

# Audit and Governance Committee

## Agenda

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**Date:** Friday, 27th September, 2013  
**Time:** 10.00 am  
**Venue:** Committee Suite 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 foot of each report.

### **PART 1 – MATTERS TO BE CONSIDERED WITH THE PUBLIC AND PRESS PRESENT**

1. **Apologies for Absence**

2. **Declarations of Interest**

To provide an opportunity for Members and Officers to declare any disclosable pecuniary and non-pecuniary interests in any item on the agenda.

3. **Public Speaking Time/Open Session**

In accordance with Procedure Rules Nos.11 and 35 a total period of 10 minutes is allocated for members of the public to address the Committee on any matter relevant to the work of the Committee.

Individual members of the public may speak for up to 5 minutes but the Chairman will decide how the period of time allocated for public speaking will be apportioned where there are a number of speakers.

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

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

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For requests for further information

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4. **Minutes of Previous meeting** (Pages 1 - 10)

To approve the minutes of the meeting held on 27 June 2013.

As previously requested by the Committee details of progress with actions arising from the minutes are appended to the minutes for information; any further updates will be reported at the meeting.

5. **Audit Findings Report 2012/13 - Grant Thornton** (Pages 11 - 56)

To receive and comment upon the Audit Findings Report, and to approve the Letter of Representation to be signed by the Interim Chief Monitoring Officer.

6. **Financial Resilience - Grant Thornton Review of the Council's Arrangements** (Pages 57 - 92)

To receive and comment upon the Financial Resilience Report for 2012/13 prepared by the Grant Thornton, Council's External Auditors.

7. **Statement of Accounts (Audited) 2012/13** (Pages 93 - 98)

To approve the Statement of Accounts for the year.

8. **Annual Governance Statement 2012/13** (Pages 99 - 124)

To approve the Annual Governance Statement 2012/13 to accompany the Statement of Accounts and be published on the Council's website.

9. **Public Sector Internal Audit Standards and Audit Charter** (Pages 125 - 136)

To note the report and that the Charter will be submitted to the Committee for approval in November.

10. **Treasury Management Update** (Pages 137 - 154)

To note the treasury management activity for the period April – July 2013.

11. **Risk Management Update** (Pages 155 - 176)

To note and comment upon the update report on risk management which is being circulated for Member's information.

12. **Compliance with Contract Procedure Rules** (Pages 177 - 182)

To consider the revised procedures, and to note the delegated decisions and non-compliances since September 2012.

13. **Work Plan 2013/14** (Pages 183 - 190)

To consider the Work Plan for 2013/14, to note the changes made since it was last considered in June, and to determine any further amendments.

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**CHESHIRE EAST COUNCIL**

Minutes of a meeting of the **Audit and Governance Committee**  
held on Thursday, 27th June, 2013 at Committee Suite 1,2 & 3, Westfields,  
Middlewich Road, Sandbach CW11 1HZ

**PRESENT**

Councillor J Hammond (Chairman)  
Councillor L Brown (Vice-Chairman)

Councillors S Corcoran, R Fletcher, S Hogben, A Kolker, D Marren, M J Simon,  
W Livesley and B Murphy

**Councillors in attendance:**

Councillor B Moran.

**Officers in attendance:**

Suki Binjal – Interim Head of Legal Services and Monitoring Officer  
Lorraine Butcher – Executive Director of Strategic Commissioning  
Joanne Butler – Performance and Risk Manager  
Chris Mann – Finance Manager  
Rachel Musson – Interim Chief Operating Officer  
Liz Rimmer – Benefits Manager  
Jon Robinson – Internal Audit  
Sandra Smith – Customer Relations and Compliance Manager  
Neil Taylor – Internal Audit  
Joanne Wilcox – Corporate Finance Lead  
Cherry Foreman – Democratic Services

**External Auditor – Grant Thornton**

Steven Nixon and Judith Tench

**1 APOLOGIES FOR ABSENCE**

Apologies were received from Councillors M Hardy and L Roberts.

**2 DECLARATIONS OF INTEREST**

There were no declarations of interest.

**3 PUBLIC SPEAKING TIME/OPEN SESSION**

There were no members of the public present.

**4 MINUTES OF PREVIOUS MEETING****RESOLVED**

That the minutes of the meeting held on 28 March 2013 be approved as a correct record.

**5 INTERNAL AUDIT ANNUAL REPORT 2012/13**

Consideration was given to this report on the overall adequacy and effectiveness of the Council's control environment for 2012/13, produced in accordance with the Code of Practice for Internal Audit in Local Government. The report of the Internal Auditors included a detailed summary of the audit work carried out during the year and the relative outputs from that work.

With reference to the review of Whistleblowing arrangements, which had concluded that the Council's arrangements remained in line with best practice, some members expressed concern at the confidentiality clause associated with compromise agreements as it was thought that it could prevent officers from being able to speak out on matters of concern. The Monitoring Officer advised that this was appropriate standard practice in Authorities. It was reported that further work on this remained to be done, and it was already included in the work plan for the coming year; in addition the Chief Operating Officer agreed to discuss the concerns further with the appropriate Human Resources Officer or Member Group.

**RESOLVED**

1. That the contents of the Internal Auditors report for 2012/13 be noted.
2. That the Chief Operating Officer refer the concerns of the Committee regarding the application of a confidentiality clause in compromise agreements to the appropriate Human Resources Officer or Member Group.

**6 DRAFT ANNUAL GOVERNANCE STATEMENT 2012/13**

Consideration was given to the draft Annual Governance Statement for 2012/13. In accordance with best practice it had been brought to the Committee for information and comment with the final version being considered in September.

The review of governance arrangements had been informed by the work of Internal and External Audit and a number of other review agencies and inspectorates. Members drew attention to points raised with respect to data quality in licensing, silo working, and to high level recommendations from the External Auditor; it was reported that all these matters had been addressed by such innovations as the Project Management Framework, an improved Business Planning Process, the setting of the three year plan and review and improvement of the Councils Performance Management Framework.

In addition Members referred to the culture of the organisation post Lyme Green and ways in which, where necessary, further changes and improvements could be brought about. The Committee was informed that

a number of projects were already ongoing in this area and the Chief Operating Officer agreed that she would investigate where this might best be incorporated and report back to the Committee accordingly.

**RESOLVED**

1. That the draft Annual Governance Statement, attached as an Appendix to the report, be noted, and that the final version be considered by the Committee in September 2013.
2. That the Chief Operating Officer report back to the Committee on the most appropriate forum to measure and monitor improvement of organisational culture.

**7 DRAFT STATEMENT OF ACCOUNTS 2012/13**

Members were asked to consider the key issues within the draft Statement of Accounts for 2012/13 which are now subject to external audit and would require final approval before the deadline of 30 September. It was noted that this was the third year of reporting under International Financial Reporting Standards and the Statements were now more closely tailored to the Council's reporting requirements. This involved close working with the Council's External Auditors Grant Thornton.

The report detailed issues raised within each of the financial statements – Income and Expenditure Account, Movement in Reserves Statement and the overall balance sheet. Members asked for the improved final outturn position to be noted and thanked the Officers concerned for their work in this regard.

It was agreed that further information on earmarked reserves and the schools balances would be forwarded to Members.

**RESOLVED**

That the key issues within the draft Statement of Accounts for 2012/13 be noted.

