

# Audit and Governance Committee

## Agenda

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**Date:** Thursday 27th September 2018  
**Time:** 2.00 pm  
**Venue:** Committee Suite 1,2 & 3, Westfields, Middlewich Road,  
Sandbach CW11 1HZ

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

It should be noted that Part 1 items of Cheshire East Council decision making meetings are audio recorded and the recordings are 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 paragraph 2.32 of the Committee Procedural Rules and Appendix 7 to the Rules 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 or person presiding 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 are not required to give notice to use this facility. However, as a matter of courtesy, a period of 24 hours' notice is encouraged

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For requests for further information

**Contact:** Rachel Graves

**Tel:** 01270 686473

**E-Mail:** [rachel.graves@cheshireeast.gov.uk](mailto:rachel.graves@cheshireeast.gov.uk) with any apologies

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.

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

To approve the minutes of the meeting held on 31 July 2018 as a correct record.

5. **Grant Thornton - Annual Audit Letter 2017/18** (Pages 13 - 30)

To consider the report of Grant Thornton, the external auditors, on their findings from the 2017/18 audit.

6. **Referrals to the Local Government and Social Care Ombudsman 2017-18**  
(Pages 31 - 38)

To consider a summary of the referrals the Local Government and Social Care Ombudsman received from Cheshire East customers during 2017/18.

7. **Member Code of Conduct 2018: Standards Report** (Pages 39 - 44)

To consider a report on the number of complaints received under the code of conduct for Members which have been, or are to be considered by the Acting Director of Legal Services (in their capacity as the authority's Monitoring Officer) and the Independent Person for the period 1 March 2018 to 31<sup>st</sup> August 2018.

8. **Risk Management Update Report** (Pages 45 - 66)

To consider a summary of the most significant threats and opportunities facing the Council which may prevent, or assist with, the achievement of the Council's Corporate Plan 2016-20.

9. **Internal Audit – 2018/19 Plan Progress Update** (Pages 67 - 96)

To consider a report on progress against the Internal Audit Plan 2018/19, revisions to the plan, a summarise work undertaken to the end of August 2018 and to present the Quality Assurance and Improvement Programme for approval by the Committee.

10. **Treasury Management Annual Report 2017/18** (Pages 97 - 118)

To consider the annual report on the performance of the Council's treasury management operation.

11. **Outcome of the External Assessment of Internal Audit and Compliance with the Public Sector Internal Audit Standards** (Pages 119 - 146)

To consider a report on the outcome of the external assessment of the Internal Audit function against the Public Sector Internal Audit Standards, carried out under the peer review process reported to the Committee in September 2017.

12. **Review of Audit and Governance Committee's Terms of Reference** (Pages 147 - 184)

To consider a report which updates the Committee following the publication by the Chartered Institute of Public Finance and Accountancy (CIPFA) of their "Practical Guidance for Audit Committees" and identify areas where the Committee may wish to consider changes to ensure that it operates effectively and fulfils its purpose.

13. **Committee Work Plan 2018/19** (Pages 185 - 202)

To consider the Committee's Work Plan for the remaining meetings in 2018/19.

14. **Contract Procedure Rule Waivers and Non-Adherences** (Pages 203 - 208)

To receive an update on the number and reasons for waivers and non-adherences which have been approved between 1 July and 31 August 2018.

15. **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**

16. **Contract Procedure Rule Waivers and Non-Adherences**

To note the approved WARNS between 1 July and 31 August 2018.

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**CHESHIRE EAST COUNCIL**

Minutes of a meeting of the **Audit and Governance Committee**  
held on Tuesday, 31st July, 2018 at Committee Suite 1,2 & 3, Westfields,  
Middlewich Road, Sandbach CW11 1HZ

**PRESENT**

Councillor G Baxendale (Chairman)  
Councillor M Sewart (Vice-Chairman)

Councillors S Corcoran, T Dean, R Fletcher, P Groves, N Mannion, G Merry  
and A Stott

**Councillors in attendance**

Councillors P Bates, J Clowes and JP Findlow

**Officers in attendance**

Jan Willis, Interim Executive Director of Corporate Services  
Frank Jordan, Executive Director of Place (minutes 25 and 26)  
Suzanne Antrobus, Deputy Monitoring Officer  
Alex Thompson, Head of Finance and Performance  
Michael Todd, Principal Auditor  
Josie Griffiths, Principal Auditor  
Jo Wilcox, Finance Strategy & Reporting Manager  
Jo Butler, Business Governance and Risk Manager (minute 27)  
Keith Sutton, ICT Security Project Manager (minute 29)  
Yasmin Somani, ICT Project Manager (minute 29)  
Dominic Oakeshott, Programme Director Best4Business Programme  
(minute 30)  
Juan Turner, Customer Relations and Compliance Officer (minute 31)

**External Auditors (Grant Thornton)**

Jon Roberts and Avtar Sohal

**19 APOLOGIES FOR ABSENCE**

Apologies were received from Philip Gardener.

**20 DECLARATIONS OF INTEREST**

There were no declarations of interest.

**21 PUBLIC SPEAKING TIME/OPEN SESSION**

No members of the public present wished to speak.

**22 MINUTES OF PREVIOUS MEETING**

Consideration was given to the minutes of the meeting held on 31 May 2018 and the following amendment was made:

Minute 6 – Internal Audit Annual Report 2017/18: the second paragraph to be re-formatted to make it easier to understand: -

“In response to questions from Members clarification was given on a number of specific matters including:

- that the current Internal Audit review of the Council’s travel booking system would include travel booked on behalf of Members
- the staffing position in Internal Audit would be resolved upon completion of an ongoing restructure programme
- the reference to overpaid/misspent direct payment monies was not in any way connected to Empower Cards that had previously been used to deliver this service

In response to a question on investigations that had been undertaken during the year further information was provided in relation to the use of purchase cards.”

**RESOLVED:**

That, subject to the above amendment, the minutes of the meeting held on 31 May 2018 be confirmed as a correct record.

**23 EXTERNAL AUDIT FINDINGS AND ACTION PLAN 2017/18**

Grant Thornton presented the Audit Findings on the 2017/18 Audit.

The report identified the key audit risks considered by Grant Thornton on the Financial Statements and Value for Money arrangements and detailed their finding on these, with five recommendations for action being made. The Management Response to these actions was outlined in Appendix B to the report.

The Letter of Representation was circulated to the Committee.

**RESOLVED:** That

- 1 the Audit Findings Report be received;
- 2 the Management Response to the recommendations contained within the Audit Findings Report Action Plan be noted; and
- 3 the Letter of Representation be approved for signature by the Interim Executive Director of Corporate Services.

**24 ANNUAL STATEMENT OF ACCOUNTS 2017/18**

Consideration was given to the 2017/18 Statement of Accounts for Cheshire East Group.

The amendments reported in Appendix C of the Audit Findings Report had been agreed and included in the final Statement of Accounts.

Following approval the final audited version of the Statement of Accounts would be published on the Council's website.

**RESOLVED:** That

- 1 the report be received and the changes made to the draft Accounts in accordance with the Audit Finding Report be noted; and
- 2 the Chairman of the Audit and Governance Committee be given delegated authority to sign off the final Accounts on behalf of the Committee.

**25 AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT 2017/18**

The Committee considered the draft version of the Annual Report of the Audit and Governance Committee 2017/18.

The report provided details of the work undertaken by the Committee and the assurances received during the year.

Members sought clarification on the staffing levels and restructure of Internal Audit and appointment of a Chief Internal Auditor, and on the Air Quality Internal Audit work.

**RESOLVED:**

That, subject to the typing errors being corrected, the Annual Report of the Audit and Governance Committee 2017/18 be approved for consideration by Council at its meeting on 18 October 2018.

**26 ANNUAL GOVERNANCE STATEMENT 2017/18**

At its meeting on 31 May 2018 the Committee had considered the draft Annual Governance Statement, which had now been amended to take account of feedback received at that meeting.

Members sought clarification on the following on the awarding of the money to Berkeley Academy Car Park and on the two independent advice phone lines for Whistleblowing and Bullying.

It was requested that paragraph 5.77 on page 18 of the Statement be redrafted so that it did not read ambiguously.

**RESOLVED:**

That, subject to the requested amendments, the Annual Governance Statement 2017/18 be approved.

**27 RISK MANAGEMENT UPDATE REPORT**

Consideration was given to a report on risk management activity since the end of May 2018.

The report detailed the work undertaken in relation to Business Continuity, which included the approval by Cabinet of the Business Continuity Statement and Strategy and the undertaking of Cyber Attack Awareness Exercise.

**RESOLVED:**

That the report be noted.

**28 INTERNAL AUDIT PROCUREMENT REVIEW**

The Committee considered a report on an Internal Audit Review of procurement, which superseded a review initially commenced during 2015 which was paused as a result of a police investigation into the award of contracts.

The report detailed the three risks identified for the review, the findings of Internal Audit and the management response to the findings in relation to Risk 3.

The Committee sought clarification on the 33 contracts passed their expiry date and whether they were all from one department, and discussed how long the Committee should continue to review WARNs.

The Committee, at its next meeting, would be receiving a report on the improved arrangements put in place for contract management and it was suggested that this include the controls put in place by the Procurement Board in relation to WARNs.

**RESOLVED:**

That the content of the report and the management actions agreed as a result of the review be noted.

**29 INFORMATION GOVERNANCE UPDATE**

The Committee considered an update on the progress with the General Data Protection Regulations, which came into force on 25 May 2018.

The next phase of work would look at the processes and practices in place and testing of these. Work would also be undertaken on ICT application such as email, software and hardware to ensure compliance with the Regulations.

It was reported that 87% of staff had completed the mandatory training and that a reminder would be sent out to those who had not completed the training.

The Data Protection Policy had been approved by the Information Governance Group and would shortly be present to the Portfolio Holder for approval.

**RESOLVED:**

That the report be noted.

**30 BEST4BUSINESS PROJECT**

The Committee received a presentation on the governance arrangements for the Best4Business project, which would see the replacement of the Oracle operating system with Unit 4 Businessworld.

The Committee asked about the provision of backup for the Cloud based service, data migration, interface with partner organisation systems and security of the system.

**RESOLVED:**

That the presentation be received.

**31 MALADMINISTRATION DECISION NOTICES FROM LOCAL GOVERNMENT OMBUDSMAN – FEBRUARY – MARCH 2018**

The Committee considered a report on the Decision Notices issued by the Local Government Ombudsman between 1 February and 31 March 2018.

It was reported that two Decision Notices had been issued which concluded that there had been maladministration causing injustice - these were detailed in Appendix 1 to the report.

It was requested in future reports that a link be included to the Decision Notice on the Local Government Ombudsman website.

**RESOLVED:**

That the report be noted.

**32 COMMITTEE WORK PLAN 2018/19**

Consideration was given to the Committee's Work Plan for 2018/19.

The Committee noted, as stated in the report, that three items scheduled to come to the meeting had been deferred and had been re-scheduled for future meetings.

The unallocated items would be reported back the Committee as and when appropriate.

It was reported that CIPFA had now published their 2018 edition of "Practical Guidance for Local Authorities and Police" and a report would be brought to the Committee in due course to advise on the updated guidance and any implications for the Committee.

It was requested that an item on reviewing the findings and any governance implications from the recent Employment Tribunal Case be brought to the next meeting. In order to avoid duplication of work, the Interim Executive Director of Corporate Services undertook to check with the Chairman of the Staffing Committee to see if that Committee was planning to do a review.

**RESOLVED:**

That the Work Plan be approved and that it be brought back to the Committee throughout the year for further development and approval.

**33 CONTRACT PROCEDURE RULE WAIVERS AND NON-ADHERENCES**

The Committee considered a report on the number and reasons for Waivers and Non-Adherences (WARNs) which had been approved between 1 April and 30 June 2018.

The Committee noted and welcomed the reduction in the number of waivers and non-adherence to the Contract Procedure Rules.

**RESOLVED:**

That the report be noted.

**34 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 as amended on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 1 and 2

of Part 1 of Schedule 12A of the Local Government Act 1972 and public interest would not be served in publishing the information.

**35 CONTRACT PROCEDURE RULE WAIVERS AND NON-ADHERENCES**

**RESOLVED:**

That the WARNs be noted.

The meeting commenced at 2.10 pm and concluded at 4.38 pm

Councillor G Baxendale (Chairman)

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*Working for a brighter future together*

## **Audit & Governance Committee**

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**Date of Meeting:** 27 September 2018

**Report Title:** Grant Thornton - Annual Audit Letter 2017/18

**Portfolio Holder:** Cllr Paul Bates

**Senior Officer:** Jan Willis, Interim Executive Director of Corporate Services

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### **1. Report Summary**

- 1.1. The Annual Audit Letter summarises the External Auditors' findings from the 2017/18 audit.

### **2. Recommendation/s**

- 2.1. That members receive and comment on the Annual Audit Letter for the year ending 31<sup>st</sup> March 2018.
- 2.2. That members note the level of audit fees set out on page 12 of the Annual Audit Letter.

### **3. Reasons for Recommendation/s**

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

### **4. Other Options Considered**

- 4.1. Not applicable

### **5. Background**

- 5.1. The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Grant Thornton reported the detailed findings from their audit work to those charged with governance in the Audit Findings Report on 31<sup>st</sup> July 2018.
- 5.2. As the Council's appointed auditors, representatives of Grant Thornton will attend the Committee to report their findings directly to Members.

**6. Implications of the Recommendations**

**6.1. Legal Implications**

6.1.1. There are no legal implications identified.

**6.2. Finance Implications**

6.2.1. As covered in the report.

**6.3. Policy Implications**

6.3.1. There are no policy implications identified.

**6.4. Equality Implications**

6.4.1. There are no equality implications identified.

**6.5. Human Resources Implications**

6.5.1. There are no human resources implications identified.

**6.6. Risk Management Implications**

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

**6.7. Rural Communities Implications**

6.7.1. There are no direct implications for rural communities.

**6.8. Implications for Children & Young People**

6.8.1. There are no direct implications for children and young people.

**6.9. Public Health Implications**

6.9.1. There are no direct implications for public health.

**7. Ward Members Affected**

7.1. Not applicable.

**8. Access to Information**

8.1. The full report provided by Grant Thornton is appended to this covering report.

**9. Contact Information**

9.1. Any questions relating to this report should be directed to the following officer:

Name: Joanne Wilcox

Job Title: Financial Strategy and Reporting Manager

Email: [Joanne.wilcox@cheshireeast.gov.uk](mailto:Joanne.wilcox@cheshireeast.gov.uk)

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# Annual Audit Letter

*Year ending 31 March 2018*

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**Cheshire East Council**

August 2018



# Contents



## Your key Grant Thornton team members are:

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## Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money conclusion

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## Appendices

- A Reports issued and fees

# Executive Summary

**Purpose**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cheshire East Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 31 July 2018.

**Our work**

<b>Materiality</b>	We determined materiality for the audit of the group's financial statements to be £11.6m, which is 1.8% of the group's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the group's financial statements on 31 July 2018.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the matter we identified in respect of inadequate arrangements for demonstrating and applying the principles and values of good governance to support informed decision-making, the Council had proper arrangements in all significant respects. We therefore qualified our value for money conclusion in our audit report to the Council on 31 July 2018
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Committee in our Annual Certification Letter.
<b>Certificate</b>	We are unable to certify that we have completed the audit of the accounts of Cheshire East Council until we resolve matters brought to our attention.

**Working with the Council**

The Council has responded well to the challenge presented by early close of the financial statements and meeting the challenge to ensure audit completion of the financial statements by the 31 July 2018. We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit

**Respective responsibilities**

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

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

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

# Audit of the Accounts

## Our audit approach

### Materiality

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

We determined materiality for the audit of the group accounts to be £11.6m, which is 1.8% of the group's gross revenue expenditure. We used this benchmark as, in our view, users of the group's financial statements are most interested in where the group Council has spent its revenue in the year.

We have calculated a specific materiality of £59,000 for Senior Officer remuneration based on 1.8% of total senior officer remuneration.

We set a lower threshold of £0.437m, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

### The scope of our audit

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

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

We also read the remainder of the Statement of Accounts and the narrative report, annual governance statement alongside the Statement of Accounts to check they are consistent with our understanding of the group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

# Audit of the Accounts

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk and findings
<p><b>Improper revenue recognition</b> Under ISA 240 (UK) there is a presumed risk that revenue 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. We did not identify improper revenue recognition of revenue as a risk requiring special audit consideration</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Cheshire East Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Cheshire East Council.</p>
<p><b>Management override of controls</b> Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration</p>	<p>We have completed the following procedures to gain assurance over this risk</p> <ul style="list-style-type: none"> <li>– review of accounting estimates, judgements and decisions made by management</li> <li>– testing of journal entries</li> <li>– review of unusual significant transactions and any changes in accounting policy.</li> </ul> <p>Our audit work has not identified any instances of management override of controls.</p>
<p><b>Valuation of property, plant and equipment</b> The Council revalues its land and buildings every five years, to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.  We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• considered the competence, expertise and objectivity of any management experts used.</li> <li>• discussed with the valuer about the basis on which the valuation is carried out and challenge the key assumptions.</li> <li>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>• tested revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• evaluated 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. An external desktop valuation of assets not valued in the year was carried out, which noted that there was a material difference between the carrying value of assets and their value. As a result the Council completed a full revaluation of some of these assets which were not valued, and was able to demonstrate that the difference between the carrying value and fair value was £6.8m, which is below materiality thresholds.</li> </ul> <p>From the audit procedures carried out we have gained sufficient assurance to conclude that the valuation of property, plant and equipment is free from material misstatement.</p>

# Audit of the Accounts

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk and findings
<p><b>Valuation of pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>We have:</p> <ul style="list-style-type: none"><li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated and assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li><li>• evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation</li><li>• gained an understanding of the basis on which the valuation is carried out</li><li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made</li><li>• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li></ul> <p>From the audit procedures carried out we have gained sufficient assurance to conclude that the valuation of pension fund net liability is free from material misstatement.</p>

# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the group's financial statements on 31 July 2018, in advance of the national deadline.

## **Preparation of the accounts**

The group presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit to the Council's Audit and Governance Committee on 31 July 2018.

In addition to the key audit risks reported above, we identified the following issues/adjustments throughout our audit that we have asked management to address for the next financial year:

- We recommend that the Council looks at its process of identifying internal recharges and the manner by which these are adjusted for in producing the Comprehensive Income and Expenditure Statement, to ensure it correctly reflects and eliminates recharges in subsequent years.
- We recommend that the Council considers the results of desktop valuations early and where it identifies material differences engages valuation of assets promptly.
- We recommend that the Council improves its process in regards to the reporting of bulk transfers out of the pension scheme, to ensure the correct updated data is sent to the actuary.
- We recommend that the Council regularises the pension pass through arrangement ensuring that there is a tripartite agreement in place between the Council, the companies and the pension fund. This will provide formal recognition that the Pensions Fund accepts the full retention of actuarial and investment risk by the Council regarding the employees of the Council's various companies

## **Annual Governance Statement and Narrative Report**

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

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We will issue an assurance statement which concludes that we did not identify any issues for the group auditor to consider.

## **Certificate of closure of the audit**

We are unable to certify that we have completed the audit of the accounts of Cheshire East Council until we resolve matters brought to our attention in 2017/18.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council continues to operate under temporary senior management arrangements affecting the statutory posts of Chief Executive as Head of Paid Service, the S151 Officer, the Monitoring Officer, as a neutral act, whilst proper procedures are being followed for an independent investigation
- The Council is also investigating a number of weakness in the operation of its decision making arrangements identified in reviews conducted by internal Audit.

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

## Overall Value for Money conclusion

Based on the work we performed to address the significant risks, we concluded that except for the matter we identified in respect of inadequate arrangements for demonstrating and applying the principles and values of good governance to support informed decision-making, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p><b>1 Impact of historic governance matters</b></p> <p>During 2017/18 the Council has embarked on a number of reviews of its governance arrangements in specific areas. These are reflected in the prior years' AGS and the update report to the Audit and Governance Committee.</p> <p>During the year, the Council put temporary senior management arrangements in place affecting the statutory posts of Chief Executive as Head of Paid Service, the S151 Officer, the Monitoring Officer whilst proper procedures were followed for independent investigation regarding these officers.</p> <p>The underlying governance issues that gave rise to these reviews is not relevant to the 2017/18 VFM conclusion. However the actions being taken to move forward, to ensure weakness are identified and appropriately addressed are relevant to this consideration. The Council needs to demonstrate that it has addressed these historic governance matters, whilst not being distracted from the necessary focus on the delivery of its strategic objectives and its financial plans which presents a challenge to the current management team.</p> <p>We propose to review the Council's understanding of the underlying issues and the actions being taken to mitigate these risks, through review of reports and discussion with key officers.</p>	<ul style="list-style-type: none"> <li>• In 2017/18 the Council had an Executive Leadership Team (ELT) in place which was composed of an acting Chief Executive Officer, an acting Deputy Chief Executive Officer, an Interim Executive Director/S151 Officer and an acting Executive Director for People.</li> <li>• The Council is not in a position to make permanent appointments to these roles until current investigations are concluded or until individuals involved in these investigations resign.</li> <li>• Although Chief Executive has resigned in July 2018, the Council will have to go through a process of appointment to fulfil this role on a permanent basis.</li> <li>• The Chair of the IDC was asked to step down following certain matters.</li> <li>• Furthermore, in April 2018 a number of potential data breaches were reported to the Information Commissioners Office.</li> <li>• Discussions with the Monitoring Officer have noted that during the year there were 3 statutory officers and a former cabinet member who have disciplinary procedures against them and 5 matters have been referred to the police.</li> <li>• In addition to these investigations there are other historic matters that have been brought to our attention that Internal Audit are investigating.</li> </ul>	<p>The current level of investigations from prior years and experiences from this year are sufficient evidence of weaknesses in the Council's arrangements for acting in the public interest and a basis for us to qualify our VFM conclusions.</p> <p>We have concluded that given the issues facing the Council, arrangements for demonstrating and applying the principles and values of good governance to support informed decision-making are inadequate</p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
2	<p><b>Planning finances effectively</b></p> <p>The Council has historically managed its finances well and has consistently achieved financial targets.</p> <p>The quarterly reviews reported to the Corporate Overview &amp; Scrutiny Committee and Cabinet detail potential financial deficits in 2017/18. The overspends are prevalent in relation to Social Care.</p> <p>A range of measures to reduce the outturn position against the 2017/18 have been introduced, along with a forecast transfer from earmarked reserves to maintain general reserves at the required risk based level (in accordance with the Reserves Strategy approved in February 2017).</p> <p>We propose to review the Council's understanding of the underlying issues and the actions being taken to mitigate these risks, through review of budgetary information, subsequent monitoring reports and discussion with key officers.</p>	<p>As reported in September 2017 financial outturn reports, financial pressures could have led to a deficit of £17m for the Council. However, the Council was able to introduce actions which enabled them to deliver a balanced outturn. The financial pressures originated mainly from the People Directorate, where Children and Adult service demands exceeded original forecasts, and also increased financial pressures in Waste Services, Planning and Transport.</p> <p>Although it was a challenging year for the Council, like all local authorities due to pressures of rising inflation, increased demand for services and continuing reductions in government funding, the financial outturn for the Council is balanced for 2017/18 with gross income matching gross expenditure meaning general reserves remain unchanged at £10.3M.</p> <p>In June 2018 the Council has updated its forecasting for 2019/20, it increased the budget gap and has also now identified further efficiencies to address this deficit based on reducing budgets for some service lines, using contingency funds, receipts and additional funding from Business Rates, Council tax and New Homes Bonus. The Council has also revised budget assumptions so that the People, Place and Corporate services will identify further savings and following these measures the Council is now planning to achieve a balanced budget for 2019/20 and does not intend to use any of its general reserves to mitigate any shortfall.</p> <p>For 2020/21 the Council is still to refresh the budget position but is confident of reducing the remaining unidentified budget requirement to have an in year balanced budget.</p>	<p>From our review of the financial out turn of the Council and plans for 2019/20 and 2020/21 we are satisfied that the Council has adequate plans to manage its financial risks and there are no material financial uncertainties which impact the Council to operate as a going concern.</p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p><b>3 Working effectively with its partners</b></p> <p>The local health organisations and local authorities have worked together to agree three key improvement priorities to jointly deliver in order to drive forward the necessary transformation and improvement of the health and care services across Cheshire. The three priorities are integrated commissioning, integrated provisions and sustainable hospital services across Cheshire.</p> <p>The work to design and implement an integrated health and care commissioning and delivery system is taking place against the backdrop of significant financial challenges in the local health economy and continuing demand pressures on social care services.</p> <p>Working with partners from different organisations and service areas with potentially conflicting priorities, and particular financial challenges means that projects are increasingly complex and high profile. This represents a continuing risk to the VFM conclusion as we need to understand the arrangements that the Council has to contribute to this process and to mitigate the risks to its resources.</p> <p>We propose to gain an understanding of the role that the Council is playing to contribute to change in the local health economy and to move forward with the effective integration of health and social care.</p> <p>We will discuss this with key officers and review the project management and assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.</p>	<p>The NHS Cheshire and Merseyside STP acts as the system manager for monitoring arrangements across health services within Cheshire and Merseyside. The role of the system manager is to hold organisations and partnerships accounts for delivery, with a focus of the development and implementation of integrated care, looking at the cross working of Council and third sector bodies.</p> <p>Within the Cheshire East geography, Cheshire East Health and Care Place Based partnership has been formed through the merger of the Caring Together and Connecting Care Transformation Programmes, this was established in February 2018.</p> <p>The Council has representation on the board meetings for these working programmes, which include attendance of meetings by the acting Chief Executive, acting Executive Director of People and other officers from the Council.</p> <p>The Audit and Governance Committee is updated with the progression of health and care arrangements by the Corporate Manger Health Improvement. Currently there are no STP out-turn reports to review, with the first report to be issued after August 2018. However, the system management board programme review group receive updates from the work-stream leads. The Health and Wellbeing Board also receives regular updates on key activity.</p> <p>In 2017/18 the Council has contributed to the process and continues to reflect on any risks to it and how it will mitigate and manage these. However, in the future it is critical that the Council continues to be effectively involved and influence the further developments in the STP and wider health economy.</p>	<p>We are satisfied that the Council continues to make arrangements around its involvement in the wider health economy. We are satisfied that there is a clearly indication of governance and oversight arrangements being incorporated by the Council and proper arrangements for working effectively with partners towards the sustainability of adult health and social care services.</p>

# Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

<b>Audit Fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
<b>Council Audit Fee</b>	£154,590	£154,590
Variation to scale fee in respect to Sleep in Payments	£9,135	£8,223
Grant Certification	£13,608	£13,608
External audit fees for the wholly owned companies		
- Cheshire East Residents First (CERF) Ltd	£3,500	£3,500
- Ansa Environmental Services Ltd	£12,250	£12,600
- Alliance Environmental Services Ltd (subsidiary of Ansa Environmental)	£6,500	£6,700
- Orbitas Bereavement Services Ltd	£6,500	£6,700
- Transport Service Solutions Ltd	£10,500	£10,800
- Engine of the North Ltd	£6,500	£6,700
- Civicance Ltd	£6,500	£6,700
- The Skills and Growth Company Ltd	£6,500	£8,500
<b>Total audit fees (excluding VAT)</b>	<b>£236,083</b>	<b>£238,621</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA) 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'. The council were granted an in year refund from PSAA of £23,000 for the Council audit fee.

