our conclusion in our auditor's report on your financial statements which we propose to issue by the 3 August 2017.

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

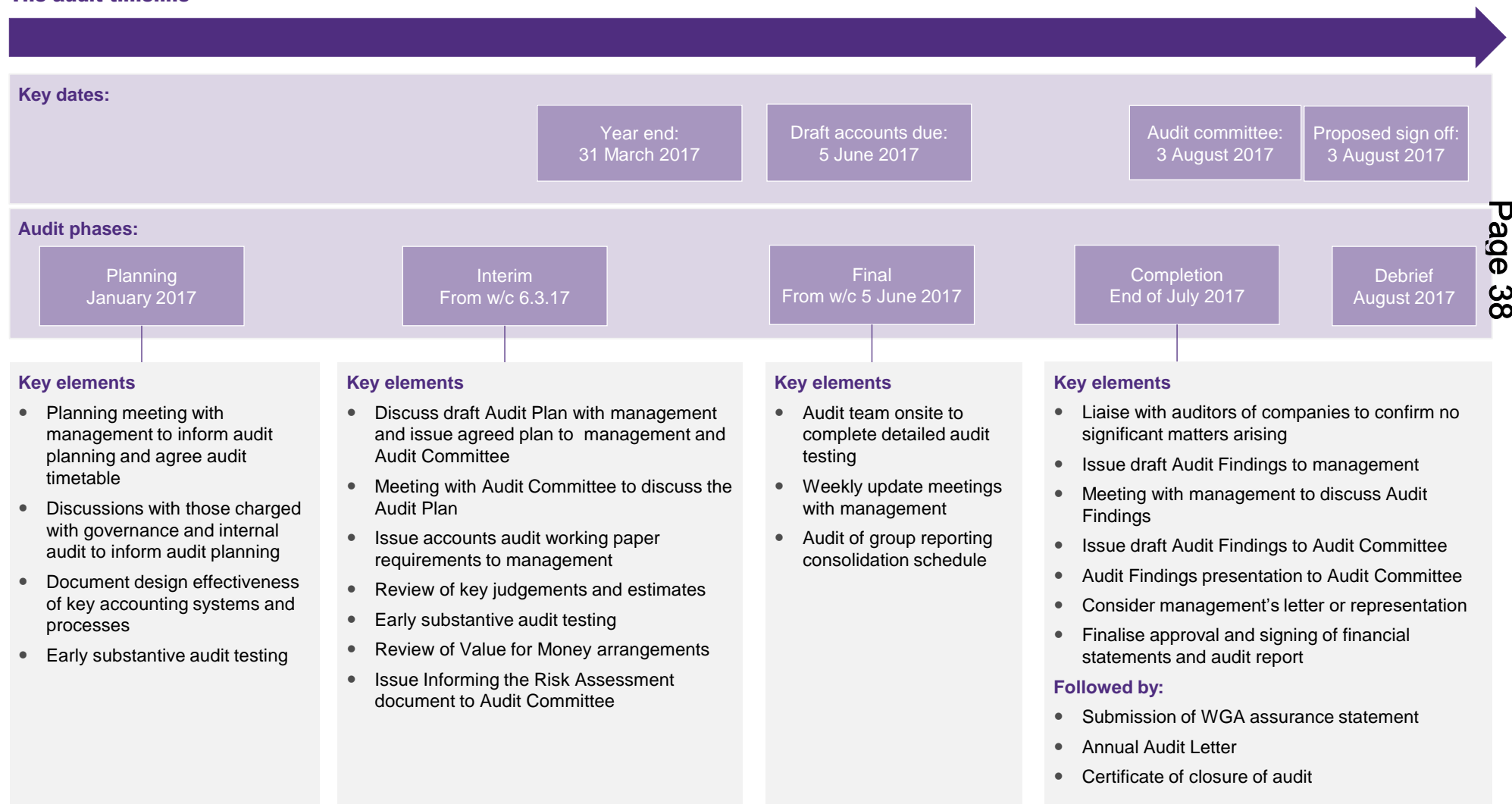
	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We have also reviewed the findings reports issued by internal audit to date. We have not identified any significant weaknesses impacting on our responsibilities.</p> <p>We will continue to review the work of internal audit as the financial year progresses and as reports are finalised including the specific work relating to the Council's procurement arrangements once this is concluded.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment. Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach.</p> <p>We will update our assessment throughout the year and report our final conclusion in the Audit Findings Report.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
Review of information technology controls	<p>Our information systems specialists will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. As part of this review we will follow up any issues raised last year.</p>	<p>Our specialists will complete this testing in late March 2016 and we will report any matters in our Audit Findings Report.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements (employee remuneration, operating expenses and in addition – housing benefits).</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Early substantive testing	<p>We have carried out sample testing of transaction processed to month 9 in the following areas:</p> <ul style="list-style-type: none"> • Operating expenditure • Payroll expenditure <p>We have completed payroll trend analysis to month 9 and reviewed the completeness of the payroll reconciliation between the subsidiary system and the ledger (completed to Month 9).</p>	<p>At this stage, no issues have been identified to date that we wish to highlight for your attention.</p> <p>We will 'top up' testing already undertaken to month 9, through to the year end at our second audit visit later in March 2017.</p> <p>We will also complete testing around property deeds, grant income and housing benefit payments.</p> <p>We also plan:</p> <ul style="list-style-type: none"> • to review the Council's restatement of the accounts to reflect the changes brought about by the 'Telling the Story' project (page 8) • to review the Council's assessment of balances held as provisions. <p>Our findings will be reported in the Audit Findings report along with our other audit work.</p>

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Council audit	154,590
Grant Certification	24,375
Council audit fees (excluding VAT)	178,965
External audit fees for the wholly owned companies <i>(For information, the External audit fees for the wholly owned companies for 2015/16 accounts are shown below, as the fees for 2016/17 have not yet been discussed and agreed.</i>	
	<i>These are the 2015/16 fees</i>
• 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
• Skills and Growth	
• CERF	

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

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 2016/17. 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. The fees have not yet been finalised and so the information reported at this stage reflects the fees for the 2015/16 audit and so may be subject to change. We will reported the agreed fees in our Audit Findings report.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

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

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates, technical briefings and updates
- Constructive feedback on your people, your processes and your business plan
- Ad-hoc telephone calls and queries
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We draw your attention to the fact that an ex-Grant Thornton employee has a position within the Council, although we consider this fact has had no bearing on our audit judgement or independence.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Cheshire East Council. The following audit related and non-audit services were identified for the Cheshire East Group for 2016/17, consistent with policy on the allotment of non-audit work to your auditors :

Fees for other services

Service	Fees	Planned outputs
Audit related services: <ul style="list-style-type: none"> teachers pensions return transport scheme return 	£4,800 £5,000	We have provided a reasonable assurance report for: <ul style="list-style-type: none"> Teachers Pensions return 2015/16, work completed in November 2016 Local Authority Major Transport Scheme return 2015/16 , in November 2016
Non-audit related services – These fees for 2016/17 are not yet confirmed but the nature of the work is described below.		
Liquidation work relating to Cososius	<i>not yet confirmed</i>	Engaged to assist with the preparation and subsequent execution of the solvent liquidation of the company by way of a members' voluntary liquidation. Fee not yet finalised.
VAT work provided to the Cheshire East company, Orbitas	<i>not yet confirmed</i>	Information to assist Orbitas in responding to a challenge over the VAT status of its bereavement services. We referred to this in our previous annual audit letter. The fee for 2015/16 was £8,500. Any remaining fee for 2016/17 has not yet been finalised.
PLACE analytics/ CFO insights subscription – service provided to Cheshire East council	<i>not yet confirmed</i>	CFO Insights is an online software service offering that enables subscribers to rapidly analyse, segment and visualise all the key data relating to the financial performance of a local authority. The financial data, revenue outturn and budget data for the current year and the previous year (and in time up to 10 years), is provided by CIPFA and the socio-economic data is drawn from Place Analytics. The data is contextualised using a range of socio-economic indicators enabling the LA to understand their relative performance.

The amounts detailed are fees identified to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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

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



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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting: 16 March 2017

Report of: Chief Operating Officer

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

Portfolio Holder: Councillor Peter Groves

1.0 Report Summary

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

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

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

2.0 Recommendation

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

3.0 Reasons for Recommendations

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

4.0 Wards Affected

4.1 All Wards

5.1 Local Ward Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Chief Operating Officer)

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

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

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

8.2 In addition, the Accounts and Audit Regulations 2015 require the Council's s151 Officer to determine accounting control systems that include measures to enable the prevention and detection of inaccuracies and fraud and that risk is appropriately managed.

9.0 Risk Assessment

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

10.0 Background and Options

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

- Fraud (ISA 240)
 - Laws and Regulations (ISA 250)
 - Going Concern (ISA 570)
 - Accounting Estimates (ISA 540)
 - Related Party Transactions (ISA 550)
- 10.2 The report, attached at Appendix A, includes a series of questions on each of these areas and the response that Grant Thornton has received from Cheshire East Council's management.
- 10.3 The Council has in place arrangements to identify fraud risks and respond to them accordingly. There is a corporate fraud risk which is supplemented by a detailed fraud risk assessment that engaged service managers in the process of identifying not only areas which may be susceptible to fraud, but also controls that are in place to mitigate these risks.
- 10.4 The arrangements for responding to fraud issues, including the Anti Fraud and Corruption Policy and the Whistleblowing Policy are subject to regular review and Members receive update reports on these matters through this Committee.
- 10.5 Member oversight of fraud is further strengthened by the Member/Officer Group which provides a more detailed understanding of the issues and arrangements in this area.
- 10.6 The Council has in place arrangements to ensure compliance with relevant laws and regulations via procedure rules contained within the Constitution and throughout the decision making process. Assurance on compliance is achieved through the internal audit work programme and the completion of the Annual Governance Statement which members will receive in August for approval.
- 10.7 The Council has arrangements in place to assess its ability to continue as a going concern through its sound financial management and budget planning processes. The following Corporate Risk has been formally considered in accordance with the Council's Risk Management Framework:

CR4 Financial Resilience:

The reduction in funding from Central Government means the Council projects significant funding gaps over the next four years, 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 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.

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

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

11.0 Access to Information

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

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Informing the audit risk assessment for Cheshire East Council

Year ended 31 March 2017

7 March 2017

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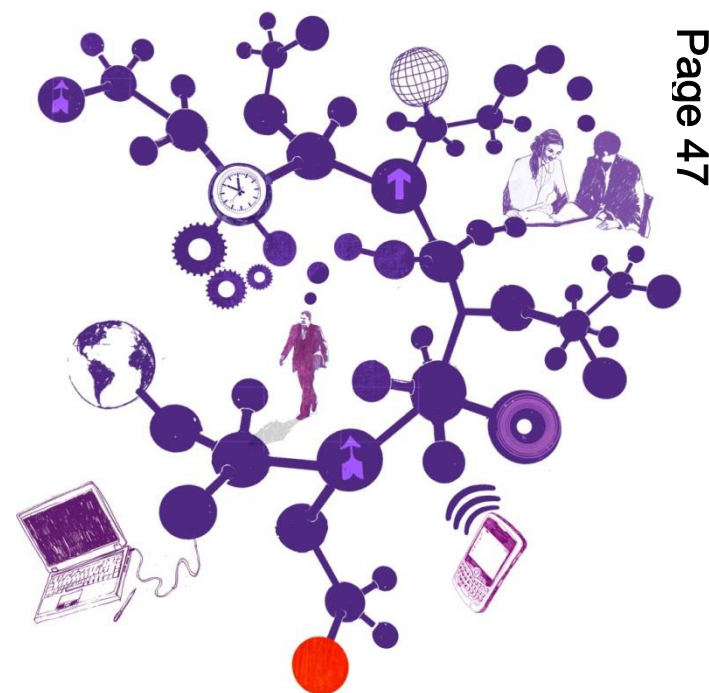
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

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Purpose

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

Background

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

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

Communication

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

- fraud
- laws and regulations
- going concern.

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

Fraud

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

Fraud risk assessment

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

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

Countering Fraud and Corruption: 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, such that public money is misappropriated. This would result in a loss of funds to the Council, have a detrimental effect on services users, a negative impact on the Council's ability to achieve all of its priorities, value for money, and may have a negative impact on the Council's reputation.