**8 ANNUAL REPORT ON RISK MANAGEMENT**

Consideration was given to the Annual Report of the Corporate Risk Management Group, and also to minor changes to the Risk Management Policy. The Group had met on a number of occasions throughout the year to consider and discuss the Council's key corporate risks, to ensure they were addressed consistently across the Council, and to monitor the implementation of actions to mitigate risks to acceptable levels.

In accordance with an earlier request of the Committee the Executive Director of Strategic Commissioning attended the meeting to brief

Members on the risks and controls in respect of Corporate Risk 11 (the Commissioning and Service Delivery Chain).

Following discussion of risk in general the Committee requested that the section in all written reports relating to risk be expanded to include the allocation of a measurement/score; it was agreed that the most appropriate way of doing this be considered further by the Corporate Risk Management Group, and that the Chairman, the Executive Director of Strategic Commissioning and Councillor Marren be included.

**RESOLVED**

1. That the Annual Report of the Corporate Risk Management Group be noted.
2. That written reports include the allocation of a measurement/score of risk, and that further consideration of the most appropriate method way of doing this be considered further by the Corporate Risk Management Group, and that the Chairman, the Executive Director of Strategic Commissioning and Councillor Marren be included.
3. That the minor changes to the Risk Management Policy, attached as Appendix A to the report, be endorsed and submitted to the Cabinet for approval.

**9 AUDIT COMMITTEE UPDATE**

The External Auditors, Grant Thornton, provided an update on progress in delivering their responsibilities. Steven Nixon was introduced as the replacement for Andrea Castling and he introduced progress on the audit work plan.

It was agreed that further detailed financial information around the questions on emerging issues and developments would be circulated to Members direct.

**RESOLVED**

That the report be noted.

**10 PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND AUDIT CHARTER - UPDATE**

Consideration was given to the new Public Sector Internal Audit Standard (PSIAS), which came into effect on 1 April 2013, including the implications and further actions necessary to meet compliance with the PSIAS. Particular attention was drawn to the development of an Audit Charter, organisational dependence, and the terms 'Board' and 'Senior

Management' which needed to be interpreted in the context of governance arrangements within Cheshire East.

**RESOLVED**

1. That the introduction of the new Public Sector Internal Audit Standards (PSIAS) be noted.
2. That the implications and further actions necessary to meet compliance with the new Standards be noted, including the development of the Audit Charter, and that further updates will be brought to the Committee accordingly.

**11 COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS**

Consideration was given to a proposed response to be sent from the Chairman to the External Auditors, Grant Thornton, on the way in which the Committee gains assurance over the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation.

Grant Thornton had asked specific questions with regard to carrying out an assessment of the risk that the financial statements may be materially misstated due to fraud or error, identifying and responding to risks of breaches of internal control, identifying and responding to risks of fraud in the organisation and communicating to employees views on appropriate business and ethical behaviour. They also wanted to understand how the Committee gains assurance that all relevant laws and regulations have been complied with.

**RESOLVED**

That the contents of the report, and that it will form the basis of the written response to the Councils External Auditors by the Chairman of the Audit and Governance Committee, be noted.

**12 COMPLIANCE WITH REGULATION OF INVESTIGATORY POWERS ACT 2000**

Following an inspection by the Office of Surveillance Commissioners consideration was now given to a report on their findings on the Council's use of the Regulation of Investigatory Powers Act 2000 (RIPA). The report from the Inspectors was very positive with only a few recommendations as to how standards could be improved.

**RESOLVED**

That the findings of the Inspection Report be noted.

**13 WORK PLAN 2013/14**

Consideration was given to the Work Plan for 2013/14. An amended Plan, which rescheduled the work to utilise a provisional meeting date in November, was circulated at the meeting. It was agreed that in view of the overall workload, and various statutory deadlines that needed to be met, that this date was now needed.

In considering the Plan it was requested that as part of compliance monitoring there should be a Member led 'Cardiff Review' of six procurement invoices. The Monitoring Officer commented on possible data protection implications of such checks and said she would need to be satisfied appropriate controls were in place. The External Auditor commented that such checks had not been carried out recently by any of the Audit Committees she attended and she needed to understand the reasons behind them given the number of checks already carried out in this area by both the External and Internal Auditors. It was also questioned whether testing a small sample of invoices would provide any real assurance and, therefore, whether it was worth the resource required. It was agreed that the matter be discussed further with the relevant Member/Officer Group, to include Councillor D Marren and the Monitoring officer, and be reported back to the Committee in due course.

It was confirmed that training for Standards Committees was already in the Plan and that there would be a report back to the Committee on the culture of the Council (Minute no 6 refers). The External Audit Plan 2012/13 scheduled for November in the revised Plan, was moved back to January on the advice of the External Auditor.

**RESOLVED**

That the Work Plan and the amendments detailed above be noted, and further reports be brought back to the Committee on the suitability of further work being undertaken on procurement invoicing, and on the culture of the organisation

**14 COUNCILLOR J HAMMOND - LAST MEETING AS CHAIRMAN**

Councillor J Hammond reported that this was his last meeting as Chairman of the Committee as he was going to be involved in other areas of work. He had been a member of the Committee since its inception in 2010 and Chairman since 2011 and he thanked Members and Officers alike for all they had done to develop the work of the Committee. The Committee reciprocated and wished him well in his new duties.

The meeting commenced at 2.00 pm and concluded at 4.50 pm  
Councillor J Hammond (Chairman)

## AUDIT AND GOVERNANCE COMMITTEE

### PROGRESS WITH ACTIONS AGREED OR REPORTED AT THE MEETING ON 28 MARCH 2013 and 27 JUNE 2013

#### REPORTED FOR INFORMATION ONLY

MINUTE NUMBER AND ACTION	PROGRESS	COMPLETED
<p><b>49 EXTERNAL AUDIT PLAN 2012/13 (28/03/13)</b> It was agreed that that the emerging issues from the Audit Plan would be considered at the relevant Member/Officer groups.</p>	<p>The Member/Officer Groups have not met since the June Committee meeting; emerging issues will be considered at the next relevant group meeting.</p>	
<p><b>50 INTERNAL AUDIT PLAN 2013/14 (28/03/13)</b> It was agreed that</p> <ul style="list-style-type: none"> <li>• When a more detailed audit plan is available it will be shared with the specialist Member groups appointed by the Committee.</li>   <li>• Once guidance has been published all aspects of service delivery will be reassessed to ensure that there is proper migration to the new requirements and audit documents will then be updated to reflect the revised obligations.</li> </ul>	<p>The Audit Plan is shared with Members as part of the annual and interim internal audit update reports to the Committee.</p> <p>Report on new standards considered at meeting on 27/06/13. Update due to go to Committee on 27/9/13.</p>	<p>Yes</p> <p>In progress</p>
<p><b>51 AUDIT AND GOVERNANCE SELF ASSESSMENT (28/03/13)</b> Agreed that the detailed outcome of the review of the system of Internal Audit will be considered by the Committee as part of the Annual Governance Statement approval process.</p>	<p>Draft AGS discussed at Committee on 27/6/13 with final AGS due to be agreed on 27/9/13. Review included as part of evidence pack distributed to Members.</p>	<p>In progress</p>