## Non Audit Fees

### Fees for other services

#### Audit related services:

##### Non-audit services

	<b>Fees £'000</b>
• Reasonable Assurance report for teachers pension return	£4,800
• CFO Insights, 3 year subscription from 2017/18	£27,000
• Post liquidation services connected with Cosocious (50% of the fee)	£1,893
• Corporate tax compliance services for work relating to 2016/17, carried out in 2017/18	£8,950

We note that there are some differences presented in Note 23 in the single entity and Note 5 of the group financial statements, which we do not consider material, see below;

- CFO Insights should be listed in the council accounts as well as group accounts
- The £10k 'fees payable for additional work commissioned by the Council', this relates to the scale fee as part of the audit
- The grant fees include £14k and the £5k for teacher's pension work



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## **Audit & Governance Committee**

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**Date of Meeting:** 27 September 2018

**Report Title:** Referrals to the Local Government and Social Care Ombudsman 2017-18

**Portfolio Holder:** Councillor Liz Wardlaw – Deputy Leader

**Senior Officer:** Daniel Dickinson – Acting Director of Legal Services

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### **1. Report Summary**

- 1.1. This report provides a summary of the referrals the Local Government and Social Care Ombudsman (LGSCO) received from Cheshire East customers during 2017/18. This was reported at the May Audit & Governance Committee, but, following the Council's receipt of the LGSCO's annual review in July, the figures have been updated and are outlined in this report the changes are minor and are due to timing differences only.
- 1.2. The Decision Notices issued between 1<sup>st</sup> February 2018 and 31<sup>st</sup> March 2018 were reported at the Audit & Governance Committee on 31<sup>st</sup> July 2018. There was one decision where it was found that there was maladministration causing injustice; there was no recommended action. It is not possible to report on any Decision Notices issued between June and August 2018, as the LGSCO impose a three month reporting embargo. Any decisions received after 31<sup>st</sup> May will be reported at a subsequent Audit & Governance meeting.

### **2. Recommendation**

- 2.1. That the Committee notes the contents of this report and makes any further response it considers appropriate.

### **3. Reasons for Recommendation**

- 3.1. The Terms of Reference for the Audit & Governance Committee include seeing assurance that customer complaint arrangements are robust and that recommendations agreed with the LGSCO are being implemented.

#### 4. Background

- 4.1. The Local Government Act 1974 established the Local Government Ombudsman (LGSCO). It empowers the Ombudsman to investigate complaints against councils and adult social care providers and to provide advice and guidance on good administrative practice. Once a complainant has exhausted the Council's Complaints procedure, their next recourse, should they remain dissatisfied with the Council's response, is to contact the LGSCO.
- 4.2. The LGSCO will assess the merits of each case escalated to them and seek clarification from the Council as necessary before making the decision to investigate a complaint. Once the LGSCO decides to investigate, they will try to ascertain if maladministration has occurred and whether or not there has been any resulting injustice to the complainant as a result of the maladministration.
- 4.3. In instances where maladministration and injustice is found, the LGSCO will make non-legally binding recommendations which they consider to be appropriate and reasonable. Although not legally binding, refusal to accept the LGSCO's recommendation will trigger a Public report. A Public Report is a detailed account of the complaint, outlining the failures by the Council in this particular investigation; this can have a significant damaging effect on the Council's reputation.

#### 5. Briefing Information

- 5.1. All customers are offered the opportunity to appeal to the LGSCO if they are unhappy with the way in which the Council has handled their complaint.
- 5.2. **Appendices 1a and 1b** show the number of Decision Notices issued to the Council during 2017/18 (91) and 2016/17 (73). During 2017/18, the LGSCO issued Decision Notices on 91 cases. 47 of these cases were closed after the LGSCO conducted their initial enquiry, 24 of the complaints were upheld in the customer's favour and 20 were not upheld.
- 5.3. Of the 24 upheld cases, it was considered that in 8 of these there was no injustice to the complainant and in 16 cases maladministration causing injustice was found.
- 5.4. The increase in the number of upheld complaints when compared to the previous year can be partly attributed to the Council's decision to withdraw the eligibility for home to school transport following the review of some of the school walking routes. Although the LGSCO did not find fault with the way in which this review was carried out, they did find fault in 6 of the 24 upheld complaints as a result of the Council advising appellants that they could not appeal the decision on the grounds of route safety which was incorrect.

- 5.5. During 2017/18 the LGSCO upheld (in the complainant's favour) 55% of cases where they undertook detailed investigations. This is a 14% increase from 2016/17 when the LGSCO reported an upheld rate of 41%.
- 5.6. Whilst this represents an increase, this is still below the national average rate of 57%. Furthermore the actual number of cases (24) represents only 1% of the total number of complaints (1898) the Council received during 2017/18.
- 5.7. During 1<sup>st</sup> April 2018 and 31<sup>st</sup> May 2018 the Council received one Decision Notices in which the LGSCO have concluded that there has been maladministration causing injustice. This is detailed in Appendix 2.
- 5.8. All decision notices are shared with the relevant Head of Service and Manager of the service in question. This is to ensure that they are aware of any learning points identified and implement the necessary changes.
- 5.9. In the instances when the LGSCO make recommendations these are logged, tracked until completion and evidenced back to the LGSCO to demonstrate the Council's compliance with their decision.

## **6. Implications**

### **6.1. Legal Implications**

- 6.2. There are no legal implications flowing directly from the content of this report.

### **6.3. Financial Implications**

- 6.4. If fault causing injustice is found, the Council can be asked to pay compensation to a complainant. This risk is reflected in the annual review of the Council's reserves strategy. In the period being reported, the Council was not required to make any compensation payments.

### **6.5. Policy Implications**

- 6.6. Adherence to the recommendations of the LGSCO is key to ensuring that customers have objective and effective recourse should they be unhappy with the way in which the Council has responded to their complaint.

### **6.7. Equality Implications**

- 6.8. There are no equality implications flowing directly from the content of this report.

### **6.9. Human Resources Implications**

- 6.10. There are no HR implications flowing directly from the content of this report.

**7. Contact Information**

Any questions relating to this report should be directed to the following officer:

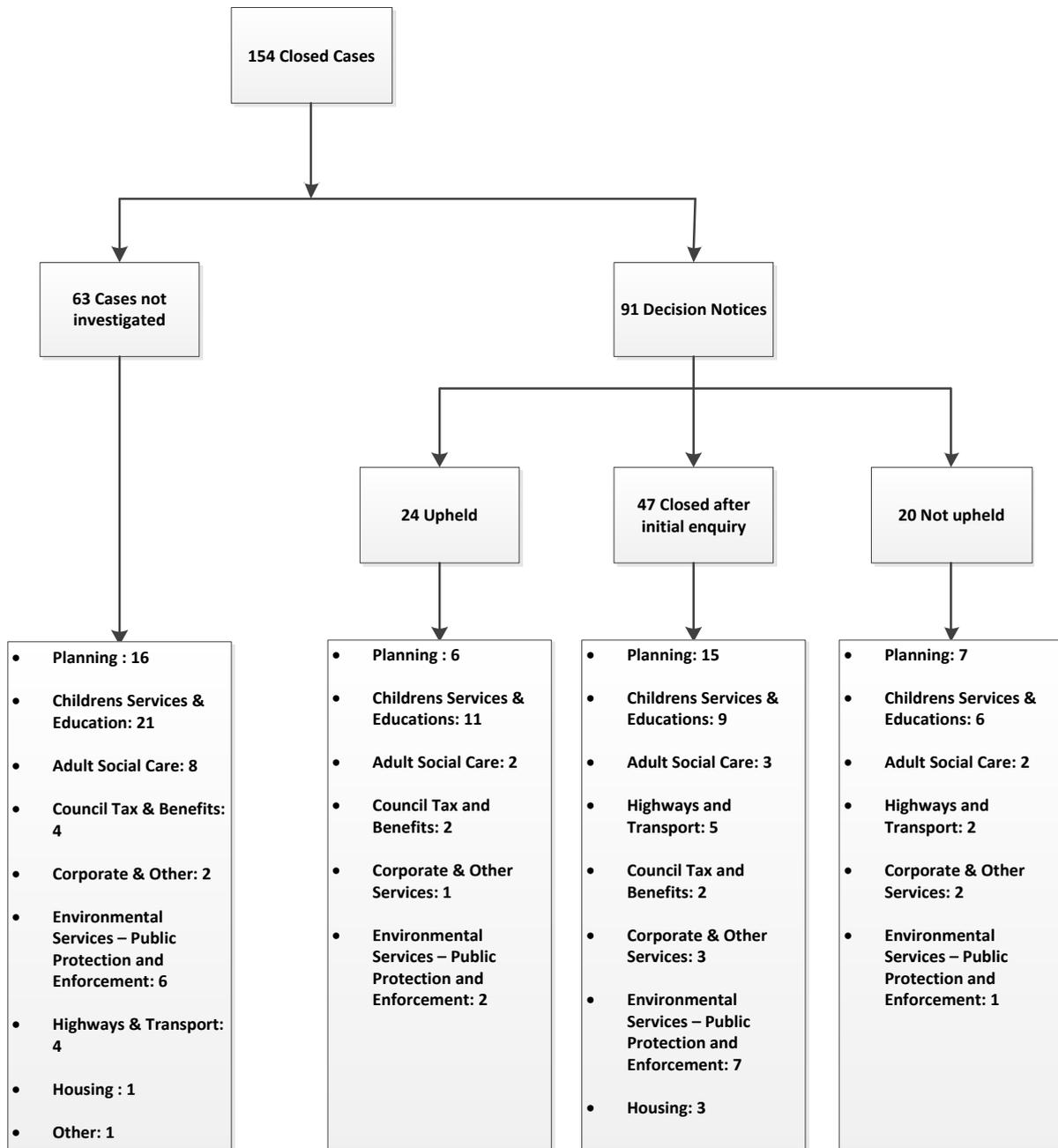
Name: Juan Turner

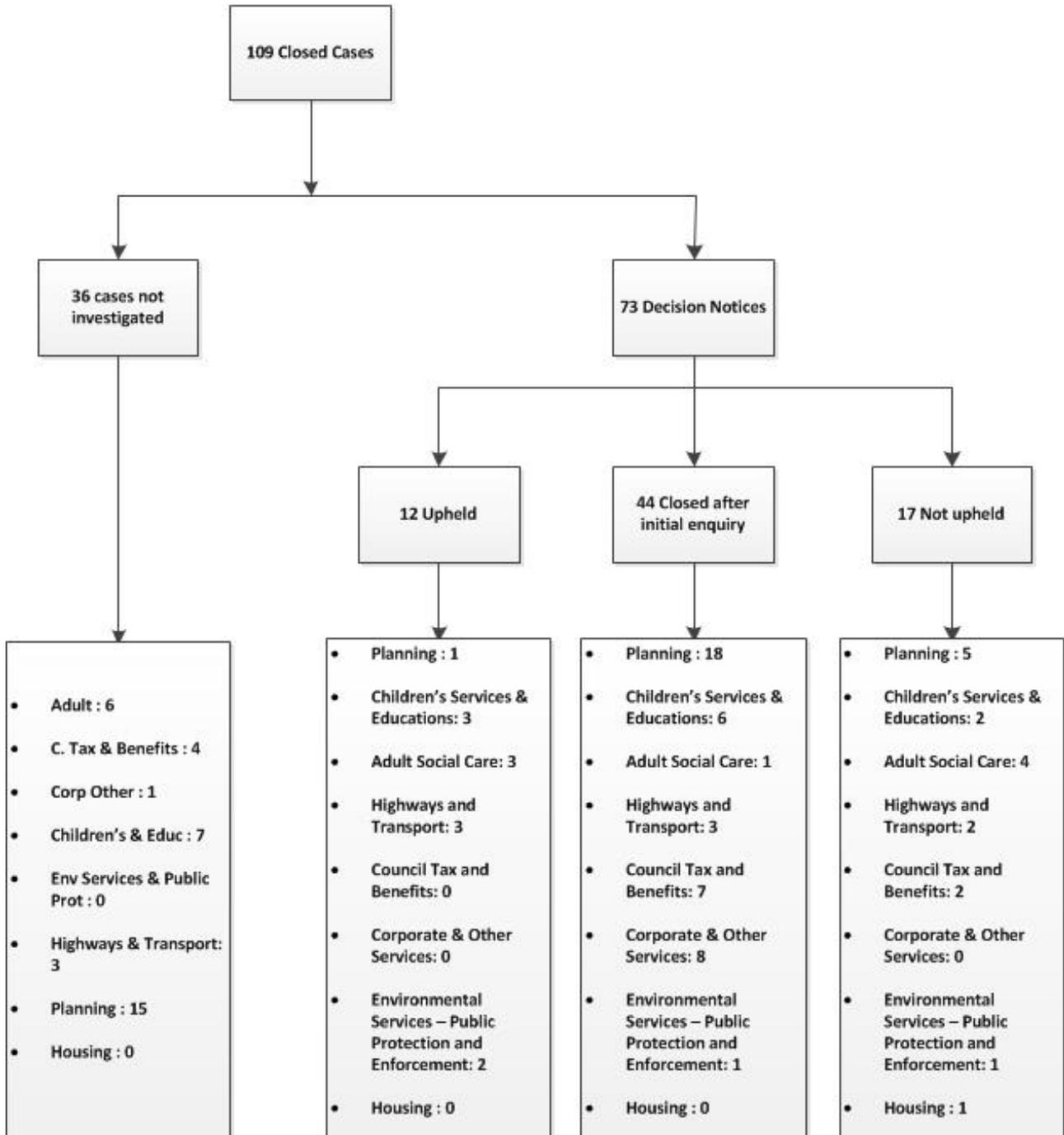
Job Title: Compliance and Customer Relations Officer

Email: [juan.turner@cheshireeast.gov.uk](mailto:juan.turner@cheshireeast.gov.uk)

LGSCO DECISION NOTICES 2017/18

Appendix 1a





**LGSCO Decisions where maladministration with injustice has  
taken place      April – March 2018      Appendix 2**

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Service	Summary and Ombudsman's Final Decision	Agreed Action	Link to LGSCO Report
Highways	<p>Mr X complained the Council deliberately excluded him from consultation about the move of a bus stop immediately outside his home, and, at one stage wrongly told him it was no longer going to move it. Mr X can no longer park on the road outside his house. He says there is anti-social behaviour by people waiting for buses and the value of his property has reduced.</p> <p>Ombudsman's final decision The Council was not at fault in the way it reached its decision. The Council was at fault for providing some wrong information and not telling Mr X when it would install the new bus stop. It has already apologised for this which is an appropriate remedy.</p>	N/A	<a href="https://www.lgo.org.uk/decisions/transport-and-highways/street-furniture-and-lighting/17-011-600">https://www.lgo.org.uk/decisions/transport-and-highways/street-furniture-and-lighting/17-011-600</a>

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## **Audit & Governance Committee**

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**Date of Meeting:** 27 September 2018

**Report Title:** Member Code of Conduct 2018: Standards Report

**Portfolio Holder:** Councillor J Paul Findlow, Corporate Policy and Legal Services

**Senior Officer:** Acting Director of Legal Services and Monitoring Officer

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### **1. Report Summary**

- 1.1. The purpose of the report is to advise the Committee of the number of complaints received under the Member Code of Conduct 2018 which are to be considered by the Acting Director of Legal Services (in his statutory capacity as the authority's Monitoring Officer) and the Independent Person. The report also notes the outcome, where complaints have been concluded.

### **2. Recommendation**

- 2.1. The Committee is asked to note the report.

### **3. 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 the Member Code of Conduct.

### **4. Other Options Considered**

- 4.1. Not applicable.

### **5. Background**

- 5.1. Cheshire East Council adopted a new Code of Conduct, which came into force on 1 January 2018. It is the responsibility of the Audit and Governance Committee to monitor this Code.
- 5.2. This report provides details of complaints received in the period 1 March 2018 to 31<sup>st</sup> August 2018.

5.3. Between 1 March 2018 to 31<sup>st</sup> August 2018 24 complaints were received by the Acting Monitoring Officer; fifteen complaints concerned a Member of Cheshire East Council, whilst nine were against Members of a town or parish council within the borough.

5.4 The complaints are broken down as follows:

Part A: General Obligations		No. received	
Paragraph		Borough	Town Parish
1	Selflessness	10	6
2	Integrity	8	3
3	Objectivity	13	2
4	Accountability	9	1
5	Openness, sub paragraph (a) transparency	11	5
	Openness, sub paragraph (b) disclosure	1	3
6	Honesty, sub paragraph (a) declaring interests	4	
	Honesty, sub paragraph (b) use of resources		
7	Respect for others, sub paragraph (a) courtesy	2	8
	Respect for others, sub paragraph (b) equality		2
	Respect for others, sub paragraph (c) impartiality		2
	Respect for others, sub paragraph (d) bullying		3
8	Leadership	2	4
9	Gifts and hospitality	1	
Part B: registering and declaring pecuniary and non pecuniary interests			
	Failure to register or declare an interest	7	1

[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.]

5.5 Revised complaints procedure

5.5.1 In a change from the previous procedure, the Monitoring Officer will now undertake a preliminary assessment of each complaint, consulting the Independent Person where appropriate, before making and notifying the Complainant of his/her decision on whether and how the complaint should proceed. This ‘triage’ has been introduced to enable complaints which do not engage the Code or are trivial, vexatious or ‘Tit for Tat’ to be rejected, without the need to convene an assessment meeting.

5.5.2 All of the complaints received in the period covered by this report have been preliminarily assessed. The decision of the Acting Monitoring Officer in respect of those complaints was as follows:

Complaint:	Borough	Town Parish
Rejected at preliminary assessment stage; failed to meet the assessment criteria	7	7
Referred for initial assessment; met the assessment criteria	8	2
Rejected at initial assessment	8	1
Matter ongoing	0	1

## 6. Implications of the Recommendations

### 6.1. Legal Implications

6.1.1. 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 Code must also have a place in a suitable procedure at a local level to investigate and determine allegations against elected Members and co-opted Members.

6.1.2. The Council is also responsible for having arrangements in place to investigate and determine allegations against Town and Parish Councillors.

### 6.2. Finance Implications

6.2.1. There is a cost to the authority when a complaint is referred for external investigation.

6.2.2. There is also a cost to the authority relating to officer support to the process.

### 6.3. Equality Implications

6.3.1. There are no direct equality implications.

### 6.4. Human Resources Implications

6.4.1. There are no direct Human Resource implications.

### 6.5. Risk Management Implications

6.5.1. 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.

### 6.6. Rural Communities Implications

6.6.1. There are no direct implications for rural communities.

**6.7. Implications for Children & Young People**

6.7.1. There are no direct implications for children and young people.

**6.8. Public Health Implications**

6.8.1. There are no direct implications for public health.

**7. Ward Members Affected**

7.1 Implications are borough wide.

**8. Access to Information**

8.1. There are no background documents to this report.

**9. Contact Information**

9.1. Any questions relating to this report should be directed to the following officer:

Name: Daniel Dickinson

Job Title: Acting Director of Legal Services and Monitoring Officer

Email: [monitoringofficercec@cheshireeast.gov.uk](mailto:monitoringofficercec@cheshireeast.gov.uk)

**10. Version Control**

<This table below must be completed to show the journey that the report has taken; and should included details on the officers consulted on each version of the report. It is expected that Finance, Legal, line manager and Executive Director are consulted on every version.

Each Directorate is to have a document library to store its reports and it is the responsibility of the author to ensure that all versions are retained and stored correctly. >

Draft versions are to be categorised by meeting type.

- Directorate management team; version to begin at 1.0
- CLT; version to begin at 2.0
- Informal Cabinet; version to begin at 3.0

This section can be deleted when the report is at its final state and is being submitted to Cabinet, Council, PH decision or Committee. Remember to also delete the version control box on the front sheet of the report on the top left hand corner.

The version number should also be referenced on the front cover of the report

Remember to delete the guidance wording when report is complete.>

Date	Version	Author	Meeting report presented to	Consultees		Summary of amendments made
				Name of officers consulted	Date consulted	

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## **BRIEFING REPORT**

### **Audit & Governance Committee**

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**Date of Meeting:** 27 September 2018

**Report Title:** Risk Management Update Report

**Portfolio Holder:** Councillor Paul Findlow, Portfolio Holder, Corporate Policy and Legal Services

**Author:** Joanne Butler, Business Governance and Risk Manager

**Senior Officer:** Daniel Dickinson, Acting Director of Legal Services

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#### **1. Introduction and Policy Context**

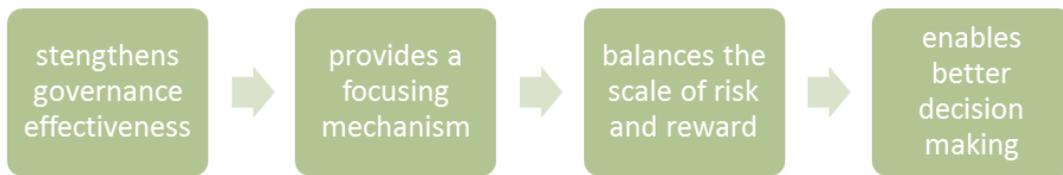
1.1 This report provides the Audit and Governance Committee with a summary of the most significant threats and opportunities facing the Council which may prevent, or assist with, the achievement of the Council's Corporate Plan 2016-20. The Audit and Governance Committee is requested to note and comment on the update report on risk management, which is for information and assurance. The Committee will also receive a short briefing providing assurance on the management of CR4 Contract and Relationship Management Risk at the meeting.

#### **2. Background**

2.1 It is the role of Audit and Governance Committee to provide independent assurance to the Council on the adequacy of the risk management framework and the internal control environment. Risk management is not about being risk averse, indeed some amount of risk taking is inevitable if the Council is to achieve its objectives. It is about effectively managing risks that could affect the achievement of the Council's objectives and ensuring that an appropriate risk culture is in place.

2.2 Risk management is central to good governance; managing risk is all about people making the best decisions at all levels within the organisation. An open and respectful risk culture mitigates risk and reputational damage. It encourages higher performance and efficiency, and helps to develop a sustainable and ethical business model.

2.3 A strong risk management framework seeks to ensure the following benefits:-



- 2.4 As the Council looks towards 2020, even over this relatively short period of time, there will be a host of factors which influence the nature of the Council's relationships with its residents, businesses, communities, neighbouring authorities, and other key partners. These factors will challenge the Council to review its current systems and approaches, and experiment with new ideas to allow mixed and flexible use of its resources. In this constantly evolving environment, with a need to continually adapt internal organisation to meet legal requirements, economic challenges, urban changes, demographic and social changes, it is possible for managers and decision makers to miss risks that may arise suddenly or unexpectedly. Through risk identification we anticipate eventualities and it helps us to respond to changes in need. Consideration and response to existing and new threats, and the ability to recognise and seize new opportunities, is fundamental to achieving the Council's desired outcomes in the Corporate Plan 2016-20.

### 3. Briefing Information

- 3.1 There are presently eleven threats and three opportunities detailed on the Council's corporate risk register. There have been some changes and movement of the risks since the previous update to Audit and Governance Committee; these include:

**CR12 Adult Social Care Market Strain:** The adult social care sector continues to experience financial strain. Taking a prudent approach to the risk scoring, if a major provider fails and the risk was to materialise this could be major with possible increase in safeguarding issues due to the nature of the service delivery area. The likelihood of this risk has increased to a score of 4 which is 'very likely' as the Council is currently out to tender for Domiciliary Care and is awaiting results. This has increased the net score to 12 high risk and is a prudent approach to the risk scoring; this may change as a result of the tendering outcome and is presently outside of the Council's control.

**CRO2 Devolution:** The landscape of local growth arrangements is complex and whilst there is Government commitment to the 6 Mayoral Combined Authorities (MCAs), Sheffield City Region and resolving issues in Leeds/Yorks and the North East, there is less clarity for non metropolitan geographies. A sub-regional 'Prospectus' has been produced building on the work to develop a devolution proposal for Cheshire and Warrington. This document sets out economic growth ambitions for the

sub-region and how these could be accelerated with the right level of support from Government and provides a reference to inform any strategic bids to future national programmes e.g. for infrastructure and major transport projects.

Our growth conversation with MHCLG has continued particularly through the work that has been delivered on the HS2 Growth Strategy as well as the work that has been undertaken at the sub-regional level and we remain open to new discussions about devolution, but any further guidance or framework setting out the scope, process and timeframe of the opportunity potentially open to us is yet to emerge. Treatment of this opportunity risk has therefore moved from 'exploit' to 'accept' until further guidance is available. As such, this opportunity risk has been removed from the corporate risk register and will be on the 'watch list' for the Place Directorate Risk Register pending further clarity and direction from Government on the prospect of devolution to the sub regions.

**CRO3 Partnership Working:** The Leaders' Board meets quarterly and is working with the Council's key strategic partners, including Town and Parish Councils, and the Voluntary, Community and Faith Sector to exploit this opportunity. Cheshire East Council has been the accountable body for the alliance of 7 local authorities and 2 Local Enterprise Partnerships in the Constellation Partnership (CP). The current Cheshire East Safeguarding Children Board governance arrangements are undergoing significant revision, as required by the Children and Social Work Act 2017, with the new arrangements having to be in place by 29th September 2019. Whilst the aim of the changes is to strengthen children's safeguarding, it is important to maintain strong local accountability. Cheshire East is top out of 151 local authority areas in England for avoiding 'bed blocking', demonstrating that Cheshire East Council and its health partners in the NHS are working well together to provide the care that people need. The likelihood of this opportunity has increased to 3 as the Council has improved its prospects of exploiting this opportunity through co-production with partners on joint strategic planning, reducing contradictory and duplication of efforts, minimising delivery gaps, exploiting new business models and maximising best use of public and private sector resources. As such, the net risk rating has increased to 9 medium risk.

**CR4 Contract and Relationship Management Risk:** The Council has taken forward a number of initiatives to improve the effectiveness of its approach to contract management. A new Contract Management Framework has been developed and the new Commissioning and Procurement Board established. We have segmented contracts in accordance with the contract management framework and have assigned Accountable Executives to each platinum contract. We are rolling out new governance arrangements to all platinum contracts at the moment, and are launching commissioning and contract management training this month for lower value contracts. The likelihood of this risk has decreased slightly

within the risk rating, so the direction of travel shows that the risk is beginning to reduce, but the framework needs to be further embedded within Council procedures and so the net risk rating remains at 12 high risk. The Committee will receive a short briefing on the management of this risk at the meeting.