Risks are subject to ongoing review in accordance with the Council's Risk Management Strategy. The fraud risk was last formally reviewed in November 2016 when, following the identification and assessment of mitigating controls, the net risk was scored as medium.

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

In addition to the strategic risk identified above, a detailed Fraud and Bribery Risk Assessment is in place in order to identify service specific risks to which the Council may be vulnerable.

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

The outcome of this risk assessment has been used to inform proactive counter fraud work by Internal Audit

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

The Internal Audit Plan for 2016/17 included proactive reviews to seek assurance as to the effectiveness of mitigating controls in place to manage the risk of fraud in areas identified as at risk in the risk assessment discussed in the response above.

Further proactive reviews will be included within the 2017/18 Internal Audit Plan and the risk assessment will also be subject to review and update where appropriate

Fraud risk assessment continued

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

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

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

Sources of assurance include the Directors, Heads of Service and senior managers signing off the adequacy of controls within their service areas/directorate via disclosure statements. The disclosures are made available to, and considered by the Audit and Governance Committee in 2016 meeting.

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

With regards to the production of the AGS for 2016/17, a draft statement and action plan will be presented to the Audit and Governance Committee in June 2017 along with Internal Audit's Annual Report, and the final version will be presented to the August 2017 meeting of the Committee. These are earlier deadlines than in previous years as a "dummy run" to ensure that the Council are able to comply with the forthcoming earlier deadlines required by legislative changes.

Internal Audit work also provides assurance as to the effectiveness of internal controls and, where weaknesses are identified, mitigating actions are recommended to managers. Internal Audit follows up on the implementation of agreed recommendations to provide further assurance that improvements in the control environment have been made.

Fraud risk assessment continued

Management response continued

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

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

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

Interim reports on progress against and revisions to the Internal Audit Plan, together with a summary of work undertaken are received by the Audit and Governance Committee. The reports provide the Committee with an overview of the Council's response to internal audit activity to ensure any shortcomings in the control environment are rectified promptly. In June 2017 the Audit and Governance Committee will receive Internal Audit's annual opinion on the overall adequacy and effectiveness of the Council's control environment for 2016/17.

Fraud risk assessment continued

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

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

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

The Finance Partnering & Accountancy team is structured to provide specific support and guidance to the ASDV's. Accountants provide regular reports to the Company Boards. The client finance role is undertaken by a Principal Accountant (Neil Taylor). Finance Partnering & Accountancy Services and Financial Strategy & Reporting undertake a range of services which are 'bought back' by the ASDV's for an agreed rate. The financial package is designed to maintain financial robustness and meet statutory reporting requirements.

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

Audit and Governance Committee receive regular Risk Management Update reports which provide information relating to the Corporate Risk Register. The latest, received in December 2016, provided an update on the status of risks included within the Corporate Risk register, including the fraud risk. A further report is being taken to the March 2017 meeting of the Audit and Governance Committee.

The AGS process, particularly the Head of Service Assurance Statements, provides the Audit and Governance Committee with an understanding of the processes in place, any identified issues and mitigating actions. Internal Audit Update Reports to the Committee include details of Counter Fraud Work undertaken in accordance with the plan and in addition to this the Committee received the following reports during the past year:

- March 2016 Informing the Risk Assessment for Cheshire East Council- this provided detailed information regarding the anti fraud and corruption arrangements and how the Council identifies and responds to the risk of fraud. This report also included details of the number of prosecutions taken by the Housing Benefit Fraud Team.
- March 2016 Fraud and Corruption Update Report – this provided Members with an overview of developments taking place nationally, an update on activity at Cheshire East, and, details of work planned to ensure compliance with best practice including the Code of Practice on Managing the Risk of Fraud and Corruption. An updated Anti Fraud and Corruption Policy was also be presented to Members for approval and adoption.

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

Fraud risk assessment continued

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

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

Cheshire East Council adopted a Code of Corporate Governance in 2009 which was updated in 2013 and again 2015 and is subject to annual review, and update, where necessary. A revised code was approved and adopted in January 2017 to ensure compliance with the CIPFA/Solace "Delivering Good Governance in Local Government – Framework" (2016 Edition).

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

Principle A of the Council's Code of Corporate Governance is concerned with – "Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law" and sets out the supporting principles, behaviours and actions that demonstrate good governance and how this is evidenced in practice at Cheshire East Council.

Fraud risk assessment continued

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

The Council's Anti Fraud and Corruption Policy states that each Member and officer of the Council is under a duty to report any reasonable suspicions and is encouraged to raise any concerns they may have in the knowledge that such concerns will be properly investigated. To this end, the Council has a Whistleblowing Policy to protect anyone who wishes to raise concerns about behaviour or practice.

The Whistleblowing Policy is intended to cover major concerns that fall outside the scope of other procedures. These include:

- criminal offences
- failure to comply with legal obligations
- miscarriages of justice
- dangers to health or safety, including risks to the public as well as other employees
- damage to the environment
- the unauthorised use of public funds
- possible fraud and corruption
- sexual or physical abuse of clients
- other unethical conduct, or
- deliberate concealment of any of the above categories

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

- The Chief Executive,
- Director of Legal Services, who is also the Monitoring Officer
- Corporate Manager Governance and Audit.

The Council also has in place an online reporting form and a Whistleblowing email address. The Council ensures that any allegations received in any way, including by anonymous letters or telephone calls are taken seriously and investigated in an appropriate manner.

In order to facilitate the reporting of concerns, the Council has in place a Whistleblowing Policy which was produced in accordance with best practice as set down in the PAS 1998:2008 Whistleblowing Arrangements Code of Practice which was produced by the British Standards Institute. The Whistleblowing Policy is reviewed and, if appropriate, updated on an annual basis. The policy was last updated in June 2016 with the latest review reported to Audit & Governance Committee in June 2016.

Fraud risk assessment continued

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

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

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

Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2016?

None which have a material impact on the financial statements.

Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2016? If so how does the Audit and Governance Committee respond to these?

No reports have been made under the Bribery Act since 1 April 2016. Various whistleblowing reports have been received through the year but none which would have a material impact upon the financial statements. There were, however, a number of referrals during 2015/16 relating to the award of contracts and the use of waiver procedures that, whilst not material to the financial statements, attracted a great deal of public interest. These were shared with the External Auditor who agreed with the Council's response to them. These issues have subsequently resulted in a police investigation that remains ongoing.

Audit and Governance Committee last received a report detailing whistleblowing activity in June 2016 with the next update scheduled for the June 2017 meeting

Laws and regulations

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

Impact of Laws and regulations

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

Impact of Laws and regulations

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016 with an on-going impact on the 2016/17 financial statements?	No instances of non-compliance are known to exist that will have an ongoing impact on the 2016/17 financial statements.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p>Legal Services assess litigation claims in conjunction with Finance Officers.</p> <p>The process to identify any litigation or claims in year that would affect the financial statements is completed as part of the closure of the accounts. This includes a year end review undertaken by the Director of Legal Services and the Finance Partnering & Accountancy Manager.</p> <p>Where the Council believes that there is a potentially legitimate legal claim against it then this will be recognised on the balance sheet as a provision using the Council's best estimate of the likely costs it may incur. Where a claim is less likely to be successful but if successful could be material then it will be disclosed in the financial statements as a contingent liability.</p> <p>The status of insurance claims are reviewed regularly. In 2014/15 an actuarial investigation of the claims reserves was undertaken. The results have been factored into the Council's assessment of the level of its self-insurance and the procurement of external insurance.</p>
Is there any actual or potential litigation or claims that would affect the financial statements?	Legal Services have confirmed that they are not aware of any actual or potential litigation/claims that would have a material impact on the financial statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	There have been no reports from HMRC which indicate non-compliance. An outstanding issue with the treatment of VAT in Orbitas has now been resolved.

Going Concern

Issue

Matters in relation to Going Concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements for the Council. The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts (that is the basis on which those assets and liabilities are recorded and included in the accounts).

Entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium- and long –term liabilities would become short-term liabilities.

The Council is not subject to the same future trading uncertainties as private sector entities. However, consideration of the key features of the going concern provides an indication of the Council's financial resilience. It may indicate that some classes of assets or liabilities should not be valued on an on going basis.

Going concern considerations have been set out overleaf and management has provided its response.

Going Concern Considerations

Question	Management response
<p>Does the Council have procedures in place to assess the Council's ability to continue as a going concern?</p>	<p>Yes, the Council undertakes a review of its status in advance of producing the Annual Statement of Accounts and has procedures in place to make that assessment including the following:</p> <ul style="list-style-type: none"> • The Councils Medium Term Financial Strategy 2016/19 and Treasury Management Strategy were approved by Council on 25 February 2016. • The Three Year Summary Position identified the continued grant funding stream from government and future levels of council tax income. The report also considered the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals, so that members had authoritative advice available to them when they made their decisions. • The Council has also published Guidance and Data on the Financial Resilience of the Council. The Council's Three-Quarter Year Review of Performance was reported to Cabinet in February 2017. This predicted a small overspend of £1.7m against budget. • Financial Resilience is identified as a key risk in the Corporate Risk Register: Financial Resilience: <i>The reduction in funding from Central Government means the Council projects significant funding gaps over the next four years, 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 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.</i> • As part of the approval process for the Statement of Accounts the Section 151 Officer will provide assurance regarding the key risks, policies and concepts applicable to the accounts and any such disclosures that are necessary to present fairly the financial position of the Council at its year end. • All wholly owned companies benefit from a number of guarantees put in place by the authority. Their payments to the Cheshire Pension Fund (based on defined contributions towards current service costs) are guaranteed by the Council, and the Council retains responsibility for past service deficits and accounting for pensions assets and liabilities. Each company receives regular payments in advance from the Council to cover known expenses. To cover unforeseen events each company also has access to an automatic loan facility from the council, repayable on commercial terms.

Going Concern Considerations

Question	Management response
<p>Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?</p>	<p>There are no events or conditions which would impact on the Council's status as a going concern.</p> <p>The financial stability of the Council, which determines the amount of money available for service expenditure, should be exposed to less risk from further Government funding shortfalls in the medium term. This has been strengthened by the submission to DCLG of the 4 Year Efficiency Plan in October 2016. This confirmed the Council's acceptance of the 2016/17 Finance Settlement funding levels which are now guaranteed up to the end of 2019/20. These were reconfirmed in the Provisional Finance Settlement released on 15th December 2016.</p>
<p>Are arrangements in place to report the going concern assessment to the Audit and Governance Committee?</p>	<p>Yes, as part of the reporting process to the Audit and Governance Committee which includes the Treasury Management Strategy and Annual Report; the Statement of Accounts and Annual Governance Statement and regular updates on the Corporate Risk Register.</p>
<p>Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?</p>	<p>The Council has set a balanced budget for 2017/18 and this will have taken into account relevant financial assumptions and financial information provided through the year.</p> <p>At the third quarter stage of 2016/17, the Council's reserves strategy remains effective with a small forecast overspend of £1.7m (0.7%) against a budget of £247.9m. Portfolio Holders and the Management Group Board continue to focus on managing this position to avoid any impact on the Council's general reserves at year end.</p>

Going Concern Considerations

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on the going concern?	Yes, the Councils Corporate Plan and reports to Cabinet throughout the year set out the implications of statutory or policy changes. All reports to Cabinet contain a section on Financial Implications authorised by the Section 151 Officer. The Corporate Plan has recently been updated for 2017- 20 and reported to Cabinet / Council in February 2017.
Have there been any significant issues raised with the Audit and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No significant issues have been reported to date in 2016/17 which would cast doubt on the assumptions made. The Audit and Governance Committee receives regular reports from internal and external audit throughout the year and will receive the Statement of Accounts and the Annual Governance Statement for approval on the earlier deadline of August 2017.
Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	Financial information on revenue and capital expenditure is reported to managers via a suite of financial reports on a monthly basis. Performance on treasury management is reported quarterly to Cabinet through the Financial Performance Report. The Council receives quarterly performance monitoring reports from all its ASDVs No adverse financial indicators have been identified.