ACTION	PROGRESS	COMPLETED
<p><b>52 WHISTLEBLOWING (28/03/13)</b>            Agreed that a further review of the Policy be carried out in 2013/14 and that it would include a survey of staff awareness and views on the arrangements.</p>	<p>Update report is included on the Work Plan for March 2014. Staff survey to be completed following the introduction of an e-learning package.</p>	<p>In progress.</p>
<p><b>53 RISK MANAGEMENT UPDATE (28/03/13)</b>            Agreed that</p> <ul style="list-style-type: none"> <li>• The Committee identify an area of risk on which to receive a briefing at the next meeting; Commissioning and Services Delivery Chains was duly identified.</li> <li>• The Risk Register from the Welfare Reform Working Group be brought to the next meeting.</li> </ul>	<p>The Executive Director of Strategic Commissioning attended the meeting on 27/06/13 to brief members on this. Risk Register from the Welfare Reform Working Group made available to the Committee.</p>	<p>Yes 27/06/13  Yes 27/06/13</p>
<p><b>55 COMPLIANCE WITH REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) (28/03/13)</b>            That a report be submitted to the Committee on the Inspectors findings and recommendations following his visit on 2 May 2013.</p>	<p>Considered at the meeting on 27/06/13</p>	<p>Yes 27/06/13</p>
<p><b>56 WORK PLAN 2012/13 (28/03/13)</b>            Agreed that</p> <ul style="list-style-type: none"> <li>• A report be brought to the Committee on the provision of training for Standards Hearings and on whether the agreed processes for dealing with complaints under the Members Code of Conduct should be reviewed.</li> <li>• That there be a report to the Committee on insurance arrangements for elected members.</li> </ul>	<p>Deferred, to come forward in due course.</p> <p>To be referred to the Corporate Risk Management Group for incorporation in their report, and to the Insurance Team</p>	

ACTION	PROGRESS	COMPLETED
<p><b>5 INTERNAL AUDIT ANNUAL REPORT 2012/13 (27/06/13)</b>            Agreed that the Chief Operating Officer discuss concerns regarding compromise agreements with the appropriate HR Officer or Member Group.</p>		
<p><b>6 DRAFT ANNUAL GOVERNANCE STATEMENT 2012/13 and 13 WORKPLAN 2013/14 (27/06/13)</b>            That the Chief Operating Officer report back on the most appropriate forum to measure and monitor improvement of organisational culture.</p>		
<p><b>7 DRAFT STATEMENT OF ACCOUNTS 2012/13 (27/06/13)</b>            That information on earmarked reserves and the schools balances be forwarded to Members.</p>	This information was circulated on 01/07/2013.	Yes
<p><b>8 ANNUAL REPORT ON RISK MANAGEMENT (27/06/13)</b>            That the Corporate Risk Management Group, the Chairman, the Executive Director of Strategic Commissioning and Cllr Marren consider further the most appropriate way of including the allocation of a measurement/score of risk on all on all written reports.</p>	In progress, discussed at the Corporate Risk Management Group and to be discussed with the Corporate Leadership Team.	
<p><b>9 AUDIT COMMITTEE UPDATE (27/06/13)</b>            That detailed financial information around emerging issues and developments be circulated to Members direct.</p>		
<p><b>10 PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND AUDIT CHARTER UPDATE (27/06/13)</b>            That further updates be bought to the Committee as and when necessary.</p>	To be considered by the Committee on 27/09/13.	In progress

ACTION	PROGRESS	COMPLETED
<p><b>13 WORK PLAN 2013/14 (27/06/13)</b>            That the Monitoring Officer, the Member/Officer Group and Cllr Marren discuss further the appropriateness of the requested Cardiff Review of 6 procurement invoices and report back to the Committee in due course.</p>	<p>The Member/Officer Groups have not yet met since the June Committee meeting but it can be included on the next agenda of the relevant group if Members still require.</p>	

## CHESHIRE EAST COUNCIL

### REPORT TO: AUDIT & GOVERNANCE COMMITTEE

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**Date of Meeting:** 27<sup>th</sup> September 2013  
**Report of:** Interim Chief Operating Officer  
**Subject/Title:** Grant Thornton – Audit Findings Report 2012/13  
**Portfolio Holder:** Councillor Peter Raynes (Finance)

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#### **1.0 Report Summary**

- 1.1 The Audit Findings Report will be presented to the Committee by Grant Thornton, the Council's external auditors. The report, appended to this paper summarises the findings from the 2012/13 Audit. It identifies the key issues that have been considered by Grant Thornton before issuing their opinion on the Council's financial statements and its arrangements for securing economy, efficiency and effectiveness in the use of resources.

#### **2.0 Recommendation**

- 2.1 That members receive and comment on the Audit Findings Report for 2012/13.
- 2.2 That members approve the letter of representation to be signed by the Interim Chief Operating Officer.

#### **3.0 Reasons for Recommendations**

- 3.1 The appointed auditors are required to report to those charged with governance. The Audit Findings Report presents the findings, conclusions and recommendations from audit work undertaken relating to the financial year 2012/13.

#### **4.0 Wards Affected**

- 4.1 Not applicable.

#### **5.0 Local Ward Members**

- 5.1 Not applicable.

#### **6.0 Policy Implications including - Climate change - Health**

- 6.1 None.

## **7.0 Financial Implications**

7.1 As covered in the report.

## **8.0 Legal Implications (Authorised by the Borough Solicitor)**

8.1 There are no specific legal implications with regard to this report.

## **9.0 Risk Management**

9.1 The Local Government Act 2003 and the Local Government and Housing Act 1989 require the Statement of Accounts to be produced in line with recommended accounting practices.

## **10.0 Background and Options**

10.1 The auditors are responsible for giving an opinion on:

- whether the accounts present a true and fair view of the financial position of the authority and its expenditure and income for the year in question;
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

10.2 The findings in relation to these areas are set out in the Audit Findings Report attached as Appendix A.

10.3 Appendix B is a draft copy of the letter of representation that the Interim Chief Operating Officer will sign. The purpose of the letter of representation is to provide specific assurances in relation to the financial statements.

10.4 As the Council's appointed auditors, representatives of Grant Thornton will attend the Committee to report their findings directly to Members.

## **11.0 Access to Information**

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

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# The Audit Findings for Cheshire East Council

# DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

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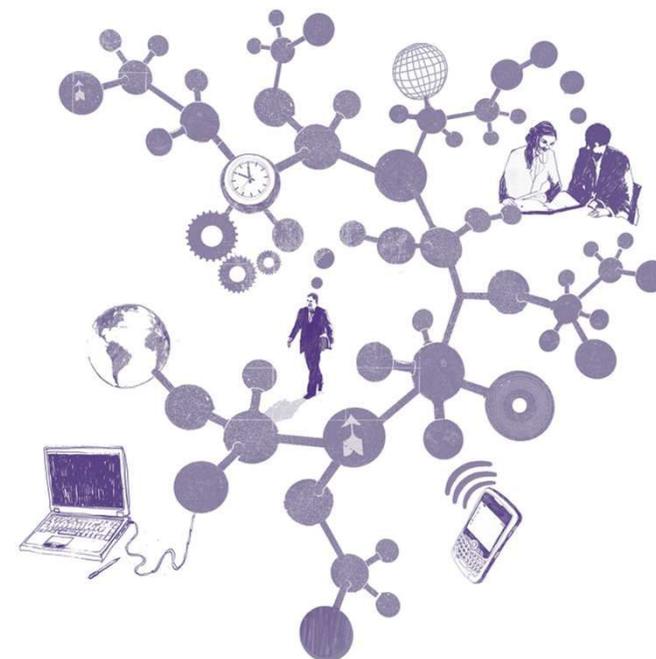
**Year ended 31 March 2013**

19 September 2013

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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### **Appendices**

- A Action plan
- B Audit opinion
- C Overview of Audit Findings

## Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Cheshire East Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change the planned approach we set out to you in our Audit Plan in March 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- Whole of Government Accounts;
- obtaining and reviewing the final management letter of representation;
- review of the final version of the Annual Governance Statement;
- updating post balance sheet events to the date of the opinion and;
- our final review of the audit file.

