

# Annual Report of the Audit and Governance Committee 2019/20

DRAFT  
(May 2019- April 2020)

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## Foreword by the Chair of the Audit and Governance Committee

As Chair of the Audit and Governance Committee, I am proud to present this detailed report on the work of the Committee over 2019/20.

The report informs full Council of the broad range of work which has been considered over the year to support the Committee in fulfilling its Terms of Reference and provides assurance on the effectiveness of the Committee in meeting its purpose.

I hope that this report helps to demonstrate the key role which is undertaken by the Audit and Governance Committee and the positive contribution it makes to the Council's overall governance.

The Committee's Terms of Reference were developed in accordance with the CIPFA guidance and the detailed Committee Work Programme designed to ensure that they are fulfilled is subject to review at each meeting of the Committee.

I would like to thank all those who have contributed and attended the Committee meetings over the last year, supporting the Committee's work with varied reports and presentations, which are the culmination of much more preparation and work undertaken 'behind the scenes'.

Since March 2020 the impact of the Covid-19 pandemic and associated lockdown has presented challenges to everyone within Cheshire East and I am pleased to report that arrangements were put in place to ensure that the May 2020 meeting of the Committee, which took place remotely, were a success and ensured that the business of the Committee continued at this difficult time.

I look forward to future meetings of the Committee, whether remote or face to face, and to working with the Committee members and the officers who support the Committee to ensure that we continue to provide independent assurance on the Council's control environment and the governance framework.



*Councillor Rod Fletcher*

Chair of the Audit and Governance Committee  
July 2020

## **1. Introduction to the Audit and Governance Committee**

Governance is defined in the “Delivering Good Governance in Local Government: Framework” (CIPFA/SOLACE 2016) as follows

*Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.*

*To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity’s objectives while acting in the public interest at all times.*

Audit Committees are therefore an essential element of good governance. Good corporate governance requires independent, effective assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.

These functions are best delivered by an Audit Committee independent from the executive and scrutiny functions.

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

## **2. Audit and Governance Committee - Statement of Purpose**

The Audit and Governance Committee is a key component of the Council’s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

It provides an independent assurance to the Council of the adequacy of the risk management framework and the internal control environment.

It provides independent review of the Council’s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes.

It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

It promotes high standards of ethical behaviour by developing, maintaining and monitoring performance and Codes of Conduct for Members of the

Council (including co-opted Members and other persons acting in a similar capacity).

The Audit & Governance Committee has delegated responsibilities from Council. This report provides details of how the Committee has discharged those responsibilities and delivered against its terms of reference which can be found in the Council's [Constitution](#).

Meetings of the Audit & Governance Committee were held on the following dates during 2019/20:

- 30<sup>th</sup> May 2019
- 30<sup>th</sup> July 2019
- 3<sup>rd</sup> October 2019
- 5<sup>th</sup> December 2019
- 12<sup>th</sup> March 2020

More information on the Audit & Governance Committee Meetings, including agendas, minutes and attendance details is available [here](#).

### **3. Governance, Risk and Control within Cheshire East Council**

Reports have been received by the Audit and Governance Committee in the following areas, providing assurance and updates on the Council's governance, risk and control framework over the past year.

#### **Internal Audit**

<b>Meeting</b>	<b>Reports received</b>
30 July 2019	Internal Audit Annual Report 2018/19
5 December 2019	Internal Audit Interim Update Report April – September 2019
12 March 2020	Internal Audit Interim Update Report October – December 2019
	Draft Internal Audit Plan 2020/21

## **External Audit**

<b>Meeting:</b>	<b>Reports received:</b>
30 May 2019	External Audit 2018/19 Progress and Update
30 July 2019	External Audit Findings and Action Plan 2018/19
3 October 2019	External Audit Update and Annual Audit Letter 2018/19
5 December 2019	External Audit Report 2019/20 Certification of Claims and Returns 2018/19
12 March 2020	External Audit 2019/20 Progress and Update Report

## **Risk Management**

<b>Meeting:</b>	<b>Reports received:</b>
30 July 2019	Annual Risk Management Report 2018/19
5 December 2019	Risk Management Update
12 March 2020	Risk Management Framework Update