Going Concern Considerations

Question	Management response
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council’s objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>Following a restructure in 2016/17 the Council has established the three directorates of People, Place and Corporate.</p> <p>The Council has a strong corporate leadership team in place with the following Chief Officers: Mike Suarez – Chief Executive Kath O’Dwyer – Executive Director of Peoples Services and Deputy Chief Executive Peter Bates – Chief Operating Officer (S151 Officer) Frank Jordan - Executive Director of Place</p> <p>Other statutory posts include Mark Palethorpe (Strategic Director of Adult Social Care and Health), Bill Norman (Director of Legal Services and Monitoring Officer) and Charlotte Simpson and Guy Kilminster (Acting Director of Public Health).</p>

Accounting Estimates

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

Consideration of accounting estimates

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

Related Parties

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

Related Parties

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

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property , plant and equipment valuations	Based on Current or Fair Value – dependent on the class of assets will determine EUV, MV or DRC, MEA	A 3 stage QA process with Deloitte's, Assets and finally Finance , quality assuring and challenging the valuations	Deloitte's have been appointed on a 5 year contract	When completing the valuation process and in line with the RICs and CIPFA standards all valuations are considered on number of basis before a decision is made to take a particular one.	No
Estimated remaining useful lives of PPE	For Buildings and Land Deloitte's use Building Surveyor information to determine a useful life. With all other PPE valued at cost the service user determines the useful life of an asset.	Part of the challenge process above particularly if a life has significantly increased or decreased. For other PPE ensure they are in line with our accounting policies.	Yes for Buildings and Land	The valuers and service users provide the estimate for the remaining useful life	No
Depreciation and amortisation	Straight line method	In line with CIPFA Code, accounting standards and the Council's accounting policies	No (except where used to determine asset life)	The length of the life is determined at the point of acquisition or revaluation.	No
Impairments	Conduct an impairment review annually, review helpdesk queries to establish whether any buildings have suffered an impairment and confirm whether the repairs have been remediated.	Quality Assurance from Valuation Team in conjunction with Facilities Management officers	Yes- in house valuation team	The same process as with a valuation – if an impairment has occurred Deloitte's would be required to give a valuation based on the reason for the impairment of the asset	No

Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension liability	The Council is an admitted body to the Cheshire Local Government Pension Scheme. The administering authority (Cheshire West and Chester Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary - Hymans	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No
Long term obligations under PFI schemes	The Council has assessed these arrangements under IFRIC 12 – recognizing the assets used to deliver the services on the Council's balance sheet along with a corresponding liability.	The model developed by Grant Thornton is used to calculate the relevant accounting entries.	Deloitte have been appointed to revalue the buildings.	The initial recognition of the asset/liability is based on costs within the operator's financial model and the embedded finance lease repayments are estimated by deducting service and lifecycle costs from the Unitary Charge.	No

Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairment of receivables (bad debt provision)	A review of balances is carried out annually and an impairment provision for doubtful debts is made in accordance with the accounting policy.	In accordance with the accounting policy.	No	Calculation takes into account historical experience, current trends and other relevant factors.	No
Accruals	Auto Accruals Process and Commitment Accounting Reports used to identify expenditure incurred	In accordance with the Council's accounting policies and controlled through the budget monitoring process.	No	None	No
Provision and contingent liabilities	Identified from discussions with management to identify obligations. Measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	In accordance with CIPFA guidance and accounting standards	No	None	No

Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Investments in companies valuations	Estimates are based on the use of accepted valuation models. These are prepared by the Council based on the audited financial statements of the companies and include: Alderley Park Holdings Ltd Manchester Science Parks Ltd	These will be based on the audited financial statements and reviewed by the corporate finance team.	When necessary external advice will be sought.	None	No
Non-adjusting events – events after the BS date	A review is completed at year end requesting information from Corporate Mgt Team, Heads of Services and Finance.	Peer review to check all non-adjusting events have been captured.	No	None	No

Appendix A Accounting Estimates continued

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



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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of meeting: 16 March 2017
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 an update on the most significant corporate risks to achieving the Council's desired outcomes in the Corporate Plan 2016-20.
- 1.2 At the previous meeting, the Audit and Governance Committee requested a short briefing from the Risk Owners / Managers of the two highest corporate risks. For this meeting the risk managers for CR1 (Increased Demand for People Services), and CR2 (NHS Funding and the Sustainability and Transformation Plan (STP) Impact), will attend the meeting to talk through the risks to explain the threats, the Council's response to these and the mitigating action taken to control the risks.

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.

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 There are presently eleven threats and four opportunities detailed on the Council's corporate risk register; there has been no significant movement of the risks since the previous update to Audit and Governance Committee. The table below highlights the top 5 corporate risks and 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. For this meeting the risk managers for CR1 Increased Demand for People Services, and for CR2 NHS Funding and the Sustainability and Transformation Plan (STP) Impact, will attend the meeting to talk through the risks to explain the threats and controls.

Table 1: 5 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	↔
CR5	Threat	Information Security and Cyber Threat	9 Medium	↑

- 4.4 The assessment methodology used to score the risks is attached at **Appendix B** to this report for information.
- 4.5 This report has been reviewed by the Corporate Leadership Team as part of its responsibility for keeping under review the Council's effective management of risk.

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 5 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 has been 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. The net score is presently 12 high risk, work is ongoing to attempt to mitigate the likelihood and impact of this risk and the risk will be reviewed in April 2017.

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.
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.	Executive Director Place	Portfolio Holder, Corporate Policy and Legal Services	12 High ↔	The Council has a significant number of large value and service critical contracts. 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.

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 ↑	<p>The Council handles large quantities of data on a daily basis and receives a large amount of emails, around 90 million this financial year to date. Of this volume 78% is malware, viruses or spam. The risk of a security breach of some nature is 'likely', already this Financial Year we have more Incidents than last year, 73 compared to the last financial year of 56. The sophistication of the attacks is increasing and so the number and types of technologies to protect the Council will need to evolve to deal with the different complexity. There is increasing public concern, the Council needs to continue to provide a level of service and care of its information that will engender trust from residents and businesses.</p> <p>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.</p>

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

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CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting: 16 March 2017
Report of: Director of Legal Services
Subject/Title: Members' Code of Conduct: Standards Report
Portfolio Holder: Councillor Paul Findlow

1.0 Report Summary

- 1.1 The purpose of the report is to advise the Committee of the number of complaints received under the code of conduct for Members which have been considered by the Director of Legal Services (in his capacity as the authority's Monitoring Officer) and the Independent Person. The report also notes the outcome, where complaints have been concluded.
- 1.2 The report previously considered by the Committee contained details of complaints received up to and including 31 August 2016. This report covers the period 1 September 2016 to the end of February 2017.

2.0 Recommendation

- 2.1 To note the report.

3.0 Reasons for Recommendation

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

4.0 Wards Affected

- 4.1 All

5.0 Local Ward Members

- 5.1 All

6.0 Policy Implications

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

7.0 Financial Implications

7.1 None identified.

8.0 Legal Implications

8.1 The Localism Act 2011 requires the Council to have a Code of Conduct which sets out the standards expected of members whenever they act in their official capacity. The Council must also have in place a suitable procedure at a local level to investigate and determine allegations against members.

8.2 The Code of Conduct also covers co-opted members.

8.3 The Council is also responsible for having arrangements in place to investigate and determine allegations against town and parish councillors.

9.0 Risk Management

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

10.0 Background

10.1 Cheshire East Council adopted its Members' Code of Conduct in July 2012. It is the responsibility of the Audit and Governance Committee to monitor this code.

10.2 The report sets out details of the complaints received under the Members' Code of Conduct for the period 1 September 2016 to 28 February 2017 and, where concluded, the outcome.

10.3 Of the complaints received before 31 August 2016 and reported to the last meeting; one parish council complaint remains ongoing; this was referred for external investigation.

11.0 Summary of Complaints received

11.1 Between 1 September 2016 and 28 February 2017, eighteen complaints were received by the Monitoring Officer. One complaint concerned a member of Cheshire East Council, whilst the remainder were against members of a town or parish council within the borough.

11.2 Of the above, three complaints concern member's who are both borough and town/parish councillor. However, as the allegations within the complaint concerned parish matters, they have been treated as a parish complaint for the purposes of this report.

11.3 The complaints can be broken down further as follows.

12.0 Complaints made against Cheshire East Councillors

12.1 In the single complaint received, the following paragraphs of Cheshire East Council Members' Code of Conduct were identified as allegedly having been breached:

Part A: General obligations		paragraph
1	Selflessness	1
2	Integrity	1
3	Objectivity	0
4	Accountability	0
5	openness (a) transparency	0
	openness (b) disclosure	0
6	honesty (a) declaring interests	0
	honesty (b) use of resources	0
7	respect for others (a) courtesy	0
	respect for others (b) equality	0
	respect for others (c) impartiality	0
	respect for others (d) bullying	0
8	leadership	
9	gifts and hospitality	0
Part B: registering and declaring pecuniary and non pecuniary interests		
Failure to register		0

[Note: the numbers may not tally with the number of complaints received as a complainant may identify none or more than one paragraph in their complaint.]

12.2 The decision of the Monitoring Officer was as follows:

Complaints awaiting initial assessment	0
No further action to be taken	1
Referred to the Monitoring Officer for informal resolution	0
Referred to Group Leader for informal action	0
To be referred by the Monitoring Officer for external investigation	0
Referred to the Police or other regulatory agency	0

13.0 Complaints made against Town/Parish Councillors

- 13.1 Of the seventeen complaints received between September 2016 and February 2017, the following paragraphs of the relevant town/parish council code of conduct were identified as allegedly having been breached:

<u>Part A: General obligations</u>		<u>paragraph</u>
1	selflessness	7
2	integrity	3
3	objectivity	8
4	accountability	7
5	openness (a) transparency	5
	openness (b) disclosure	2
6	honesty (a) declaring interests	1
	honesty (b) use of resources	2
7	respect for others (a) courtesy	8
	respect for others (b) equality	1
	respect for others (c) impartiality	0
	respect for others (d) bullying	5
8	leadership	5
9	gifts and hospitality	0
<u>Part B: registering and declaring pecuniary and non pecuniary interests</u>		
Failure to register		3

[Note: the numbers may not tally to the number of complaints received as a complainant may identify none or more than one paragraph in his/her complaint.]

- 13.2 Of the cases received, the decision of the Monitoring Officer was as follows:

Complaints awaiting initial assessment	6
No further action to be taken	5
Deferred for further information	1
Referred to Monitoring Officer for informal local resolution	3
Referred to Group Leader for informal action	0
To be referred by the Monitoring Officer for external investigation	2
Referred to the Police or other regulatory agency	0

14.0 Administering the process

- 14.1 The Monitoring Officer continues to receive a steady number of complaints. The current procedure for dealing with standards complaints has significantly increased the speed at which complaints are dealt with, with a high percentage of complaints being dealt with within the specified deadlines.

- 14.2 In comparing the number of complaints received, the period September 2016 to February 2017 has seen a significant rise in the number of complaints submitted from the previous six months (i.e. one borough and five town/parish complaints). However, when compared to the same period last year i.e. September 2015 – February 2016, the number of parish complaints is similar, although there has been a drop in borough Member complaints (i.e. eight borough and seven town/parish received).
- 14.3 Dealing with these complaints and often the preliminary advice and interaction with complainants before a formal complaint is received, takes a significant number of officer hours. The process itself by its very nature is detailed and requires a clear record of all decisions and complaints to be maintained.

15.0 Access to information

- 15.1 There are no background papers relating to this report.

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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 16th March 2017
Report of: Customer Relations and Compliance Manager
Subject/Title: Compliance with Data Protection Act (1998),
Freedom of Information Act (2000) and Environmental
Information Regulations (2004)
Portfolio Holder: Councillor Paul Findlow

1.0 Report Summary

- 1.1 This report provides an update on the performance of Cheshire East Council in responding to requests for information under the Data Protection Act (1998) and the Freedom of Information Act (2000) (including the Environmental Information Regulations (EIR)), highlighting volumes, trends and current and future issues.

2.0 Decision Requested

- 2.1 That the Committee notes the performance of the Council in responding to requests for information and notes ongoing and future developments.

3.0 Wards Affected

- 3.1 All wards.

4.0 Local Ward Members

- 4.1 Not applicable.