## Key issues arising from our audit

### Financial statements opinion

We expect to provide an unqualified opinion on the financial statements.

Our audit work has not identified any adjustments affecting the Council's reported financial position. The draft and audited financial statements record net expenditure of £436m. We have agreed with officers a number of adjustments to improve the presentation and disclosure of the financial statements.

The key messages arising from our audit of the financial statements are:

- no issues were identified which impact on the Council's reserves;
- the improvements noted in 2011/12 in the quality of the accounts presented for audit and in the working papers have been maintained. In addition the quality assurance arrangements on the production of the accounts improved;
- officers were available throughout our audit fieldwork to provide additional supporting information in a timely manner and to resolve our queries;
- management agreed to adjust all the errors identified during the audit. There are no unadjusted errors in the accounts;
- we identified some potential differences in the accounting treatment of the PFI scheme. These differences may lead to lower liability values in the Council's accounts. Any differences are unlikely to be material. The Chief Operating Officer has agreed to review the accounting treatment as part of the 2013/14 closedown.

Further details are set out in section 2.

### Value for money conclusion

We have some concerns about whether Cheshire East Council has proper arrangements to secure value for money in its use of resources. We expect to issue a qualified opinion that draws attention to those concerns by the 30 September deadline.

While we have concluded that the Council has adequate arrangements in place to secure financial resilience our work has identified areas where further improvements can be made. We also conclude that the Council has adequate arrangements for securing economy efficiency and effectiveness except for weaknesses in its:

- arrangements to procure goods and services;
- understanding of costs and performance; and
- arrangements to develop business proposals and manage significant projects.

With the exception of these matters, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

The Council made significant improvements to its arrangements to secure financial resilience, developing business proposals and managing major projects during the second half of 2012-13. These improvements address the weaknesses reported by the Audit Commission last year but were not in place for the whole of 2012-13.

Further details of our work on Value for Money is set out in section 3.

### Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any significant control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2.

### The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Interim Chief Operating Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Interim Chief Operating Officer and the finance team.

### Acknowledgment

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.

## Section 2: *Audit findings*

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

## Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 28 March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

### **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 28 March 2013.

### **Audit opinion**

We anticipate that we will provide the Council with an unqualified opinion on the accounts and an "except for" VFM conclusion. Our audit opinion is set out at Appendix B.

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• testing of journals entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p>	<p>Operating expenses understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• tested operating expenses including for unrecorded liabilities, whether the expense is valid, that the cost is recorded in the correct expenditure code and that VAT has been correctly treated.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Operating expenses</b></p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• substantive testing of payables and accruals including:                             <ol style="list-style-type: none"> <li>I. test of a sample of payables and accruals</li> <li>II. testing a sample of expenditure items</li> <li>III. assessment of robustness of assumptions and estimates underlying accruals and provisions</li> </ol> </li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

## Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Employee remuneration</b></p>	<p>Remuneration expenses not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• substantive testing of employee remuneration expenditure including                             <ol style="list-style-type: none"> <li>I. analytical procedure to determine whether movements in salaries and other pay related costs are reasonable and materially correct</li> <li>II. substantive testing on a sample of pay costs</li> <li>III. agreement of related disclosures to the payroll system or other appropriate source document.</li> </ol> </li> </ul>	<p>Our audit work identified errors in the compilation of Note 25 Officers' Remuneration (numbers in pay bandings incorrect), Note 26 Officers' Remuneration (salary costs understated for 3 officers), and Note 27 Termination Benefits (both amount and numbers of termination packages understated).</p>
<p><b>Welfare expenditure</b></p>	<p>Welfare benefits improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• substantive testing of welfare expenditure.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

## Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Property, plant &amp; equipment</b></p>	<p>PPE activity not valid</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• substantive testing of property, plant and equipment including existence, additions and disposals.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Property, plant &amp; equipment</b></p>	<p>Revaluation measurement not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• substantive testing of property, plant and equipment valuation.</li> </ul>	<p>Our audit work identified that revaluation losses and accumulated depreciation had not been properly disclosed in the Property, Plant and equipment note (Note 6). The net book value at 31 March 2013 is however unaffected.</p> <p>Some potential differences in the Council’s accounting treatment of its PFI scheme. These differences may lead to lower liability values in the Council’s accounts. Any differences are unlikely to be material. The Council has agreed to review the accounting treatment in 2013-14.</p> <p>Land associated with the Extra Care PFI scheme is overstated by £4.9m and has been removed from the asset register.</p>

## Audit findings against other risks

### Review of Information Technology (IT) Controls

As part of our planned programme of work, our information systems specialist team undertook a high level review of the general IT control environment at the Council. This was undertaken as part of the review of the internal controls system and included a follow up of the issues that had been raised by the previous auditor, the Audit Commission. We are pleased to report that no significant issues arose from our work, however, we identified a number of minor areas where the Council's existing IT arrangements can be further developed including :

- review of password settings for the Northgate application and consider implementing stricter password complexity rules
- ensure all leavers have their Northgate access rights revoked in a timely manner
- provide documented policies and procedures covering batch administration, monitoring and error handling in Northgate Revenues and Benefits.
- transfer of responsibility for administration security in Oracle Financials to IT system administrators without programming duties
- programmers should not have anything other than read only access to production environments
- periodic review of user accounts and group membership assignments in the active directory for appropriateness
- password complexity should be enforced within Oracle Financials.

Our recommendations are set out in Appendix A.

## Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Income is accounted for in the year the activity it relates to takes place, i.e. on accruals basis.</li> <li>Income is recorded when it is earned and not received.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's approach to accounting for income is robust and in accordance with industry practice</li> <li>Disclosure of the revenue recognition policy is adequate .</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include :                             <ul style="list-style-type: none"> <li>– useful life of capital equipment</li> <li>– pension fund valuations and settlements</li> <li>– revaluations</li> <li>– impairments</li> <li>– provisions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Where the Council has made judgements or estimates in the financial statements, these have been supported with robust methodologies and clear explanations of assumptions applied</li> <li>Disclosure of judgements and estimates is considered appropriate although we have recommended the approach to calculating the Council Tax and NNDR arrears bad debt provision be reviewed.</li> </ul>	 <b>Green</b>
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</li> </ul>	 <b>Green</b>

### Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

## Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on Council Reserves £000
1 The Council has included the land associated with the Extra Care Housing PFI scheme at £4.9m in the accounts . This is leased on a 99 year lease to the service provider at a peppercorn rent and should have been removed from the asset register. As noted earlier, accounting for the scheme is to be reviewed in 2013/14.	4,900	(4,900)	(0)
<b>Overall impact</b>	<b>£4,900</b>	<b>£(4,900)</b>	<b>£0</b>