## **Corporate Governance & Annual Governance Statement (AGS)**

<b>Meeting:</b>	<b>Reports received:</b>
30 July 2019	Annual Governance Statement 2018/19 Annual Report of the Monitoring Officer 2018/19
5 December 2019	Annual Governance Statement 2018/19 – Progress Update

## **Accounts, Financial Statements & Treasury Management**

<b>Meeting:</b>	<b>Reports received:</b>
30 July 2019	Annual Statement of Accounts 2018/19
3 October 2019	Treasury Management Annual Report 2018/19
5 December 2019	Review of Cheshire East Group Accounting Policies Draft Treasury Management Strategy and Minimum Revenue Provision Statement 2020/21

## **Information Governance**

<b>Meeting:</b>	<b>Reports received:</b>
30 July 2019	Annual Information Governance Update 2018/19

Significant assurances the Committee has received during the year include:

- **2018/19 Internal Audit opinion:**  
This was presented to the 30 July 2019 meeting.
- **2018/19 Financial Statements Opinion (External Audit):**  
This was presented to the 30 July 2019 meeting.
- **2018/19 Value for Money (VFM) Conclusion (External Audit):**  
This was presented to the 30 July 2019 meeting.

#### 4. Effectiveness of the Committee

The Committee regularly undertakes a formal review of its own effectiveness. The 2019/20 self-assessment was carried out against the CIPFA guidance, Audit Committees – Practical Guidance for Local Authorities and Police 2018 via an online survey and through discussion with the Chair and Vice Chair.

Given the high turnover of members following the May 2019 election, a decision was taken to delay the self assessment process until the end of 2019 to allow new members of the Committee the opportunity to familiarise themselves with their role. The results were reported to the Committee in March 2020.

The Committee self-assessed as compliant or partially compliant against all areas apart from one which was assessed as not compliant. In receiving the report in March 2020, it was agreed that an action plan would be developed and brought back to the Committee at a later date. This was received by the Committee in May 2020. Four actions were subsequently identified and progress against implementation will be reported periodically.

Whilst the 2019/20 Work Plan was developed in line with the Committee's Terms of Reference to ensure that the Committee continued to work effectively and fulfil its purpose, additional assurance was sought via a detailed review of the Work Plan which was undertaken by Members and Officers at a workshop during November 2019.

The results of the Corporate Peer Challenge that the Council took part in were published in June 2020. The Committee was referenced within this report which stated:

*“The Audit and Governance Committee of the Council has made improvements in recent years with much more effective challenge being provided through this committee.” There is currently one ‘independent person’*

*on the Committee who is not a member of the council and can therefore help to provide independent challenge. However, the size and membership of the committee may benefit from review to ensure the committee can operate effectively and provide sufficient challenge across all areas of responsibility, including on financial matters*

The Committee will consider the appointment of co-opted independent members during 2020/21.

The Committee has continued to provide challenge and feedback to the reports received which was evidenced at the March 2020 meeting at which a risk management report was received. The report included an update on the risk of a pandemic which had been moved to a Moderate risk during February 2020 following a review of the Corporate Risk Register in January 2020. This was challenged by Members in light of more recent developments and a request was made to escalate the risk to the highest level. Officers provided assurance that this particular risk was being monitored constantly but agreed to update the documentation.

## **5. Additional Assurance**

It was agreed at the Committee's December 2015 meeting that future annual reports of the Committee be expanded to include greater details on any areas of work requested to provide additional assurance to the Committee along with an explanation as to how this added value to the work of the Committee.

Additional assurance work requested by the Committee has been provided around emerging issues including:

### **Ombudsman complaints and lessons learnt**

The Committee received update reports at each meeting detailing the decision notices received by the Council from the Local Government Ombudsman and Social Care Ombudsman. The detailed reports provided the Committee with information on those decision notices which concluded that there had been maladministration causing injustice.

During 2019/20, the reports have also been supported by the attendance of senior managers from the services involved to provide assurance to the Committee that lessons have been learned from the issues and actions implemented.

### **Reporting of all WARNS's (Waiver and Record of Non-adherence)**

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

Since June 2016, summary information on the number and reasons for WARN's has been provided to the Committee as a standard part one agenda item, with the details being considered as part two, following exclusion of press and public from the meeting pursuant to Section 100(A)4 of the Local Government Act 1972 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 1 2 and 3 of Part 1 of Schedule 12A to the Local Government Act 1972 and public interest would not be served in publishing the information.