5.0 Policy Implications

- 5.1 Compliance with Freedom of Information (FOI) and Data Protection (DP) legislation is integral to effective management of information within the Authority. FOI legislation and Environmental Information Regulations make public bodies open and transparent, whilst DP legislation protects personal data from improper use. It is essential, therefore, that all relevant policies and procedures take account of these regulations.

6.0 Financial Implications

- 6.1 Failure to comply with the legislation can lead to large fines being imposed on the Council. The current maximum penalty for breach of Data Protection or non-compliance is £500,000. Non-compliance with Freedom of Information can lead to enforcement action by the Information Commissioner or possibly costly court proceedings and reputational damage.

7.0 Legal Implications (authorised by the Borough Solicitor)

7.1 These are set out in the report.

8.0 Risk Management

8.1 The risks of non-compliance are significant (as outlined in 6.1). Additionally, the penalties which may be imposed under the forthcoming General Data Protection Regulation are significantly greater than the current maximum penalty for non-compliance (see 14.1).

9.0 Background

9.1 The tables below show the number and sources of requests received in 2016 (January – December) and the services to which they relate. Figures are provided for the four previous years for comparison. Any company wholly owned by one or more public authorities is subject to FOI legislation. Therefore, most of the new ASDVs (Alternative Service Delivery Vehicles) established by the Council in recent years are also subject to FOI. If a Freedom of Information request relates in any way to the environment, then it is classed as an Environmental Information Request, and is subject to the Environmental Information Regulations 2004 (EIR), rather than the Freedom of Information Act.

Table 1

TYPE OF REQUEST	2016	2015	2014	2013	2012
FOI/EIR requests	1667	1625	1598	1614	1487
DP Subject Access requests	1074 ¹	820	554	619	467
TOTAL	2741	2445	2152	2233	1954

Table 2

SOURCE	2016	2015	2014	2013	2012
Individuals	34%	45%	46%	50%	37%
Commercial	18%	18%	20%	18%	18%
Press/Media	12%	15%	14%	10%	13%
Public Sector	26%	9%	8%	9%	20%
What do they know' ²	5%	6%	6%	6%	5%
Pressure Groups	3%	5%	4%	5%	5%
MP's/Councillors	2%	2%	2%	2%	2%

¹ 478 requests made directly to Council Tax

² Website which facilitates the submission of FOI requests

Table 3

SERVICE/ DEPARTMENT	2016	2015	2014
Children's and Adults Services	24%	29%	27%
Communities	13%	23%	26%
Chief Operating Officer Services	40% ³	17%	17%
Economic Growth & Prosperity	14%	15%	15%
Highways	6%	8%	8%
ASDV'S	3%	8%	7%

10.0 Freedom of Information/Environmental Information Requests

- 10.1 In 2016 Freedom of Information and Environmental Information requests increased marginally up to 1667 requests. 85% of the requests were responded to within 20 working days. The internal authorisation process introduced during 2015 is continuing to lead to longer processing times.
- 10.2 Ninety of the 1667 cases resulted in the issuing of refusal notices, refusing the request either fully or in part. This equates to 5% of cases. The main exemptions used were as follows:
- Data Protection – Releasing of this information would be a breach of the Data Protection Act 1990. In the majority of cases this led to the minimal redaction of third party names, address and other personal information.
 - Exceeding the Appropriate Limit of 18 hours – Responding to the request would take over 18 hours. The requesters are asked to resubmit a new reduced request which is then considered accordingly.
 - Information Available by other Means – The information being requested is already publicly available and therefore there is no need to make a request under FOIA or the EIR's for the information.
- 10.3 Forty-two requests were escalated to the Internal Review stage as the requester was unhappy with the initial response. Of the 42 cases investigated at Internal Review Stage, only 4 have been taken to the Information Commissioner for further investigation during 2016.
- 10.4 A new system – i-Casework – for processing FOI and DP requests was procured in 2015 and has been operational since 1st October 2016. This is currently being rolled out throughout the authority.

³ This includes those Data Protection subject access requests which are handled by Council Tax (in 2015 these were recorded under Communities). Additionally, the number of Subject Access requests received by the Council increased significantly in 2016. Of the 1092 requests into the COO area, 789 were Subject Access requests.

- 10.5 The implementation of i-Casework will also enable the production and publication of a FOI Disclosure Log on the Council's website, detailing requests received by the Council and the responses issued. This is anticipated to be operational by May 2017.

11.0 Referrals to the Information Commissioner

- 11.1 The Information Commissioner received 7 complaints about Cheshire East Council during 2016 (4 arising from internal reviews and 3 relating to late responses). This compares with 8 in 2015, 4 in 2014 and 13 in 2013. Of the 4 arising from internal reviews, one is ongoing at the first stage of the Information Tribunal. It is currently being considered and it is expected that the decision will be issued shortly. The remaining 3 are ongoing, awaiting further contact from the Information Commissioner.

12.0 Transparency

- 12.1 The Council has stated its commitment to being open, honest and accountable regarding all decisions, actions and outcomes. The 'Transparency Project' has continued to make significant progress to achieve this aim, and the Council has achieved compliance with all mandatory requirements of the Local Government Transparency Code 2015 and the Freedom of Information Act 2000, which provides an outline Publication Scheme.
- 12.2 The Council is now publishing information over and above mandatory requirements. Work is continuing to identify frequently requested datasets with the aim of proactively publishing this data. Some service areas such as Business Rates, Council Tax and Waste Services are already doing this.
- 12.3 The Council's data portal will continue to facilitate the process of uploading data and make it available in meaningful, easily accessible and re-usable formats for the public. It will also be of use internally and should make access to data easier and faster for employees and Members. A communications plan has been established to promote the online portal both internally and externally over the forthcoming year.

13.0 Data Protection Subject Access Requests

- 13.1 There was a significant increase in Subject Access Requests from 2015 (820) to 1074 in 2016. 58% of the increase was in requests to Council Tax, which typically come from other public authorities. The Compliance and Customer Relations team received an additional 194 requests in 2016 compared to 2015. Requests into this team typically originate from individuals (including care leavers requesting access to their social care records), public authorities (including the Police) and commercial organisations (including insurance companies and solicitors requesting CCTV footage).

14.0 Forthcoming changes to Data Protection regulations

14.1 The current European Data Protection Directive has been reformed and, following parliamentary approval, the General Data Protection Regulation will come into effect on 25th May 2018. The fact that it is a “regulation” instead of a “directive” means it will be directly applicable to all EU member states without a need for domestic legislation. The main changes are:

- Higher fines – fines of up to 4% of a company’s worldwide turnover or €20,000,000 (£16m) (whichever is higher) can be imposed. The maximum the Information Commissioner can currently impose is £500,000.
- Mandatory notification – it will be mandatory to report all serious data protection breaches to the Information Commissioner within 72 hours of becoming aware of the breach. Currently this procedure is voluntary.
- Mandatory data protection impact assessments - legal requirement for a data protection impact assessment (DPIA) to be carried out in high-risk situations, for example where a new technology is being deployed
- Sensitive personal data – stricter rules will apply to the processing of sensitive personal data such as medical information. ‘Sensitive’ personal data will also include genetic and biometric data.
- Consent – consent must be freely given, specific, informed and unambiguous, provided by clear affirmative statement or action.
- Additional rights for data subjects – new right to transfer data from one service provider to the other. There will also be a wider right to be forgotten than currently exists.
- Mandatory Data Protection Officers - statutory requirement for public authorities to appoint a Data Protection Officer.
- Data Processors – the Data Protection Act currently only regulates data controllers but the new regulation imposes certain direct legal obligations on data processors also.

15.0 Training and Awareness

15.1 Refresher Freedom of Information and Data Protection training have recently been arranged for senior officers and members in order to ensure that all concerned are aware of their obligations under the Data Protection Act (1998), the Freedom of Information Act (2000), the Environmental Information Regulations and the Local Government Transparency Code.

15.2 Data Protection training is a mandatory requirement for all members of staff through the Performance Management process. Training and awareness in Data Protection, including data handling, record keeping and security is delivered at Induction and across the organisation at regular intervals. In addition, a compulsory online information governance training module (SEEDS) has been rolled out for all staff to complete.

15.3 i-Casework training will be carried out for all service areas which deal with Freedom of Information and Complaints (including ASDV’s), in order to ensure that the full potential of the system is realised. Training commenced in February 2017.

16.0 Access to Information

- 16.1 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 & GOVERNANCE COMMITTEE

Date of Meeting: 16th March 2017
Report of: Compliance and Customer Relations Manager
Title: Compliance with the Regulation of Investigatory Powers Act (2000) (RIPA)
Portfolio Holder: Councillor Paul Findlow

1.0 Report Summary

- 1.1 This report provides an update on how the Council has complied with RIPA legislation during 2016/17 and the number of RIPA applications which have been authorised to date.

2.0 Recommendation

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

3.0 Reasons for Recommendation

- 3.1 The Audit & Governance Committee has a key role in assessing the adequacy and effectiveness of these arrangements.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 Using RIPA powers can conflict with an individual's human rights and so it is imperative that, when investigating alleged wrongdoing, certain conditions are met in each case in order that successful prosecutions can be made. By following the authorisation procedures set out in RIPA legislation, officers can demonstrate that any surveillance is necessary for a purpose permitted by the Human Rights Act 1998 and that it is a proportionate measure to take, given all the circumstances.

7.0 Financial Implications

- 7.1 Failure to comply with the legislation can lead to the Office of Surveillance Commissioners withdrawing the Council's ability to conduct directed surveillance for a period of time. This would have a detrimental impact on the Council's ability to conduct investigations. Fines may also be imposed if the Council were found to be breaching Human Rights legislation.

8.0 Legal Implications

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

9.0 Risk Management

- 9.1 The impact on the Council of not complying with the legislation would be significant, as identified above in 7.1.

10.0 Background

- 10.1 The Council occasionally needs to use directed surveillance in order to carry out its enforcement functions effectively, e.g. planning enforcement, licensing enforcement, trading standards, environmental health and community safety investigations. RIPA provides a regulatory framework to enable public authorities to obtain information through the use of certain covert investigatory techniques. It is imperative that, when investigating alleged wrongdoing, certain conditions are met in each case in order that successful prosecutions can be made. In particular, it is essential that covert surveillance is only used when it is necessary and proportionate to do so. Therefore, this must be properly authorised and recorded, the tests of necessity and proportionality must be satisfied, and the potential for collateral intrusion must be considered and minimised.
- 10.2 The Council's Authorising Officers are:
- Chief Executive
Executive Director of People and Deputy Chief Executive
Chief Operating Officer
Director of Children's Social Care

Training is currently being arranged for the Executive Director (Place) and the Strategic Director of Adult Social Care and Health. The recently appointed Director of Public Health will be trained as soon as possible after joining Cheshire East Council.

- 10.3 Once authorised, all applications need the approval of a Justice of the Peace/Magistrate, as required by the Protection of Freedoms Act 2012. The Act also restricts the use of surveillance to the investigation of offences which attract a custodial sentence of six months or more.
- 10.4 The Director of Legal Services assumes responsibility for the integrity of the process to ensure that the Council complies with the legislation.

11.0 Access to Communications Data – use of National Anti Fraud Network (NAFN)

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

12.0 Use of Covert Human Intelligence Source (CHIS)

- 12.1 Covert human intelligence sources may only be authorised if there are certain additional arrangements in place, including an employee of the Council being responsible for the source’s security and welfare and a Senior Officer with general oversight of the use made of the source. Use of a CHIS must be authorised by the Chief Executive before it is approved by a Justice of the Peace/Magistrate.

13.0 Applications authorised

	Directed surveillance	Communications Data	CHIS
2011-12	7	2	
2012-13	16 ¹	3	
2013-14	8	3	
2014-15	5	2	1
2015-16	5	2	0
2016-17	5	0	0

- 13.1 Of the 5 applications in 2016-17, 4 were test purchases of age restricted goods and 1 was in relation to fly-tipping. (In 2015-16, 3 were test purchases, 2 related to benefit

¹ The apparent rise in applications in 2012/13 includes five renewals of existing investigations, which were recorded in the central register as new applications.

fraud and two were applications for communications data in respect of the sale of counterfeit goods on social media.)