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

**Table 1: Highest Rated Corporate Risks**

Ref	Type	Risk Title	Rating	Direction
CR2	Threat	NHS Funding and Sustainability and Transformation Plan (STP) Impact	16 High	↔
CR3	Threat	Financial Resilience	12 High	↔
CR1	Threat	Increased Demand for People Services	12 High	↔
CR4	Threat	Contract and Relationship Management	12 High	↓
CR5	Threat	Information Security and Cyber Threat	12 High	↔
CR12	Threat	Adult Social Care Market Strain	12 High	↑

**Table 2: Risk Watch List**

Ref	Type	Risk Title	Rating	Direction
CR11	Threat	Employee Engagement and Retention	6 Medium	↔
CR13	Threat	Capacity and Demand	6 Medium	↔
CRO 3	Opportunity	Partnership Working	9 Medium	↑
CRO 1	Opportunity	EU Exit, Single Market and Local Growth	6 Medium	↔

**Table 3: Dormant Risk**

Ref	Type	Risk Title	Rating	Direction
CRO 2	Opportunity	Devolution	3 Low	↓

- 3.3 Discussion around re-articulation of the present opportunity risk “EU Exit, Single Market and Local Growth” is currently underway as we consider the latest available information in relation to Brexit; and the potential challenges and opportunities to local government, and in particular any potential impacts on the Council’s Corporate Plan. This risk will therefore be redrafted and scored as appropriate in due course.
- 3.4 The assessment methodology used to score the risks is attached at **Appendix C** to this report for information.

#### **4 Implications**

- 4.1 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.
- 4.2 Financial: There are no direct 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.
- 4.3 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.
- 4.4 Risk Management: This report relates to overall risk management; the Audit and Governance Committee should be made aware of the most significant risks facing the Council and be assured that the risk management framework is operating effectively. The content of this report seeks to achieve the following risk objectives:-

<b>Key Risk Objectives</b>
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

## Corporate Risks

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR 1 Threat	<p><b>Increased Demand for People Services</b></p> <p>(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.</p>	Acting Executive Director of People	Joint: Portfolio Holder, Adult Social Care and Integration  Portfolio Holder, Children and Families	<b>12 High</b>  ↔	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 increase in safeguarding issues due to the nature of the service delivery areas. The net score remains at 12 high risk.
CR 2 Threat	<p><b>NHS Funding and STP Impact</b></p> <p>(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.</p>	Acting Executive Director of People	Joint: Portfolio Holder, Health  Portfolio Holder, Adult Social Care and Integration	<b>16 High</b>  ↔	Work across a number of work-streams at STP (Cheshire and Merseyside) and Cheshire East level are progressing. To date these have not made any significant impact on the deficit faced within the health commissioning and provider organisations. However their financial position is stabilised and appears not to be worsening. The net risk score remains at 16 because there has not yet been a reduction in the anticipated deficit position.

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR 3 Threat	<p><b>Financial Resilience</b>                      (Cause) The reduction in funding from Central Government means the Council must manage funding shortfalls over the next four years, through reduced expenditure, managing demand or increased local income. (Threat) There is a possibility that the Council does not adopt 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. (Impact) This may result in difficulties in closing and managing the funding reductions, 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.</p>	Interim Executive Director of Corporate Services	Portfolio Holder, Finance and Communication	<p><b>12 High</b> ↔</p>	<p>The Council has financial plans in place to manage funding shortfalls which will be reviewed regularly. The impact of this risk should it materialise is reduced as the Council has a track records of underspends or managing year end positions within the parameters of the Reserves Strategy. The overall net risk rating is 12, high risk.</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR4 Threat	<p><b>Contract and Relationship Management:</b> (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.</p>	Interim Executive Director of Corporate Services	Portfolio Holder, Finance and Communication	<p><b>12 High</b> ↓</p>	<p>The new Contract Management Framework has been developed and the new Commissioning and Procurement Board established. We are in the early phases with the training being launched this month but the framework needs to be embedded within Council procedures. We have segmented contracts in accordance with the contract management framework and have assigned Accountable Execs to each platinum contract. We are rolling out new governance arrangements to all platinum contracts at the moment and are launching commissioning and contract management training this month for lower value contracts. Work has begun but is unlikely to demonstrate a reduction in the likelihood of this risk occurring in the short-term. The net risk therefore remains at 12 high risk</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR5 Threat	<p><b>Information Security and Cyber Threat</b> (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.</p>	Interim Executive Director of Corporate Services	Portfolio Holder, Finance and Communication	<p><b>12 High</b> ↑</p>	<p>The Council handles large quantities of data on a daily basis and receives a large amount of emails, of this volume 78% is malware, viruses or spam. The risk of a security breach of some nature is ‘very likely’, the likelihood of this risk is increasing globally as the number of incidents of corporate and public sector bodies having their IT systems hacked and data being stolen is rising. There is a rise in the number of ransomware attacks.</p> <p>The Council is aware of information, its importance and its value; it is increasingly likely that the number of Information Breaches will increase.</p> <p>The Council has a number of technologies to reduce the risk of infection. Although existing mitigation controls reduce the likelihood the threat is ever increasing. 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 remains 12 High Risk.</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR6 Threat	<p><b>Countering Fraud and Corruption</b> (Cause) Risk that the Council fails to have proper, adequate, effective and efficient management arrangements, policies and procedures in place to mitigate the risk of fraud and corruption, particularly in a time of financial austerity, (Threat) such that public money is misappropriated. (Impact) This would result in a loss of funds to the Council, have a detrimental effect on services users, a negative impact on the Council’s ability to achieve all of its priorities, value for money, and may have a negative impact on the Council’s reputation.</p>	Interim Director of Corporate Services	Leader of the Council	<p><b>6</b> <b>Medium</b></p> <p>↔</p>	<p>Although the Council has a robust anti-fraud and corruption framework, as the Council commissions and lengthens its supply chain with uncertainty of the level of controls and assurance arrangements within the chain, the likelihood of this risk is increased. Alongside this, the increased demand on staff time may result in less rigorous application of existing controls, which may also increase the risk of unexplained or suspicious expenditure being undetected. Preparations are underway to develop a new structure to deliver Counter Fraud services and expand the amount of proactive Counter Fraud work undertaken contributing to securing ongoing improvements in the Council’s control environment. During 2017/18 5 investigations were undertaken and as a result controls have been improved to prevent further losses in the same areas. The impact of this risk should it occur is a 3 ‘significant’ as the amount of funds at risk could be significant and jeopardise financial resources to achieve the outcomes. As the Council’s maturity levels increase in this area the risk should reduce, at present, the overall net risk rating is 6 medium risk.</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR9	<p><b>Increased Major Incidents</b> (Cause) Risk that there is a lack of capacity, planned reserves and resources to deal with an increased frequency and severity of major incidents which affect Cheshire East (e.g. extreme weather events, flooding, sinkholes, fire incidents, chemical incidents, dangerous structures, pandemic, or deliberate incidents such as terrorist acts) such that (threat) the Council needs to shift capacity and resources away from day to day operational activity and may be unable to sustain an effective response or to act in a timely manner alongside emergency responder partners, (impact) resulting in potential public safety issues and a reduced level of achievement across all of its intended outcomes.</p>	Executive Director of Place	Portfolio Holder, Corporate Policy and Legal Services	<p>6 Medium ↔</p>	<p>The net risk rating for this risk is 6 medium. Whilst it is unlikely that there will be a significant increase in the number of major incidents, this is outside of our control, and if this was to materialise the impact on the Council's objectives would be major.</p> <p>There have been a number of major incidents that the Council has responded well to (e.g. Macon House Fire, Crewe; M6 tanker crash near Knutsford; and the Manchester Arena Terrorist Attack) the risk score will be reviewed if and when any further incidents occur.</p>
CR10	<p><b>Business Continuity</b> (Cause) Risk that an internal or external incident occurs which renders the Council unable to utilise part or all of its infrastructure (such as buildings, IT systems etc) such that (threat) the Council is unable to deliver some, or in extreme cases all of its services and (impact) putting residents at risk for a period of time and resulting in a reduced achievement of Corporate Plan outcomes over the longer period.</p>	Acting Director of Legal Services	Portfolio Holder, Corporate Policy and Legal Services	<p>6 Medium ↔</p>	<p>The net risk rating is 6 medium.</p> <p>Whilst the majority of incidents are outside of the Council's control this risk remains unlikely but could have a major impact if it materialised.</p> <p>The implementation of the Business Continuity Action plan is ongoing.</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR11 Threat	<p><b>Employee Engagement and Retention</b> (Cause) Risk that as demand increases and resources decrease, and whilst the Council seeks to improve its organisational culture and faces negative reputational issues, the Council’s most skilled and experienced staff may feel under more pressure and become less engaged, and (threat) because of the specialist nature of some of the roles, the Council is less able to recruit and retain core professional employees (e.g. social workers, solicitors and planners). This may result in (impact) high recruitment costs and loss of talent and organisational knowledge which may have a damaging impact on service users and the Council being unable to fully deliver across all of its outcomes.</p>	Interim Executive Director of Corporate Services	Portfolio Holder, Corporate Policy and Legal Services	<p style="text-align: center;"><b>6</b> <b>Medium</b> ↔</p>	<p>The Council recognises that retention of skilled staff remains a threat. Employee engagement and retention is an area the Council continues to improve. Increase in demand with fewer resources is likely and may impact on core areas which could be significant. The cultural transformation programme seeks to define and embed a positive culture that enables colleagues to thrive. It is recognised that this is not a quick fix but instead a longer term programme through which staff, managers, members, partners and trade unions come together to collectively define and own the culture and tone that will enable CEC to be known as a great place to work. Recognising the challenges and opportunities ahead the risk level remains at 6, medium risk.</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR12 Threat	<p><b>Adult Social Care Market Strain</b></p> <p>(Cause) Risk that as the adult social care sector continues to experience financial strain, due to staffing being a high proportion of costs, and with the difficulty in recruiting and retaining staff within the sector resulting in reducing profitability, this may lead to some service providers exiting from the market. (threat) This may result in residents having less choice, or experiencing a lack of continuity of service, and potential delays in securing a package of good quality care that meets needs and preferences, and greater use of unpaid care. This may affect (impact) the Council's ability to achieve its outcomes of people living well and for longer and to stimulate a diverse range of care and support services and be a leading commissioning and responsible Council.</p>	Acting Executive Director of People	Portfolio Holder, Adult Social Care and Integration	<p><b>12 High</b></p> <p>↑</p>	<p>The adult social care sector continues to experience financial strain. Taking a prudent approach to the risk scoring, if a major provider fails and the risk was to materialise this could be major with possible increase in safeguarding issues due to the nature of the service delivery area. The likelihood of this risk has increased to a score of 4 which is 'very likely' as the Council is currently out to tender for Domiciliary Care and is awaiting results. This has increased the net score to 12 high risk and is a prudent approach to the risk scoring; this may change as a result of the tendering outcome and is presently outside of the Council's control.</p>
CR13 Threat	<p><b>Capacity and Demand Risk</b></p> <p>(Cause) Risk that reducing and reduced staff resource alongside increasing demand and additional unplanned work results in (threat) key resources being overstretched and having insufficient capacity to deliver all business plan requirements, (impact) resulting in business operational issues and pinch points, possible failure to deliver priority activities and projects, adverse organisational behaviour and a detrimental impact upon physical, emotional and mental wellbeing of staff, impacting upon the Council's ability to deliver all of its intended objectives and outcomes.</p>	Acting Chief Executive	Leader of the Council	<p><b>6 Medium</b></p> <p>↔</p>	<p>The Council recognises the pressures on staff through reduced and reducing capacity. Creating an environment within which colleagues can grow and thrive is a top priority, and a range of programmes and initiatives support this with links to corporate risk 11. Ensuring all staff, members and partners have a shared sense of purpose, common and achievable goals, alongside ruthless and ongoing prioritisation will help to reduce this risk presently rated at 6, medium risk</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CRO 1 Opp'ty	<p><b>EU Exit, Single Market and Local Growth</b></p> <p>(Cause) Keeping abreast of discussions about exiting the EU and access to the single market means that the Council can anticipate which areas are going to be significantly affected in Cheshire East e.g. changes in demand, changes to economic sectors, including the rural economy, and the labour market in the local area, significant impacts on local companies, possible successor regional aid funding schemes, changes to state aid and procurement laws. (Opportunity) This creates an opportunity to seize the initiative and influence the debate on the new UK legislative agenda for how a new regime should be shaped, including more entrepreneurial models that (impact) may benefit Cheshire East's local economy and local growth.</p>	Executive Director of Place	Portfolio Holder, Housing, Planning and Regeneration	<p>6 Medium</p> <p>↔</p>	Discussion around re-articulation of the present opportunity risk EU Exit, Single Market and Local Growth risk is currently underway as we consider the latest available information in relation to Brexit and the potential challenges and opportunities this presents to local government, and in particular any potential impacts on Cheshire East Council's Corporate Plan. This risk will therefore be redrafted and scored as appropriate in due course.

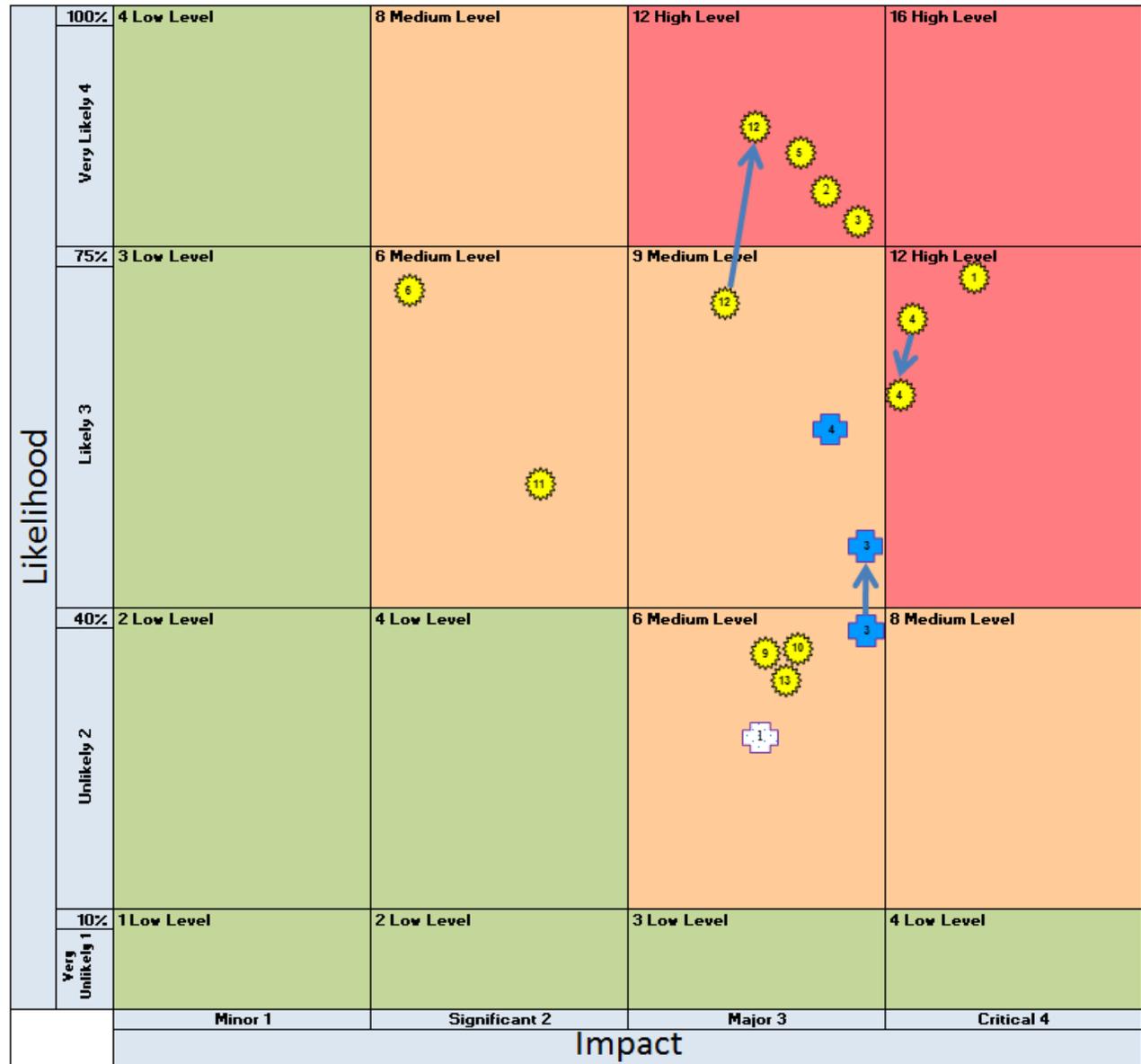
Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CRO 2 Opp'ty	<p><b>Devolution</b> (Cause) Central Government has been working with various cities and sub-regions to achieve devolution of powers and funding from central government to local areas which presents an opportunity for Cheshire East to (opportunity) work with key partners to bring an informed, coherent and persuasive case to secure more funding and powers through a devolution deal which would (impact) support Cheshire East's outcomes of protecting and enhancing its Quality of Place, improving local economic growth assisting with the achievement of all of its corporate outcomes.</p>	Executive Director of Place	Leader	<p>3 Low ↔</p>	<p>Our growth conversation with MHCLG has continued particularly through the work that has been delivered on the HS2 Growth Strategy as well as the work that has been undertaken at the sub-regional level and we remain open to new discussions about devolution, but any further guidance or framework setting out the scope, process and timeframe of the opportunity potentially open to us is yet to emerge. Treatment of this opportunity risk has therefore moved from 'exploit' to 'accept' until further guidance is available. As such, this opportunity risk has been removed from the corporate risk register and will be on the 'watch list' for the Place Directorate Risk Register pending further clarity and direction from Government on the prospect of devolution to the sub regions.</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CRO3 Opp'ty	<p><b>Partnership Working</b> (Cause) Public Service delivery is currently under-going reform, impacting upon capacity and resources of agencies and organisations partnered by the Council and other public sector agencies. (Opportunity) This presents an opportunity for co-production with joint strategic planning to reduce contradictory and duplication of efforts, minimise delivery gaps, exploit new business models and maximise best use of public and private sector resources to (impact) achieve joint and complementary objectives and assist with the achievement of the Council's corporate outcomes.</p>	Acting Executive Director of People	Leader	<p>9 Medium ↑</p>	<p>The Leaders' Board meets quarterly and is working with the Council's key strategic partners, including Town and Parish Councils, and the Voluntary, Community and Faith Sector to exploit this opportunity. CEC is the accountable body for the alliance of 7 local authorities and 2 Local Enterprise Partnerships in the Constellation Partnership (CP). The current Cheshire East Safeguarding Children Board governance arrangements are undergoing significant revision, as required by the Children and Social Work Act 2017, with the new arrangements having to be in place by 29th September 2019. Whilst the aim of the changes is to strengthen children's safeguarding, it is important to maintain strong local accountability. Cheshire East is top out of 151 local authority areas in England areas for avoiding 'bed blocking' demonstrating that Cheshire East Council and its health partners in the NHS are working well together to provide the care that people need. The likelihood of this opportunity has increased to 3 as the Council improves its prospects of exploiting this opportunity and as such the net risk rating has increased to 9 medium risk.</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CRO4 Opp'ty	<p><b>Infrastructure and Regeneration Funding</b></p> <p>(Cause) The Council has a number of ambitious regeneration and development initiatives (e.g. Crewe Regeneration including HS2, and Macclesfield Regeneration) involving many third party organisations. (Opportunity) There is an opportunity to create the right conditions and confidence to lever in significant investment (public and private) to deliver these initiatives and to create (impact) further significant growth and prosperity in the Borough.</p>	Executive Director of Place	Portfolio Holder, Housing, Planning and Regeneration	<p>9</p> <p>Medium</p> <p>↔</p>	<p>The Council has strengthened its working arrangements with local public sector partners, government departments and commercial investors. The Council has secured significant capital allocations to support major regeneration and development projects e.g. £10m local growth fund for Crewe Town Centre, £20m Housing Infrastructure funding to support key development projects in Crewe and Macclesfield and has secured major grant allocations for projects such as the Congleton Link Road, Middlewich Eastern Bypass, Poynton Relief Road. The Council has geared up its approach on a number of its strategic infrastructure projects including HS2, Crewe Hub and strategic rail such that the net risk rating is increased to 9 medium risk level rating. This risk requires ongoing work and monitoring to ensure that the opportunity comes to fruition.</p>

Corporate Risk Titles	
<b>Threat</b>	
CR1	Increased Demand for People Services
CR2	NHS Funding and STP Impact
CR3	Financial Resilience
CR4	Contract and Relationship Management
CR5	Information Security and Cyber Threat
CR6	Countering Fraud and Corruption
CR7a	Cheshire East Local Plan Adoption
CR8	Community Cohesion
CR9	Increased Major Incidents
CR10	Business Continuity
CR11	Employee Engagement and Retention
CR12	Adult Social Care Market Strain
CR13	Capacity and Demand
<b>Opportunity</b>	
CRO1	EU Exit, Single Market and Local Growth (under review)
CRO2	Devolution
CRO3	Partnership Working
CRO4	Infrastructure and Regeneration Funding

Threat	
Opportunity	



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



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*Working for a brighter future together*

## **Audit & Governance Committee**

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**Date of Meeting:** 27 September 2018

**Report Title:** Internal Audit – 2018/19 Plan Progress Update

**Senior Officer:** Jan Willis, Interim Executive Director of Corporate Services

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### **1. Report Summary**

- 1.1. The purpose of this report is to update the Audit and Governance Committee on progress against the Internal Audit Plan 2018/19, revisions to the plan, to summarise work undertaken to the end of August 2018 (see Appendix A) and to present the Quality Assurance and Improvement Programme (QAIP) for approval by the Committee (see Appendix B).

### **2. Recommendations**

- 2.1. That the Committee:
  - i) note the internal audit progress report
  - ii) note Internal Audit's Quality Assurance and Improvement Programme.

### **3. Reasons for Recommendations**

- 3.1. The Committee receives regular reports on Internal Audit's performance to support the effectiveness of the internal audit process.
- 3.2. The Quality Assurance and Improvement Programme (Appendix B) is required under the Public Sector Internal Audit Standards.

### **4. Other Options Considered**

- 4.1. Not applicable.

### **5. Background**

- 5.1. The Public Sector Internal Audit Standards (PSIAS) Local Government Application Note states that, "in addition to the annual report, the Chief Audit Executive should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address

emerging issues in respect of the whole range of areas to be covered in the annual report and hence support a 'no surprises' approach, as well as assist management in drafting the Annual Governance Statement".

- 5.2. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council, via the Audit and Governance Committee, that these arrangements are in place and operating properly. The annual internal audit opinion informs the Annual Governance Statement. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council's objectives.
- 5.3. It should be noted that Internal Audit's risk based approach includes focussing on areas where issues are known or expected to exist. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels.
- 5.4. A report summarising the work undertaken, the issues identified and the actions required is produced for each review undertaken. The process of reviewing the report from draft to final ensures that the findings are confirmed to be factually accurate, and that the management actions will result in improvements to the control environment. Draft reports are agreed with the appropriate managers, and the Final reports are shared with the relevant Executive Director. The implementation of agreed actions is monitored through the follow up process, and performance in this area is reported regularly to the Corporate Leadership Team and the Committee.
- 5.5. The Public Sector Internal Audit Standards, which define proper practice for public sector internal audit functions were introduced in 2013 and last updated in March 2017. In Internal Audit's self assessment against the Standards it was noted that whilst the interim and annual reports to Committee addressed and reported on the elements which are covered in the QAIP, these needed to be brought into a separate QAIP. The QAIP has now been developed in the required format, and this is included for the Committee to note as Appendix B. Audit and Governance Committee will continue to receive reports on the performance of the Internal Audit function through the interim and annual reports.

## **6. Implications of the Recommendations**

### **6.1. Legal Implications**

6.1.1. The requirement for an internal audit function flows from Section 151 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 (Regulation 5) requiring a relevant body to “undertake an adequate and 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”

**6.2. Finance Implications**

6.2.1. There are no direct financial implications for this report.

**6.3. Policy Implications**

6.3.1. Reporting progress to the Audit and Governance Committee on an interim basis and adoption of the QAIP ensures compliance with the Public Sector Internal Audit Standards and fulfils the Committee’s Terms of Reference.

**6.4. Human Resources Implications**

6.4.1. As detailed in the interim report, the Principal Auditors are continuing in their acting up arrangements to cover the role and responsibilities of the Head of Internal Audit whilst the restructure progresses.

**6.5. Risk Management Implications**

6.5.1. Failure to consider the effectiveness of the Council’s system of internal audit and the Internal Audit opinion on the Council’s control environment could result in non-compliance with the requirements of the Accounts and Audit Regulations 2015 and the requirements of the Public Sector Internal Audit Standards.

**6.6. Rural Communities Implications**

6.6.1. There are no direct implications for rural communities.

**6.7. Implications for Children & Young People**

6.7.1. There are no direct implications for children and young people.

**6.8. Public Health Implications**

6.8.1. There are no direct implications for public health.

**7. Ward Members Affected**

7.1. All wards affected.

**8. Access to Information**

8.1. Cheshire East Council Internal Audit Plan 2018/19 – Approved by Audit and Governance Committee 15<sup>th</sup> March 2018.

8.2. [Public Sector Internal Audit Standards](#)

**9. Contact Information**

9.1. Any questions relating to this report should be directed to the following officer:

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Job Title: Principal Auditors

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[michael.todd@cheshireeast.gov.uk](mailto:michael.todd@cheshireeast.gov.uk)

# Internal Audit Interim Report 2018/19

April - August 2018

Version 3.1

**1. Introduction**

- 1.1. In accordance with the Public Sector Internal Audit Standards, the first Internal Audit Interim Report 2018/19 contains “emerging issues in respect of the whole range of areas to be covered in the annual report.”
- 1.2. Internal Audit is required to form an annual opinion on the overall adequacy and effectiveness of the organisation’s control environment, which includes consideration of any significant risk or governance issues, and control failures which have been identified.
- 1.3. The interim report contains the following:
  - a summary of the audit work carried out in 2018/19 to date (Section 2)
  - any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (Section 3)
  - comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets (Table 2, Table 4 and Section 4)
  - comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 4 and Section 5)
  - other developments, including the Internal Audit Charter (Section 6)

**2. Summary of Audit Work 2018/19 to date**

- 2.1. This is the first 2018/19 interim report on progress against the Internal Audit Plan.
- 2.2. During this period, audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised a mix of risk based auditing, regularity, investigations and the provision of advice to officers. Annex 1 explains the variety of audit work undertaken to support the annual audit opinion.

**Assurance Work**

- 2.3. A summary of the final reports issued to the end of August 2018, by the audit assurance opinion given is included below;

**Table 1: Reports to date by assurance level**

Assurance Level	2018/19 (to 31/08/2018)	2017/18 Full Year
Good	0	8
Satisfactory	2	10
Limited	4	7
No Assurance	1	1
<b>Total</b>	<b>7</b>	<b>26</b>

- 2.4. A summary comparison of the 2018/19 Audit Plan with actuals for the year to 31st August 2018 is shown in **Table 2**, with comments on variances.