The Committee has noted that the number of waivers and non-adherences being reported has significantly and consistently reduced since the reports were first presented.

This provides assurance to the Committee on the positive impact of the changes to the Council's procurement management.

### **Member's Code of Conduct**

The Committee received an update report in December 2019 relating to the Member's Code of Conduct. The report detailed the number of complaints made against Cheshire East Councillors and Town and Parish Councillors; the paragraph of the Code alleged to have been breached and the outcome of each complaint, where completed. This information is provided to support the Committee's role in monitoring and maintaining high ethical standards within the authority.

The Committee agreed that a review of the Code of Conduct would be added to the Committee's Work Plan and that it should be linked to the Local Government Association publication of a revised Model Code of Conduct. This was expected to be published in July 2020 prior to the Covid-19 pandemic. A draft LGA model Code is currently subject to consultation which closes on 17 August 2020.

### **Counter Fraud Update**

In October 2019, the Committee considered an update report on the Council's arrangements to counter the threat of fraud and corruption. The report also

provided an overview of developments taking place nationally, counter fraud activity in Cheshire East and the ongoing work to ensure compliance with best practice. Updates are also included in the regular updates against the Internal Audit plan.

## **Inspection by the Investigatory Powers Commissioner's Office and revised RIPA Policy and Procedures**

In December 2019, the Committee received a summary of the findings, recommendations and action plan from the remote desktop inspection. The Committee noted the action plan and agreed that a progress report on the action plan would be brought to a future meeting.

The Committee considered and approved the proposed revised RIPA Policy and Procedures at its March 2020 meeting. The revisions were made in order to comply with the recommendations made by the Investigatory Powers Commissioner's Office and changes in legislation.

## **6. Members of the Committee**

Following the local elections in May 2019 wholesale changes were made to the Committee membership. Members of the Committee during 2019/20 are set out in **Appendix 2**.

The Audit and Governance Committee has been supported by Officers providing reports in accordance with the Committee's work programme and at the request of the Committee.

The Committee has routinely been attended by the Executive Director Corporate Services, Executive Director Place, Director of Governance and Compliance, and the Director of Financial and Customer Services.

Following an extended period during which the Principal Auditors acted up, the role of Chief Audit Executive as defined by the Public Sector Internal Audit Standards (PSIAS) was filled on a permanent basis by the appointment of the Head of Audit and Risk in July 2019.

## **7. Statutory Requirements, New Guidance and Recommended Practice**

During the year, the Committee has carried out statutory requirements including approving the Financial Statements and the Annual Governance Statement.

Committee members were provided with a copy of the Committee's Terms of Reference in advance of the May 2019 meeting.

The Committee has received updates on changes to relevant legislation, for example, the Review of Cheshire East Group Accounting Policies, and endorsed an updated Risk Management Framework to be adopted by Cabinet.

## **8. Training and Development**

The following training was carried out during the 2019/20 year:

- Induction for new and deputising Members of the Committee
- Annual Governance Statement & Role of the Audit Committee
- Risk Management
- Approving the Financial Statements

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

The training and development programme for Members of the Committee is informed by an annual skills assessment exercise.

A workshop was held in November 2019 to facilitate a detailed review of the Committee Work Plan and ensure that the planned items would provide members with the appropriate level of information and assurance to fulfil the terms of reference of the Committee.

## **9. Work programme for 2020/21**

The Committee has an agreed work programme for 2020/21, which includes the annual statutory requirements (e.g. approval of the Statement of Accounts, approval of the AGS etc.) of the Committee and also those regular reports and assurances it receives on External Audit, Internal Audit, Risk Management, Treasury Management and other areas.