- 13.2 The Housing Benefit Fraud Investigation Team moved to the Department of Work and Pensions on 1st December 2015. Numbers of applications for directed surveillance have reduced as a result of this move.

14.0 Inspections

- 14.1 The Office of the Surveillance Commissioners (OSC) is responsible for inspecting the Council's use of and compliance with RIPA, and the Council was last inspected on 23rd May 2016. The report was a very positive one, with only one recommendation for further improvement. The recommendation to update the policy and procedure to include more detailed explanation of the use of social networking sites is being addressed.
- 14.2 The Interception of Communications Commissioner's Office (IOCCO) is responsible for inspecting applications to access communications data. Inspections are carried out on NAFN rather than on the Council. The most recent report from the IOCCO stated that their inspection of NAFN showed 'very good compliance'.

15.0 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: 16 March 2017
Report of: Corporate Manager Governance and Audit
Title: Internal Audit Interim Report 2016/17
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 undertaken between October and December 2016 (see Appendix A).

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.

3.0 Reasons for Recommendation

3.1 The Interim Report addresses emerging issues in respect of the whole range of areas to be covered in the Internal Audit Annual Report, due in June 2017.

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 is either explicit or implied in legislation with s151 of the Local Government Act 1972 requiring Councils to “make arrangements for the proper administration of their financial affairs” and the Accounts and Audit Regulations 2015 requiring a relevant body to “undertake an effective internal audit ...”

9.0 Risk Assessment

- 9.1 The Authority is required to maintain an effective internal audit of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance in accordance with Regulation 5 of the Accounts and Audit Regulations 2015. Failure to do so could result in non compliance with the requirements of the Regulations.

10.0 Background

- 10.1 The Public Sector Internal Audit Standards (PSIAS) states that in addition to the annual report, arrangements should be made for interim reporting to the organisation in the course of the year.
- 10.2 Members were provided with a detailed Interim Report at the December 2016 meeting of this Committee. As such, the latest update, which can be found at Appendix A, has been prepared in the form of a highlight report and covers the programme of work delivered between October and December 2016 along with a brief outline of work planned for the remainder of the financial year.

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

October 2016 - December 2016

www.cheshireeast.gov.uk

Internal Audit
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1 Introduction

- 1.1 This report covers the programme of work delivered between October and December 2016 along with a brief outline of work planned for the remainder of the financial year.

2 Summary of Audit Work undertaken

- 2.1 The work carried out between October and December 2016 can be summarised as follows:

2.2 Assurance Work

- 1 audit was completed and the final report issued.
- 2 audits progressed to the draft report stage.
- 4 audits were either in progress or the terms of reference agreed with management.
- 3 audits where the terms of reference were issued to management.

- 2.3 In accordance with normal practice, once the outstanding reports have been finalised, further detail will be provided to the Committee on any of these audits with 'Limited' or 'No' assurance in the Internal Audit Annual Report 2016/17.

2.4 School Audits

- 13 audits completed and reports issued.
- 4 further visits scheduled for quarter four.

2.5 Supporting Corporate Governance

- Continued monitoring of issues raised in the 2015/16 Annual Governance Statement (AGS), update of the associated AGS Action Plan and development of the proposed process for production of the 2016/17 AGS.
- Details of the above were provided to Members in a report to the December 2016 meeting of this Committee.
- Internal Audit has continued to attend and provide support to the Corporate Assurance Group and the Information Governance Group.

2.6 Risk Management

- Work to further develop and embed risk management, continued during the quarter. This included the review and update of corporate risks and work within departments to develop operational risk registers.
- Members should be aware that the agency staff member who was leading on Risk Management left the Council unexpectedly during October 2016. However, alternative arrangements have been made to ensure that this area of work continues to progress.
- A briefing on healthcare and funding risks will be received as a separate agenda item to this Committee.

2.7 Anti-Fraud and Corruption

- Internal Audit coordinated the Council's participation in both the biennial National Fraud Initiative (NFI) and the annual NFI Flexible Matching exercise.

- This involved liaising with a wide range of services across the Council and its ASDV's to ensure that data was extracted from key systems in the correct format, and securely uploaded to the Cabinet Office website within prescribed timescales.
- This was completed successfully and work then continued to ensure that services were prepared to commence the investigation of matches from January 2017.

2.8 Consultancy and Advice

- 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.
- Advice and guidance provided during Quarter 3 has included reviewing the decision making process at a school, suspected scams/frauds in schools and across the council, and work related to the completion and certification of grant claims.

2.9 Implementation of Recommended Actions

- Work has continued to obtain assurance from management that Internal Audit recommendations have been implemented in accordance with agreed timescales.

- The approach taken is dependent upon the level of assurance provided by the initial audit review. Those with Limited or No Assurance are subject to a more detailed review process.
- In accordance with normal practice, detailed performance figures relating to the implementation of recommended actions within agreed timescales will be reported in the Annual Report 2016/17. This will allow the figures to reflect those actions that are due to be implemented during quarter 4.
- As agreed at the December 2016 meeting of Audit and Governance Committee, additional detail will be provided with regards to the implementation of all actions.

2.10 Supporting the Audit and Governance Committee

Internal Audit prepared or contributed towards the following reports to this Committee during the quarter:

8 December 2016

- Risk Management Policy Review.
- Annual Governance Statement (AGS) Update
- Internal Audit Interim Report 2016/17
- Review of the Code of Corporate Governance
- Outcomes from the Cardiff Check procurement testing
- Audit and Governance Committee Work Plan

The following Member/Officer Groups also met during November 2016:

- Financial Statements and Audit
- Corporate Governance and AGS
- Risk Management
- Fraud

3 Ongoing and Forthcoming Areas of Work

- 3.1 As Members will be aware, an audit review of Procurement has been on hold since the end of December 2015 when Cheshire Police commenced an investigation into related matters which required Internal Audit to pause their work in this area.
- 3.2 Following discussion at the December 2016 meeting of this Committee, it was agreed that a new piece of work should be completed to provide assurance to both the Chief Operating Officer and Members that the arrangements currently in place to manage procurement activity are appropriate and effective.
- 3.3 As such, a Terms of Reference was produced and shared with the External Auditor and the Senior Investigating Officer with TITAN, who is leading the police investigation.
- 3.4 Following confirmation that the proposed work would not impact upon the ongoing police investigation, the audit is now underway and is expected to be completed by the end of March 2017. The outcome of this work will be reported to a future meeting of this Committee.

3.5 In delivering the remainder of the 2016/17 Audit Plan, priority will be given to those pieces of work which inform the annual audit opinion, such as:

- Key Financial Systems - assurance that the expected controls are in place and operating effectively.
- Corporate Governance and Risk - supporting and contributing to the production of the Annual Governance Statement
- Anti-Fraud and Corruption - coordination of the investigation of National Fraud Initiative data matches
- Follow up Audits - proactive monitoring of the implementation of audit recommendations

3.6 In addition to completing the planned work relating to 2016/17, we will be preparing the Audit Plan for 2017/18.

3.7 The plan will need to carefully balance statutory responsibilities and risk with the resources available within the team.

3.8 This will involve meetings with senior managers and heads of service to discuss the risks associated with their areas of responsibility and to agree priorities for the coming year.

3.9 It will also require detailed consideration of strategic and service risk registers, other sources of assurance such as external inspection reports and issues identified during the current year.

3.10 The proposed plan will be presented to the March 2017 meeting of this Committee for consideration and approval.

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of Meeting: 16th March 2017
Report of: Corporate Manager Governance and Audit
Title: Internal Audit Plan 2017/18
Portfolio Holder: Councillor Rachel Bailey

1.0 Report Summary

- 1.0 The purpose of this report is for the Committee to receive and approve the Summary Internal Audit Plan for 2017/18.

2.0 Recommendations

- 2.1 That the Committee:
- i) approve the Summary Internal Audit Plan 2017/18 (Appendix A); and
 - ii) note that the plan will be developed and refined throughout the forthcoming year as a number of factors progress and the impact on the current level of audit resource becomes known.

3.0 Reasons for Recommendations

- 3.1 The Council's Internal Audit Charter, developed in accordance with the Public Sector Internal Audit Standards (PSIAS), requires the Corporate Manager Governance and Audit to submit an annual internal audit plan to the Audit and Governance Committee for review and approval.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 Not applicable.

7.0 Financial Implications (Authorised by the Chief Operating Officer)

- 7.1 In accordance with the PSIAS, the Audit and Governance Committee should ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in

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

- 7.2 The Summary Internal Audit Plan 2017/18 has been prepared, based on current resources, to cover the core areas of work required to deliver an annual audit opinion. Once the detailed audit plan has been set, this will be compared to resource availability and where there is an imbalance between the two, the Committee will be informed of proposed solutions.
- 7.3 Matters that jeopardise the delivery of the audit plan or require significant changes to it will be identified, addressed and reported to the Committee.

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

- 8.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities “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.”
- 8.2 The guidance accompanying the Regulations recognises that with effect from 1st April 2013, the Public Sector Internal Audit Standards (PSIAS) represent “proper internal audit practices”. The PSIAS apply to all internal audit service providers within the UK public sector.

9.0 Risk Assessment

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

10.0 Background

- 10.1 All principal local authorities subject to the Accounts and Audit Regulations 2015 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS). The Standards state that the provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive (or equivalent) to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Internal audit can also, where resources and skills exist, provide additional services. Additional services would normally be advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.
- 10.2 In order to ensure that internal audit resources continue to be focussed on areas where assurance is most needed, particularly during periods of change, it is essential that clients' needs are understood. Consequently, a wide ranging consultation process took place with key stakeholders including Senior Management, Strategic Risk Owners/Managers and other assurance providers in order to establish priorities for audit activity in 2017/18.
- 10.3 The intelligence gathered by this consultation process has been supplemented by the outcome of further planning activity, including a risk assessment of local, regional and national issues and consideration of the Council's corporate plan 2016-2020.
- 10.4 Following the consultation process, the proposed audit activity was collated and matched against the internal audit resources available and prioritised accordingly and a risk-based summary internal audit plan for 2017/18 (Appendix A) prepared. In accordance with the PSIAS the plan is fixed for a period of no longer than one year. It outlines the assignments to be carried out, their respective priorities (by differentiating between assurance and other work) and the estimated resources needed. The Corporate Leadership Team has considered the plan prior to presentation to the Audit and Governance Committee.
- 10.5 The plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the Annual Governance Statement. However, as in previous years, it is proposed that the plan will be developed and refined throughout the forthcoming year as a number of factors progress and the impact on the current level of audit resource becomes known.
- 10.6 In accordance with the Council's Internal Audit Charter, the Audit and Governance Committee is asked to review and approve the summary internal audit plan 2017/18. In doing so, Members should consider whether the:
 - scale and breadth of activity is sufficient to allow Internal Audit to provide an independent and objective audit opinion that can be used to inform the AGS
 - level of resources in any way limits the scope of Internal Audit, or prejudices the ability to deliver a service consistent with the Standards

- level of non-assurance work has an adverse impact on the core assurance work.

11.0 Access to Information

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

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Designation: Principal Auditors

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Summary Internal Audit Plan 2017/18

www.cheshireeast.gov.uk

Internal Audit

First Floor, Westfields

Cheshire East Council

Sandbach, CW11 1HZ

Cheshire East Council - Summary Internal Audit Plan 2017/18

1 Introduction

- 1.1 The development of the 2017/18 Internal Audit Plan has been undertaken against a backdrop of continuing strategic and operational change throughout Cheshire East Council.
- 1.2 This is reflected in the audit planning process, which has again been directed by the key issues and financial challenges currently facing the Council. This summary plan has been drawn up on the basis that the control environment and risk profile of the Council will inevitably continue to change over the next financial year.
- 1.3 This document sets out Cheshire East Council's Summary Internal Audit Plan for 2017/18 and includes how the service will be delivered and developed in accordance with the Internal Audit Charter and how the plan links to the Council's objectives and priorities.
- 1.4 The 2017/18 audit plan has inbuilt flexibility to respond to the changing demands for assurance work. This flexible approach will allow quicker targeting of resources to high risk areas as they arise throughout the year.
- 1.5 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council that these arrangements are in place and operating properly.
- 1.6 The provision of assurance is, therefore, the primary role for Internal Audit. This role requires the Corporate Manager Governance and Audit, as the Chief Audit Executive, to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control (i.e. the control environment).
- 1.7 An Internal Audit plan is produced each year to ensure that:
- the scale and breadth of activity is sufficient to allow the Corporate Manager Governance and Audit to provide an independent and objective opinion to the Council on the control environment
 - audit activity focuses on areas where assurance is most needed
- 1.8 The summary Internal Audit plan for 2017/18 is shown in Table 1 at the end of this document.