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This excludes amendments of a narrative or typographical nature.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	4,900	Movement in Reserves	Reduction in usable reserves and increase in unusable reserves due to the removal of Extra Care Housing PFI land
2 Misclassification	4,900	Comprehensive Income & Expenditure Statement	Increase in loss on disposal of non current assets due to the removal of PFI land
3 Misclassification	4,900	Balance Sheet	Reduction in PPE with the removal of PFI land
4 Misclassification	1,513	Balance Sheet	Accrued interest on long term loans should be included in the Short Term Borrowing rather than Long Term.
5 Misclassification	31,222	Note 1	Incorrect analysis of adjustments involving the Capital Grants Unapplied Account. Both Grants and Contributions unapplied credited to the CIES and the Application of grants to capital financing overstated.
6 Misclassification	4,900	Note 1	Increase in the amount of non current assets written off due to removal of PFI land
7 Disclosure		Note 2	2011/12 comparatives omitted
8 Misclassification	4,900	Note 3	Losses on disposal increased due to the writing out of PFI land
9 Misclassification	109,996	Note 6	Losses on revaluation incorrectly treated as impairment losses. £109,996 was transferred from accumulated depreciation and impairment to revaluation decreases within cost or valuation.

## Misclassifications & disclosure changes

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
10	Misclassification	4,900	Note 6	Removal of PFI land has reduced the net book value of land and buildings in note 6 at 31 March 2013 by £4,900k.
11	Disclosure		Note 6	2011/12 comparatives for significant commitments under capital contracts omitted
12	Disclosure		Note 25	Analysis of staff by pay band incorrect. Totals are unchanged
13	Disclosure		Note 26	Salaries, fees and allowances for senior employees understated by £89k. Amounts understated relate to staff who left during the year
14	Disclosure		Note 27	Termination benefits understated by £365k. Number of exit packages understated by 25
15	Disclosure		Note 47	Explanation of liquidity, market and credit risk arising from financial instruments added
16	Disclosure		Note 48	Accounting policy for financial assets added to the Financial Instruments policy
17	Misclassification	4,951	Collection Fund	Income and expenditure reduced due to inclusion of NNDR scheme deferrals (£564k) and 2010/11 debit adjustments (£4,387k)

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have considered potential sources of significant fraud through our audit procedures. We have also discussed fraud controls and cases in year with officers and discussed fraud issues with the Audit and Governance Committee. We have not identified any material fraud during our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed. We have recommended to officers that gifts and hospitality returns for all departments and members should be centralised.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

# Value for Money

## Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following criteria specified by the Audit Commission :

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

The Council's new 3 Year Plan identifies its core purpose, reflects the changing role of local government, responds positively to the challenge of major funding reductions and is in line with national and local policy changes.

Following governance failings reported by internal audit, your previous auditor and the designated independent person's (DIP) review of Lyme Green there have been a number of changes in senior staff. The timing of these changes meant that three of the Council's most senior officers were interim appointments for large parts of 2012/13. Under the leadership of the interim Chief Executive the management team made good progress to address the reported issues. A number of improvements have been made since late 2012.

The Council has now appointed a permanent Chief Executive and is part way through implementing its new structures. This is an important step towards addressing the cultural weaknesses noted in its annual governance statement for 2012/13. It is also a key part of the Council's vision to become a commissioning body.

The new Chief Operating Officer arrives in October and the recently appointed monitoring officer joins later in the year.

## Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Our work included reviewing key documents and interviews with officers and some members. We have produced a separate report on Financial Resilience setting out our detailed findings. Our summary findings are outlined below.

Overall our work highlighted that whilst the Council has faced, and continues to experience significant financial pressures and risks, its current arrangements for securing financial resilience are adequate. Historically, the Council has a poor track record of delivering its budget without major variances. Following a number of improvements to budget monitoring and review processes in year the Council recorded a small underspend of £300,000.

During the latter part of 2012 and into 2013 the Council improved its financial planning and control arrangements in a number of key areas. For example:

- the 2013 -2016 MTFP is now the Council's over-arching strategy linked into its business plans and other strategy documents.

## Value for money

- a revised budget setting process is in place for 2014 with more explicit links to the Council's stated priorities and its sustainable community strategy;
- the introduction of a Financial Resilience Update (FRU) for Cabinet from July 2013. The update is designed to support Member decision making to help create a sustainable financial environment for the Council.

Our work has also identified areas where further improvements can be made:

- Budget monitoring and reporting processes continue to improve so that variances can be identified at an earlier stage and appropriate action is taken. But more needs to be done to ensure that tough decisions are taken when setting the budget rather than relying on services to deliver savings in year.
- The Financial Resilience Update reports introduced in July 2013 provide a suite of performance indicators, (PIs) and benchmark data to support better informed decision making across the Council. The relevant PIs need to be developed further and it is too early to see how well the information included in these reports will be used.
- While the Council recorded a small underspend for 2012/13 the outturn for the first quarter of 2013/14 indicates that services already face budget pressures totalling £7.5m, with identified remedial actions of £4.3m to mitigate these issues. Realistic forecasting is essential if the Council is to maintain control over its budget and avoid continuing to rely on remedial action late in the year.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within.

Our work included:

- reviewing how the Council is achieving efficiency through its savings programme;
- assessing how savings plans are produced through the Council's review of costs and consultation;
- reviewing the Council's processes for monitoring savings to achieve its financial targets; and
- a review of key documents and interviews with officers and members.

The Council's business planning process together with its budgeting process provide the main mechanisms for identifying savings and growth areas. But weaknesses in the application of these processes undermined its ability to show that it was providing value for money throughout 2012/13.

The Council recognised these weaknesses and introduced changes to address them during the year. Significant progress has been made to enable transparent decision making subject to appropriate risk management, challenge, scrutiny and review. The gateway model was introduced in August 2012, in part, to respond to the criticisms arising from the Lyme Green reports. A number of improvements have been made since late 2012. These include:

- the new gateway process for agreeing major projects and monitoring capital budgets;
- improvements to the business planning process;
- agreeing the three year plan;
- review and improvement of the council's performance management framework; and
- updated guidance and monitoring over the use of delegated decision notices.

## Value for money

The Council continues to experience significant in year budget pressures suggesting that its processes are not yet securing proposals that can be delivered within its means. This is unsurprising given the improvements made in response to the auditors vfm conclusion last year did not take effect until late 2012 onwards.

All of the Council's major change programmes are now supported by detailed business cases and implementation plans. These are reviewed by the member-led Executive Monitoring Board. The Board is now starting to provide robust challenge to managers and cabinet portfolio holders.

The Council revised its capital budget in December 2012 to £75m. But by 31 March 2013 the total spend was £51.4m – an underspend of £23.3m. While the gateway process is already improving capital planning processes there is more to do to ensure the Council can accurately set and manage a realistic capital budget. Inevitably this will need members to take tough decisions about what the Council can and cannot do and live within its means.

Efficiency and savings plans are reported in sufficient detail in the quarterly performance reports to members. However these reports lack detailed information on unit costs and limited use is being made of benchmarking data. As a result the Council is less able to monitor achievement of efficiencies and reductions in unit costs, and understand and consider any impact on service quality and provision. The Financial Resilience update reports introduced in July 2013 are starting to address this weakness.