The forward looking work programme ensures comprehensive coverage of the Committee's responsibilities and in addition to this, the Committee will:

- Continue to develop the proactive nature of the Committee to facilitate actions by officers to ensure that risks are identified as early as possible and remedial actions are taken in a timely fashion;

- Oversee any development required of the Audit and Governance Committee work programme to comply with the requirements of the CIPFA Audit Committees guidance;
- Continue to review governance arrangements to ensure the Council adopts the latest best practice and continues to be an open and transparent public organisation;
- Continue to support the work of internal and external audit and ensure that responses are given to their recommendations;
- Receive assurance on compliance with best practice such as the Public Sector Internal Audit Standards and the CIPFA Statement on the Role of the Head of Internal Audit;
- Continue to support the Council in managing the risk of fraud and corruption;
- Continue to develop the Audit and Governance Committee to review risk and partnership issues and safeguarding of public sector assets; and
- Equip existing and new Members to fulfil their responsibilities by providing more detailed and focused training on all key areas of responsibility, including financial arrangements and risk management, governance and audit planning.
- Ensure that arrangements and ways of working introduced in light of the Covid-19 pandemic are subject to effective governance arrangements and robust systems of internal control.

### How the Audit and Governance Committee's Terms of Reference were met during 2019/20:

Terms of Reference of Committee	Relevant activity in 2019/20
<b>Annual Report</b>	
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 July 2019 Committee meeting reviewed the 2018/19 annual report, this was subsequently received and noted by Council in October 2019.
<b>Governance, Risk and Control</b>	
To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.	The Committee approved the 2018/19 Annual Governance Statement in July 2019. The Committee received an Annual Governance Statement progress report in December 2019.
To review and approve the Annual Governance Statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.	The Committee received the final 2018/19 Annual Governance Statement (AGS) in July 2019.  In addition, an update report was received in December 2019.
To monitor the effective development and operation of risk management in the council.	The Committee received update reports on Risk Management in July 2019, December 2019, and March 2020.
To monitor progress in addressing risk related issues reported to the committee and to review the assessment of fraud risks and potential harm to the Council from fraud and corruption. To monitor the counter fraud strategy, actions and resources.	The Committee monitors Anti-Fraud and Corruption arrangements through regular updates on activity provided as part of the regular Internal Audit update reports. A specific Counter Fraud report was received in October 2019
To review and monitor the Council's treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.	The Treasury Management 2018/19 Annual Report was received in October 2019.  The 2020/21 Draft Treasury Management Strategy and Minimum

Terms of Reference of Committee	Relevant activity in 2019/20
	Revenue Position (MRP) Statement was reviewed at the December 2019 meeting.
Internal Audit	
To approve the internal audit charter.	An updated Internal Audit Charter was approved at the March 2020 Committee meeting.
To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.	<p>The Committee approved the 2019/20 Internal Audit Plan in March 2019. The Committee monitored progress against the plan in December 2019 and March 2020.</p> <p>The 2020/21 Internal Audit Plan was approved at the March 2020 Committee.</p>
To receive reports outlining the action taken where the Head of Internal Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions. To consider summaries of specific internal audit reports as requested.	<p>Internal Audit interim reports against the 2019/20 plan were received in December 2019 and March 2020.</p> <p>Internal Audit interim reports include a summary of Internal Audit work completed and the significant issues arising from individual assignments.</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.	The Committee is updated in the Head of Internal Audit annual opinion report on the progress made on assessment criteria required to comply with the Public Sector Internal Audit Standards.
To consider the Head of Internal Audit's annual report.	The 2018/19 Internal Audit Annual Report, including the annual audit opinion was presented to the Committee in July 2019.
To support the development of effective communication with the Head of Internal Audit.	<p>The Head of Audit and Risk met on a regular basis with the Chair and Vice Chair of the Committee following their appointment in July 2019.</p> <p>Prior to this the Principal Auditors undertook the role...</p>

Terms of Reference of Committee	Relevant activity in 2019/20
<b>External Audit</b>	
To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.	<p>The 2018/19 Audit Findings Report and Action Plan were presented to Committee in July 2019 by the External Auditor.</p> <p>The 2018/19 Annual Audit Letter was reported to the October 2019 Committee meeting.</p>
To consider specific reports as agreed with the external auditor.	The Committee received and considered the work of the External Auditor (all meetings during the year).
To comment on the scope and depth of external audit work and to ensure it gives value for money	Regular reports are received from the External Auditors who also meet with the Chair and Vice Chair prior to each Committee meeting.
To commission work from internal and external audit and to advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.	<p>The Committee consider the work plan at all meetings and commission additional work where Committee members determine that additional assurance is required.</p> <p>A workshop to facilitate a detailed review of the work plan took place during November 2019.</p> <p>The relationship between Internal and External Audit is reviewed at least annually together with any requirements to liaise with any other relevant agencies.</p>
<b>Financial Reporting</b>	
To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.	The Annual Statement of Accounts 2018/19 was presented to the Committee in July 2019.