2 Responsibilities and Objectives of Internal Audit

- 2.1 Internal Audit is an independent, objective assurance and consulting service designed to add value and improve the Council's operations. It helps the Council

Cheshire East Council - Summary Internal Audit Plan 2017/18

accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

- 2.2 Internal Audit's primary function is the provision of assurance. This is delivered through the provision of the annual internal audit opinion, which informs the Annual Governance Statement and is based on an objective assessment of the framework of governance, risk management and control.
- 2.3 Subject to the availability of resources, and there being no impact on the core assurance work, non-assurance work, including fraud related and consultancy work may be undertaken at the request of the organisation.
- 2.4 The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council's objectives.

3 Summary and Process

- 3.1 Our Internal Audit Charter conforms to the Public Sector Internal Audit Standards (PSIAS) which came into effect from 2013.

- 3.2 In accordance with the Charter, the annual internal audit plan for 2017/18 has been developed using a risk based methodology to prioritise the audit universe. The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework.

- 3.3 The starting point for preparing the Plan is to consider the adequacy and outcomes of the Authority's risk management, performance management and other assurance processes. As the Council has recognised its current level of risk maturity as between "risk aware and risk defined" and has established the target of becoming "risk managed"¹, additional work has been undertaken by the Internal Audit team to inform and develop the Internal Audit plan. This includes;

- Internal Audit's own risk assessment, which considers issues at an organisation, regional and national level as well as the results of previous audit work

¹

<http://moderngov.cheshireeast.gov.uk/ecminutes/ieListDocuments.aspx?CIId=241&MIId=5685>

Cheshire East Council - Summary Internal Audit Plan 2017/18

- Consideration of Cheshire East Council's Corporate Plan, 2016-2020².
- Consultation with key stakeholders, internal to CEC: Corporate Leadership Team, Senior Management including Strategic Risk Owners/Managers and Internal Audit staff.
- External key stakeholders: External Audit, Cheshire West and Chester Internal Audit, and the North West Chief Audit Executive Group.

3.4 Responsibility for the centralised risk management function, and the corporate business continuity function had previously been transferred to the Corporate Manager Governance and Audit, and was being delivered using internal audit resource. However, these functions are currently being delivered using resource from outside the Internal Audit team, and this is reflected in the plan by removing both the responsibility and associated resource from the calculations and summary plan.

3.5 The Plan will be further defined in the first quarter of 2017/18, through the following:

- Outcomes from the Strategic Risk Management Process.
- Outcomes from the business/commissioning planning process, including key organisational objectives and priorities and risks to achieving them.
- Outcomes from the Annual Governance Statement process.
- Continuing consultation with key stakeholders

3.6 In delivering the 2017/18 Plan, there will be a need to take account of the following:

- the impact on audit resources with regard to assurance engagements for functions over which the Corporate Manager Governance and Audit has responsibility
- the requirement to use specialists, e.g. IT or contract and procurement auditors
- outcomes from collaborative working including the development of the Quality Assurance and Improvement Programme (QAIP) and in particular the external assessment against the PSIAS (i.e. the Definition of Internal Auditing, the Code of Ethics and the Standards themselves) for compliance
- clarification on any requirements for internal audit support to the Council's Alternative Service Delivery

²

<http://moderngov.cheshireeast.gov.uk/ecminutes/documents/s45752/Medium%20Term%20Financial%20Strategy%20-%20Appendix%20B.pdf>

Cheshire East Council - Summary Internal Audit Plan 2017/18

vehicles, and any other organisations where the Council acts as host or accountable body.

- Declarations of interest made by the Internal Audit team; these are considered to ensure there are no conflicts of interest.

3.7 The Internal Audit Plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation. It is, therefore, presented at a summary level.

3.8 Minor changes to the plan will be discussed with the Director of Legal Services, and any significant matters impacting upon the completion of the plan or the ability to provide the annual opinion will be reported to the Corporate Leadership Team and the Audit and Governance Committee.

4 Key Themes and Outputs

4.1 There are a number of key themes emerging within the 2017/18 Internal Audit Plan, including:

- Reviewing key delivery areas associated with high financial values and high levels of customer interaction

- Providing assurance on the operation of controls intended to mitigate the risk of material misstatement in the accounts

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

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

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

- Key Financial Systems
- Corporate Core and Cross Service Systems
- Service Specific Systems

Cheshire East Council - Summary Internal Audit Plan 2017/18

- Anti- Fraud and Corruption – Proactive reviews
- Project/contract audit
- ICT/Computer audit
- Investigations
- Continuous auditing/monitoring
- Probity/compliance audit
- External clients

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

- **Corporate Governance and Risk**
 - Support and co-ordination for the production of the Annual Governance Statement (AGS)
 - Attendance at Corporate Assurance Group and other working groups; Information Governance Group etc.
- **Statutory Returns**
 - Internal Audit may be required, as a stipulation of funding or similar, to carry out an audit/give assurance on the programme/project or aspects, thereof, and report back to the statutory/funding body.

- **Anti Fraud & Corruption**
 - National Fraud Initiative – results are recorded on the Audit Commission secure website, update reports presented to the Corporate Assurance Group.
- **Follow Up**
 - Monitoring the effective implementation of agreed audit recommendations to provide assurance that improvements in the control environment are being realised.
- **Advice and Guidance**
 - The exact nature and scope of any internal audit work, is agreed in advance with the manager.

4.5 Other work that will not necessarily inform the annual opinion includes:

- **Corporate Work**
 - Supporting the Audit and Governance Committee including production of reports
 - External Audit liaison
 - Support and contribution to Corporate Working Groups
 - Regional Collaboration

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- **Anti Fraud and Corruption and Whistleblowing Reports**

- At the request of management, Internal Audit may assist with the investigation of suspected fraud and corruption/reports and referrals received under the Council's Whistleblowing Policy
- Awareness raising
- Supporting the production of Corporate Policies and Procedures

4.6 In accordance with CIPFA guidance³ the Corporate Manager Governance and Audit should be made aware of major new systems and proposed initiatives to help ensure risks are properly identified and evaluated and appropriate controls built in. Some of the work described in 4.5 contributes to this awareness.

4.7 The assurance framework will continue to be reviewed and developed during 2017/18 to highlight existing sources of assurance provision, ensuring effective planning and efficient deployment of resources.

4.8 In addition time has been allocated in the plan for the service to be developed and improvements made.

4.9 Internal Audit also provides services to PATROL⁴, as Cheshire East Council is the host Council.

5 Resource and Delivery

5.1 The resources currently available are outlined below:

Audit Year	2017/18	2016/17
Maximum Days	2,101	2,244
Unavailable Working Days – Annual Leave, Bank Holidays, Estimated Sick Leave, Estimated Special Leave	372	389
Available Working Days	1,729	1,855
Non Chargeable Sub Total - Training, Planning, Team Management & Housekeeping, Service Development	322	397
Chargeable Days	1,407	1,458

5.2 The overall decrease in chargeable days during 2017/18 reflects the removal of risk management resource from the plan. The plan has been calculated on the basis of the current Internal Audit team structure.

³ "The Role of the Head of Internal Audit in Public Sector Organisations", CIPFA, 2010

⁴ The Joint Committee of England and Wales for the Civil Enforcement of Parking and Traffic Regulations outside London.

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- 5.3 The Summary Internal Audit Plan 2017/18 has been prepared, based on current resources, to cover the core areas of work required in order to deliver an annual audit opinion.
- 5.4 A contingency figure is normally included to recognise that the plan needs to be flexible to be able to reflect the changing risks and priorities of the Council. The plan does include a small amount of time for advice and guidance. It does not include an additional general contingency, although there is a specific contingency for reactive fraud investigation, which may be undertaken or supported by Internal Audit after appropriate risk assessment.
- 5.5 Where there is an imbalance between the work plan and the resources available, the Audit and Governance Committee will be informed of proposed solutions. Significant matters which jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and brought to the attention of the Corporate Leadership Team and the Audit and Governance Committee.
- 5.6 In further defining the audit plan for delivery, areas of work may be highlighted which the Internal Audit function is not currently sufficiently staffed/skilled to provide assurance on, for example, specialist ICT audits.

In these cases, there will be a need to consider procuring external resource to provide the necessary assurance.

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

6 Progress Reporting

- 6.1 During the year, Internal Audit will produce interim progress reports for the Audit and Governance Committee, detailing key issues arising from audits and progress made against the Audit Plan. Any significant matters affecting the delivery of the plan or requiring changes to the plan will also be reported to the Committee.
- 6.2 At the end of the year, an Annual Report is presented to the Audit and Governance Committee to provide assurance or otherwise on the effectiveness of the internal control framework of the Council. This will be based on the findings of the work carried out during the year.

7 Quality Assurance and Improvement Programme

- 7.1 Internal Audit maintains a quality assurance and improvement programme that covers all aspects of its

Cheshire East Council - Summary Internal Audit Plan 2017/18

activity. The programme includes evaluation of Internal Audit's compliance with the PSIAS and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of Internal Audit and identifies opportunities for improvement.

- 7.2 The Corporate Manager Governance and Audit/Principal Auditors 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. The external assessment will take place during 2017/18 as the deadline is 31st March 2018.

Performance Indicators

- 7.3 Internal Audit has a number of existing Performance Indicators that are reported to the Audit and Governance Committee through the year via interim reporting and the Annual Report. For 2017/18 these are:

Performance Indicator	Draft 2017/18 Target	2016/17 Target	2015/16 Target
Percentage of Audits completed to user's satisfaction	95%	92%	92%
Percentage of significant recommendations agreed	90%	90%	90%
Productive Time (Chargeable Days)	80%	80%	80%
Draft report produced promptly (per Client Satisfaction Form)	95%	95%	95%
Percentage of agreed audit recommendations implemented	90%	90%	90%
Percentage of agreed audit recommendations implemented within agreed timescale	75%	75%	75%

- 7.4 Targets for 2017/18 will be confirmed following assessment of actual performance in 2016/17.

Cheshire East Council - Summary Internal Audit Plan 2017/18

Benchmarking

- 7.5 Benchmarking is a vital tool to help drive improvements and deliver value for money. Internal Audit participated in the 2015/16 CIPFA Benchmarking Club, and will continue to use the feedback from this exercise to inform and develop the Internal Audit function and the plan as necessary.
- 7.6 The Corporate Manager Governance and Audit is a member of the North West Chief Audit Executive group, which meets regularly and acts as a discussion group on various developments. The Principal Auditors have continued to participate in the Group during the absence of the Corporate Manager.
- 7.7 The group also has a number of sub groups, including School, Fraud and Contract Management which are attended by members of the Internal Audit team. These are extremely useful for sharing best practice, and learning from colleagues' experiences.

Table 1: Summary Internal Audit Plan 2017/18

Audit Theme/Area <i>Identified Key Areas</i>	Drivers <i>Corporate Risks and Corporate Outcomes</i>	Context	2017/18 Planned Audit Days	2017/18 Planned %
Chargeable Days			1,407	
Less: Corporate Work			327	
<i>Includes:</i> <ul style="list-style-type: none"> Corporate Requirements: Corporate Management, Performance Development Review Process Corporate Groups and Assurance: Executive Monitoring Board, Corporate Assurance Group, Annual Governance Statement, Assurance Framework development Audit and Governance Committee: Reports taken on behalf of other areas of the Council, Committee Administration, Work Plan Development, Member Liaison and Development. Member/Officer Sub Groups 	<ul style="list-style-type: none"> CR6: Countering Fraud and Corruption CO6: A responsible effective and efficient organisation 	Activities which the Internal Audit function are required to participate in corporately, or have direct responsibility for providing.		
Available Audit Days			1,080	
Corporate Governance and Risk			80	7
<i>Includes:</i> <ul style="list-style-type: none"> Audit and Governance Committee: Internal Audit reports to Committee. Corporate Groups – Corporate Assurance Group, Information Governance Group Collaboration: External Audit - Grant Thornton Liaison Regional Collaboration - Working with regional internal audit partners 	<ul style="list-style-type: none"> CR6: Countering Fraud and Corruption CO6: A responsible effective and efficient organisation 	Statutory requirements Work supporting the overall provision of assurance and the annual internal audit opinion.		