Table 2: Summary Comparison of Audit Plan 2018/19 and Actuals

Area of Plan		Plan		Actuals (to 31/08/18)		Comments on coverage
		Days	%	Days	%	
<b>Chargeable Days</b>		<b>1,184</b>		<b>528</b>		
Less: Corporate Work		160		65		Minimised/reduced work where possible to prioritise investigation work.
<b>Available Audit Days:</b>		<b>1,024</b>	<b>100%</b>	<b>463</b>		
Corporate Governance and Risk		120	12%	36	8%	Coverage in line with plan
Anti-Fraud and Corruption	Proactive Reviews	40	4%	38	8%	Includes support to investigations now referred to police.
	Reactive Investigations	50	5%	53	11%	Includes ongoing investigation work.
Chief Operating Officer (COO)	Key Financial Systems	145	14%	76	16%	Coverage in line with plan
	Corporate Core & Cross Service	255	25%	79	17%	Coverage in line with plan
Children and Families		64	6%	21	4%	Coverage in line with plan
Adult's Social Care		65	6%	31	6%	Coverage in line with plan
Community and Partnerships		15	1%	2	1%	Coverage in line with plan
Public Health		15	1%	0	1%	Coverage in line with plan
Planning and Sustainable Development		20	2%	8	2%	Coverage in line with plan
Infrastructure and Highways		30	3%	8	2%	Coverage in line with plan
Growth and Regeneration		40	4%	54	11%	Includes work around ongoing investigations.
Rural and Green Infrastructure		15	1%	0	0%	Coverage in line with plan
Providing Assurance to External Organisations		40	4%	13	3%	Coverage in line with plan
Advice & Guidance		30	3%	4	1%	Coverage in line with plan
Other Chargeable Work		80	9%	40	9%	Coverage in line with plan
<b>Total Audit Days</b>		<b>1,024</b>	<b>100%</b>	<b>463</b>	<b>100%</b>	

- 2.5. Details of the reports produced to the end of August 2018 are included in **Table 3**, which includes details of the audit assurance opinion given in each report. Where the opinion given was Limited or No Assurance, a summary of key findings and actions has been provided.
- 2.6. The assurance levels reported include a combination of opinions at a broad level for the Council as a whole (macro-level opinion) and opinions on individual business processes or activities within a single organisation, department or location (micro-level opinion).
- 2.7. Where control weaknesses are identified, recommended actions are agreed with management to ensure that the control environment is improved to an acceptable level. Through the follow up process, Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority.
- 2.8. It should be noted that Internal Audit's risk based approach includes focussing on areas where issues are known or expected to exist. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels.
- 2.9. Where a final report is issued with a "Limited" or "No Assurance" opinion, improvement recommendations will be made. When implemented these will address the identified weaknesses and improve the control environment.
- 2.10. With the exception of one item, all actions from these audits have been agreed with management and progress on implementation will be monitored through the follow up process. Draft reports are agreed with the appropriate managers, and Final reports are shared with the relevant Executive Director.
- 2.11. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the Annual Governance Statement process.
- 2.12. The plan has recently been reviewed and discussed with the Executive Directors and Acting Chief Executive to ensure that it still addresses areas of significant risk to the organisation, and to identify any issues with timing. There were no significant changes to the plan identified as a result of these discussions, but the plan remains closely monitored.

Table 3: Summary of Final Assurance Reports 2018/19 to 31<sup>st</sup> August 2018

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
Revenue Budget Monitoring	Identified via Planning Process	Satisfactory	All actions agreed	N/A
Free School Meals	Identified via Planning Process	Satisfactory	All actions agreed	N/A
Visitor Attraction – Tatton Park	Identified via Planning Process	Limited	All actions agreed	<p>The objective of the view was to provide assurance on the effectiveness of controls in place around financial control in the establishment; management of income and expenditure, staffing expenses and inventory management.</p> <p>The review concluded that;</p> <ul style="list-style-type: none"> <li>- The reconciliation of income processes could be improved.</li> <li>- The Scheme of Financial Delegation needs to be updated.</li> <li>- Consistency is needed in the application of controls on the authorisation of purchase card transactions and employee expenses.</li> <li>- The establishment needs a complete equipment register, including ICT and non ICT items; a full inventory of artefacts is in place.</li> </ul>
External Moderation Arrangements	Identified via Planning Process	Limited	<p>3 actions agreed</p> <p>1 not agreed</p>	<p>The purpose of the review was to provide assurance on the controls in place to manage the risk of the Council not having provision for and a system in place for moderating teacher assessments at its maintained schools, therefore not complying with its statutory requirements.</p> <p>The review identified inconsistencies in the design and application of controls in place. Whilst the Council has provision for moderating teacher assessments it could improve on consistency of retaining records of attendance</p>

**Internal Audit Interim Report 2018/19 (April – August 2018)**

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
				<p>on supporting documentation.</p> <p>Whilst there is a system in place to moderate the assessments, the application of controls in relation to the sample sizes of tests was inconsistent.</p>
Section 106	Identified via Planning Process	Limited	All actions agreed	<p>The objective of the view was to review the adequacy of controls around the requests, collection, management, implementation and expenditure of Section 106 schemes undertaken by the Council and its Wholly Owned Companies.</p> <p>The review concluded that Section 106 agreements are not being effectively managed due to significant resource constraints, an inadequate IT monitoring system and a lack of policy and procedures.</p> <p>Furthermore only financial obligations are included within the monitoring spreadsheet, and non financial obligations (excluding affordable housing) are going unmonitored.</p>
Performance Management and Reporting – Statutory Returns	Identified via Planning Process	Limited	All actions agreed.	<p>This review was undertaken to provide assurance on the arrangements in place to manage the risk of data for statutory returns not being collected in a complete, accurate and timely manner.</p> <p>The Council is required to complete nearly 140 separate data returns, as well as further returns for grants and other programmes.</p> <p>The review identified a wide variety of practices in place, and whilst staff were aware of, and met deadlines for the returns, and all were subject to some form of supervisory review, there were a number of improvements</p>

Internal Audit Interim Report 2018/19 (April – August 2018)

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
				<p>recommended.</p> <p>These included developing local procedural guidance, to introduce a risk based approach to the appropriate level of control and scrutiny, restricting access to the working papers and drafts of potentially high risk returns, and ensuring detailed validation and cleansing in the preparation of the return.</p>
Travel Booking System	Identified via Planning Process	No Assurance	All actions agreed	<p>The objective of the review was to provide assurance on the effectiveness of the controls in operation to prevent the unauthorised access and use of the travel booking system.</p> <p>The review identified lack of control in the authorisation of bookings, weak system access controls and a lack of monitoring of system useage.</p>

## Schools

- 2.13. The Department for Education requires the Council's Section 151 Officer to sign off an Annual Assurance Statement. That statement confirms:
- the number of School's Financial Value Standard (SFVS) self-assessment returns received; and
  - that an appropriate audit programme is in place to provide adequate assurance over the standard of financial management, and the regularity and propriety of spending in schools.
- 2.14. The School's Audit Programme for 2018/19 continues from 2017/18 and has been designed to ensure that coverage of all schools not yet audited, since the responsibility for undertaking SFVS assurance work returned to the Internal Audit team, will be achieved by the end of 2018/19.
- 2.15. The School's Audit Programme for 2018/19 will continue the thematic review on the effectiveness of governance arrangements at 20 schools which started in 2017/18.
- 2.16. Three visits have been carried out before the summer holiday, and the rest should be completed by the end of December 2018.
- 2.17. Individual reports are produced and issued to schools detailing any areas of weakness identified

and any actions required to address these weaknesses and improve the control environment. Since 2017/18 we have included an assurance opinion on the arrangements, in line with other audit reports issued.

- 2.18. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin" and the "Director's Report".
- 2.19. Findings from all areas will inform a consolidated schools report which provides assurance to the Interim Executive Director of Corporate Services and the Director of People. This will also inform the completion of the Annual Assurance Statement completed by the Interim Executive Director of Corporate Services under Section 151 responsibilities.

## Supporting Corporate Governance

- 2.20. In accordance with Regulation 6 of the Accounts and Audit Regulations 2015 the Council is required, each financial year, to conduct a review of the effectiveness of the system of internal control and publish an Annual Governance Statement (AGS).
- 2.21. During the first half of this financial year, and as previously reported in the 2017/18 Internal Audit Annual Report, Internal Audit has coordinated, on

behalf of Management, the production of the Council's AGS for 2017/18.

- 2.22. Audit and Governance Committee approved the Final Annual Governance Statement 2017/18 at their July meeting, in line with statutory deadlines.
- 2.23. A progress update on issues recognised in the AGS 2017/18 is scheduled for the Committee's December meeting. This paper will outline the proposed production process for the 2018/19 AGS.

#### Counter Fraud and Investigations

- 2.24. A number of investigations into financial irregularities were reported to the Committee in the 2017/18 Internal Audit Annual Report. In the period under review, Internal Audit has continued to provide support in managing these cases to completion. This includes support to disciplinary processes and liaison with the police.
- 2.25. In 2017/18 work began on reviewing a number of historic land related transactions. This work has continued to develop and therefore further work has been carried out in this period. An update to the Committee in regard to current arrangements will be provided at the earliest opportunity pending completion of the necessary work.
- 2.26. During the first half of 2018/19 Internal Audit continued to coordinate the investigation of

matches received in January 2017 as part of the National Fraud Initiative data matching exercise. These matches are continuing to be investigated by the appropriate services.

- 2.27. Work has also been undertaken by the relevant services during the year to review and investigate the results of the annual Flexible Matching exercise which were released in January 2018.
- 2.28. In addition, Internal Audit has also been coordinating the preparation for the Council's participation in the upcoming 2018 National Fraud Initiative exercise. Updated Fair Processing Notices (FPNs) have been completed to take account of the changes in data protection requirements as a result of the implementation of the new EU General Data Protection Regulations (GDPR) in May 2018. The FPNs were reviewed in conjunction with the Council's Data Protection Officer to ensure compliance with the new regulations.

#### Consultancy and Advice

- 2.29. Internal Audit is regularly asked to advise management. The nature and scope of these engagements is generally aimed at improving governance, risk management arrangements and the control environment, contributing to the overall opinion as well as building good relationships across the organisation.

- 2.30. In the year so far, advice and guidance has been provide on;
- Effective arrangements for grant applications and returns.
  - Design and application of controls in new programs.

- 2.31. The Internal Audit function has also been working with the LEP and the Interim Executive Director of Corporate Services to identify additional opportunities for assurance work, following the additional requirements for the Section 151 Officer arising from CIPFA’s guidance. The Committee will be kept updated on progress.

**Grant certifications**

- 2.32. Internal Audit is often required to certify statutory returns and grant claims. This may be related to funding provisos or similar. In most cases the work required is either an audit or an assurance statement on a specific programme/project.
- 2.33. In 2018/19 to date, this has included work on the following grants, which were successfully signed off and submitted to the appropriate funding body:

Grant Certified	£
Family Focus (year to date)	175,200
Crewe Green Roundabout	2,182,000
Sydney Road Bridge	1,259,000

CWLEP Growth Hub Grant 17-18	287,000
Crewe High Speed Heart Ready 2018	480,000
<b>Total</b>	<b>4,383,200</b>

**Work for Other Bodies**

- 2.34. Internal Audit carried out the following work for an external body.
- 2.35. PATROL (Parking and Traffic Regulations Outside London) – Cheshire East Council is the Host Authority to the PATROL Joint Committee & Bus Lane Adjudication Service Joint Committee.
- 2.36. In accordance with the Service Level Agreement the Council has delivered the Body’s Internal Audit service and is responsible for the completion of Section 4 of the Small Bodies Annual Return.
- 2.37. The Annual Internal Audit Report was presented to the Joint Committee in July 2018.

**Implementation of Audit Recommendations**

- 2.38. Internal Audit continually carries out a range of follow up exercises to ensure recommendations are implemented. This work is done in a number of different ways:
- Major pieces of audit work, such as the AGS have detailed action plans which are monitored and reported separately to the Committee.

- Investigations – follow up work is usually dependent on both the nature of the investigation and any recommendations made e.g. a follow up audit may be done at the request of management.
- Formal assurance audits; recommendations are monitored in line with our follow up process.

2.39. Audits with ‘limited’ or ‘no’ assurance are subject to more detailed review. In addition, key systems (e.g. Payroll, Accounts Payable) are audited on a regular, cyclical basis with recommendations followed up as part of the work.

2.40. The Committee have previously been advised of the work undertaken by Internal Audit, supported by senior management to raise the profile of audit recommendations. This has included the agreement of “SMART” recommendations and the inclusion of performance measures in the Corporate Scorecard.

2.41. This saw clear improvement in the overall implementation of audit recommendations over 2016/17 and 2017/18. The implementation of agreed recommendations for reports issued in 2017/18 and 2018/19 to date is detailed in the table below.

**Table 4: Implementation of agreed recommendations as at 31<sup>st</sup> August 2018**

On time	After the agreed date	Total implemented	In progress, part implemented or overdue	Superseded or no longer valid
<b>2017/18</b>				
80%	16%	96%	16%	0%
<b>2018/19</b>				
100%	0	100%	0%	0%

2.42. Figures for 2017/18 have been updated from those reported in the Annual Audit Report to reflect actions due for implementation in 2018/19 so far.

2.43. As per the internal audit plan for year, Internal Audit have been working to a target of 90% of agreed audit actions implemented, and 75% implemented within agreed timescale. The figures from reports issued in 2018/19 exceed this target, but it should be acknowledged that the majority of timescales agreed are for implementation later in the year.

2.44. Performance on the implementation of actions agreed in reports from 2017/18 has improved slightly since the figures reported in the 2017/18 annual report, where we had reported 96% in total actions implemented, and 65% on time. Performance in relation to the actions implemented on time has increased to 80%, and overall implementation has increased to 100%.

2.45. The timely implementation of audit recommendations is a good indicator of both the effectiveness of Internal Audit in securing action and the Council’s commitment and capacity to improve. Internal Audit will continue to work with senior managers to improve this important indicator, to include the escalation of common themes or emerging patterns in relation to agreed recommendations (high and medium rated) that are not being progressed to CLT as necessary.

2.46. The following audits commenced during the period, with work ongoing at the time of reporting:

Audit	Status
Highways Contract Procurement – Project Assurance	Draft report issued
Salary Overpayments	Draft report issued
Early Help Individual Payments – Pilot Review	Draft report issued
ERP Replacement B4B phase 3	Fieldwork ongoing
Provider Invoice Processing	ToR Agreed Fieldwork ongoing
Constitution Review	ToR Agreed
Event Management	ToR in preparation
A500 Duelling Grant Certification	ToR Agreed
ASDV – Fulfilment of Statutory Responsibilities	ToR Agreed

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

2.47. Internal Audit place assurance on the work of the Council’s external auditors, OFSTED, and other external inspectorates where appropriate.

**3. Annual Governance Statement**

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

3.2. The findings and opinions of 2018/19 Internal Audit work will be considered in preparing the 2018/19 AGS. The contents of this interim report will form part of that process.

**4. Internal Audit Performance**

4.1. Internal Audit’s performance is measured against a number of performance indicators which are detailed in Table 5. The performance relating to the implementation of recommendations is detailed earlier in this report.

**Table 5: Performance Indicators to date**

Performance Indicator	2018/19 Actual	2018/19 Target	2017/18 Actual	Comments on 2018/19 Actuals
% of Audits completed to user's satisfaction	94%	94%	95%	On target.
% of significant recommendations agreed	98.25%	95%	97%	Above target.
Productive Time (Chargeable Days)	82%	85%	86%	Support to the restructure has impacted on this indicator.
Draft report produced promptly (per Client Satisfaction Form)	91%	95%	89%	Slightly below target, although improved from previous year.

- 4.2. The Public Sector Internal Audit Standards require the development and use of a Quality Assurance Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enable conformance with all related aspects of the Standards to be evaluated.
- 4.3. Whilst we have previously addressed and reported on the elements which are covered in the QAIP, we have now brought these into required format, and this is included for the Committee's approval as Appendix B. Audit and Governance Committee will continue to receive reports on the performance of the Internal Audit function through the interim and annual reports.

## 5. Compliance with the Public Sector Internal Audit Standards

- 5.1. As previously reported to the Committee, the external assessment of the Internal Audit function against the Public Sector Internal Audit Standards, which is required once in a five year period, was carried out under a peer review arrangement earlier in the year.
- 5.2. The final report has been received and has been subject to external moderation. The final report and accompanying action plan are included elsewhere on the Committee's agenda.
- 5.3. Significant progress has already been made to address the actions required to achieve full compliance with the Standards. We have given consideration as to whether the partial conformance assessment represents such significant non conformance with the Standards as to require reporting in the Head of Internal Audit Annual Opinion and the Annual Governance Statement and concluded that the nature of the items raised in the assessment has not resulted in detriment to the quality of the service being delivered or to the value being added to the organisation by the service.
- 5.4. However, the external assessment has understandably highlighted concern over the

resourcing of internal audit. Should the restructuring of the internal audit function fail to progress, the conclusion on the impact that has, and the decision to report in the Annual Opinion report and Annual Governance Statement would need to be revisited.

## 6. Other Developments

- 6.1. The Principal Auditors have continued in their acting up arrangements to deliver the roles of the Corporate Manager Governance and Audit, and the Internal Audit Manager over the period in review. This ensures that the responsibilities of the Head of Internal Audit have been covered during the period under review. Additional hours have also been undertaken by some members of the team.
- 6.2. As reported to Committee earlier in the year, the restructure of the Internal Audit function has been subsumed into a wider restructure of the Corporate Services directorate.
- 6.3. The Principal Auditors have supported the process as required in addition to their other responsibilities.

Summary of Audit Work which supports the Annual Audit Opinion		
Area	Description of Audit Work	Output
Assurance Work	Audits with formal assurance level.	Audit Reports
Schools	Assessment against Schools Financial Value Standard and completion of thematic reviews.	Audit Reports
Supporting Corporate Governance	Support and contribution to production of the Annual Governance Statement, including assurance statements from Heads of Service.	Annual Governance Statement, and supporting evidence
	Support and contribution to update reports from the Corporate Governance Group.	Reports to Corporate Leadership Team
	Support and contribution to AGS Action Plan, Compliance with Contract Procedure Rules reports etc.	Report to Audit & Governance Committee
Counter Fraud and Investigations	Review of Anti-Fraud and Corruption arrangements.	Report to Audit & Governance Committee
	National Fraud Initiative – co-ordination of data extract, submission and investigation of matches.	Results published on Cabinet Office website/update reports to Corporate Assurance Group/Investigation Reports.
	Investigations	Investigation Reports
Consultancy & Advice	Ad-hoc consultancy and advice provided to services.	Various – reports etc.
Statutory Returns/Grant Claims	Audit/assurance work on programme/project and subsequent report to statutory/funding body.	Return/Claim sign off
Implementation of Recommendations	Targeted follow up of audit recommendations based on audit opinion/recommendation.	Follow up reports/action plans/Key Corporate Indicator (see: Implementation of Audit Recommendations)

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# Internal Audit

## Quality Assurance and Improvement Programme

Version 1.1  
September 2018

Working for a **brighter future**  together



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## Document Control

<b>Organisation</b>	Cheshire East Council
<b>Author</b>	Josie Griffiths/Michael Todd
<b>Subject</b>	Internal Audit: Quality Assurance and Improvement Programme
<b>Protective Marking</b>	Official
<b>Review Date</b>	September 19 or earlier if required.

## Revision History

Revision Number	Reviser	Previous Version	Description of Revision	Date of Revision
1.0	JG	N/A	First Draft	28/08/2018
1.1	JG	1.0	Proof reading corrections	17/092018

## Associated Documentation

Public Sector Internal Audit Standards (2017)  
 CIPFA: The Role of the Head of Internal Audit (2010)  
 CIPFA: Practical Guidance for Audit Committees (2018)  
 CIPFA: The Excellent Internal Auditor (2006)

Cheshire East Council – Internal Audit Charter

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## 1. Introduction

- 1.1. The purpose of Internal Audit's Quality Assurance and Improvement Programme is to define the practical arrangements in place to provide reasonable assurance to stakeholders that the activity of the Internal Audit section
- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards' (PSIAS) definition of Internal Auditing and Code of Ethics;
  - Operates in an effective and efficient manner; and
  - Is perceived by stakeholders as adding value and improving Internal Audit's operations.
- 1.2. The PSIAS require that the Head of Internal Audit as Chief Audit Executive develops and maintains a quality assurance improvement programme covering all aspects of internal audit activity, including consulting activity. This programme should enable an evaluation of Internal Audit's conformance against the Standards and an evaluation of whether individual auditors apply the Code of Ethics.
- 1.3. Cheshire East Council's Internal Audit QAIP covers all aspects of Internal Audit activity, in accordance with PSAIS Standard 1300, and includes:
- Monitoring the Internal Audit activity to ensure it operates in an effective and efficient manner (Standard 1300);
  - Ensuring compliance with the PSIAS' Definition of Internal Auditing and Code of Ethics (Standard 1300);
  - Helping the Internal Audit activity add value and improve organisational operations (Standard 1300);
  - Encouraging Audit and Governance Committee oversight in the quality assurance and improvement programme (Standard 1300)
  - Undertaking both periodic and on-going internal assessments (Standard 1311);
  - Commissioning an external assessment at least once every five years, (Standard 1312); and

- Communicating the results of the QAIP to Corporate Leadership Team (CLT) as the Senior Management and to the Audit and Governance Committee as the Board (Standard 1320).
- 1.4. In accordance with Standard 1321, QAIP results should be used to confirm that the internal audit activity complies with the PSIAS Code of Ethics and Standards.
- 1.5. In accordance with Standard 1322, should there be non conformance with the Code of Ethics or the Standards which impacts on the overall scope or operation of the internal audit activity, the non conformance, and its impact should be disclosed by the Head of Internal Audit to senior management (CLT) and the Board (Audit and Governance Committee).
- 1.6. The Head of Internal Audit has ultimate responsibility for the QAIP, and ensuring it covers all elements of Internal Audit activity. All staff have an individual responsibility for maintaining quality and ensuring that their audit activity demonstrably complies with the Standards.

## 2. Internal Assessments

- 2.1. In accordance with PSIAS Standard 1300, internal assessments are undertaken through ongoing and period reviews.
- 2.2. Continual assessments are conducted through:
- Management supervision of all audits;
    - Agreement on objectives, scope and timing of all audit engagements
    - Use of standard working papers within the Audit Management System
    - Completion of internal quality assurance checklists to ensure consistency, capture relevant performance data and reduce administrative errors.
    - Review and approval of working papers and draft reports prior to issue through supervision
    - Review and approval of all final reports, including audit opinion and recommendations by Head of Internal Audit or Internal Audit Manager
  - Definition of the purpose, authority and responsibility of Internal Audit in the Charter, subject to regular review;

- Audit policies and procedures, including work procedures within the Audit Management System, used for each engagement to ensure consistency, quality and compliance with appropriate planning, fieldwork and reporting standards;
  - Maintenance of a detailed Audit Manual to provide guidance on all aspects of audit activity;
  - Feedback from audit clients obtained through completion of Client Satisfaction Questionnaires at the end of each engagement (APPENDIX A);
  - Regular monitoring of Internal Audit performance targets (APPENDIX B);
    - Quarterly reporting to Corporate Leadership Team
    - Regular reporting to Audit and Governance Committee
  - Regular 121 sessions between all audit staff and their line managers. Covering progress on individual audit engagements;
  - Use of the Council's Performance Development framework, complemented with the use of CIPFA's "The Excellent Internal Auditor" competency guide, to identify areas of good practice and areas for development and improvements and
  - Regular team briefings attended by all members of the Internal Audit team and chaired by the Head of Internal Audit.
- 2.3. Periodic assessments are designed to assess conformance with Internal Audit's Charter, the PSIAS Definition of Internal Auditing, the Code of Ethics, and the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders.
- 2.4. Periodic assessments are conducted through:
- Regular Internal Audit update reports, presented to the Audit and Governance Committee;
  - Annual risk assessment in accordance with the Internal Audit Charter, for the purposes of annual audit planning;
  - Annual review of the effectiveness of Internal Audit, undertaken by the Head of Internal Audit, resulting in the identification of development and

improvement actions, included in the Head of Internal Audit's Annual Report;

- Annual review of compliance against this Quality Assurance and Improvement Programme, the results of which will be reported to the Corporate Leadership Team and the Audit and Governance Committee in the Head of Internal Audit's Annual Report;
  - Feedback from the Chief Executive, Section 151 Officer and the Chair of the Audit and Governance Committee to inform the appraisal of the Head of Internal Audit, in accordance with Standard 1100;
  - Annual appraisals conducted for all Internal Audit Staff Members, identifying individual training and development needs.
- 2.5. Improvement and development actions identified in the course of assessments will be reported to the Audit and Governance Committee. The Head of Internal Audit will implement appropriate and prompt action as necessary to ensure continual improvement in the service.
- 2.6. Significant areas of non-compliance with the Standards identified through internal assessment will be reported in the Head of Internal Audit's Annual Opinion and used to inform the Annual Governance Statement as necessary.

### **3. External Assessments**

- 3.1. External assessments will appraise and express an opinion about the Internal Audit section's conformance with the PSIAS Definition of Internal Auditing and the Code of Ethics and include recommendations for improvement as appropriate.
- 3.2. In accordance with the PSIAS, an external assessment will be conducted at least every five years. The appointment of the external assessor and the scope of the assessment will be endorsed by the Audit and Governance Committee.
- 3.3. The external assessment will consist of broad scope of coverage that includes the following elements of Internal Audit activity:
- Conformance with the Standards, Definition of Internal Auditing, the Code of Ethics, and internal audit's Charter, plans policies, procedures, practices, and any applicable legislative and regulatory requirements;

- Integration of the Internal Audit activity into Cheshire East Council's governance framework, including the audit relationship between and among the key groups involved in the process;
  - Tools and techniques used by Internal Audit;
  - The mix of knowledge, experiences, and disciplines within the staff, including staff focus on process improvement delivered through this Quality Assurance and Improvement programme;
  - A determination of whether Internal Audit adds value and improves Cheshire East Council's operations.
- 3.4. Results of external assessments will be provided to the Corporate Leadership Team and the Audit and Governance Committee. The external assessment report will be accompanied by a written action plan in response to significant comments and recommendations identified.
- 3.5. Any significant areas of non-compliance will be reported in the Annual Report of the Head of Internal Audit and in the Council's Annual Governance Statement (AGS).

#### **4. Reporting on the QAIP**

- 4.1. The results of internal assessments will be reported to the Corporate Leadership Team and to the Audit and Governance Committee as part of the Head of Internal Audit's Annual report. This will include any identified actions for improvement.
- 4.2. The results of external assessments carried out will be reported to the Corporate Leadership Team and to the Audit and Governance Committee. The external assessment report will be provided, along with any actions identified for improvement.

#### **5. Review of the QAIP**

- 5.1. This document will be updated as necessary following any changes to the PSIAS or to Internal Audit's operating environment, and will be reviewed at least annually.