<b>Terms of Reference of Committee</b>	<b>Relevant activity in 2019/20</b>
To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.	<p>The 2018/19 Audit Findings and Action Plan were presented to Committee in July 2019 by the External Auditor.</p> <p>The 2018/19 Annual Audit Letter was reported to the Committee in October 2019.</p>
<b>Related Functions</b>	
To approve and monitor Council policies relating to "whistleblowing" and anti-fraud and corruption.	<p>The Committee is provided with updates in relation to these matters via the interim reports on internal audit activity received during the year.</p> <p>Details relating to whistleblowing statistics are reported via the Monitoring Officer report which was received by the Committee in July 2019.</p>
To seek assurance that customer complaint arrangements are robust	The Committee received regular update reports throughout 2019/20 on the number of decision notices received from the Local Government and Social Care Ombudsman.
<b>Standards</b>	
Promoting high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).	A Members Code of Conduct Standards Report recording the number and outcome of decisions relating to complaints was submitted to the Committee in December 2019.
Ensuring that Members receive advice and training as appropriate on the Members Code of Conduct.	Members of the Audit & Governance Committee have been advised on the Code of Conduct during the year.
Granting dispensations under the provisions of the Localism Act 2011 to enable a member or co-opted Member to participate in a meeting of the Authority.	The Committee meeting in September 2016 approved the Localism Act 2011 – General Dispensations for a four year period (to 28 Sept 2020).

## Membership of the Audit and Governance Committee during 2019/20:

Members of the Audit and Governance Committee during 2019/20	
	<p><b>Councillor Rod Fletcher (Chair)</b></p> <p>Councillor Fletcher has been an elected member of Cheshire East Council since its beginning in April 2009 and has served on the Committee since May 2011. He chaired his first meeting in May 2019.</p>
	<p><b>Councillor Rachel Bailey (Vice-Chair)</b></p> <p>Councillor Bailey has been an elected member of Cheshire East Council since its beginning in April 2009. She joined the Committee in May 2019.</p>
	<p><b>Councillor Mike Sewart</b></p> <p>Councillor Sewart became an elected member of Cheshire East Council in May 2015. He joined the Committee in March 2017.</p>
	<p><b>Councillor Andrew Kolker</b></p> <p>Councillor Kolker has been an elected member of Cheshire East Council since its beginning in April 2009. He served as Vice-Chair of the Governance and Constitution Committee for a time and has been on the Audit and Governance Committee from June 2010 to date.</p>
	<p><b>Councillor David Edwardes</b></p> <p>Councillor Edwardes became an elected member of Cheshire East Council in May 2019.</p>
	<p><b>Councillor Byron Evans</b></p> <p>Councillor Evans became an elected member of Cheshire East Council in May 2019.</p>

Members of the Audit and Governance Committee during 2019/20	
	<p><b>Councillor Andrew Gregory</b> Councillor Gregory became an elected member of Cheshire East Council in May 2019.</p>
	<p><b>Councillor Sally Handley</b> Councillor Handley became an elected member of Cheshire East Council in May 2019.</p>
	<p><b>Councillor Steven Hogben</b> Councillor Hogben has been an elected member of Cheshire East Council since June 2011. He joined the Committee in May 2019.</p>
	<p><b>Councillor Marilyn Houston</b> Councillor Houston became an elected member of Cheshire East Council in May 2019.</p>
	<p><b>Councillor David Marren</b> Councillor Marren re-joined the Committee in March 2020 having previously served as Vice Chair in 2011/12 and 2015/16.</p>
	<p><b>Councillor Margaret Simon</b> Councillor Simon re-joined the Committee in March 2020 having previously served on the Committee from its first meeting in June 2010 until March 2017.</p>
<b>No image available.</b>	<p><b>Philip Gardener</b> Independent Member of the Committee, Mr Gardener was co-opted to the Committee in March 2017.</p>

It should be also noted that Councillor C Bulman deputised for a member of the Audit & Governance Committee in October 2019 having received the necessary induction training prior to the meeting.