Audit Theme/Area <i>Identified Key Areas</i>	Drivers <i>Corporate Risks and Corporate Outcomes</i>	Context	2017/18 Planned Audit Days	2017/18 Planned %
<ul style="list-style-type: none"> Reviewing corporate and operational risk management arrangements 				
Anti-Fraud and Corruption - Proactive Reviews			60	5
<i>Includes:</i> National Fraud Initiative, Developing an anti-fraud culture, Review associated anti-fraud arrangements and policies	<ul style="list-style-type: none"> CR6: Countering Fraud and Corruption CO6: A responsible effective and efficient organisation 	Statutory requirement – NFI/Responding to fraud trends/Awareness raising.		
Anti-Fraud and Corruption - Reactive Investigations			30	3
Specific contingency for reactive investigations in response to demand.	<ul style="list-style-type: none"> CR6: Countering Fraud and Corruption 	Undertaken/supported as necessary after appropriate risk assessment.		
Key Financial Systems			250	23
<i>Includes:</i> Accounts Payable, Accounts Receivable, Payroll, Housing Benefits, General Ledger, Treasury Management, Business Rates, Council Tax, Revenue and Capital Budget Monitoring, Schools Financial Value Standard programme.	<ul style="list-style-type: none"> CR3: Financial Resilience CO2: Cheshire East has a strong and resilient economy CO6: A responsible, effective and efficient organisation 	Provision of assurance to S151 Officer on identified high risk areas Review of new arrangements and follow up of previous recommendations Potential risk of mis-statement in the Authority's financial statements.		
Corporate Core and Cross Service			120	11
<i>Includes:</i> Cybersecurity Protection, Data Handling/Information Governance Appointments Process (Directors), Highways Asset Revaluation, Liquid Logic system review ERP replacement, Free School Meals Police and Crime Commissioner Panel – Grant Sign Off	<ul style="list-style-type: none"> CR1: Increased Demand for People Services CR3: Financial Resilience CR5: Information Security and Cyber Threat CR9: Increased Major Incidents CR10: Business Continuity 	Key Corporate and Cross service risks Provision of assurance relating to specific service areas reporting to COO, including commissioning arrangements for key service delivery areas and assurance on management and delivery of key projects Grant certifications		

Audit Theme/Area <i>Identified Key Areas</i>	Drivers <i>Corporate Risks and Corporate Outcomes</i>	Context	2017/18 Planned Audit Days	2017/18 Planned %
	<ul style="list-style-type: none"> CR11: Employee Engagement and Retention CO2: Cheshire East has a strong and resilient economy CO5: People live well and for longer CO6: A responsible, effective and efficient organisation 			
Children and Families			90	8
<i>Includes:</i> Transport Commissioning; SEN and Home to School Education Health and Care Needs Assessments Family Focus (Grant Certifications)	<ul style="list-style-type: none"> CR1: Increased Demand for People Services CO3: People have the life skills and education they need in order to thrive CO6: A responsible, effective and efficient organisation 	Key Corporate and Cross service risks Provision of assurance relating to specific service areas, including arrangements for key service delivery areas and assurance on management and delivery of key projects Grant certification		
Adult Social Care			90	8
<i>Includes:</i> Performance Management and Reporting Safeguarding Arrangements Deprivation of Liberty Safeguards Community Equipment Service	<ul style="list-style-type: none"> CR1: Increased Demand for People Services CR2: NHS Funding and STP Impact CO5: People live well and for longer 	Outcome from reviewing key departmental and service risk areas; arrangements for key service delivery areas, reviewing performance management and the achievement of outcomes		
Public Health			10	1
<i>Includes:</i> Reviews of commissioned services	<ul style="list-style-type: none"> CR4: Contract and Relationship Management CO5: People live well and for 	Outcome from reviewing key departmental and service risk areas; arrangements for key service delivery areas, reviewing		

Audit Theme/Area <i>Identified Key Areas</i>	Drivers <i>Corporate Risks and Corporate Outcomes</i>	Context	2017/18 Planned Audit Days	2017/18 Planned %
	longer	performance management and the achievement of outcomes		
Community and Partnerships			40	4
<i>Includes:</i> Regulatory Services	<ul style="list-style-type: none"> • CR8: Community Cohesion • CO1: Our local communities are strong and supportive • CO6: A responsible, effective and efficient organisation 	Outcome from reviewing key departmental and service risk areas; arrangements for key service delivery areas and reviewing performance management in front line service area.		
Planning and Sustainable Development			30	3
<i>Includes:</i> Planning Service, Section 106	<ul style="list-style-type: none"> • CO2: Cheshire East has a strong and resilient economy • CO4: Cheshire East is a green and sustainable place • CO6: A responsible effective and efficient organisation 	Outcome from reviewing key departmental and service risk areas; review key delivery areas of high financial value and high levels of customer interaction.		
Infrastructure and Highways			50	5
<i>Includes:</i> Local Transport Capital Block funding, Local Growth Fund, LEP Assurance Framework Bus Subsidy Ring fenced Grant	<ul style="list-style-type: none"> • CRO4: Regeneration Funding • CO1: Our local communities are strong and supportive • CO2: Cheshire East has a strong and resilient economy • CO6: A responsible effective and efficient organisation 	Outcome from reviewing key departmental and service risk areas; grant certifications, review of high profile partnership arrangements		
Growth and Regeneration			40	4
<i>Includes:</i> Acquisition of land	<ul style="list-style-type: none"> • CRO4: Regeneration Funding • CO1: Our local communities 	Outcome from reviewing key departmental and service risk areas; review key delivery		

Audit Theme/Area <i>Identified Key Areas</i>	Drivers <i>Corporate Risks and Corporate Outcomes</i>	Context	2017/18 Planned Audit Days	2017/18 Planned %
Regeneration Projects Homelessness – Housing duty	<ul style="list-style-type: none"> are strong and supportive CO2: Cheshire East has a strong and resilient economy CO6: A responsible effective and efficient organisation 	areas of high financial value and high levels of customer interaction.		
Rural and Green Infrastructure			20	2
<i>Includes:</i> Visitor Attraction - Establishment Audit	<ul style="list-style-type: none"> CO4: Cheshire East is a green and sustainable place CO6: A responsible effective and efficient organisation 	Outcome from reviewing key departmental and service risk areas; review key delivery areas of high financial value and high levels of customer interaction.		
Providing Assurance to External Organisations			40	4
<i>Includes:</i> <i>PATROL, (Other organisations may request assistance in year, subject to available resource.)</i>	<ul style="list-style-type: none"> Host Authority arrangement 	Provide assurance in agreed format, similar to former Small Bodies Annual Return		
Advice and Guidance			30	3
<i>Includes:</i> Provision of ad-hoc advice and guidance to services as requested during 2017/18	<ul style="list-style-type: none"> CO6: A responsible effective and efficient organisation 	Add value and improve overall governance, risk management and control processes within the organisation.		
Other Chargeable Work			100	9
<i>Includes:</i> Certification of grants arising in year Follow up and additional reporting on the implementation of agreed audit actions Note: Contingency is currently zero.	<ul style="list-style-type: none"> CO6: A responsible effective and efficient organisation 	Specific requests from services Follow up implementation of recommendations, including further testing or additional work where necessary.		
Total Audit Days			1,080	

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 16th March 2017
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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Work Plan 2017/18

		Terms of Reference – June 2016	
Agenda Item	Description	No	Detail
16th March 2017			
Appointment of an Independent Member to the Audit and Governance Committee - Update	To invite the Committee to agree to the co-option of the candidate recommended following the recruitment process for the Independent Member to the Audit and Governance Committee.		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.
Grant Thornton 2016/17 Audit Plan for Cheshire East Council	External Audit's planned work for the audit of financial statements and the value for money conclusion 2016/17	33	To comment on the scope and depth of external audit work and to ensure it gives value for money.
Informing the External Audit Risk Assessment for Cheshire East Council	A report that facilitates compliance with International Standards on Auditing (UK and Ireland).	32	To consider specific reports as agreed with the external auditor.
Risk Management Update	The Committee will receive an update report along with a briefing on healthcare, funding and the associated risks to the Council.	10	To monitor the effective development and operation of risk management in the council.
Members' Code of Conduct: Standards Report	The report gives details of the numbers and outcomes of complaints under the Code of Conduct for Members between September 2016 and February 2017.	5	To promote high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).
Compliance with Data Protection Act (1998), Freedom of Information Act (2000) and Environmental Information Regulations (2004)	An update on how Cheshire East Council fulfils its obligations under the Data Protection Act (1998) and the Freedom of Information Act (2000) (including the Environmental Information Regulations (EIR)). It also highlights volumes of requests, trends and current and future issues.	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

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		Terms of Reference – June 2016	
Agenda Item	Description	No	Detail
Compliance with the Regulation of Investigatory Powers Act (2000) (RIPA)	This report provides an update on how the Council has complied with RIPA legislation during 2016/17 and the number of RIPA applications authorised to date.	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
Information Governance Update (Presentation)	The Committee will receive an update on the following <ul style="list-style-type: none"> • Progress with the roll out of the security classification tool, and • The number and type of SPAM and cyber attacks on the Council's network and how they are dealt with. 		At the request of Members; Audit and Governance Committee 8th December 2016
Internal Audit Interim Report 2016/17 October – December 2016	Progress report against the Internal Audit Plan 2016/17.	12	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions, including calling managers to explain progress.
		21	To approve significant interim changes to the risk-based Internal Audit Plan and resource requirements.
		23	To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include: <ul style="list-style-type: none"> a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work. b) Regular reports on the results of the Quality Assurance and Improvement Programme.

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		Terms of Reference – June 2016	
Agenda Item	Description	No	Detail
			c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
		25	To consider summaries of specific internal audit reports as requested.
Draft Internal Audit Plan 2017/18	Approval of risk based Internal Audit Plan for 2017/18.	20	To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
ASDV Governance Arrangements (Presentation)	The Committee will receive a briefing on arrangements in place to ensure that ASDV's are subject to appropriate governance and that controls are in place to identify and manage risk.		At the request of Members; Audit and Governance Committee 8 th December 2016
Work Plan	Forward looking programme of meetings and agenda items 2017/18 to ensure comprehensive coverage of the Committee's responsibilities.	All	
Waivers and Non Adherences (WARNs)	Report to update Committee on the quantity and reasons for WARNs approved since the last Committee. Approved WARNs will also be presented as a	38	To receive retrospectively for information all notices of waiver which are used when consent is sought to depart from the requirements of the Council's Contract Procedure Rules, and all notices which are used to record any non-

Work Plan 2017/18

		Terms of Reference – June 2016	
Agenda Item	Description	No	Detail
	Part 2 item.		adherence to those Rules.
1st June 2017: <i>Agenda items relating to the closure of accounts and the Annual Governance Statement, plus item re Notice of Motion which needs to be considered</i>			
External Audit – Update Report	To consider an update report from Grant Thornton in delivering their responsibilities as external auditors.	31	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
Audit and Governance Committee Self-Assessment	Self- assessment of the effectiveness of the Committee, which provides an assurance for the Annual Governance Statement.	40	To report to full Council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
Annual Report on Risk Management	Annual report on the effectiveness of risk management arrangements in the Council	10	To monitor the effective development and operation of risk management in the council.
		11	To monitor progress in addressing risk related issues reported to the committee
Internal Audit Annual Report 2016/17	Opinion on the overall adequacy and effectiveness of the Council's control environment for 2016/17	24	<p>To consider the head of internal audit's annual report:</p> <p>a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.</p> <p>b) The opinion on the overall adequacy and effectiveness of the council's framework of</p>