**Internal Audit – Performance Targets**

DESCRIPTION	NARRATIVE	MEASURED BY	TARGET
PSIAS Compliance	Level of compliance with the Standards	Annual Self Assessment and External Self Assessment (5 Yearly)	100%
Productive Time	Measures the total productive time as a percentage of the available time during the reporting period. Productive time is categorised according to the criteria for CIPFA benchmarking.	Galileo Time Recording data	80%
Customer Satisfaction	The PI measures the user satisfaction score from client questionnaires received during a reporting period, focused on the added value to the individual service	Client Satisfaction Questionnaires (Questions 9 and 10)	92%
Prompt Reporting	This PI monitors the client's view on how promptly they have received the draft audit report following completion of fieldwork	Client Satisfaction Questionnaires (Question 7)	95%
Significant Recommendations Agreed	This PI monitors the percentage of significant recommendations raised in final reports and agreed to by management.	Final Audit Reports and Action Tracking in Galileo – Audit Management System	92%
Timely implementation of agreed actions	This PI is not a direct measure of Internal Audit's performance, but monitors the implementation of actions by management in line with the agreed target dates.	Follow up and Action Tracking in Galileo – Audit Management System	Reported as % on time % after agreed date % in progress/overdue % subsequently not implemented

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## **Audit & Governance Committee**

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**Date of Meeting:** 27 September 2018

**Report Title:** Treasury Management Annual Report 2017/18

**Portfolio Holder:** Councillor Paul Bates

**Senior Officer:** Jan Willis, Interim Executive Director of Corporate Services

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### **1. Report Summary**

- 1.1. The Treasury Management Policy requires an annual report on the performance of the Council's treasury management operation. This report contains details of the activities in 2017/18 for Cheshire East Council.

### **2. Recommendation/s**

- 2.1. To note the Treasury Management Annual Report for 2017/18 as detailed in Appendix A.

### **3. Reasons for Recommendation/s**

- 3.1. To meet the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities.

### **4. Other Options Considered**

- 4.1. None.

### **5. Background**

- 5.1. The Treasury Management Strategy for 2017/18 was approved by Council on 23<sup>rd</sup> February 2017. Progress reports have been provided to Cabinet throughout the year as part of the Quarterly Financial and Performance Update Reports.
- 5.2. The Council complied with its legislative and regulatory requirements and remained within all of its Prudential Indicators during the year with the

exception of borrowings maturing in under 12 months, further details are provided in Annex 1.

5.3. Investment income for 2017/18 is £320,000 in line with the original budget.

- The average lend position (the 'investment cash balance') including managed funds during 2017/18 is £28.2m
- The average annualised interest rate received on in-house investments during 2017/18 is 0.37%.
- The average annualised interest rate received on the externally managed property fund during 2017/18 is 4.84%.
- The average temporary borrowing position during 2017/18 is £40.2m.
- The average annualised interest rate paid on temporary borrowing during 2017/18 is 0.46%

5.4. The Council's total average interest rate for 2017/18 is 1.55%. The returns continue to exceed our benchmark, the London Inter-bank Bid Rate for 7 days at 0.48%, and our own performance target of 1.00% (Base Rate + 0.50%).

**Table 1 – Interest Rate Comparison**

Comparator	Average Rate to 31/03/2018
Cheshire East	1.55%
LIBID 7 Day Rate	0.31%
LIBID 3 Month rate	0.39%
Base Rate	0.50%
Target Rate	1.00%

5.5. As a result of a change in the Minimum Revenue Provision (MRP) policy to the use of the annuity method, the Council was able to take a MRP holiday and make a saving in the capital financing budget. Overall there was a £4.1m underspend on the capital financing budget of £14m.

5.6. A reduction in the level of cash balances and the need for temporary borrowing has arisen from the decision to pay past service pension deficit contributions for the next three years in one advance payment of £45m in April 2017. The discount available from early payment more than offsets the costs of temporary borrowing. The forecast benefit over the three year period is around £2m which will support mitigation of future service costs as appropriate.

5.7. Temporary borrowing is currently being met from other Local Authorities which is considerably cheaper than other sources of borrowing. If the

predicted interest environment changes or the availability of temporary borrowing reduces then this strategy will be re-assessed.

- 5.8. The Council has maintained the £7.5m investment in the CCLA managed property fund. The underlying value of this fund had been devalued following the 'Brexit' referendum but has since been increasing in value. The current value of the units in the fund if sold is £7.9m. The fund also generated income of 4.88% in 2017/18.
- 5.9. Most other investments currently held are short term for liquidity purposes. Following the base rate increase on 2<sup>nd</sup> November 2017 some of the funds which were achieving higher returns than temporary borrowing were no longer yielding the same results. Cash was, therefore, withdrawn to reduce borrowing and, from December, to invest £2.5 in a Royal London Enhanced Cash Plus Fund.

## **6. Implications of the Recommendations**

### **6.1. Legal Implications**

- 6.1.1. As noted in paragraph 4.54 of the Finance Procedure Rules in the Council's Constitution, the Council has adopted CIPFA's *Code of Practice for Treasury Management in Local Authorities* as this is recognised as the accepted standard for this area. Paragraphs 4.55 – 4.61 provide further information relating to treasury management practice, and the Code itself will have been developed and based upon relevant legislation and best practice. This report is presented to Cabinet under rule 4.60.

### **6.2. Finance Implications**

- 6.2.1. Contained within the report.

### **6.3. Policy Implications**

- 6.3.1. The treasury management activity reported for the period 1<sup>st</sup> April 2017 - 31<sup>st</sup> March 2018 has been carried out in accordance with the Treasury Management Policy Statement and Treasury Management Practices (TMPs).

### **6.4. Equality Implications**

- 6.4.1. None.

### **6.5. Human Resources Implications**

- 6.5.1. None.

**6.6. Risk Management Implications**

6.6.1. The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.

6.6.2. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy as no treasury management activity is without risk. The aim is to operate in an environment where risk is clearly identified and managed.

6.6.3. To reduce the risk that the Council will suffer a loss as a result of its treasury management activities down to an acceptable level a number of risk management procedures have been put in place. The procedures cover liquidity risk, credit and counterparty risk, re-financing risk, legal and regulatory risk, and fraud, error and corruption risk. These are referred to within the borrowing and investment strategies, prudential indicators and the Treasury Management Practices Principles and Schedules.

6.6.4. The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

**6.7. Rural Communities Implications**

6.7.1. None.

**6.8. Implications for Children & Young People**

6.8.1. None.

**6.9. Public Health Implications**

6.9.1. None.

**7. Ward Members Affected**

7.1. Not applicable.

**8. Access to Information**

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

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Designation: Financial Strategy & Reporting Manager  
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## Treasury Management Annual Report 2017/18



## 1. Introduction

Treasury management is defined as: “The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

## 2. Economic events of 2017/18

**Economic background:** 2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact. The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

The Bank of England’s Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate increase in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with ‘gradual’ and ‘limited’ policy tightening. In March the MPC stopped short of committing itself to the timing of the next increase in rates although the minutes of the meeting suggested that an increase in May 2018 was highly likely. In the event, it wasn’t until the August 2018 meeting that rates were increased by a further 0.25% to 0.75%, the highest since March 2009.

In contrast, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an ‘easing bias’ in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed made a further increase of 0.25% in June 2018 and is expected to deliver two more increases in 2018. However, the imposition of tariffs on a broadening range of goods initiated by

the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.

**Financial markets:** The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively. Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates.

The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

**Credit background:** In the first quarter of the financial year, UK bank credit default swaps (CDS) reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.

The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Authority would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would actually look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the re-structured entities.

Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.

**Money Market Fund regulation:** The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. It is expected that most of the short-term MMFs used by the Council will convert to the LVNAV structure.

**Credit Rating developments:** The most significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.

Most UK banks credit ratings were affected by the impending ring-fencing of retail activity from investment banking and reviews of rating will continue into 2018 as the ring-fencing takes place.

**Other developments:** In February, Arlingclose advised against lending to Northamptonshire County Council after they issued a section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget.

**Local Authority Regulatory Changes:**

**Revised CIPFA Codes:** CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes have been incorporated into Treasury Management Strategies and monitoring reports for 2018/19.

The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.

The Capital Strategy was included as Appendix 10 in the Medium Term Financial Strategy and approved by Council on 22nd February 2018.

Further updates including a detailed investment strategy and amendments to the Capital Strategy, Treasury Management Strategy, Prudential Indicators and Treasury Management Practices made in accordance with the new regulatory framework will be included in future reports.

**MHCLG Investment Guidance and Minimum Revenue Provision (MRP):** In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP). Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans" (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall. The definition of prudent MRP has been changed to "put aside revenue over time to cover the CFR"; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

**MiFID II:** As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could "opt up" to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a

year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess the person(s) to have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Authority has met the conditions to opt up to professional status and has done so with all counterparties that we deal with. In order to continue trading in treasury bills and bonds the Council is required to register for a Legal Entity Identifier number for which an annual fee is payable. As the Council currently has limited scope for holding these investments due to reduced investment balances this has not been applied for.

### 3. Treasury Year End Position

The amount of investments outstanding at 31st March 2018 was £23.8m (compared to £29.8m as at 31st March 2017) as follows:

	31/03/17	31/03/18
	£m	£m
<b>GOVERNMENT</b>		
Central Bedfordshire Council	-	6.6
Surrey Heath District Council	-	5.0
Lancashire County Council	2.0	-
<b>UK BANKS</b>		
Barclays Bank	0.5	0.7
<b>MONEY MARKET FUNDS</b>		
Standard Life	3.9	0.5
Deutsche	3.5	0.5
CCLA	0.5	0.5
Federated Investors	1.7	-
Aberdeen Asset (formerly Scottish Widows)	1.7	-
<b>MANAGED FUNDS</b>		
Property Funds	7.5	7.5
Royal London – Enhanced Cash Fund	-	2.5
Federated Investors – Cash Plus Fund (VNAV)	7.5	-
Deutsche – Ultra Short Fund (VNAV)	1.0	-
<b>TOTAL</b>	<b>29.8</b>	<b>23.8</b>

There have been no significant changes since 2016/17 with the emphasis remaining on short term investments to maintain liquidity combined with some longer term strategic investments in managed funds to benefit from higher returns and underlying growth in value.

The net investment income received in 2017/2018 after allowing for fees and interest due to the Growing Places and Local Growth Funds was £0.32m.

The overall average rate of interest on all investments in 2017/18 was 1.55% compared to the benchmark 7 day LIBID average return of 0.31% and our own

performance target of 1.00% (Base Rate + 0.50%). The base rate was increased from 0.25% to 0.50% in November 2017.

Investment income forms part of the capital financing budget, which also includes the amount charged in respect of the repayment of outstanding debt and the amount of interest payable on the Council's portfolio of long term loans. The capital financing budget for 2017/18 was originally £14m, accounting for 6% of the Council's net revenue budget.

During 2017/18 the Section 151 Officer explored options to revise the approach to calculating the Minimum Revenue Provision (MRP) to release revenue funding and mitigate overspending on services. Following liaison with the Council's treasury management advisors, Arlingclose, the annuity method has been used to calculate the Minimum Revenue Provision. This resulted in the ability to take an MRP holiday and realise savings of £6m in 2017/18. This approach was approved by Council at its meeting on 14th December 2017.

We will continue to monitor performance during 2018/19 through the benchmarking service provided by the Council's Treasury Management Advisors, Arlingclose Ltd.

#### **4. Compliance with Treasury Limits**

During the financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Councils' Treasury Policy Statement and annual Treasury Strategy Statement (see section 7) with the exception of maturity of borrowings. The limit of borrowing due to mature in less than 1 year is 35% of total borrowing. However, the combined effect of long term LOBO loans being included within this limit (due to the unlikely possibility that an option may arise where they can be repaid) and the current strategy of borrowing on a very short term basis has led to a breach of this limit with 46% of loan value classed as maturing within 1 year.

This will be addressed by amending the Treasury Management Strategy in 2018/19 to allow for more short term borrowing. The risk is that re-financing of maturing borrowing will be at higher rates than we could have achieved by longer term borrowing taken out now. Our treasury advisors continue to monitor interest rates and plan for future likely scenarios and will advise when we should take longer term borrowing.

#### **5. Investment Strategy for 2017/18**

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Investment instruments identified for use in the financial year are set through the Councils' Treasury Management Strategy Statement and Investment Strategy. Different limits apply to counterparties based on a range of credit criteria which governs the maximum amount and the maximum maturity periods of any investments. This is kept under continual review with institutions added or removed from our list of

counterparties during the year dependent on their qualification according to the credit criteria measures.

### **Investment Objectives**

All investments were in sterling. The general policy objective of the Council was the prudent investment of its treasury balances. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

### **Credit Risk**

Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

The maximum amount that can be invested with any one organisation is set in the Treasury Management Strategy Report. For unsecured investments with named UK banks and credit rated building societies this has been set at a maximum value of £6m. This limit applies to the banking group that each bank belongs to.

Limits for each Money Market fund have been set at a maximum value of £12m per fund. There is also a maximum that can be invested in all Money Market Funds at any one time of £50m in total. Due to their smaller size, unrated Building Societies have a limit of £1m each.

### **Liquidity**

In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds, overnight deposits and the use of call accounts. The Council's cash resources have an annual cycle dipping in March but with known receipts then due in April. Following the advance payment of £45m relating to the next 3 years pensions deficit funding the Council has been required to borrow additional funds in 2017/18. Any new borrowing has been short term (between 1 and 18 months) to take advantage of current low interest rates and minimise borrowing costs. This is likely to continue throughout 2018/19 as planned existing long term borrowing is repaid and internal balances reduce.

### **Yield**

As the focus of treasury activity has now switched to borrowing, there is little scope to increase yield on balances held primarily for liquidity purposes. The Council has maintained some strategic externally managed investments yielding higher than average returns which do carry some risk to the underlying value.

### **Use of External Fund Managers**

In previous years the Council had invested a total of £7.5m in a property fund. This fund is a diversified commercial and industrial property portfolio available to all local authorities. It is suitable where long term funds are available to invest to achieve an attractive income and capital growth over time. The value of this fund has steadily increased during 2017/18 and at 31st March 2018 had a realisable value of £7.87m

although any changes in the underlying capital value of the fund will only be realised when the investments are sold.

The fund pays dividends on a quarterly basis which have averaged 4.84% return during 2017/18 on the initial sum invested. This is significantly above the rest of the Council's investments, where the average return was 0.37%. The continued use of this fund is being kept under review particularly in light of diminishing cash resources. However, as the cost of temporary borrowing to cover short term cash shortfalls was only 0.46% it was prudent to maintain this investment as part of our long term strategy.

Following the base rate increase on 2nd November 2017 some of the funds which were achieving higher returns than temporary borrowing were no longer yielding the same results. Cash was, therefore, withdrawn to reduce borrowing and, from December, to invest £2.5m in a Royal London Enhanced Cash Plus Fund. This fund pays dividends every 3 months so is too early to provide actual return information yet although it is expected to yield around 1%.

By maintaining strategic investments of £10m, the Council is entitled to be regarded as a professional client under the MIFID II regulations. This allows access to all funds and reduces administration on daily treasury activities which would otherwise have applied if the Council was regarded as a retail client.

## **6. Borrowing strategy**

At the end of 2017/18 the Council had debt outstanding of £169.6m. Of this £76.9m represented loans from the PWLB, £17m represented loans raised from commercial banks, £72m represented temporary borrowing repayable in 2018/19 and 2019/20 whilst £3.7m represents interest free loans from Salix repayable within the next 4 years.

The Council's capital financing requirement (CFR) currently exceeds the amounts actually borrowed with the shortfall being funded from cash balances.

In accordance with the Treasury Management Strategy the Council has continued to finance its capital expenditure through the use of its own existing cash balances rather than through the raising of long term loans. The benefits of this are twofold; firstly by reducing the amount of cash balances held by the Council it reduces the credit risk and secondly, the interest foregone on the cash balances (or lower interest payable on temporary borrowing) used to finance capital expenditure payments was less than the amount of interest payable on any new long term loans that would have been raised.

## **7. Prudential Indicators 2017/18**

The Council can confirm that it has complied with its Prudential Indicators for 2017/18, with the exception of borrowings maturing under 12 months, approved on 23rd February 2017 as part of the Council's Treasury Management Strategy Statement. Details can be found in Annex 1.

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity

during 2017/18. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

**Annex 1**

**Prudential Indicators 2017/18 and revisions to 2018/19 – 2020/21**

**1. Background**

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

**2. Gross Debt and the Capital Financing Requirement**

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

2.2 If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt. The Authority had no difficulty meeting this requirement in 2017/18, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

**3. Capital Expenditure**

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

<b>Capital Expenditure</b>	<b>2017/2018</b>	<b>2018/2019</b>	<b>2019/2020</b>	<b>2020/21</b>
	<b>Actual £m</b>	<b>Estimate £m</b>	<b>Estimate £m</b>	<b>Estimate £m</b>
<b>Total</b>	<b>88.2</b>	<b>127.1</b>	<b>121.8</b>	<b>77.2</b>

*Source: Cheshire East Finance*

3.2 Capital expenditure has been and will be financed or funded as follows:

<b>Capital Financing</b>	<b>2017/2018</b>	<b>2018/2019</b>	<b>2019/2020</b>	<b>2020/21</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Capital receipts	0.5	4.3	4.3	10.0
Government Grants	30.8	57.3	93.4	19.1
External Contributions	6.7	7.5	9.9	32.4
Revenue Contributions	0.3	2.7	0.0	0.0
<b>Total Financing</b>	<b>38.2</b>	<b>71.8</b>	<b>107.5</b>	<b>61.5</b>
Prudential Borrowing	50.0	55.3	14.3	15.7
<b>Total Funding</b>	<b>50.0</b>	<b>55.3</b>	<b>14.3</b>	<b>15.7</b>
<b>Total Financing and Funding</b>	<b>88.2</b>	<b>127.1</b>	<b>121.8</b>	<b>77.2</b>

Source: Cheshire East Finance

#### 4. Ratio of Financing Costs to Net Revenue Stream

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

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

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2017/2018</b>	<b>2018/2019</b>	<b>2019/2020</b>	<b>2020/21</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Total</b>	<b>3.77</b>	<b>3.91</b>	<b>4.70</b>	<b>5.36</b>

#### 5. Actual External Debt

5.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2018	£m
Borrowing	170
Other Long-term Liabilities	37
<b>Total</b>	<b>207</b>

Source: Cheshire East Finance

## 6. Incremental Impact of Capital Investment Decisions

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

Incremental Impact of Capital Investment Decisions	2018/2019 Estimate	2019/2020 Estimate	2020/21 Estimate
	£	£	£
<b>Band D Council Tax</b>	<b>19.98</b>	<b>10.41</b>	<b>8.30</b>

Source: Cheshire East Finance

## 7. Authorised Limit and Operational Boundary for External Debt

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

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

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

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

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

	2017/2018 Actual £m	2018/2019 Estimate £m	2019/2020 Estimate £m	2020/21 Estimate £m
Authorised Limit for Borrowing	315	360	365	365
Authorised Limit for Other Long-Term Liabilities	27	26	24	23
<b>Authorised Limit for External Debt</b>	<b>342</b>	<b>386</b>	<b>389</b>	<b>388</b>
Operational Boundary for Borrowing	305	350	355	355
Operational Boundary for Other Long- Term Liabilities	27	26	24	23
<b>Operational Boundary for External Debt</b>	<b>332</b>	<b>376</b>	<b>379</b>	<b>378</b>

Source: Cheshire East Finance

## 8. Adoption of the CIPFA Treasury Management Code

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

### Adoption of the CIPFA Code of Practice in Treasury Management

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

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

## 9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

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

	Existing level (or Benchmark level) at 31/03/2018	2017/2018 Approved	2017/2018 Revised	2018/2019 Estimate	2019/2020 Estimate	2020/2021 Estimate
		%	%	%	%	%
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	0%	100%	100%	100%	100%	100%

Source: Cheshire East Finance

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

## 10. Maturity Structure of Fixed Rate borrowing

10.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

10.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

10.3 LOBOs are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment. As all LOBOs can be called within 12 months, the upper limit for borrowing maturing within 12 months is relatively high to allow for the value of LOBOs and any potential short term borrowing that is likely to be undertaken in 2018/19.

Maturity structure of fixed rate borrowing	Level as at 31 <sup>st</sup> March 2018	Lower Limit for 2017/2018	Upper Limit for 2017/2018
	%	%	%
under 12 months	46%	0%	35%
12 months and within 24 months	15%	0%	25%
24 months and within 5 years	4%	0%	35%
5 years and within 10 years	0%	0%	50%
10 years and within 20 years	15%	0%	100%
20 years and within 30 years	5%	0%	100%
30 years and within 40 years	15%	0%	100%
40 years and within 50 years	0%	0%	100%
50 years and above	0%	0%	100%

Source: Cheshire East Finance

10.4 As described in Section 4 of the report, the limit for borrowing maturing in under 12 months was breached at the end of 2017/18. The strategy of keeping borrowing short to minimise costs and the increase in borrowing at year end contributed to this position. Although this was a short term breach, rectified early in 2018/19 as borrowing was repaid, the limit will be reviewed and, if appropriate, be recommended to be increased when the Treasury Management Strategy is updated.

## 11. Credit Risk

11.1 The Authority considers security, liquidity and yield, in that order, when making investment decisions.

11.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Authority's assessment of counterparty credit risk.

11.3 The Authority also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

11.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

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*Working for a brighter future together*

## **Audit & Governance Committee**

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**Date of Meeting:** 27 September 2018

**Report Title:** Outcome of the External Assessment of Internal Audit and Compliance with the Public Sector Internal Audit Standards.

**Senior Officer:** Jan Willis, Interim Executive Director of Corporate Services

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### **1. Report Summary**

- 1.1. The purpose of this report is to update the Audit and Governance Committee on the outcome of the external assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS), carried out under the peer review process reported to the Committee in September 2017. A copy of the Final Report including the Action Plan to address required improvement actions is included as Appendix A.

### **2. Recommendation**

- 2.1. That the Committee note the outcome of the external assessment and the action plan provided.

### **3. Reasons for Recommendation**

- 3.1. The Audit and Governance Committee have responsibility for overseeing internal audit arrangements and ensuring efficient and effective arrangements are in place. Receiving the report on the outcome of the external assessment of internal audit against the Standards supports the Committee in fulfilling this responsibility.

### **4. Other Options Considered**

- 4.1. Not applicable.

### **5. Background**

- 5.1. Audit and Governance Committee received a report in September 2017 explaining the requirement under the PSIAS, for an external assessment of the Internal Audit function to be carried out at least every five years. All local authorities should have had this assessment by 31<sup>st</sup> March 2018.

- 5.2. Self assessment against the Standards, resulting in an action plan, has been carried out each year as part of the review of Internal Audit effectiveness in support of the Annual Governance Statement, and was updated ahead of the external assessment. These have been reported on to the Committee in the Annual and Interim Internal Audit reports.
- 5.3. This Council's assessment was carried out under the peer review process developed and managed by the North West Chief Audit Executive's Group (NWCAEG) and was carried out at the end of January 2018, as an independent external validation of the self assessment. The assessment was undertaken by the Heads of Internal Audit from Wirral and Stockport Councils. Their final report has been subject to an independent moderation process. An action plan has been developed to address the areas of partial and non compliance; this is included within the Final report at Appendix A.
- 5.4. The overall judgment of the assessors was that the service is currently "Partially Compliant" with the Public Sector Internal Audit Standards. The implementation of the actions in the plan will ensure full compliance with the Standards; the Committee will note that a number of the required actions have already been implemented, and that timescales and responsibilities have been established for the remainder.
- 5.5. Standard 1322 requires non-conformance which impacts on the overall scope or operation the internal audit activity to be disclosed by the chief audit executive to senior management and the board (Audit and Governance Committee). Consideration has been given to whether the partial conformance assessment represents such significant non conformance with the Standards as to require this disclosure; the conclusion was that the nature of the items raised in the assessment has not resulted in detriment to the quality of the service being delivered, or to the value being added to the organisation by the service.
- 5.6. This conclusion has been supported by the conclusions of the assessors; "...enabling the Internal Audit team to deliver a function that, whilst maybe not being in full compliance with the Standards, has certainly contributed effectively to the organisation in terms of ongoing assurance and governance. It is worth noting that the service is highly regarded by Chief Officers and other stakeholders alike."
- 5.7. The external assessment has raised concern over the resourcing of internal audit; this is an issue recognised by the Corporate Leadership Team and the Audit and Governance Committee. Should the restructuring of the internal audit function fail to progress, the conclusion on the impact that has, and the decision to non-conformance report in the Annual Opinion report and the Annual Governance Statement would need to be revisited.

- 5.8. Progress on the implementation of the actions will be reported on to Senior Management and to the Audit and Governance Committee through the Internal Audit Interim and Annual reports.

## **6. Implications of the Recommendations**

### **6.1. Legal Implications**

- 6.1.1. Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and to ensure that an officer has responsibility for the administration of those affairs.
- 6.1.2. The Accounts and Audit Regulations 2015 state that the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective, and includes effective arrangements for the management of risk. A relevant authority 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.
- 6.1.3. Under the Public Sector Internal Audit Standards, the chief audit executive is required to develop and maintain a Quality Assurance and Improvement Programme covering all aspects of Internal Audit activity. This should cover internal and external assessments.
- 6.1.4. Reporting the results of the assessments to the Audit and Governance Committee enables the committee to oversee the independence, objectivity, performance and professionalism of the Internal Audit activity, a function of the Committee which is described in the CIPFA position statement.

### **6.2. Finance Implications**

- 6.2.1. There are no direct financial implications arising from this report.

### **6.3. Policy Implications**

- 6.3.1. Reporting the outcome of internal and external assessments undertaken to the Audit and Governance ensures compliance with the Public Sector Internal Audit Standards and fulfils the Committee's Terms of Reference.

**6.4. Human Resources Implications**

6.4.1. The Principal Auditors are continuing in their acting up arrangements to cover the role and responsibilities of the Head of Internal Audit whilst the restructure progresses. Both have undertaken assessments at other Council's participating in the NWCAEG peer review process.

**6.5. Risk Management Implications**

6.5.1. Failure to consider the effectiveness of the Council's system of internal audit and the Internal Audit opinion on the Council's control environment could result in non-compliance with the requirements of the Accounts and Audit Regulations 2015 and the requirements of the Public Sector Internal Audit Standards.

**6.6. Rural Communities Implications**

6.6.1. There are no direct implications for rural communities.

**6.7. Implications for Children & Young People**

6.7.1. There are no direct implications for children and young people.

**6.8. Public Health Implications**

6.8.1. There are no direct implications for public health.

**7. Ward Members Affected**

7.1. All wards affected.

**8. Access to Information**

8.1. "Review of the Effectiveness of Internal Audit and Compliance with the Public Sector Internal Audit Standards" – Cheshire East Council, Audit and Governance Committee, 28<sup>th</sup> September 2017

**9. Contact Information**

9.1. Any questions relating to this report should be directed to the following officer:

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**CESHIRE EAST COUNCIL**

**PEER REVIEW OF INTERNAL AUDIT SERVICE  
AGAINST THE UK PUBLIC SECTOR INTERNAL  
AUDIT STANDARDS**

**CARRIED OUT BY**

*Mark Niblock - Wirral Metropolitan Borough Council  
John Pearsall - Stockport Metropolitan Borough Council*

**REPORT DATE: 17 September 2018**

OFFICIAL

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**Cheshire East Council**  
**Peer Review of Internal Audit against the UK Public Sector Internal Audit Standards**

**1 Introduction**

- 1.1 All principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2015 (amended), the Accounts and Audit (Wales) regulations 2005, section 95 of the Local Government (Scotland) Act 1973 and the Amendment to the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS) as well as the (CIPFA) Local Government Application Note.
- 1.2 A professional, independent and objective internal audit service is one of the key elements of good governance in local government.
- 1.3 The PSIAS require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.
- 1.4 The North West Chief Audit Executives' Group (NWCAE) has established a 'peer-review' process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by 'self-assessment with independent external validation' and this report presents the summary findings of the review carried out on behalf of Cheshire East Council.
- 1.5 "An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs." This review has been carried out by the Heads of Internal Audit at Wirral and Stockport Councils. Their 'pen pictures', outlining background experience and qualifications, are included at Appendix 1.