The Council recognises that its approach to procurement needs to improve. It has recently engaged external consultants to undertake a health check of its procurement activity leading onto a detailed project to transform its' processes. At this early stage the Council are aiming to secure savings of some £1.85m.

The Council's vision is to become a commissioning authority in the medium term. It has already started to create arms length bodies to deliver some services. These include a development company , waste, leisure and bereavement services. In December 2012 the Council also set up a wholly owned company - Tatton Park Enterprises - to manage the park's catering services.

As it moves towards differing models of delivering services the Council will require robust governance and risk management both itself and also its arms length service providers. The Council also needs to ensure that its policies, procedures and decision making processes remain fit for purpose during this period of significant change. This is important to maintain proper governance and stewardship of public money, help ensure that any new bodies operate successfully and, importantly, demonstrate value for money.

In March 2013 OFSTED inspected the Council's arrangements for the protection of children. The arrangements were assessed as inadequate. The inspection assessed the Council's performance across three main areas - quality of practice (inadequate), effectiveness of help provided (adequate) and leadership & governance (adequate). OFSTED's main concerns related to management decision making and case planning. No children or young people were identified where immediate action was needed to protect them from significant harm.

The Council responded positively to the report with actions to address many of the issues raised already in place when it was published. For example, the Council planned the design of ChECS (Cheshire East Consultation Service) with partners over a number of months. This new service manages all contacts for children's services. It went live last April and will tackle a number of the issues raised in the inspection report.

No other significant issues were raised by OFSTED or other agencies that impact upon the vfm conclusion.

# Value for Money

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

## Qualified VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013, except for weaknesses in its:

- arrangements to procure goods and services.
- understanding of costs and performance.
- arrangements to develop business proposals and manage significant projects.

As a result of the issues identified during our work, the Council was unable to demonstrate that it was prioritising resources within budgets - in a planned way - and achieving sustainable cost reductions alongside greater efficiencies and improved productivity.

The Council made significant improvements to its arrangements to develop business proposals and manage major projects during the latter part of 2012/13. These improvements address the weaknesses reported by the Audit Commission last year but were not in place for the whole of 2012/13.

## Section 4: Fees, non audit services and independence

01. Executive summary

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05. Communication of audit matters

## Fees, non audit services and independence

We confirm below our final fees charged for the audit and the provision of non-audit services during 2012/13.

### Fees excluding VAT

	Per Audit plan £	Actual fees £
Council audit	205,050	205,050
Grant certification (to be confirmed after grants audit complete)	41,600	41,600
<b>Total audit fees</b>	<b>246,650</b>	<b>246,650</b>

### Fees for other services

Service	Fees £
No non audit services were provided to the Council	0

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

## Section 5: Communication of audit matters

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
- 05. Communication of audit matters**

# Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

# Appendices

## Appendix A: Action plan - Accounts

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council needs to review the calculation of the Council Tax and NNDR bad debt provisions. The current methodology uses 2001/02 arrears as the basis for the calculation. However, those arrears will have been reduced by amounts written off . As a result, provisions will be understated but not by a material amount.	Medium		
2	The gifts and hospitality returns are maintained via paper returns for both members and officers. Returns for members are maintained by the Council's monitoring officer and for officers, by their managers. The Council should consider centralising gifts and hospitality returns for all departments and members.	Medium		
3	The Council should review and strengthen its procedures for producing the officers' remuneration and termination payments notes (Notes 25, 26 & 27).	Medium		

## Appendix A: Action plan – Information Technology

**Priority**

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	The responsibility of administering security within Oracle Financials should be performed by IT system administrators who do not perform programming duties, and the practice of granting programmers greater than read-only access into production environments should be halted.	Low		
5	Password complexity should be enforced within Oracle Financials.	Low		
6	Management should periodically perform formal reviews of user accounts and group membership assignments within Active Directory for appropriateness.	Low		
7	Documented policies and procedures covering batch administration, monitoring and error handling within Oracle Financials should be established. These should be formally approved by the appropriate officers and communicated to relevant staff.	Low		

## Appendix A: Action plan – Value for Money

**Priority**

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
8	Follow the principles set out in the revised budget setting process to ensure that budgets are realistic at the outset and therefore less reliant on remedial savings during the year.	High		
9	Ensure that the capital budget is set at a realistic level at the start of the financial year by identifying only core projects that the Council can afford , are linked to its strategic objectives and therefore avoid in year slippage.	High		

## Appendix A: Action plan – Value for Money

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
10	Gain a greater understanding of unit costs to identify areas for potential savings and refer to these alongside benchmarking data in the Financial Resilience Update Report to make more informed management decisions.	High		
11	Apply the recommendations from the procurement transformation project as it develops to deliver the necessary procurement savings.	High		
12	Ensure that robust governance and risk management arrangements are embedded in the Council and in the emerging arms length companies being created by the Council.	High		

## Appendix A: Action plan – Value for Money

**Priority**

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
13	Ensure that the Council's policies, procedures and decision making processes remain fit for purpose during the period of significant change to a commissioning authority.	High		
14	Ensure that Council policies are followed and decision making is – and is seen to be - transparent to the public when developing business plans and entering into significant projects.	High		

## Appendix B: Audit opinion

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESHIRE EAST COUNCIL

#### Opinion on the Authority financial statements

We have audited the financial statements of Cheshire East Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Cheshire East Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Chief Finance Officer and Auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements: give a true and fair view of the financial position of Cheshire East Council as at 31 March 2013 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

#### Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we report by exception

- We report to you if:
- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
  - we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
  - we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
  - we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

#### Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

##### *Respective responsibilities of the Authority and the auditor*

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

***Basis for qualified conclusion***

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered weaknesses identified in the following areas:

- Arrangements to procure goods and services
- Understanding of costs and performance.
- Processes to develop business proposals and manage significant projects

As a result of the issues identified during our work, the Council's is unable to demonstrate that it was prioritising resources within budgets in a plane way and achieving sustainable cost reductions alongside greater efficiencies and improved productivity.

***Qualified conclusion***

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects Cheshire East Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

***Certificate***

We certify that we have completed the audit of the financial statements of Cheshire East Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Judith Tench  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building  
Liverpool  
L3 1PS

September 2013

## Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 28 March 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	Yes – page 11
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	Yes – page 12
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

## Audit findings

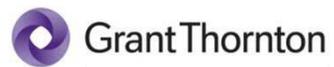
Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	Yes – page 12
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	Yes – page 16
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	Yes – page 16



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Grant Thornton UK LLP  
4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

27 September 2013

Dear Sirs

Cheshire East Council

Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of Cheshire East Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.
- viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.
- ix We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council
- x and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xi We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xii We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council 's ability to continue as a going concern need to be made in the financial statements.

**Information Provided**

- xiii We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xiv We have communicated to you all deficiencies in internal control of which management is aware.
- xv All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvi We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xvii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xviii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xix We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xx We have disclosed to you the entity of the Council 's related parties and all the related party relationships and transactions of which we are aware.

**Annual Governance Statement**

xxi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

**Approval**

The approval of this letter of representation was minuted by the Council 's Audit and Governance Committee at its meeting on 27 September 2013.

