

## **CHESHIRE EAST COUNCIL**

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

### **PRESENT**

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

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

### **OFFICERS IN ATTENDANCE**

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

### **EXTERNAL AUDITOR IN ATTENDANCE (GRANT THORNTON)**

Jon Roberts

### **39 APOLOGIES FOR ABSENCE**

Apologies were received from Councillors R Fletcher and M Hardy.

### **40 DECLARATIONS OF INTEREST**

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

### **41 PUBLIC SPEAKING TIME/OPEN SESSION**

There were no members of the public wishing to speak.

### **42 MINUTES OF PREVIOUS MEETING**

The following comments were received:

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

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

## **RESOLVED**

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

‘RESOLVED

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

### **43 GRANT THORNTON - ANNUAL AUDIT LETTER 2015/16**

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

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

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

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

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

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

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

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

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

### **RESOLVED**

That the press and public be excluded from the meeting during consideration of the following item pursuant to Section 100(A)4 of the Local Government Act 1972 on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 7 of Part 1 of Schedule 12A to the Local Government Act 1972 and public interest would not be served in publishing the information.

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

### **RESOLVED**

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

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

### **RESOLVED**

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

#### **44 CERTIFICATION REPORT 2015/16**

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

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

In addition, the Council was required to obtain reasonable assurance reports on their annual Teachers Pension return and on the capital grant expenditure claim S31 AUD form for Local Transport Plan Major Projects 2015/16 (for year ending 31 March 2016). Both reports provided by Grant Thornton were unqualified and completed in accordance with the deadline.

#### **RESOLVED**

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

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

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

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

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

#### **RESOLVED**

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

#### **46 RISK MANAGEMENT UPDATE**

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

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

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

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

### **RESOLVED**

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

#### **47 ANNUAL GOVERNANCE STATEMENT UPDATE**

The Committee considered a report of the Corporate Assurance Group, the purpose of which was to provide assurance that the Annual Governance Statement was underpinned by an appropriate framework of assurance, and to allow the Committee to monitor the implementation of actions to improve governance arrangements and respond to emerging issues.

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

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

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

### **RESOLVED**

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

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

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

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

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

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

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

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

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

#### **RESOLVED**

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

#### **49 REVISING THE COUNCIL'S CODE OF CORPORATE GOVERNANCE**

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

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

The Council's Code of Corporate Governance had been updated in order to fully adopt the new principles described in the revised CIPFA/SOLACE guidance, to ensure that the Council adhered to best practice in its governance arrangements. The updated Code would be used to facilitate the necessary review of the Council's Corporate Governance arrangements for the purposes of producing the next Annual Governance Statement in 2016/17.

#### **RESOLVED**

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

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

#### **50 ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS**

The Committee considered a report summarising the options and arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

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

## **RESOLVED**

That it be recommended to Council that the invitation from Public Sector Audit Appointments Ltd to 'opt in' to the sector-led option for the appointment of external auditors for five financial years commencing 1 April 2018 be accepted.

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

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

## **RESOLVED**

That the arrangements be noted.

### **52 CARDIFF CHECKS – FEEDBACK FROM MEMBER/OFFICER GROUP**

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

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

## **RESOLVED**

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

### **53 WORK PLAN 2016/17**

Consideration was given to the Committee's Work Plan.

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

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

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

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

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

## **RESOLVED**

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

### **54 ITEM SUBMITTED BY MEMBER**

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

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

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

## **RESOLVED**

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

### **55 WAIVERS AND NON ADHERENCE NOTIFICATIONS**

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

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

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

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

## **RESOLVED**

That the report be noted.

### **56 EXCLUSION OF THE PRESS AND PUBLIC**

## **RESOLVED**

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

### **57 WAIVERS AND NON ADHERENCE NOTIFICATIONS**

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

## **RESOLVED**

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

The meeting commenced at 2.00 pm and concluded at 4.20 pm

Councillor G Baxendale (Chairman)