## 2 Approach/Methodology

2.1 The NWCAE Group has agreed a detailed Memorandum of Understanding (MoU) that outlines the broad methodology for the conduct of this review. A copy of the MoU is available upon request. However, in summary, the key elements of the process are:

- The peer review is undertaken in three stages: pre-review; on-site review; post-review, and covers audit activity during the period covered in the latest Head of Internal Audit Annual Report & Opinion.
- Each Authority is required to complete and share its self-evaluation of the Internal Audit service together with any relevant supporting evidence/ documentation in advance of on-site review commencement. The NWCAE Group has agreed that the self-assessment will use the **CIPFA Local Government Application Note (LGAN)** questionnaire. Typically, supporting evidence will include the Internal Audit Plan & Charter, The Head of Internal Audit Annual Report & Opinion, Quality Assurance & Improvement Programme and examples of final audit reports.
- To support the on-site review, a customer survey form will be issued to key personnel within the Authority being reviewed.
- The review itself comprises a combination of ‘desktop’ and ‘actual on-site’ review.
- The review cannot reasonably consider all elements of the LGAN self-assessment and the review team must use the ‘desktop’ period to determine strengths, weaknesses and subsequent key lines of enquiry in order that the review itself is risk-based, timely and adds real value. Each Authority will be assessed against three broad themes of: Purpose and Positioning; Structure and Resources; and Audit Execution.
- Upon conclusion, the Review team offers a ‘true and fair’ judgement and it is proposed that each Authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** against each thematic area

of the LGAN, from which an aggregation of the three themed scores gives an overall Authority score.

- In addition to this, an evaluation of the Impact of Internal Audit within the organisation will also be made based primarily on the customer survey forms and on-site interviews with various levels of management within the Authority.

**3 Conclusions / Overall Assessment**

3.1 As part of the Council’s self-assessment against the Public Sector Internal Auditing Standards, a number of specific areas have been evaluated as being ‘partially’ or ‘not’ currently compliant.

These findings have previously been recognised by the Internal Audit team and reflect the prioritisation of limited resources in the team on delivering the core functions of the internal audit service, including a number of high profile and complex investigations.

Whilst the team has delivered a good level of service, demonstrated by an increased number of reports, and improvements in their Performance Indicators, a number of specific actions are required in order to drive forward future service delivery in full compliance with the Standards.

It should be noted that the diligence of the current internal audit staff members and their ability to function under extremely difficult circumstances has helped to maintain existing levels of service, thus enabling the Internal Audit team to deliver a function that, whilst maybe not being in full compliance with the Standards, has certainly contributed effectively to the organisation in terms of ongoing assurance and governance. It is worth noting that the service is highly regarded by Chief Officers and other stakeholders alike.

3.2 Following a detailed moderation process, the review team has concluded the following judgements:

Area of Focus	Judgement
Purpose & Positioning	Partially Conforms
Structure & Resources	Partially Conforms
Audit Execution	Partially Conforms
<b>Overall Judgement</b>	<b>Partially Conforms</b>

3.3 Assessment against the individual elements of each area of focus is included in the Detailed Assessment table at **Appendix 2** and a summary

of the areas for consideration to improve / develop the service is identified within the Action Table at **Appendix 3**.

It should be noted however that the overall judgement of '**Partially Conforms**' recognises the work that is currently underway by senior management at Cheshire East Council to address some of the more fundamental issues identified in this report such as the resourcing of the service and a lack of a permanent Head of Internal Audit. Should these issues remain outstanding and actions not be taken to address these recognised issues then it will be difficult for the service to demonstrate its full compliance with the standards in the future.

- 3.4 Additional points for consideration identified during the review that are out of the scope of the Standards / LGAN requirements but are contributory to the overall effectiveness and efficiency of the internal audit service are presented in the table at **Appendix 4** of the report for information and consideration only.

#### **4. Observations and Recommendations**

##### **4.1 General:**

The PSIAS Self-Assessment undertaken by the Internal Audit Team and updated in 2017 identifies a number of areas for action that remain outstanding at this moment in time and are important to the effective delivery of the service. The implementation of the outstanding actions will ensure full compliance with the standards and increase the effectiveness of the service."

##### ***Recommendation 1***

Ensure that all outstanding actions identified in the PSIAS Self-Assessment Action Plan (2017) are implemented at the earliest convenience to ensure ongoing compliance with the Standards in all areas.

- 4.1.1 Through discussion with Senior Officers, the Chair of the Audit & Governance Committee and a review of stakeholder questionnaires, it was apparent that the Internal Audit service have a sufficiently high profile within the organisation, are well-respected and generally perceived to add value to the effectiveness of the governance, internal

control and risk management framework of the Council by the majority of the respondents.

However, a significant number of respondents identified the lack of resource currently available to the service and the current structural problems, including the absence of a Head of Internal Audit as being a significant barrier to the longer term viability of the service. A number of respondents questioned whether the Internal Audit Plan effectively incorporated all of the risks to the organisation within it and linked this directly to the shortfall in resources available to the service. Many of the stakeholders questioned whether the organisation effectively utilised the knowledge and skills of internal audit to help improve business processes, results and accountability within the organisation.

The feedback clearly suggests that there are a number of key areas where improvements are required, particularly regarding how effectively the service is resourced, and how and where it utilises this resource to the benefit of the organisation.

We were made aware during the review that actions are currently being taken by senior management to address many of the issues identified and we would encourage this work to conclude with some urgency (for example a revised structure for the service).

***Recommendation 2***

The actions currently being undertaken by senior management to address the longstanding issues relevant to the Internal Audit Service are concluded at the earliest opportunity, ensuring that issues raised in this report are incorporated into any proposed actions. Particular attention should be paid to the current resourcing issues being experienced and the prolonged absence of a Head of Internal Audit, without which pushing through the required changes will be difficult.

**4.2 Attribute Standards**

**4.2.1 1000 - Purpose, Authority and Responsibility**

The Internal Audit Charter was last subject to review during 2017 and presented to the Audit & Governance Committee for approval. It was

noted that the Charter largely fulfils the specific requirements of the PSIAS as outlined in the LGAN as follows:

- Definition of Internal Audit;
- Definition of the Board, & Senior Management;
- Reference to the legislative framework (eg: Audit & Accounts Regulations 2015) and mandatory nature of the PSIAS / LGAN;
- Confirmation of the arrangements for resourcing, including The role of Internal Audit in other activities such as Counter Fraud and Risk Management.

However, the Charter would benefit from greater clarification regarding the following to ensure full compliance:

- Definition/nature of consultancy work and assurance work;
- Responsibility of Board and senior officers in relation to Internal Audit, specifically the appointment, removal, appraisal and remuneration of the Head of Internal Audit and the budget and resource plans for the service;
- Ensuring that the Charter reflects the current interim arrangements in relation to the management of the Internal Audit Service.

***Recommendation 3***

Action is taken to ensure that the Internal Audit Charter is current and accurately reflects both existing and planned arrangements in relation to external and consultancy work as well as arrangements specific to the appointment of the Head of Internal Audit.

The Internal Audit Service has developed a high level Strategy that details how the service will be delivered and should aim to communicate how the service contributes to the organisation achieving its objectives. The strategy includes information relating to the objectives and outcomes for the Service as well as explaining how it will be provided and what resources are required to deliver it. Unfortunately the Strategy is dated 2009 and is no longer fully fit for purpose, as the document pre-dates the PSIAS and does not meet current expectations or requirements. This has not had any significant impact upon the delivery of the Internal Audit service to date but clearly needs attention.

**Recommendation 4**

The Internal Audit Strategy is reviewed and updated to ensure compliance with PSIAS, approved by the Audit and Governance Committee and communicated to the organisation.

4.2.2 1100 - Independence and Objectivity

Whilst the organisation has a robust performance monitoring system in place, no formal process exists for formal feedback to be sought from the Chief Executive or Audit and Governance Committee Chair to inform the annual appraisal or performance review of the Head of Internal Audit. The underlying principle of the Standard requirement is that the independence of the Head of Internal Audit is “*safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit*”.

Whilst we established that informal and communication channels exist, a more formal process would demonstrate adherence to this standard more clearly and furthermore, ensure that positive feedback as well as concerns are sought, which would currently only be raised on an *ad-hoc* basis.

**Recommendation 5**

Arrangements should be put in place by the Chief Executive to ensure that formal feedback from the Chief Executive and Chair of the Audit and Governance Committee is included within the annual performance appraisal review of the Head of Internal Audit.

4.2.3 1200 – Proficiency and Due Professional Care

Proficiency

The LGAN requires that the Head of Internal Audit should define the skills and competencies for each level of auditor and periodically assess individual auditors against these predetermined skills and competencies, identifying any training or development needs.

We reviewed a sample of Internal Audit Job Descriptions and Annual Appraisals and are of the view that these do not meet this requirement. We note that the service does have a copy of the CIPFA Guidance: *The*

*Excellent Internal Auditor: A Good Practice Guide to Skills and Competencies (2011 Edition)*, which contains a framework for developing competency matrices for each level of auditor. This document should be utilised to develop the Job Descriptions and Appraisal system to incorporate a periodic assessment against these core competencies, taking appropriate actions as required. We have been notified that since the PSIAS review was undertaken the Service has developed competency matrices for all IA staff however some issues remain that will be addressed as part of a wider corporate review of the PDR processes.

**Recommendation 6**

The Internal Audit Service should utilise the CIPFA Guidance: *The Excellent Internal Auditor: A Good Practice Guide to Skills and Competencies (2011 Edition)*, to continue to develop a framework for competency matrices for each level of auditor including an annual assessment and development/progression plans for audit staff. Any issues arising as a result of the corporate PDR review process should be addressed as part of this process.

The Standards require internal audit to have the relevant skills and knowledge necessary to perform its responsibilities in all relevant areas and where appropriate obtain competent advice and support. It was noted during the review that knowledge of specialist key information technology risks and controls is limited across the service and that additional advice and support in these areas is not currently obtained. We acknowledge that work has been undertaken in this area and an ICT Assurance Framework developed.

**Recommendation 7**

The Internal Audit Service should consider how it provides the organisation with assurances relevant to key information technology risks and controls and take whatever action is deemed appropriate. An example of this could be the procurement of specialist ICT audit skills to support the Audit Plan.

The Standards require that internal auditors have sufficient knowledge and understanding of appropriate computer assisted audit techniques to enable them to perform their work, including data analysis techniques effectively. During the review it was noted that skills in this area are limited and utilisation of such data analysis techniques is not in regular

use. This is something that should be addressed to increase the ongoing efficiency and effectiveness of the service as well as ensuring compliance with the Standards.

**Recommendation 8**

The Internal Audit Service should evaluate the effectiveness of the arrangements in place for the utilisation of computer assisted audit techniques within the service, including data analysis and make any necessary provision to ensure that more effective utilisation of these important skills are made to improve the service. This action should be linked to recommendations 6 and 9.

4.2.4 1300 - Quality Assurance and Improvement Programme (QAIP)

To comply with the Standards the Head of Internal Audit needs to develop a Quality Assurance Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enable conformance with all related aspects of the Standards to be evaluated. The organisation does not currently have a QAIP that conforms with the Standards.

**Recommendation 9**

The Head of Internal Audit (or nominated officer) should develop and implement a Quality Assurance Improvement Programme that conforms with the Standards. Performance against the programme should be carefully monitored and reported upon. A working example of a QAIP was made available to the Internal Audit Service during the review by the Assessors.

**4.3 Performance Standards**

4.3.1 2000 – Managing the Internal Audit Activity

Planning

We reviewed the Annual Audit Plan, and confirmed that there is a structured planning approach adopted by the service and that the outcomes are discussed and agreed with all of the relevant stakeholders in a timely fashion. However, on account of concerns over how well

embedded the corporate risk management system is across all areas of the organisation, including a comprehensive and effective utilisation of risk registers, some doubts exist regarding whether all of the key risks to the organisation are incorporated into the planning process. A comprehensive assurance mapping exercise that highlights all key organisational risk areas, and identifies controls currently in operation using the 'three lines of defence model' will assist in the development of a future risk based audit plan

This issue was identified by a number of stakeholders interviewed during the review. In addition, the Internal Audit Service acknowledges that Assurance Mapping is not fully developed and implemented and as such cannot be relied upon fully at this moment in time. A process is in place but is limited to ICT risks. This is something that we were advised is currently being developed by the service and some progress has been made to date. Again, a template to assist with this was made available by the Assessors for consideration.

It is important that actions in relation to these issues are addressed with some urgency to ensure that assurance work identified for inclusion within the Audit Plan is sufficient to support the production of the Head of Internal Audit Annual Assurance Opinion for the organisation. This is a key document in the overall governance process.

Current interim arrangements involve two members of the Internal Audit Service operating in an 'acting up' capacity. This presents potential risks in terms of consistency of advice, the overall strategic position of the service and the Head of Internal Audit's opinion report.

The Standards require that the Audit Plan is reviewed and adjusted on a regular basis to reflect changes in the organisation's business, strategic and operational risks, programmes, systems and controls and that this is communicated to stakeholders. On account of the resourcing issues and the increasing demands being placed upon the service to deliver reactive assurance, we were unable to identify any evidence of this activity having taken place with any regularity. We do however acknowledge that steps have been taken by senior management in the quarter 3 interim report 17/18 to address some of these issues.

**Recommendation 10**

The Internal Audit Service should consider:

- How to ensure that all risks to the organisation are incorporated into the annual planning exercise via a comprehensive organisational assurance mapping exercise, especially in those areas where risk management arrangements are not currently sufficiently robust;
- How the Internal Audit Service has assessed risk management arrangements in order to support the annual opinion and whether sufficient audit work is being undertaken to support this.
- If the Audit Plan is comprehensive enough in terms of its coverage and focus to adequately support the production of the Head of Internal Audit's Annual Assurance Opinion for the Council.

**Recommendation 11**

Work should continue by the Internal Audit Service to develop and implement a comprehensive and effective Assurance Mapping system that complies with the 'three lines of defence' best practice model.

**Recommendation 12**

The Internal Audit Service should ensure that the Annual Audit Plan is risk assessed on a regular basis and that any significant or material adjustments to the plan are communicated to and approved by the Audit and Governance Committee. This will help the Service to demonstrate to members that resources are being utilised in the most effective manner and responding to the changing dynamics of the organisation.

4.3.2 Policies and Procedures

The Standards and LGAN requires the Head of Internal Audit to establish policies and procedures to guide internal audit staff in performing their duties in accordance with PSIAS and expects these policies and procedures to be regularly reviewed and updated to reflect changes in working practice and standards. The guidance suggests that these policies and procedures should take the form of an Internal Audit

Manual. It was established during the review that the current Internal Audit Manual for the Cheshire East Internal Audit Service is dated 2012.

***Recommendation 13***

A review and update of the Internal Audit Manual based upon best practice guidance and the Public Sector Internal Audit Standards/LGAN should be undertaken.

4.3.3 2300 – Performing the Engagement

The Standards require all engagements are properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed and that this supervision is documented and retained for each engagement.

During the assessment it was identified that whilst all engagements are subject to supervisory review they were not always being undertaken in a consistent manner. Unfortunately access to a representative sample of audit files was not possible during the assessment due to ICT Wi-Fi issues. However we have been informed that there are plans in place to implement a more consistent approach to reviewing files following an upgrade of software.

**Review Team**

**Mark Niblock CMIIA, QIAL**

Mark is a fully qualified member of the Chartered Institute of Internal Auditors and also holds the Institutes Qualification in Audit Leadership. He is currently the Chief Internal Auditor for Wirral Metropolitan Borough Council and has over twenty years' experience in internal auditing.

**John Pearsall CMIIA QIAL**

John is a fully qualified member of the Chartered Institute of Internal Auditors, also holds the Qualification in Audit Leadership and is currently a tutor, examiner and moderator for the Institute. He is also currently Head of Internal Audit, Risk and Insurance at Stockport Metropolitan Borough Council with responsibility for internal audit, risk management and insurance services. John has over 25 years of internal audit, governance, control and risk experience in both the public sector (three local councils) and the private sector (pharmaceuticals, retail and financial services).

## Appendix 2

## Cheshire East Council - Detailed Assessment

Ref	Standard	Conforms	Partially Conforms	Does not Conform	Comments
<b>Purpose and Positioning</b>					
	Code of Ethics	✓			
1000	Purpose Authority & Responsibility		✓		See Rec 3, 4
1100	Independence and Objectivity		✓		See Rec 1, 2, 5
2010	Planning		✓		See Rec 7, 10, 12
2050	Coordination		✓		See Rec 11
2120	Risk Management		✓		See Rec 10
<b>Structure &amp; Resources</b>					
1200	Proficiency and Due Professional Care	✓			
2030	Resource Management		✓		See Rec 2
1210	Proficiency		✓		See Rec 6, 7, 8, 9
1220	Due Professional Care		✓		See Rec 3, 13
1230	Continuing Professional Development	✓			See Rec 9
<b>Audit Execution</b>					
1300	Quality Assurance & Improvement Programme			✓	See Rec 9
2000	Managing the IA Activity		✓		See Rec 2, 10
2100	Nature of Work		✓		See Rec 7
2200	Engagement Planning	✓			
2300	Performing the Engagement		✓		
2400	Communicating Results	✓			
2450	Overall opinion		✓		See Rec 10

## Overall Conclusion

<b>Conforms</b>	
<b>Partially Conforms</b>	✓
<b>Does Not Conform</b>	

## Cheshire East Internal Audit Service - PSIAS Action Table

## Appendix 3

The following actions arising from the review undertaken are required to develop the Internal Audit Function and ensure compliance with PSIAS:

PSIAS Ref (Appendix 1)	Report Rec	Action Required	Responsible	Comments/Action
1100	1	Ensure that all outstanding actions identified in the PSIAS Self-Assessment Action Plan (2017) are implemented at the earliest convenience to ensure ongoing compliance with the Standards in all areas.	Head of Internal Audit	Outstanding actions will be implemented by the Principal Auditors under their acting up arrangements to cover the Head of Internal Audit position, pending the completion of the Internal Audit restructure and the appointment of a Head of Internal Audit/Chief Audit Executive (ref Rec 2).
1100 2000 2030	2	<p>The actions currently being undertaken by senior management to address the longstanding issues relevant to the Internal Audit Service should be concluded at the earliest opportunity, ensuring that issues raised in this report are incorporated into any proposed actions.</p> <p>Particular attention should be paid to the current resourcing issues being experienced and the pro-longed absence of a Head of Internal Audit, without which pushing through</p>	<p>Head of Internal Audit</p> <p>Interim Executive Director of Corporate Services</p>	<p>The restructure of the Internal Audit service is included within a wider restructure of the Corporate Services directorate. Significant progress has been made on developing a revised structure, which is intended to secure Internal Audit provision and develop a specific counter-fraud resource.</p> <p>The need to conclude the restructure is fully recognised and endorsed by the Chief Executive and the Interim</p>

		the required changes will be difficult.		Executive Director of Corporate Services, and is being progressed as a priority, with due regard to appropriate consultation timescales.
1000 1220	3	Action should be taken to ensure that the Internal Audit Charter is current and accurately reflects both existing and planned arrangements in relation to external and consultancy work as well as arrangements specific to the appointment of the Head of Internal Audit.	Head of Internal Audit	The Charter will be reviewed and updated as required, and be reported to the Audit and Governance Committee in December 2018.  December 2018
1000	4	The Internal Audit Strategy should be reviewed and updated to ensure compliance with PSIAS, be approved by the Audit and Governance Committee and communicated to the organisation.	Head of Internal Audit	The strategy will be reviewed and updated as required and be reported to the Audit and Governance Committee in December 2018.  December 2018
1100	5	Arrangements should be put in place by the Chief Executive to ensure that formal feedback from the Chief Executive and Chair of the Audit and Governance Committee is included within the annual performance appraisal review of the Head of Internal Audit.	Head of Internal Audit  Chief Executive	<b>Implemented:</b> Feedback from the Audit and Governance Committee Chair and the Chief Executive will be requested to inform the annual appraisal of the Head of Internal Audit.
1210	6	The Internal Audit Service should utilise the CIPFA Guidance: The Excellent Internal Auditor: A Good Practice Guide to Skills and Competencies (2011 Edition), to continue to develop a framework for competency matrices for each level of auditor including an annual assessment and development/progression plans for audit staff. Any issues arising as a	Head of Internal Audit	<b>Implemented:</b> The Council's Performance Development framework will be complemented with the use of CIPFA's "The Excellent Internal Auditor" competency guide, to identify areas of good practice and areas for development and improvements.

		result of the corporate PDR review should be addressed as part of this process.		
1210 2010 2100	7	The Internal Audit Service should consider how it provides the organisation with assurances relevant to key information technology risks and controls and take whatever action is deemed appropriate. An example of this could be the procurement of specialist ICT audit skills to support the Audit Plan.	Head of Internal Audit  ICT Security Manager	Internal Audit and ICT Security colleagues are developing an ICT assurance framework which can then be used to inform decision regarding future assurance work requirements.  November 2018
1210	8	The Internal Audit Service should evaluate the effectiveness of the arrangements in place for the utilisation of computer assisted audit techniques within the service, including data analysis and make any necessary provision to ensure that more effective utilisation of these important skills are made to improve the service. This action should be linked to Recommendations 6 and 9.	Head of Internal Audit	Following on from the ICT Assurance Mapping process, consideration will be given to the use of computer assisted audit techniques. This will inform the acquisition of necessary technology and training.  February 2019
1210 1230 1300	9	The Head of Internal Audit (or nominated officer) should develop and implement a Quality Assurance Improvement Programme that conforms with the Standards. Performance against the programme should be carefully monitored and reported upon.  (A working example of a QAIP was made available to the Internal Audit Service during the review).	Head of Internal Audit	<b>Implemented:</b> A Quality Assurance and Improvement Programme (QAIP) has been produced and will be shared with the Committee at its September 2018 meeting.  Performance against the QAIP will be reported to the Committee as part of the regular Internal Audit Interim reports.  September 2018.

<p>2000 2010 2120 2450</p>	10	<p>The Internal Audit Service should consider:</p> <ul style="list-style-type: none"> <li>- How to ensure that all risks to the organisation are incorporated into the annual planning exercise via a comprehensive assurance mapping exercise, especially in those areas where risk management arrangements are not currently sufficiently robust;</li> <li>- How the Internal Audit Service has assessed risk management arrangements in order to support the annual opinion and whether sufficient audit work is being undertaken to support this;</li> <li>- If the Audit Plan is comprehensive enough in terms of its overall coverage and focus to adequately support the Head of Audits Annual Assurance Opinion.</li> </ul>	Head of Internal Audit	<p><b>Implemented:</b> This was assessed and applied in the planning process for 2018/19.</p> <p>Regular review of the coverage of the audit plan is undertaken, (see Rec.12) to ensure sufficient coverage, to deliver the required opinion. This includes assessment of risk management arrangements. The outcome of the review will be reported to CLT and Committee as necessary.</p>
2050	11	Work should continue by the Internal Audit Service to develop and implement a comprehensive and effective Assurance Mapping system that complies with the ‘three lines of defence’ best practice model.	Head of Internal Audit	<p>This will be undertaken and applied in the planning process for 2019/20.</p> <p>January – March 2019</p>
2010	12	The Internal Audit Service should ensure that the Annual Audit Plan is risk assessed on a regular basis and that any significant or material adjustments to the plan are communicated and approved by the Audit and Governance Committee. This will help the	Head of Internal Audit	<p><b>Implemented:</b> Documented risk assessments and subsequent adjustments of the plan have been carried out on the 2017/18 Plan, as reported to the March 2018 Audit and Governance Committee in the Internal</p>

		Service to demonstrate to Members that resources are being utilised in the most effective manner and responding to the changing dynamics of the organisation.		Audit Interim Report, and will be carried out on a regular basis, with reporting to CLT and Audit and Governance Committee as necessary.
1220	13	Immediate action should be taken by the Internal Audit Service to review and update the Internal Audit Manual based upon best practice guidance and the Public Sector Internal Audit Standards/LGAN.	Head of Internal Audit	<p>The review of the Audit Manual will be undertaken in conjunction with the implementation of an upgrade to the Audit Management Software, which is scheduled for completion before the end of 2018/19.</p> <p>This will ensure all elements of working practice and process are reviewed and updated appropriately in the most efficient manner.</p>

## Cheshire East Internal Audit Service – Additional Development Action Table

## Appendix 4

During the review, the following additional points for consideration were identified. Whilst these specific points are out of scope of the Standards / LGAN requirements, they are nonetheless contributory to the overall effectiveness and efficiency of the Internal Audit service, and are presented in this report for information and consideration only:

Ref	Cust Surv Ques	Point For Consideration	Responsible	Action
1	Additional Comment/ Discussion	The Council should evaluate whether the current Audit and Governance Committee Member training is adequate, effective and complies with current best operating practice.	Senior Management – Head of Internal Audit, Chief Executive and the Head of Governance and Democratic Services.	<p>A skills analysis of Audit and Governance Committee Members has been undertaken in 2018.</p> <p>The results are being evaluated and will be discussed with the Committee Members in due course, and will be used to inform future training provision for Audit and Governance Committee Members specifically, and to cover wider issues for Members generally.</p>
2	Additional Comment/ Discussion	The Council should consider whether effective procedures are in operation for the referral of escalated issues to the Members of the Audit and Governance Committee for their attention and action. This might include specific action by Members to hold individual officers to account for outstanding actions identified in audit reports and include invitations to Audit and Governance Committee to	Senior Management – Head of Internal Audit in discussion with the Corporate Leadership Team.	<p>Proposals to ensure consistency around matters which should be escalated to the Members of the Audit and Governance Committee will be developed and considered.</p> <p>Training on the role of the Audit and Governance Committee members is under review in preparation for ongoing Member induction following</p>

		<p>provide updates as appropriate.</p> <p>The Council should consider whether Members of the Audit and Governance Committee fully understand their roles and responsibilities and all options available to them regarding issues escalated for action.</p>		<p>local elections in May 2019; any identified improvements will be implemented with the existing Committee Members.</p>
3	Additional Comment	<p>The Council should consider whether the system in operation for annually evaluating the effectiveness of the Audit Committee is robust and in accordance with current CIPFA and CIIA best professional practice. This evaluation should be evidenced through an Annual report on the Audit and Governance Committee.</p>	Senior Management	<p>The Audit and Governance Committee arrangements in this respect are compliant with the existing best practice requirements in this regard, with the production of the Annual Report of the Committee and it's subsequent consideration at full Council.</p> <p>The effectiveness of the report will be reviewed for the 2018/19 report, with specific reference to the revised CIPFA guidance; Audit Committees – Practical Guidance for Local Authorities and Police.</p>



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## **Audit & Governance Committee**

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**Date of Meeting:** 27 September 2018

**Report Title:** Review of Audit and Governance Committee's Terms of Reference

**Senior Officer:** Dan Dickinson, Interim Director of Legal Services

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### **1. Report Summary**

- 1.1. The purpose of this report is to update the Committee following the publication by the Chartered Institute of Public Finance and Accountancy (CIPFA) of their "Practical Guidance for Audit Committees" and identify areas where the Committee may wish to consider changes to ensure that it operates effectively and fulfils its purpose.
- 1.2. The publication includes CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018), which sets out CIPFA's view of the roles and functions of an audit committee and replaces the 2013 guidance.
- 1.3. To allow Members to consider current arrangements against the new guidance, a comparison of the Committee's existing Terms of Reference against the Model Term of Reference included in the 2018 CIPFA guidance is included at Appendix A. CIPFA's Position Statement is included at Appendix B.
- 1.4. Members should consider the implications of changes to the terms of reference, and ensure that these result in added value, proportionate to the additional resource required to fulfil them.
- 1.5. In considering the changes, Members should also consider how they would seek the required assurance of changes to the terms of reference in practice. CIPFA advises that care should be taken to balance the frequency of meetings to ensure the committee can give focused attention without lengthy and unproductive meetings. The committee should also operate at a resolutely strategic level and always be conscious that the audit committee's work is non-political.