**Signed on behalf of the Council**

Name: Rachel Musson

Position: Acting Chief Operating Officer

## CHESHIRE EAST COUNCIL

### REPORT TO: AUDIT & GOVERNANCE COMMITTEE

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<b>Date of Meeting:</b>	27 <sup>th</sup> September 2013
<b>Report of:</b>	Interim Chief Operating Officer
<b>Subject/Title:</b>	Grant Thornton – Review of the Council’s Arrangements for Securing Financial Resilience
<b>Portfolio Holder:</b>	Councillor Peter Raynes (Finance)

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#### **1.0 Report Summary**

- 1.1 The report provides the key findings from a review of the Council’s arrangements for securing financial resilience by the external auditors – Grant Thornton.

#### **2.0 Recommendation**

- 2.1 That members receive and comment on the Financial Resilience Report for 2012/13, which is attached as Appendix A.

#### **3.0 Reasons for Recommendations**

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

#### **4.0 Wards Affected**

- 4.1 Not applicable.

#### **5.0 Local Ward Members**

- 5.1 Not applicable.

#### **6.0 Policy Implications including - Climate change - Health**

- 6.1 None.

#### **7.0 Financial Implications**

- 7.1 As covered in the report.

#### **8.0 Legal Implications (Authorised by the Borough Solicitor)**

- 8.1 There are no specific legal implications with regard to this report.

## **9.0 Risk Management**

- 9.1 The report is in part seeking to identify where the Council is exposed to financial risks and how well placed it is to manage them. By ensuring the Council maintains robust systems of financial management and an effective scrutiny function the potential risks the Councils faces can be minimised.

## **10.0 Background and Options**

- 10.1 As part of the work to inform their value for money assessment, the external auditors review whether the Council has proper arrangements in place to secure financial resilience.
- 10.2 The review considers whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- 10.3 As the Council's appointed auditors, representatives of Grant Thornton will attend the Committee to report their findings directly to Members.

## **11.0 Access to Information**

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

Name: Joanne Wilcox  
Designation: Corporate Finance Lead  
Tel No: (01270) 685869  
Email: [joanne.wilcox@cheshireeast.gov.uk](mailto:joanne.wilcox@cheshireeast.gov.uk)

# Review of the Council's Arrangements for Securing Financial Resilience Cheshire East Council

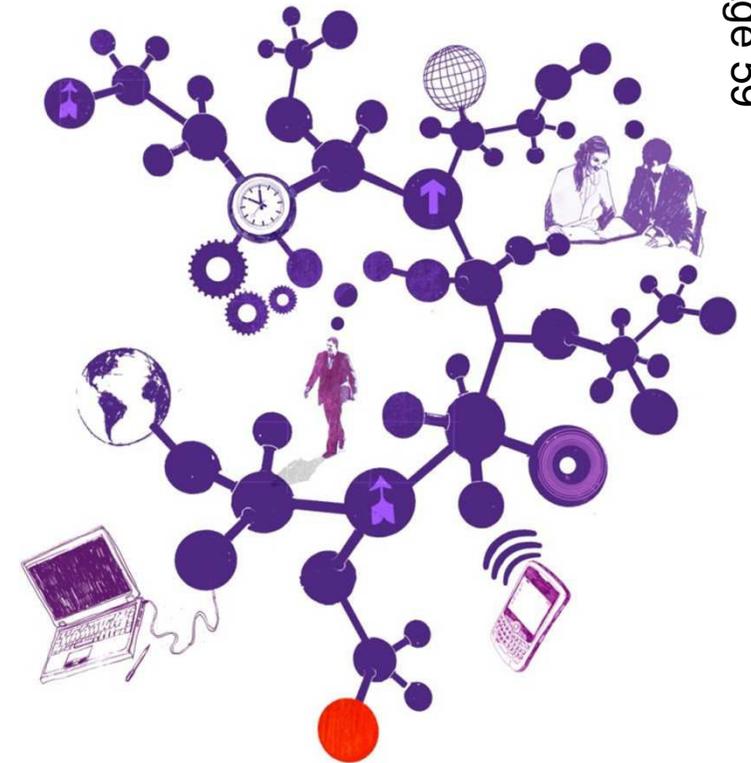
**Year ended 31 March 2013**

27 September 2013

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

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**1 Executive Summary**

**2 Key Indicators**

**3 Strategic Financial Planning**

**4 Financial Governance**

**5 Financial Control**

**Appendix - Key indicators of financial performance**

# Executive Summary

## Our approach

### Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at key indicators of financial performance and its approach to:

- strategic financial planning;
- financial governance; and
- financial control.

Overall we have assessed the Council as  **Amber**

While the Council has faced significant financial pressures, and continues to do so, its current arrangements for securing financial resilience are satisfactory. The Council's arrangements have continued to evolve since 2009 and a number of important improvements were made during 2012-13. Further improvements are being made in 2013-14.

Historically, the Council has had a poor track record of delivering its budget without major variances. Having made a number of improvements to budget monitoring and review processes in year the Council recorded a small underspend of £300,000 in March 2013.

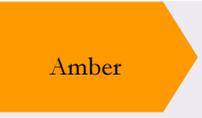
The Council will continue to face challenging financial pressures and members will need to take tough decisions during the budget setting process to ensure that a realistic budget is set. This should also reduce the need to find additional savings in year.

During the latter part of 2012 and into 2013 the Council improved its financial planning and control arrangements in a number of key areas. For example agreeing the 2013 - 2016 Medium term Financial Plan, (MTFP), a revised budget setting process for 2014 and introducing the Financial Resilience Update for Cabinet in July 2013.

We have also identified areas where further improvements can be made including ensuring:

- a robust budget setting process that secures a realistic budget for services to deliver;
- that its governance and risk management processes both within the council and also with future service providers are robust;
- understanding and compliance with processes and procedures; and
- that its decision making processes are - and are seen to be - clear and transparent and subject to appropriate scrutiny, challenge and review.

We have used a red/amber/green (RAG) rating with the following definitions.

 Green	<b>Arrangements meet or exceed adequate standards.</b> Adequate arrangements identified and key characteristics of good practice appear to be in place.
 Amber	<b>Potential risks and/or weaknesses.</b> Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
 Red	<b>High risk:</b> The Council's arrangements are generally inadequate or may have a high risk of not succeeding

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# Executive Summary

## National and Local Context

### National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920's. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his 2011 Autumn Statement, announced further reductions of 0.9% in real terms for 2015-16 and 2016-17. In his 2012 Autumn Statement, the Chancellor reinforced austerity measures announcing a further £6.6bn for 2013-2015. Whilst health and schools will continue to be protected local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget, the Chancellor announced further departmental savings of 1%. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% in both 2013-14 and 2014-15.

In June 2013 the Chancellor announced that local government will face a further 10% funding reduction in 2015-16..

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge. Financial austerity is expected to continue until at least 2017.

### Local Context

The Council's 2012-13 net budget of £239m was set in the context of significant funding reductions and the need to generate some £21.7m in savings in-year. As expected, the Council experienced greatest cost pressures within adults, (£7m), and children's, (£8.9m), services. At the year-end the Council reported a small underspend of £300,000 - having made its planned contribution of £7.6m to its general reserves. The Council's general reserves of £19m are now more in line with the level of financial risk set out in its medium term financial plan.

The challenging financial climate has continued to shape the Council's borrowing strategy - to use cash balances to fund capital expenditure rather than raise new loans. This approach has been used successfully for a number of years given the low interest rates available for cash investments.