Work Plan 2017/18

		Terms of Reference – June 2016	
Agenda Item	Description	No	Detail
			governance, risk management and control together with the summary of the work supporting the opinion – these will assist the Committee in reviewing the Annual Governance Statement.
Draft Annual Governance Statement (AGS) 2016/17	This report introduces the draft 2016/17 Annual Governance Statement to the Committee for consideration and comment	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
		7	To review and approve the Annual Governance Statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control
		8	To consider the Council's arrangements to secure value for money and to review and scrutinise assurances and assessments on the effectiveness of these arrangements
Draft Pre-Audit Statement of Accounts 2016/17	This report introduces the 2016/17 pre-audit statement of accounts to the Committee for consideration and comment.	36	To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

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		Terms of Reference – June 2016	
Agenda Item	Description	No	Detail
Notice of Motion: Freemasonry Membership	This Committee will receive a response to the Notice of Motion raised on the Membership of Freemasons		At the request of Council 15 th December 2016
Work Plan	Forward looking programme of meetings and agenda items 2017/18 to ensure comprehensive coverage of the Committee's responsibilities.	All	
29th June 2017 date held as contingency should 1 st June deadline be unachievable			
3rd August 2017 Items related to AGS and Closure of Accounts only			
External Audit Findings Report 2016/17	Summary of findings from the 2016/17 audit and key issues identified by External Audit in issuing their opinion on the Council's financial statements and its arrangements for securing economy, efficiency and effectiveness in the use of resources	37	To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
		8	To consider the Council's arrangements to secure value for money and to review and scrutinise assurances and assessments on the effectiveness of these arrangements.
		31	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance
2016/17 Audit Findings and Action Plan	This report sets out the management response to the 2016/17 Audit Findings Report presented by the external auditors to the Audit & Governance Committee.	37	To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
Statement of Accounts 2016/17 Audited	Approval of the Audited Statement of Accounts for 2016/17	36	To review and approve the annual statement of accounts. Specifically, to consider whether

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		Terms of Reference – June 2016	
Agenda Item	Description	No	Detail
			appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
Annual Governance Statement 2016/17	Approval of the Annual Governance Statement 2016/17.	7	To review and approve the Annual Governance Statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
Work Plan	Forward looking programme of meetings and agenda items 2017/18 to ensure comprehensive coverage of the Committee's responsibilities.	All	
29th September 2017			
Annual Report of the Audit and Governance Committee 2016/17	Annual Report of the Chair of the Audit and Governance Committee for consideration and approval by Committee ahead of presentation to Council.	40	To report to full Council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
Report on Customer Feedback – Complaints, Compliments and referrals to Local Government Ombudsman	Summary of formal feedback received from customers during 2016/17 together with a summary of cases dealt with by the Local Government Ombudsman (LGO) about Cheshire East Council for 2016/17.	42	To seek assurance that customer complaint arrangements are robust.

Work Plan 2017/18

		Terms of Reference – June 2016	
Agenda Item	Description	No	Detail
2016/17			
RIPA compliance	This report provides an update on how the Council has complied with RIPA legislation during 2016/17.	8	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
Members Code of Conduct: Standards Report	The report gives details of the numbers and outcomes of complaints under the Code of Conduct for Members for the period since the last update.	5	To promote high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).
Counter Fraud Update	Presentation on the latest national and local situation with regards to countering fraud and corruption.	13	To review the assessment of fraud risks and potential harm to the Council from fraud and corruption
		14	To make recommendations to the Executive on the Council's arrangements for deterring, preventing, detecting and investigating fraud
		15	To monitor the counter fraud strategy, actions and resources
Treasury Management Annual Report	This report will update the Committee on Treasury Management Activity.	17	To review and monitor the Council's treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.
Risk Management update	This report will update the Committee on Risk Management activity in the Council	10	To monitor the effective development and operation of risk management in the council.
		11	To monitor progress in addressing risk related issues reported to the committee.

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		Terms of Reference – June 2016	
Agenda Item	Description	No	Detail
Whistleblowing Policy	To provide the Committee with an update on the effectiveness of the Council's Whistleblowing Policy and a breakdown of the number of reports received during 2016/17.	41	To approve and monitor Council policies relating to "whistleblowing" and anti fraud and corruption.
Work Plan	Forward looking programme of meetings and agenda items 2017/18 to ensure comprehensive coverage of the Committee's responsibilities.	All	
WARNS	Report to update Committee on the quantity and reasons for WARNs approved since the last Committee. Approved WARNs will also be presented as a Part 2 item.	38	To receive retrospectively for information all notices of waiver which are used when consent is sought to depart from the requirements of the Council's Contract Procedure Rules, and all notices which are used to record any non-adherence to those Rules.
<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	Subject to police agreement, an audit would be scoped and completed to provide assurance that the arrangements currently in operation are robust and proportionate to the identified risks. The outcome of this work will be reported to a future meeting of 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. At the request of Members, 8 th December 2016 Audit and Governance Committee.
Upheld Complaints to the Local Government Ombudsmen	Members have requested that they receive a report where there is a complaint upheld by the Local Government Ombudsmen. This will need to be a standing agenda item,	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

Work Plan 2017/18

		Terms of Reference – June 2016	
Agenda Item	Description	No	Detail
	<p>and will require ongoing co-ordination between the Compliance Manager, Democratic Services, the responsible service and the Chair/Vice Chair to establish</p> <ul style="list-style-type: none"> • if there have been any upheld complaints to be reported on to the next agenda • 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. 	42	To seek assurance that customer complaint arrangements are robust.
		43	<p>Subject to the requirements set out below, to consider all findings of the Local Government Ombudsman, including reports resulting in a finding of maladministration against the Council, and to make recommendations as to actions that may be necessary in connection with the Ombudsman's findings.</p> <p>(a) There are statutory obligations which will, in some circumstances, require reports to be taken to Cabinet or full Council.</p> <p>(b) The Ombudsman operates protocols in relation to the timing of the publication of findings. The Council would have to give consideration to those protocols when determining how to manage the Audit and Governance Committee's agenda.</p>
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</p>

Work Plan 2017/18

		Terms of Reference – June 2016	
Agenda Item	Description	No	Detail
			Committees of the Council are doing.
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 Member/Officer Working Groups	The outcome of Member/Officer Groups work which, where possible, will be fed back to the Committee during the relevant agenda item. However, some of the feedback may, at the request of the Committee, require specific reports.	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.
Business Continuity Plans Report.	A report on the progress of the implementation of the Council's Business Continuity arrangements.	12	<p>To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions, including calling managers to explain lack of progress.</p> <p>At the request of Members in June 2016.</p>

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		Terms of Reference – June 2016	
Agenda Item	Description	No	Detail
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.
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.

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 16th March 2017
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 November 2016 to 31st January 2017.
- 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 November 2016 and 31st January 2017

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 November 2016 to January 2017. 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 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.

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 January 2017.

10.2 The number of WARNs being presented to the March Audit and Governance Committee is 8, 4 waivers to the Contract Procedure Rules and 4 non adherences.

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 2016 – January 2017:

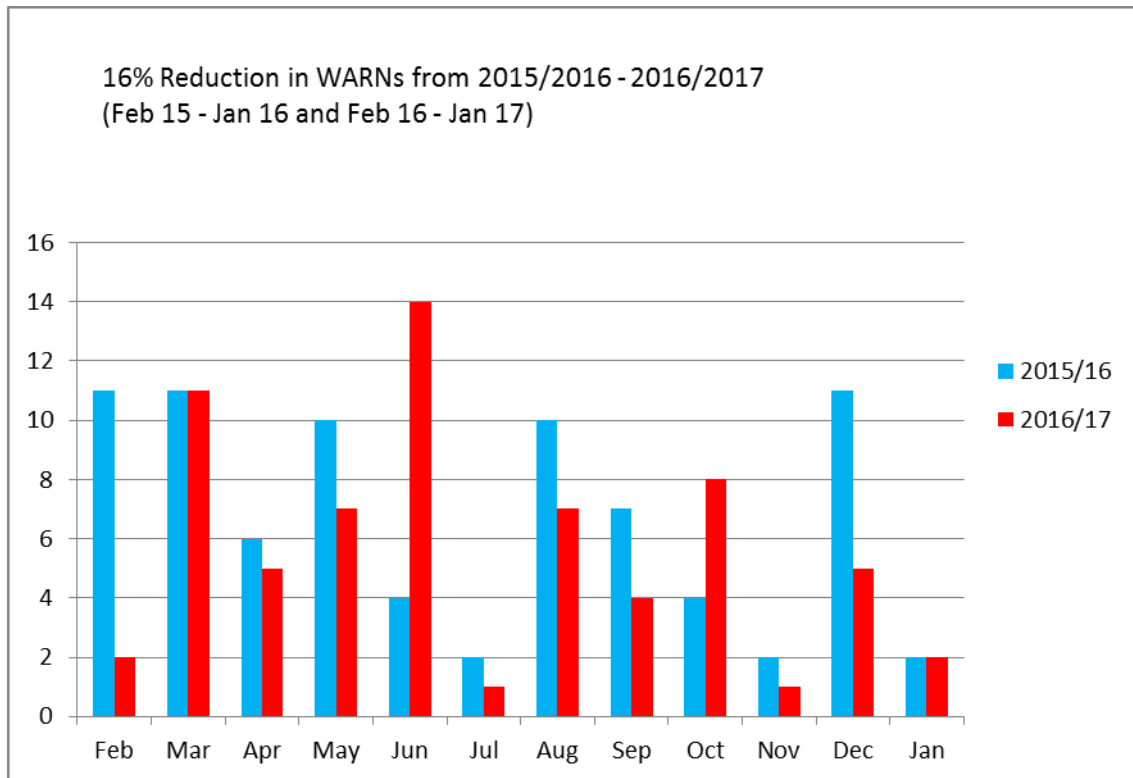
WARNs	2014-2015	2015-2016	2016-17 Apr 16 – Jan 17
Non Adherence to CPRs	20	25	28
Waiver to the CPR's	62	45	26
Grand Total	82	70	54

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.

However the number of waivers has decreased – this is largely due to the new contract for consultancy NEPRO using the NEPO (North East Purchasing Organisation) framework.

The number of waivers for consultants in 2015-2016 was 13. The total amount of waivers for Consultancy in 2016 to date is 4. This illustrates that the NEPRO contract has already had a significant positive impact.

The training that the Corporate Procurement Unit has provided to services can also be attributed to the reduction in waivers as officers now have a much greater knowledge and awareness of the Contract Procedure Rules.



The number of WARNs for the period February 2016 to January 2017 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 November 2016 – 31st January 2017 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.

November 2016 – January 2017 WARNs Per Service

Row Labels	Waiver to Requirements of Competition	Non Adherence to CPRs	Grand Total
Partnerships & Communities	1	0	1
Revenues & Benefits	0	1	1
Spatial Planning	0	1	1
Children's	1	0	1
ICT Services	2	2	4
Grand Total	4	4	8

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	
Partnerships & Communities	1	0	1
E	1	0	1
Revenues & Benefits	0	1	1
G	0	1	1
Spatial Planning	0	1	1
G	0	1	1
Children's	1	0	1
G	1	0	1
ICT Services	2	2	4
D	0	1	1
C	1	0	1
G	1	1	2
Grand Total	4	4	8

- 10.7 A summary of Non-Adherences for the reporting periods 2015-2016 and April 2016 to January 2017 is set out below, highlighting the services where non-compliance has increased/decreased.

April 2015 – March 2016 Non-Adherences Per Service

Row Labels	Non Adherence to CPRs
Adults	4
Childrens	8
Democratic Services	2
HR Strategy	2
ICT Services	2
Revenues & Benefits	1
Safer & Stronger Communities	2
Strategic & Economic Planning	3
Tatton Park	1
Grand Total	25

April 2016 – January 2017 Non-Adherences Per Service

Row Labels	Non Adherence to CPRs
Adults	4
Childrens	3
Democratic Services	2
HR Strategy	2
ICT Services	5
Public Health	2
Safer & Stronger Communities	1
Regeneration	1
Revenues & Benefits	1
ANSA	2
Assets	1
Planning	1
Spatial Planning	1
Strategic & Economic Planning	1
Tatton Park	1
Grand Total	28

10.8 There is currently 1 WARN in progress, which is a waiver.

11.0 Access to information

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