## **2. Recommendations**

- 2.1. That the Audit and Governance Committee consider their current arrangements against the updated CIPFA Position Statement and Guidance.
- 2.2. That the Audit and Governance Committee review their current Terms of Reference against the model included in the new guidance.
- 2.3. That the Audit and Governance Committee consider the recommendations to changes in their Terms of Reference and recommend the changes to the Constitution Committee.

## **3. Reasons for Recommendations**

- 3.1. To ensure that the Council maintains an effective Audit and Governance Committee, this supports delivery of Outcome 6 in the Corporate Plan of being a responsible, effective and efficient organisation.
- 3.2. To assist the Council in meeting its statutory requirement to review the effectiveness of its systems of internal control and prepare an Annual Governance Statement, as per section 6 of the Accounts and Audit Regulations 2015.

## **4. Other Options Considered**

- 4.1. Not applicable

## **5. Background**

### ***CIPFA's Position Statement***

- 5.1. There have been a number of significant developments in local authority governance and audit practices since the publication of the 2013 guidance on audit committees in local government. This includes "Delivering Good Governance in Local Government: Framework" (CIPFA/Solace 2016), updates to the Public Sector Internal Audit Standards, and the introduction of the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) and the Local Audit and Accountability Act 2014.
- 5.2. Requirements on the role of the audit committee in overseeing internal audit's adequacy and effectiveness and supporting the Chief Financial Officer in discharging the requirement for sound financial management have also been included in the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (LGAN).

- 5.3. CIPFA's updated Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies, and recognises the role of the audit committee as a key component of a governance framework. It also notes that whilst best practice dictates that governance, risk management and strong financial controls should be embedded in the regular business of the organisation, the existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues.

***Purpose of the Audit Committee***

- 5.4. The Position Statement notes the purpose of Audit Committees as follows;

*The purpose of an audit committee is to provide to those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.*

- 5.5. The Position Statement (Appendix B) also sets out the core functions of an audit committee as well as the wider functions that can be undertaken. Further detail is provided in the full guidance document.

5.6. ***Core Functions of the Audit Committee***

- 5.7. The core functions of an audit committee are set out in the Position Statement as follows;

5.7.1. Be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives

5.7.2. In relation to the authority's internal audit functions;

- Oversee its independence, objectivity, performance and professionalism
- Support the effectiveness of the internal audit process
- Promote the effective use of internal audit within the assurance framework

- 5.7.3. Consider the effectiveness of the authority's risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations.
  - 5.7.4. Monitor the effectiveness including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption.
  - 5.7.5. Consider the reports and recommendations of External Audit and inspection agencies and their implications for governance, risk management or control.
  - 5.7.6. Support the relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
  - 5.7.7. Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- 5.8. Further to the Position Statement, CIPFA's guidance also promotes the role of the Audit Committee in considering assurances on whether partnership or collaboration arrangements are satisfactorily established and operating effectively. This is referenced in the model Terms of Reference but the Committee's current Terms of Reference do not include this responsibility.
- 5.9. Another new inclusion in the model Terms of Reference is the requirement for the Committee to consider any impairment to independence or objectivity arising from the additional roles undertaken by the Head of Internal Audit role and approve and review the safeguards used to limit such impairments. This reflects the increasing trend for the Head of Internal Audit role to also have responsibilities for areas such as Risk Management, Business Continuity and Insurance. This is supported by the Public Sector Internal Audit Standards.
- 5.10. There are a number of other clarifications and considerations on the current terms of reference which are detailed in Appendix A, in relation to the core functions of the audit committee.

***Possible Wider Functions***

- 5.11. CIPFA's Position Statement advises that the audit committee can also support its authority by undertaking a wider role in other areas, including

- 5.11.1. Considering governance, risk or control matters at the request of other committees or statutory officers
  - 5.11.2. Working with local standards and ethics committees to support ethical values
  - 5.11.3. Reviewing and monitoring treasury management arrangements in accordance with *Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes* (CIPFA, 2017)
  - 5.11.4. Providing oversight of other public reports, such as the annual report.
- 5.12. The Committee's current arrangements are broadly consistent with the Position Statement and Guidance. As these are wider functions of the committee, the Committee may wish to reflect on whether they could be usefully undertaken by other bodies within the democratic framework. If they remain as functions of the Audit and Governance Committee, there are some clarifications which could be made to the Terms of Reference which are covered in detail in Appendix A.

***Membership and Effectiveness of the Committee***

- 5.13. The Position Statement states that good audit committees are characterised by:
- 5.13.1. a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of an authority will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
  - 5.13.2. a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
  - 5.13.3. a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
    - promoting apolitical open discussion
    - managing meetings to cover all business and encouraging a candid approach from all participants

- an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
- 5.13.4. unbiased attitudes – treating auditors, the executive and management fairly
- 5.13.5. the ability to challenge the executive and senior managers when required.
- 5.14. The Position Statement recommends that to discharge its responsibilities effectively, the Committee should:
- 5.14.1. Meet regularly – at least four times a year and have a clear policy on those items to be considered in private and those to be considered in public.
- 5.14.2. Be able to meet privately and separately with the external auditor and the head of internal audit
- 5.14.3. Include, as regular attendees, the Chief Financial Officer, the Chief Executive, the Head of Internal Audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee or the chair as required
- 5.14.4. Have the right to call any other officers or agencies of the authority as required
- 5.14.5. Report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.
- 5.15. The Committee's current arrangements are broadly in line with this area of the guidance; the table in Appendix A highlights a few areas where clarity could be beneficial, particularly in removing duplication within the existing Terms of Reference.

***Summary of issues arising***

- 5.16. The table in Appendix A notes the differences arising in the comparison between the model and current terms of reference in detail, and any issues arising from the updated Position Statement and Guidance. It provides guidance on the consistency of the individual element of the Terms of

Reference in relation to CIPFA's Position Statement and Guidance, the implications of change, and the recommendation to the Committee.

## **6. Implications of the Recommendations**

### **6.1. Legal Implications**

- 6.1.1. Whilst not a statutory requirement, audit committees in local authorities are a key component of the governance framework, and are necessary to satisfy the wider requirements of sound financial management.
- 6.1.2. Whilst the regulations do not specify that requirements in relation to governance, internal control, financial reporting and internal audit must be undertaken by an audit committee in local government, where the audit committee undertakes these responsibilities, it must meet the requirements of the regulations and have regard to them in agreeing their terms of reference.
- 6.1.3. For local authorities in England, the relevant government guidance is the Accounts and Audit Regulations 2015.

### **6.2. Finance Implications**

- 6.2.1. The Accounts and Audit Regulations 2015 state that the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective, and includes effective arrangements for the management of risk.
- 6.2.2. Furthermore, Section 151 of the Local Government Act 1972 requires the Council "to make arrangements for the proper administration of its financial affairs".
- 6.2.3. The Section 151 Officer role is key to discharging the requirement for sound financial management at the Council. To be truly effective, the role requires an effective Audit and Governance Committee to receive assurances on the effectiveness of the Council's arrangements and provide support and challenge.

### **6.3. Policy Implications**

- 6.3.1. The review of current arrangements against the new guidance will identify any actions required to ensure compliance with the CIPFA best practice guidance.

**6.4. Equality Implications**

6.4.1. There are no direct implications for equality in this report. The Audit and Governance Committee receives assurance from across the organisation.

**6.5. Human Resources Implications**

6.5.1. Members should be satisfied that the inclusion of additional responsibilities to the Committee Terms of Reference results in added value, as the associated provision of assurance has a resource implication to the organisation, and should therefore be proportional to the risk it mitigates.

**6.6. Risk Management Implications**

6.6.1. Effective internal control and the establishment and operation of an audit committee can never eliminate all risks of serious fraud, misconduct or misrepresentation of the Council's financial position. However, an effective audit committee can;

- Raise awareness of the need for robust risk management, control, corporate governance arrangements and the benefit of 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 other assurance and inspection processes
- Provide additional assurance through a process of independent and objective review.

6.6.2. The Audit and Governance Committee is therefore an important source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment and reporting on all aspects of performance.

6.6.3. A review of the Committee's current arrangements against the revised best practice guidance will help the Committee to determine and fulfil its responsibilities, a part of its ongoing need to consider its independence and accountability.

**6.7. Rural Communities Implications**

6.7.1. There are no direct implications for rural communities.

**6.8. Implications for Children & Young People**

6.8.1. There are no direct implications for children and young people.

**6.9. Public Health Implications**

6.9.1. There are no direct implications for public health.

**7. Ward Members Affected**

7.1. All wards affected.

**8. Access to Information**

8.1. CIPFA - Position Statement: Audit Committees in Local Authorities and Police (*Appendix B*)

8.2. CIPFA - Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition)

**9. Contact Information**

9.1. Any questions relating to this report should be directed to the following officer:

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Job Title: Principal Auditors

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**Comparison of existing Terms of Reference against the CIPFA Model Terms of Reference**

Ref	Existing Terms of Reference – Cheshire East Council’s Audit and Governance Committee	CIPFA Practical Guidance for Audit Committee’s Model Terms of Reference	Implication and Recommendation
<b>Statement of Purpose</b>			
1.	The Audit Committee is a key component of the Council’s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.	Our audit committee is a key component of [name of authority]’s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.	The existing terms of reference are compliant with the model terms of reference.
2.	It provides an independent assurance to the Council of the adequacy of the risk management framework and the internal control environment.	<p>The purpose of our audit committee is to provide independent assurance to the members [or identify others charged with governance in your authority] of the adequacy of the risk management framework and the internal control environment.</p> <p>It provides independent review of [name of authority]’s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes.</p> <p>It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.</p>	The existing terms of reference are compliant with the model terms of reference.
3.	It provides independent review of the Council’s governance, risk management and control frameworks		The existing terms of reference are compliant with the model terms of reference. (See Model Guidance Point 2)

**Comparison of existing Terms of Reference against the CIPFA Model Terms of Reference**

Ref	Existing Terms of Reference – Cheshire East Council’s Audit and Governance Committee	CIPFA Practical Guidance for Audit Committee’s Model Terms of Reference	Implication and Recommendation
	and oversees the financial reporting and annual governance processes.		
4.	It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.		The existing terms of reference are compliant with the model terms of reference. (See Model Guidance Point 2)
5.	It promotes high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).		<p>Whilst the specific element is not included in the CIPFA Model Terms of Reference, it reflects the Council’s use of the Audit and Governance Committee to promote Ethics and Standards related issues.</p> <p>This is consistent with CIPFA’s guidance on the wider functions of an audit committee, in relation to Ethics and Standards. CIPFA’s guidance is clear that where the audit committee takes on the role of the Standards committee, there should be a clear distinction between that activity, and consideration of the effectiveness of standards arrangements.</p> <p>This is currently achieved through the use of the Audit and Governance Hearing- Sub Committee.</p> <p><b>Recommendation:</b> The Committee should continue to include this element in its Terms of Reference.</p>

**Comparison of existing Terms of Reference against the CIPFA Model Terms of Reference**

<b>Ref</b>	<b>Existing Terms of Reference – Cheshire East Council’s Audit and Governance Committee</b>	<b>CIPFA Practical Guidance for Audit Committee’s Model Terms of Reference</b>	<b>Implication and Recommendation</b>
<b><i>Governance, risk and control</i></b>			
6.	To review the Council’s corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.	To review the council’s corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.	The existing terms of reference are compliant with the model terms of reference.
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.	To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit’s opinion on the overall adequacy and effectiveness of the council’s framework of governance, risk management and control.	The existing terms of reference are compliant with the model terms of reference.
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.	To consider the council’s arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.	The existing terms of reference are compliant with the model terms of reference.
9.	To consider the Council’s framework of assurance and ensure that it adequately addresses the risks and priorities of the council.	To consider the council’s framework of assurance and ensure that it adequately addresses the risks and priorities of the council.	The existing terms of reference are compliant with the model terms of reference.
10.	To monitor the effective development and operation of risk management in the council.	To monitor the effective development and operation of risk management in the council.	The existing terms of reference are compliant with the model terms of reference.
11.	To monitor progress in addressing risk related issues reported to the	To monitor progress in addressing risk-related issues reported to the	The existing terms of reference are compliant with the model terms of reference.

**Comparison of existing Terms of Reference against the CIPFA Model Terms of Reference**

Ref	Existing Terms of Reference – Cheshire East Council’s Audit and Governance Committee	CIPFA Practical Guidance for Audit Committee’s Model Terms of Reference	Implication and Recommendation
	committee.	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.	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.	The existing terms of reference are compliant with the model terms of reference.
13.	To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.	To review the assessment of fraud risks and potential harm to the council from fraud and corruption.	The existing terms of reference are compliant with the model terms of reference.
14.	To make recommendations to the Executive on the Council’s arrangements for deterring, preventing, detecting and investigating fraud.		Local authorities have responsibility for the effective stewardship of public money and safeguarding against losses due to fraud and corruption.
15.	To monitor the counter fraud strategy, actions and resources.	To monitor the counter-fraud strategy, actions and resources.	<p>CIPFA’s guidance is clear that the audit committee should have oversight of the authority’s counter fraud strategy, assessing whether it meets recommended practice, governance standards, and complies with legislation.</p> <p>However, these two elements of the Terms of Reference, as currently worded, are very similar.</p> <p><b>Recommendation:</b> The Committee should adopt the model guidance wording to avoid duplication in the Committee’s responsibilities.</p>

**Comparison of existing Terms of Reference against the CIPFA Model Terms of Reference**

Ref	Existing Terms of Reference – Cheshire East Council’s Audit and Governance Committee	CIPFA Practical Guidance for Audit Committee’s Model Terms of Reference	Implication and Recommendation
16.		To review the governance and assurance arrangements for significant partnerships or collaborations.	<p>This is a new inclusion in the Model Terms of Reference under core functions of an audit committee.</p> <p>Authorities increasingly work in partnership and collaborations with other organisations, and may also act as the Accountable Body for such arrangements. For example, this Council is the accountable body for the Cheshire and Warrington Local Enterprise Partnership amongst other arrangements.</p> <p>Ensuring the adequacy of governance and risk management arrangements can be challenging, but the accountability for the performance and stewardship of public funds remains with the accountable authority, hence the role of audit committee in relation to such arrangements should be clearly defined.</p> <p>The Committees primary role should be to consider available assurances on whether the partnership/collaboration arrangements are satisfactorily established and operating effectively, and that the principles of good governance underpin the partnership arrangements.</p>

**Comparison of existing Terms of Reference against the CIPFA Model Terms of Reference**

Ref	Existing Terms of Reference – Cheshire East Council’s Audit and Governance Committee	CIPFA Practical Guidance for Audit Committee’s Model Terms of Reference	Implication and Recommendation
			<p><b>Recommendation:</b> The Committee should include this new additional element into their Terms of Reference in recognition of its particular relevance to Cheshire East Council.</p>
17.	To advise the Executive on responses to audit management letters, reports and investigations and reviewing whether agreed external audit or inspection recommendations have been implemented as timetabled.		<p>At the request of the Committee, this area was included in a previous review of the Terms of Reference. It is not included in the model Terms of Reference published by CIPFA.</p> <p>This element of the existing Terms of Reference duplicates another existing element (43); “To report to those charged with governance on the committee’s findings, conclusions, and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions”</p> <p><b>Recommendation:</b> The Committee should remove this element to avoid duplication within the Committee’s Terms of Reference.</p>
18.	To review and monitor the Council’s treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.		At the request of the Committee, this area was included in a previous review of the Terms of Reference. It is not included in the model Terms of Reference published by

Comparison of existing Terms of Reference against the CIPFA Model Terms of Reference

Ref	Existing Terms of Reference – Cheshire East Council’s Audit and Governance Committee	CIPFA Practical Guidance for Audit Committee’s Model Terms of Reference	Implication and Recommendation
			<p>CIPFA.</p> <p>Whilst the specific element is not included in the CIPFA Model Terms of Reference, the responsibility is consistent with CIPFA’s guidance on the wider functions of an audit committee.</p> <p>All local authorities are required to make arrangements for the scrutiny of treasury management under CIPFA’s “Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes” (2017).</p> <p>Under this guidance, the audit committee is not required to undertake that role, but where the audit committee is nominated to carry out the scrutiny, it should undertake the scrutiny role in accordance with the Code, and in addition to any oversight of governance, risk and control matters associated with treasury management.</p> <p><b>Recommendation:</b> The Committee should continue to include this element in its Terms of Reference.</p>

**Comparison of existing Terms of Reference against the CIPFA Model Terms of Reference**

Ref	Existing Terms of Reference – Cheshire East Council’s Audit and Governance Committee	CIPFA Practical Guidance for Audit Committee’s Model Terms of Reference	Implication and Recommendation
<b>Internal audit</b>			
19.	To approve the internal audit charter.	To approve the internal audit charter.	The existing terms of reference are compliant with the model terms of reference.
20.	To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.	To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.	The existing terms of reference are compliant with the model terms of reference.
21.	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.	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.	The existing terms of reference are compliant with the model terms of reference.
22.	To approve significant interim changes to the risk-based internal audit plan and resource requirements.	To approve significant interim changes to the risk-based internal audit plan and resource requirements.	The existing terms of reference are compliant with the model terms of reference.
23.	To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.	To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.	The existing terms of reference are compliant with the model terms of reference.
24.		To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.	This is a new inclusion in the Model Terms of Reference.  The audit committee has a clear role in relation to oversight of an authority’s internal audit function. From April 2013, internal auditors throughout local government and

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			<p>other public sector bodies have had to follow the Public Sector Internal Audit Standards and associated Local Government Application Note.</p> <p>Under these Standards, the Audit Committee’s Terms of Reference should reflect the functional reporting of internal audit to the audit committee within the Internal Audit Charter.</p> <p>The key role of the audit committee here is to oversee its independence, objectivity, performance and professionalism</p> <p>Increasingly, the Head of Internal Audit (Chief Audit Executive) role may also have responsibilities for areas such as Risk Management, Business Continuity and Insurance.</p> <p>The Public Sector Internal Audit Standards (1112 Chief Audit Executive Roles Beyond Internal Auditing) require that where the chief audit executive has additional roles and responsibilities outside of internal auditing, safeguards are used to address the potential impairments to independence. These include the use of the audit committee for oversight</p>

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			<p>of the safeguards, including reviewing reporting lines and responsibilities, and the provision of alternative assurances in relation to the areas of additional responsibility.</p> <p>Whilst there are currently no additional responsibilities undertaken outside of internal audit, the inclusion of this element in the Committee’s Terms of Reference will future proof arrangements, should the role of the Head of Internal Audit change in future.</p> <p><b>Recommendation:</b> The Committee should include this new additional element into their Terms of Reference.</p>
25.	<p>To consider reports from the head of internal audit on internal audit’s performance during the year, including the performance of external providers of internal audit services. These will include:</p> <p>a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.</p> <p>b) Regular reports on the results of the</p>	<p>To consider reports from the head of internal audit on internal audit’s performance during the year, including the performance of external providers of internal audit services. These will include:</p> <p>a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work</p> <p>b) regular reports on the results of the</p>	<p>The existing terms of reference are compliant with the model terms of reference.</p>

**Comparison of existing Terms of Reference against the CIPFA Model Terms of Reference**

Ref	Existing Terms of Reference – Cheshire East Council’s Audit and Governance Committee	CIPFA Practical Guidance for Audit Committee’s Model Terms of Reference	Implication and Recommendation
	<p>Quality Assurance and Improvement Programme.</p> <p>c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.</p>	<p>Quality Assurance and Improvement Programme</p> <p>c) reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.</p>	
26.	<p>To consider the head of internal audit’s annual report:</p> <p>a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.</p> <p>b) The opinion on the overall adequacy and effectiveness of the council’s framework of governance, risk management and control together with the summary of the work supporting</p>	<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 support the statement – these will indicate the reliability of the conclusions of internal audit.</p> <p>b) The opinion on the overall adequacy and effectiveness of the council’s framework of governance, risk management and control together with the summary of the work supporting</p>	<p>The existing terms of reference are compliant with the model terms of reference.</p>

**Comparison of existing Terms of Reference against the CIPFA Model Terms of Reference**

Ref	Existing Terms of Reference – Cheshire East Council’s Audit and Governance Committee	CIPFA Practical Guidance for Audit Committee’s Model Terms of Reference	Implication and Recommendation
	the opinion – these will assist the committee in reviewing the Annual Governance Statement.	the opinion – these will assist the committee in reviewing the Annual Governance Statement..	
27.	To consider summaries of specific internal audit reports as requested.	To consider summaries of specific internal audit reports as requested.	The existing terms of reference are compliant with the model terms of reference.
28.	To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.	To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.	The existing terms of reference are compliant with the model terms of reference.
29.	To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.	To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.	The existing terms of reference are compliant with the model terms of reference.
30.	To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.	To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations	The existing terms of reference are compliant with the model terms of reference.
31.	To support the development of effective communication with the head of internal audit.		At the request of the Committee, the element at (31) was included in a previous review of the Terms of Reference.
32.		To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with	The Model Terms of Reference now include a similar element at (32).

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		the committee.	<p>Under the Public Sector Internal Audit Standards (1110 Organisational Independence), the Chief Audit Executive must establish effective communication with, and have free and unfettered access to the chief executive and chair of the audit committee.</p> <p>The Standards also require the chief audit executive to communicate and interact directly with the board (Committee).</p> <p><b>Recommendation:</b> The Committee should adopt the model guidance wording to avoid duplication in the Committee’s responsibilities.</p>
33.	To review and make recommendations to the Executive regarding the effectiveness of internal audit to include ensuring the internal audit function is adequately resourced, to review its strategy, receive, challenge and approve its annual plan and monitor its delivery and to review significant audit findings and monitor progress by managers in implementing agreed recommendations.		<p>At the request of the Committee, the following (33) was included in a previous review of the Terms of Reference. It is not included in the model Terms of Reference published by CIPFA.</p> <p>This element of the Terms of Reference appears to combine details from elements in the existing and model Terms of Reference; specifically; 21, 22, 23, 25, and 28.</p> <p>Whilst the specific element is not included in the CIPFA Model Terms of Reference it</p>

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			<p>appears to be a summary of existing content in both the existing and model terms of reference, rather than a separate requirement.</p> <p><b>Recommendation:</b> The Committee should remove this element to avoid duplication within the Committee’s Terms of Reference</p>
<b>External Audit</b>			
34.		<p>To support the independence of external audit through consideration of the external auditor’s annual assessment of its independence and review of any issues raised by PSAA or the authority’s auditor panel as appropriate.</p>	<p>This is a new inclusion in the Model Terms of Reference.</p> <p>The role of Audit Committees in relation to external audit in England needs to have regard to the arrangements introduced under the Local Audit and Accountability Act 2014.</p> <p>Authorities had the option to appoint external auditors themselves via an auditor panel, or to appoint via Public Sector Audit Appointments, established by the Local Government Act, and specified as an “appointing person” under the 2014 Act.</p> <p>This Council opted into the PSAA route.</p> <p>The committee’s role in appointment is to express an opinion on the selection process</p>

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			<p>for the external auditor, and to support auditor independence, effective arrangements and effective relationships with the auditors.</p> <p><b>Recommendation:</b> The Committee should adopt this additional element into their Terms of Reference to recognise their role in relation to external audit.</p>
35.	To consider the external auditor’s annual letter, relevant reports, and the report to those charged with governance.	To consider the external auditor’s annual letter, relevant reports and the report to those charged with governance.	The existing terms of reference are compliant with the model terms of reference.
36.	To consider specific reports as agreed with the external auditor.	To consider specific reports as agreed with the external auditor.	The existing terms of reference are compliant with the model terms of reference.
37.	To comment on the scope and depth of external audit work and to ensure it gives value for money.	To comment on the scope and depth of external audit work and to ensure it gives value for money.	The existing terms of reference are compliant with the model terms of reference.
38.	To commission work from internal and external audit.	To commission work from internal and external audit.	The existing terms of reference are compliant with the model terms of reference.
39.	To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.	To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.	The existing terms of reference are compliant with the model terms of reference.
<b>Financial Reporting</b>			
40.	To review and approve the annual statement of accounts. Specifically, to	To review the annual statement of accounts. Specifically, to consider	The existing terms of reference are compliant with the model terms of reference.

**Comparison of existing Terms of Reference against the CIPFA Model Terms of Reference**

Ref	Existing Terms of Reference – Cheshire East Council’s Audit and Governance Committee	CIPFA Practical Guidance for Audit Committee’s Model Terms of Reference	Implication and Recommendation
	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.	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.	
41.	To consider the external auditor’s report to those charged with governance on issues arising from the audit of the accounts.	To consider the external auditor’s report to those charged with governance on issues arising from the audit of the accounts.	The existing terms of reference are compliant with the model terms of reference.
42.	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.		<p>At the request of the Committee, (42) was included in a previous review of the Terms of Reference to address particular concerns. It is not included in the model Terms of Reference published by CIPFA.</p> <p>The detail is consistent with the core function of the Committee described by CIPFA in monitoring the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority’s exposure to the risks of fraud and corruption.</p> <p>However, roles and responsibilities covered elsewhere in the Committee’s existing terms of reference (for example, ref 8,9,11 and 12), would provide for the Committee receiving</p>

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			<p>reports of this kind if required.</p> <p><b>Recommendation:</b> The Committee should consider the removal of this additional element in their Terms of Reference to avoid duplication within their Terms of Reference.</p> <p>The Committee will also need to consider the continuing need to receive the particular assurances provided by this report as part of the ongoing work plan item.</p>
<b>Accountability Arrangements</b>			
43.	To report to those charged with governance on the committee’s findings conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.	To report to those charged with governance on the committee’s findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.	The existing terms of reference are compliant with the model terms of reference.
44.	To report to full Council on a regular basis on the committee’s performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.	To report to full council on a regular basis on the committee’s performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.	The existing terms of reference are compliant with the model terms of reference.
45.		To publish an annual report on the work of the committee.	This is a new inclusion in the Model Terms of Reference.

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			<p>CIPFA’s Position Statement and Guidance is clear that the audit committee should be held to account on a regular basis by the group to which it is accountable; in this case full Council.</p> <p>The preparation of an annual report by the Committee can be a helpful way to address the key areas where the Committee should be held to account.</p> <p>The existing terms of reference already include the requirement to report to full council on the committee’s performance; the adoption of this element of the model Terms of Reference confirms the work of the committee will be reported upon annually.</p> <p><b>Recommendation:</b> The Committee should adopt this additional element into their Terms of Reference to provide confirmation that they will report annually on the work of the Committee.</p>
<b>Related functions</b>			
46.	To approve and monitor Council policies relating to “whistleblowing” and anti-fraud and corruption.		At the request of the Committee, the following (46) was included in a previous review of the Terms of Reference. It is not included in the model Terms of Reference

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			<p>published by CIPFA. However, the responsibility is consistent with CIPFA’s guidance on the core functions of an audit committee.</p> <p>Whistleblowing arrangements support the development of ethical conducted and greater transparency, and ensure compliance with the Public Interest Disclosure Act 1998.</p> <p>As part of the audit committee’s oversight of the governance framework, and the assurances underpinning the Annual Governance Statement, CIPFA recognise that the committee may wish to review the effectiveness of the Council’s whistleblowing arrangements.</p> <p>However, the Committee already has similar elements in it’s Terms of Reference (See 13 and 14)</p> <p><b>Recommendation:</b> The Committee should continue to include this responsibility within its remit, but should remove this specific element to minimise duplication within its Terms of Reference.</p>
47.	To seek assurance that customer		Whilst the specific element is not included in

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	complaint arrangements are robust.		<p>the CIPFA Model Terms of Reference, it has previously been added to the Committee’s terms of reference to address particular concerns.</p> <p>The inclusion of this element supports the Committee’s role described in the CIPFA guidance as “promoting measures to improve transparency and accountability and effective public reporting to the authority’s stakeholders and the local community.”</p> <p>Reports received on this matter also provide useful sources of assurance for the Committee in considering and approving the Annual Governance Statement.</p> <p>However, roles and responsibilities covered elsewhere in the Committee’s existing terms of reference (for example, ref 6, 7, and 9) would provide for the Committee receiving reports of this kind if required.</p> <p><b>Recommendation:</b> The Committee should consider the removal of this additional element in their Terms of Reference to avoid duplication within their Terms of Reference.</p>

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			The Committee will also need to consider the continuing need to receive the particular assurances provided by this report as part of the ongoing work plan item.
48.	<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>		<p>Whilst the specific element is not included in the CIPFA Model Terms of Reference, it has previously been added to the Committee’s terms of reference to address particular concerns.</p> <p>Again, the inclusion of this element supports the Committee’s role described in the CIPFA guidance as “promoting measures to improve transparency and accountability and effective public reporting to the authority’s stakeholders and the local community.”</p> <p>Reviewing the findings and management of recommendations from the Local Government Ombudsman is consistent with CIPFA’s guidance on the role of the audit committee considering the reports of external inspection agencies and their implications for governance, risk management and control.</p> <p>However, roles and responsibilities covered elsewhere in the Committee’s existing terms of reference (for example, ref 6, 7, and 9) would provide for the Committee receiving</p>

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			<p>reports of this kind if required.</p> <p><b>Recommendation:</b> The Committee should consider the removal of this additional element in their Terms of Reference to avoid duplication within their Terms of Reference.</p> <p>The Committee will also need to consider the continuing need to receive the particular assurances provided by this report as part of the ongoing work plan item.</p>
<b>Working Groups</b>			
49.	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.		<p>Whilst the specific element is not included in the CIPFA Model Terms of Reference, it has previously been added to the Committee’s terms of reference to address particular concerns.</p> <p><b>Recommendation:</b> The Committee should consider whether there is any requirement to review or change this element of the Committee’s Terms of Reference.</p>
<b>Standards Arrangements</b>			
50.	The Committee is responsible for the Council’s standards arrangements which seek to:		Whilst these elements are not included in the CIPFA Model Terms of Reference, they describe the Council’s arrangements for Standards issues as part of the Audit and

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	<p>1. 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);</p> <p>2. ensure that Members receive advice and as appropriate on the Members Code of Conduct; and</p> <p>3. grant dispensations under the provisions of the Localism Act 2011 to enable a member or co-opted Member to participate in a meeting of the Authority.</p>		<p>Governance Committee’s role.</p> <p>These are consistent with CIPFA’s guidance on the wider role and functions of an audit committee. CIPFA advises that the audit committee’s primary role in relation to standards and ethical conduct is to satisfy itself that there are appropriate arrangements in place. Under the Localism Act 2011, English local authorities have a statutory duty to promote and maintain high standards of conduct and the audit committee should consider assurances on the discharge of this responsibility.</p> <p>This aspect is covered elsewhere in the Committee’s current terms of reference and only requires change if the Committee wish to recommend an alternative approach to Standards issues.</p> <p><b>Recommendation:</b> The Committee should continue to include this element within its Terms of Reference.</p>
51.	<p>Council on 22nd October 2015 approved a procedure to be followed when considering a complaint that an elected member of the Council or of a town or parish council within its area has failed to comply with the Council’s Code of Conduct. The full procedure is available from the Monitoring Officer.</p>		
52.	<p>The Hearing Sub-committee is a Sub-Committee of the Council’s Audit and Governance Committee appointed to consider complaints under the procedure referred to in paragraph 43.</p>		

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	It has 3 members drawn from a cross party panel of 15 members of the Council. An Independent Person is invited to attend all meetings of the Hearing Sub-committee and his/her views are sought and taken into consideration before the Hearing Sub-committee takes any decision on whether the member’s conduct constitutes a failure to comply with the Code of Conduct and as to any action to be taken following a finding of failure to comply with the Code of Conduct.		
53.	The Independent Person is a person who has applied for the post following advertisement. He/she is appointed by Council.		

# CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1** Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2** The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
  - act as the principal non-executive, advisory function supporting those charged with governance
  - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
  - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
  - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
  - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4** The core functions of an audit committee are to:
  - be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
  - in relation to the authority's internal audit functions:
    - oversee its independence, objectivity, performance and professionalism

- support the effectiveness of the internal audit process
  - promote the effective use of internal audit within the assurance framework
  - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
  - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
  - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
  - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
  - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
  - working with local standards and ethics committees to support ethical values
  - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
  - providing oversight of other public reports, such as the annual report.
- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
  - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
  - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
    - promoting apolitical open discussion
    - managing meetings to cover all business and encouraging a candid approach from all participants
    - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
  - unbiased attitudes – treating auditors, the executive and management fairly

- the ability to challenge the executive and senior managers when required.
- 7 To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
  - be able to meet privately and separately with the external auditor and with the head of internal audit
  - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
  - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
  - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

Additional guidance to support those acting as audit committee members in local authorities can be found in CIPFA's publication *Audit Committees: Practical Guidance for Local Authorities and Police* (2018), available from [www.cipfa.org.uk/publications](http://www.cipfa.org.uk/publications)

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## **Audit & Governance Committee**

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**Date of Meeting:** 27 September 2018

**Report Title:** Committee Work Plan 2018/19

**Senior Officer:** Jan Willis, Interim Executive Director of Corporate Services

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### **1. Report Summary**

- 1.1. This report presents the Committee's Work Plan for the remaining meetings in 2018/19 (Appendix A) to the Committee for consideration.

### **2. Recommendations**

- 2.1. That the Committee:
  - 2.1.1. Consider the Work Plan and determine any required amendments;
  - 2.1.2. Note that the plan will be brought back to the Committee throughout the year for further development and approval.

### **3. 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. Other Options Considered**

- 4.1. Not applicable

### **5. Background**

- 5.1. Aspects of the Audit and Governance Committee's 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.

- 5.2. The Committee should also consider whether there are any further requirements for the Work Plan arising from the Committee's earlier consideration of its Terms of Reference against CIPFA's updated guidance; "Practical Guidance for Local Authorities and Police" (2018).
- 5.3. By identifying the key topics to be considered at the Audit and Governance Committee meetings, and receiving appropriate reports, Committee Members are able to undertake their duties effectively and deliver them to a high standard. In turn, this adds to the robustness of the risk management framework, the adequacy of the internal control environment and the integrity of the financial reporting and corporate governance of the Council.
- 5.4. Members will recognise that some items are brought to Committee on a more regular basis than others and ensure that statutory requirements are complied with. There are also individual requirements of the Committee's Terms of Reference which are only used on an ad-hoc basis.
- 5.5. In order to help with their deliberations, Members are asked to consider the following:
  - 5.5.1. 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.
  - 5.5.2. 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
  - 5.5.3. 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.
- 5.6. The Work Plan will be re-submitted to the Committee for further development and approval at each subsequent meeting.
- 5.7. At the July 31<sup>st</sup> Meeting, Members had asked that an item on reviewing the findings and any governance implications from the recent Employment Tribunal Case be brought to the next meeting. In order to avoid duplication of work, the Interim Executive Director of Corporate Services undertook to check with the Chairman of the Staffing Committee to see if that Committee was planning to do a review. The Staffing Committee will receive a report on the lessons learned from the Case at its meeting on 4<sup>th</sup> October 2018.

5.8. In agreement with the Committee Chair, the following reports which had initially been scheduled for the 27<sup>th</sup> September 2018 meeting have been re-scheduled for future meetings of the Committee.

5.8.1. The certification report from the External Auditors will be brought to the December 2018 committee.

5.8.2. The Committee had requested regular updates on the progress of arrangements in relation to the General Data Protection Regulations, which have been brought to recent committees. As work in the area has moved from change activity to business as usual, it has been agreed that an annual assurance report will be considered by the committee.

5.8.3. A report on the impact of CIPFA's updated guidance on Audit Committee's on the Committee's Terms of Reference has been included on the Committee's agenda for this meeting.

5.8.4. A report on the outcome of the external assessment of Internal Audit against the Public Sector Internal Audit Standards has been included on the Committee's agenda for this meeting.

5.8.5. Previously included as an unscheduled items is a report on Member Declarations of Interest, included at the request of Members. It would be helpful if Members could advise the Monitoring Officer on the type of organisations and memberships which should be considered in the scope of the report, and the rationale for their inclusion. Comments by the end of October 2018 would assist in the preparation of the report for the December 2018 agenda.

**5.9. Legal Implications**

5.9.1. The Work Plan for 2018/19 complies with the requirements of the Accounts and Audit Regulations 2015.

**5.10. Finance Implications**

5.10.1. 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.

**5.11. Equality Implications**

5.11.1. There are no direct implications for equality in this report. The Audit and Governance Committee receives assurances from across the organisation

**5.12. Human Resources Implications**

5.12.1. Members should be satisfied that the inclusion of each item on its agenda results in added value, as the assurance process has a

resource implication to the organisation and should therefore be proportional to the risk.

### **5.13. Risk Management Implications**

5.13.1. 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:

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

### **5.14. Rural Communities Implications**

5.14.1. There are no direct implications for rural communities.

### **5.15. Implications for Children & Young People**

5.15.1. There are no direct implications for children and young people.

### **5.16. Public Health Implications**

5.16.1. There are no direct implications for public health.

## **6. Ward Members Affected**

6.1. All wards affected.

## **7. Consultation & Engagement**

7.1. The proposed Work Plan for 2018/19 was prepared following discussion with key officers who regularly provide updates to the Audit and Governance Committee. The proposed Work Plan was also discussed with the Committee Chair and Vice Chair and was considered by the Corporate Leadership Team prior to presentation to the Committee in March 2018.

## **8. Access to Information**

8.1. Not applicable.

## **9. Contact Information**

9.1. Any questions relating to this report should be directed to the following officers:

Name: Michael Todd/Josie Griffiths

Job Title: Principal Auditors

Email: [michael.todd@cheshireeast.gov.uk](mailto:michael.todd@cheshireeast.gov.uk)

[josie.griffiths@cheshireeast.gov.uk](mailto:josie.griffiths@cheshireeast.gov.uk)

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## Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
<b>29<sup>th</sup> September 2018</b>			
Grant Thornton - Annual Audit Letter 2017/18	Summary of the External Audit findings from the 2017/18 audit. The letter will also confirm the final audit fee.	31	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
Customer Feedback and Complaints: Annual Report based on LGO report, including Upheld Complaints to the Local Government Ombudsmen	<p>The report will provide a summary of the key issues from the annual report received by the Local Government Ombudsmen.</p> <p>AND</p> <p>Members have requested that they receive a report where there is a complaint upheld by the Local Government Ombudsmen.</p> <p>This will need to be a standing agenda item, and will require ongoing co-ordination between the Compliance Manager, Democratic Services, the responsible service and the Chair/Vice Chair to establish</p> <ul style="list-style-type: none"> <li>• if there have been any upheld complaints to be reported on to the next agenda</li> <li>• the appropriate part of the agenda for the report to be considered</li> <li>• clarity on the purpose of the report, the</li> </ul>	42  43	<p>To seek assurance that customer complaint arrangements are robust.</p> <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>

## Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
	nature of the assurances to be provided in the report, and that this process doesn't duplicate any existing process or reporting.		
Members Code of Conduct: Standards Report	To note the numbers and outcomes of complaints made under the Code of Conduct for Members between 1st March 2018 and the end of August 2018.	45	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).
Risk Management Update, including a presentation on the Contract Management Toolkit.	This report will update the Committee on Risk Management and Business Continuity activity in the Council.  This will include a briefing by the Risk Owner on the management of a Corporate Risk, and update the Committee on the Contract Management Toolkit and how the toolkit and processes are being embedded.	10  11  8  9	To monitor the effective development and operation of risk management in the council.  To monitor progress in addressing risk related issues reported to the committee.  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.  To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
Internal Audit – 2018/19 Plan Progress Update	This report will provide the Committee with a progress report against the Internal Audit	12	To consider reports on the effectiveness of internal controls and monitor the implementation

## Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
	<p>Plan 2018/19.</p> <p>This will include any necessary changes to the Internal Audit Charter in accordance with the Public Sector Internal Audit Standards.</p>	<p>18</p> <p>21</p> <p>23</p>	<p>of agreed actions, including calling managers to explain lack of progress.</p> <p>To approve the Internal Audit Charter.</p> <p>To approve significant interim changes to the risk-based Internal Audit Plan and resource requirements.</p> <p>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.</p>
Treasury Management Annual Report	This report will update the Committee on Treasury Management activity over the year.	17	To review and monitor the Council's Treasury Management arrangements in accordance with the CIPFA Treasury Management Code of Practice.
Outcome of the External Assessment of Internal Audit	To report back to the Committee on the External Assessment of the Internal Audit function's compliance with the Public Sector Internal Audit Standards undertaken in January 2018	<p>4</p> <p>27</p>	<p>It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.</p> <p>To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.</p>

## Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
Review of Audit and Governance Committee Terms of Reference	To consider the Committee's Terms of Reference and whether any changes would be desirable, following the publication of CIPFA's Guidance (Audit Committees: Practical Guidance for Local Authorities and Police) (2018)	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.
Audit and Governance Committee Work Plan	Forward looking programme of meetings and agenda items for 2018/19 to ensure comprehensive coverage of the Committee's responsibilities.	ALL	ALL
Contract Procedure Rule Non-Adherences  (Part 1 and Part 2)	Report to update Committee on the quantity and reasons for Non Adherences approved since the last Committee.  (Part 1 and Part 2)	38	To receive retrospectively for information all notices which are used to record any non-adherence to the Council's Contract Procedure Rules.
<b>6th December 2018</b>			
Introduction to the new External Auditors	Introduction to the Committee of the Council's new external auditors; Mazaars		
Certification Report 2017/18	The report provides a summary of the key findings that have been identified during the External Auditors' certification process for 2017/18 claims and returns.	31	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
Draft Treasury Management Strategy	Update on the contents of the Council's Treasury Management Strategy for	17	To review and monitor the Council's treasury management arrangements in accordance with

## Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
and Minimum Revenue Position Statement 2019/20	2019/20.  The CIPFA Treasury Management Code of Practice requires all local authorities to make arrangements for the scrutiny of treasury management.  This responsibility has been nominated to the Audit & Governance Committee.		the CIPFA Treasury Management Code of Practice
Annual Governance Statement Update	Update on actions to improve governance arrangements and respond to emerging issues identified in the 2017/18 Annual Governance Statement.  Proposed process for the production of the 2018/19 Annual Governance Statement.	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
Internal Audit Interim Update Report 2018/19	Progress report against the Internal Audit Plan 2018/19.  Review of Internal Audit Charter in accordance with Public Sector Internal Audit Standards.	12  18  21	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions, including calling managers to explain lack of progress.  To approve the Internal Audit Charter.  To approve significant interim changes to the risk-based Internal Audit Plan and resource

## Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
		23	requirements.  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.
Revising the Council's Code of Corporate Governance	This report will update the Committee on the review of the Council's Code of Corporate Governance against best practice guidance and the use of the Code in practice and consider any changes which may be desirable	9  6	To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.  To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
Risk Management Update	This report will update the Committee on Risk Management and Business Continuity activity in the Council.  This will include a briefing by the Risk Owner on the management of a Corporate Risk: (TBC)	10  11	To monitor the effective development and operation of risk management in the council.  To monitor progress in addressing risk related issues reported to the committee.
Member Declarations of Interest	A review of the classes of interest to be declared by Members and for inclusion in the Members Code of Conduct.	45	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

## Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
			similar capacity).  Added to the Work Plan at the request of Members on 31 <sup>st</sup> March 2018.
Upheld Complaints to the Local Government Ombudsmen	<p>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, 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"> <li>• if there have been any upheld complaints to be reported on to the next agenda</li> <li>• the appropriate part of the agenda for the report to be considered</li> <li>• 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.</li> </ul>	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>
Audit and Governance Committee Work Plan	Forward looking programme of meetings and agenda items for 2018/19 to ensure comprehensive coverage of the Committee's responsibilities.	ALL	ALL

## Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
Contract Procedure Rule Non-Adherences  (Part 1 and Part 2)	Report to update Committee on the quantity and reasons for Non Adherences approved since the last Committee.  (Part 1 and Part 2)	38	To receive retrospectively for information all notices which are used to record any non-adherence to the Council's Contract Procedure Rules.
<b>14th March 2019</b>			
Mazaars Risk Assessment of Cheshire East Council	To present and consider Management's responses to questions posed by the External Auditor. <i>(Anticipated Equivalent Report to "Informing the Risk Assessment")</i>	32	To consider specific reports as agreed with the external auditor.
Update on the 2017/18 External Audit Plan	To receive an update from the Council's External Auditors in relation to the 2017/18 external audit report and other issues	31  33	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.  To comment on the scope and depth of external audit work and to ensure it gives value for money
External Audit Plan for 2018/19 (Mazaars)	To receive and comment on External Audit's planned work for the audit of financial statements and the value for money conclusion 2018/19	33	To comment on the scope and depth of external audit work and to ensure it gives value for money
Members Code of Conduct: Standards Report	To note the numbers and outcomes of complaints made under the Code of Conduct for Members between 1st	45	To promote high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-

## Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
	September 2018 and the end of February 2019.		opted Members and other persons acting in a similar capacity).
Risk Management Update	This report will update the Committee on Risk Management and Business Continuity activity in the Council. This will include a briefing by the Risk Owner on the management of a Corporate Risk	10 11	To monitor the effective development and operation of risk management in the council. To monitor progress in addressing risk related issues reported to the committee.
Internal Audit Interim Report	To consider a summary of Internal Audit Work undertaken between October and December 2018		Various (Detailed in ToR)
Internal Audit Plan 2019/20	Approval of the summary risk based Internal Audit Plan for 2019/20	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.
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, and will require ongoing co-ordination between the Compliance Manager, Democratic Services, the responsible	43	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.

## Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
	<p>service and the Chair/Vice Chair to establish</p> <ul style="list-style-type: none"> <li>• if there have been any upheld complaints to be reported on to the next agenda</li> <li>• the appropriate part of the agenda for the report to be considered</li> <li>• 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.</li> </ul>		<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>
Audit and Governance Committee Work Plan	Forward looking programme of meetings and agenda items for 2018/19 to ensure comprehensive coverage of the Committee's responsibilities.	ALL	ALL
Contract Procedure Rule Non-Adherences  (Part 1 and Part 2)	Report to update Committee on the quantity and reasons for Non Adherences approved since the last Committee.  (Part 1 and Part 2)	38	To receive retrospectively for information all notices which are used to record any non-adherence to the Council's Contract Procedure Rules.
<b>Unscheduled items</b>			
Work Programme for Member/Officer Working	Forward looking programme of meetings and agenda items to:	44	The Committee may establish standing and time-bound working groups (which may but need not

## Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
Groups	<ul style="list-style-type: none"> <li>• 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</li> <li>• address some of the more time consuming aspects of the Committee's work.</li> <li>• ensure that the Committee continues to work effectively and fulfils its purpose</li> </ul>		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.
Approach to disclosure of Internal Audit Reports	Report to the Audit and Governance Committee regarding the current approach to the sharing of Internal Audit reports and presenting options for future consideration	4  25	It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.  To consider summaries of specific internal audit reports as requested.
Counter Fraud Update report	To update the Committee with: <ul style="list-style-type: none"> <li>• an overview of developments that are</li> </ul>	14	To make recommendations to the Executive on the Council's arrangements for deterring, preventing, detecting and investigating fraud.

## Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
	<p>taking place nationally,</p> <ul style="list-style-type: none"> <li>• an update on anti-fraud and corruption activity at Cheshire East; and</li> <li>• details of work that will be completed to ensure compliance with best practice and improve Cheshire East's resilience to the threat of fraud and corruption.</li> </ul>		
Anti-Fraud and Corruption Policy	This report sets out the review of the Council's Anti-Fraud and Corruption Policy against current best practice and identifies any suggestions for improvements to the current arrangements.	13  15  41	<p>To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.</p> <p>To monitor the counter fraud strategy, actions and resources.</p> <p>To approve and monitor Council policies relating to "whistleblowing" and anti-fraud and corruption.</p>
Update on Internal Audit Reports on Land Acquisitions	This report will update the Committee on the Management Actions agreed in response to the Internal Audit review of land acquisitions.	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.
Updated Whistleblowing Policy and Procedure	To provide the Committee with an update on the effectiveness of the Council's Whistleblowing Policy	41	To approve and monitor Council policies relating to "whistleblowing" and anti-fraud and corruption.



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## **Audit & Governance Committee**

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**Date of Meeting:** 27 September 2018

**Report Title:** Waivers and Non Adherences (WARNs)

**Senior Officer:** Jan Willis – Interim Executive Director of Corporate Services

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### **1. Report Summary**

- 1.1. The purpose of this report is to provide an update to the Audit and Governance Committee on the number and reasons for waivers and non-adherences (WARNs) which have been approved between the 1<sup>st</sup> July 2018 and the 31<sup>th</sup> August 2018.
- 1.2. The approved WARNs are published retrospectively for information on the next appropriate Audit and Governance Committee. The number of WARNs to be presented to the September Audit and Governance Committee is 5; 3 waivers and 2 non-adherences.
- 1.3. All WARNs will be presented to the Audit and Governance Committee without any information redacted. However, they will be presented in Part 2 of the Committee as they may contain commercially sensitive information and/or Officer Details.

### **2. Recommendation/s**

- 2.1. That the Audit and Governance Committee note the number and reason for waivers and non-adherences (WARNs) approved between 1<sup>st</sup> of July 2018 and 31<sup>st</sup> August 2018.

### **3. Reasons for Recommendation/s**

- 3.1. The Audit and Governance Committee has a key role in overseeing governance arrangements within the Council and has a requirement to retrospectively review all approved WARNs. The WARN process forms part of the Councils Contract Procedure Rules (CPRs), which are intended to promote good procurement and commissioning practice, transparency and clear public accountability.

**4. Other Options Considered**

4.1. N/A

**5. Background**

5.1. All WARNs approved in the period between Audit and Governance Committees will be presented to the following Committee. This report contains all WARNs approved from the 1<sup>st</sup> July 2018 to the 31<sup>th</sup> August 2018.

The WARN process records the following;

- Waivers to the Contract Procedure Rules – These are agreed waivers in accordance with the Contract Procedure Rules, Part 5. Section 7.1-7.3.
- Non Adherence to the Contract Procedure Rules – This is a breach of the Contract Procedure Rules in accordance with Part 5. Section 7.4-7.10.

Waivers are a compliant part of the Contract Procedure Rules and are used where there is a genuine business case to direct award without the need for competition.

<b>WARNs</b>	<b>2014-2015</b>	<b>2015-2016</b>	<b>2016-2017</b>	<b>2017- 2018</b>	<b>April – August 2018</b>
Non Adherence	20	25	33	10	4
Waiver	62	45	40	20	7
<b>Grand Total</b>	<b>82</b>	<b>70</b>	<b>73</b>	<b>30</b>	<b>11</b>

5.2. A summary of the total number of WARNs for the reporting periods 2014 - 2017 is set out below:

The figure for financial year 2016 – 2017 increased slightly due to it including 16 ICT WARNs which were previously managed through CoSocius. If these were removed then the figure would be 54 meaning a reduction from the previous year.

The total number of WARN’s for 2017-2018 was 30. This is a reduction from the previous year of 59%.

This reduction in waivers and non-adherences is the result of improved forward planning, better information such as enhanced contracts register and proactively working with services to inform better outcomes and ensuring compliant contracts are in place.

## **6. Implications of the Recommendations**

### **6.1. Legal Implications**

6.1.1. 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.

6.1.2. 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.

### **6.2. Finance Implications**

6.2.1. The Council's Constitution Finance Procedure Rule 2.30; Chapter 3 - Part 4: Section 2 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.

6.2.2. Along with comments from Procurement and Legal Officers, Finance Officers 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).

### **6.3. Equality Implications**

6.3.1. N/A

### **6.4. Human Resources Implications**

6.4.1. N/A

### **6.5. Risk Management Implications**

6.5.1. 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.

**6.6. Rural Communities Implications**

6.6.1. There are no direct implications for rural communities.

**6.7. Implications for Children & Young People**

6.7.1. There are no direct implications for children and young people.

**6.8. Public Health Implications**

6.8.1. There are no direct implications for public health.

**7. Ward Members Affected**

7.1. N/A

**8. Consultation & Engagement**

8.1. N/A

**9. Access to Information**

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

**10. Contact Information**

10.1. Any questions relating to this report should be directed to the following officer:

Name: Lianne Halliday

Job Title: Senior Manager - Procurement

Email: [lianne.halliday@cheshireeast.gov.uk](mailto:lianne.halliday@cheshireeast.gov.uk)

## Appendix 1

**CPR WAIVERS – CATEGORIES FOR INTERNAL REPORTING**

<b>A</b>	Genuine Emergency – which warrant an exception to the requirements
<b>B</b>	Specialist Education or Social Care Requirements
<b>C</b>	Genuine Unique Provider – e.g. from one source or contractor, where no reasonably satisfactory alternative is available.
<b>D</b>	Compatibility with an existing installation and procurement from any other source would be uneconomic given the investment in previous infrastructure
<b>E</b>	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.
<b>F</b>	No valid tender bids received, therefore direct award can be substantiated
<b>G</b>	Lack of Planning
<b>H</b>	Other – Any other valid general circumstances up to the EU threshold

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