The Council spent £51.4m, (61%), of its approved capital budget of £83.8m for 2012-13. This underspend followed a comprehensive review of the programme during the year to focus upon initiatives with the highest priority and closest links to the Council's strategic objectives.

Following governance failings reported by internal audit, the Council's previous auditor and the designated independent person's (DIP) review of Lyme Green there have been a number of changes in senior staff. The timing of these changes meant that three of the Council's most senior officers were interim appointments for large parts of 2012-13. Under the leadership of the interim Chief Executive the management team made good progress to address the reported issues.

The new Chief Executive will complete the organisation re-structure during 2013-14. This is an important step towards addressing the cultural weaknesses noted in the Council's annual governance statement for 2012-13. It is also a key part of its vision to become a commissioning body.

# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<p><b>Key Indicators of Performance</b></p>	<ul style="list-style-type: none"> <li>The Council reports a healthy balance sheet, with net assets of £238.6m, (£377.9m at 31 March 2012), a reduction of £139.3m. This is largely as a result of an increase in the pension liability of £71.1m and a reduction in non current assets of £71m.</li> <li>The working capital ratio has remained low compared to similar councils however should improve in 2013-14 once the Local Enterprise Partnership grant creditor is utilised.</li> <li>Cash and cash equivalent balances have fallen by £1.9m to £32.7m at the year end but remain high.</li> <li>The Council's 2012-13 revenue outturn was an underspend of £300,000 with in-year capital spending of £51.4m. The capital budget was underspent by £23.3m compared to the revised capital programme approved in December 2012.</li> <li>The Council's sickness absence rates have increased marginally to 9.55 days, compared to a target of 8.5 days. The Council needs to continue monitoring sickness absence rates at a detailed level to identify outliers, and take appropriate action.</li> </ul>	<p style="text-align: center;">● Green</p>
<p><b>Strategic Financial Planning</b></p>	<ul style="list-style-type: none"> <li>A Medium Term Financial Plan (MTFP) is in place covering the period 2013 to 2016. The Plan is regularly reviewed. It identifies budget shortfalls, for which the Council is yet to identify savings of £8.3m in 2014-15 and £14.1m in 2015-16. The Council will need to ensure the MTFP remains responsive given the scale of savings it has still to deliver alongside progressing its ambitious plans to become a commissioning body.</li> <li>The key planning assumptions cover the main areas which impact on the Council's operations.</li> <li>The Council experienced significant management turnover during 2012-13. It is now completing a comprehensive re-structure expected to improve efficiency and cut costs.</li> <li>The Council's business and financial planning process encourages teams to consider radical alternative ways of providing services including collaborative arrangements. Throughout this process of change the Council must ensure that proper risk management and due diligence assessments are carried out and supported by effective governance and decision making processes.</li> </ul>	<p style="text-align: center;">● Green</p>

# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<p><b>Financial Governance</b></p>	<ul style="list-style-type: none"> <li>The Council's approach to financial governance continues to develop. Both members and officers have a strong focus on the its financial position with clear engagement in the financial management process.</li> <li>Under the leadership of the interim Chief Executive the management team made good progress to address the issues reported by internal audit, the Council's previous auditor and the designated independent person's (DIP) review of Lyme Green.</li> <li>Budget monitoring and reporting processes continue to improve so that variances can be identified at an earlier stage and appropriate action is taken. But more needs to be done to ensure that tough decisions are taken when setting the budget rather than relying on services to deliver savings in year.</li> <li>The Council's new Financial Resilience Update Report in 2013-14 provides better information to members in terms of key financial health indicators for example working capital ratio and improved benchmark data. This reporting suite will be further developed during 2013-14.</li> <li>The Audit and Governance Committee provides adequate challenge, however committee needs to focus on its terms of reference and ensure that its agendas and discussions reflect its responsibilities.</li> <li>The Council's project management decision making processes have improved with the gateway approval process although there remains a need to ensure the approach is clear, transparent and subject to appropriate scrutiny, challenge and review – and be seen to be so.</li> <li>The Council has a significant number of corporate policies and procedures not all of which are fully understood and embedded across the Council. Compliance with these polices and procedures needs to be properly monitored and reviewed to ensure that they are followed and also that they remain appropriate during the Council's transition to its new operating model.</li> <li>The Council has a strong outward focus and considers some external performance data. But it needs to demonstrate a more robust use of national benchmarking information.</li> </ul>	<p>High level risk assessment</p> <p> Amber</p>
<p><b>Financial Control</b></p>	<ul style="list-style-type: none"> <li>The Council's approach to financial and performance reporting continues to develop. Good progress is also being made to improve the Council's performance management framework including a suite of indicators for the Corporate Leadership Board.</li> <li>In-year financial forecasting is improving. In the final quarter the Council addressed budget pressures and managed its outturn position to report a small surplus of £300,000. The final position was also helped by some additional income.</li> <li>The outturn for 2013-14 quarter one shows that services already face budget pressures of £7.5m, with action agreed to mitigate £4.3m. Realistic forecasting is essential if the Council is to keep control over key cost categories. In 2013-14, the rebasing of budgets (done in December 2012) is starting to show an improvement in budget setting and forecasting.</li> <li>Internal Audit concluded that for 2012-13, the Council's framework of governance and internal control was satisfactory. This provides reasonable assurance regarding the economic, efficient and effective achievement of its objectives.</li> </ul>	<p>High level risk assessment</p> <p> Amber</p>

# Executive Summary

Area of review	Key points for consideration	Responsibility	Timescale	Management response
<b>Financial Governance</b>	<ul style="list-style-type: none"> <li>Continue to develop the budget setting process so that the agreed budget is realistic and not dependent upon securing in year savings.</li> <li>Revisit the Terms of Reference of the Audit and Governance Committee to ensure the member oversight is operating effectively.</li> <li>The Council should ensure the gateway approval process is embedded and used consistently to support the implementation of the Council's objectives.</li> </ul>	Finance/Democratic Services	Throughout 2013-14	Financial Resilience update is due for publication in October 2013.  TEG/EMB processes and discipline are now embedded in to the budget setting and monitoring processes.
	<ul style="list-style-type: none"> <li>Ensure that proper stewardship and governance arrangements are in place in new provider bodies as the Council moves towards a commissioning model.</li> <li>Ensure that compliance with the Council's policies and procedures is properly monitored and reviewed to ensure they are followed and also remain appropriate during the Council's transition to its new operating model.</li> </ul>	TBA	On going as bodies develop	Governance arrangements will be monitored. MTFP will remain responsive and engage CLB and members at regular points throughout the year.
<b>Financial control</b>	<ul style="list-style-type: none"> <li>The Council needs to ensure that realistic spending plans are built into the budget to ensure that in year budget variances are less common and there is less reliance on late remedial measures to achieve financial balances</li> </ul>	Finance	December 2013	Identification of potential budget variations will continue to focus on highlighting issues to CLB/Informal Cabinet via a monthly report. This in turn should lead to improved year end forecasting. However, prudent forecasting will have to remain a feature of the reporting cycle especially where there is dependency placed on data or income from external sources.

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# Key Indicators

## Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure
- Schools Reserves - Balances to DSG allocations

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following 15 authorities:

- Herefordshire Council
- Bedford Borough Council
- Trafford Metropolitan Borough Council
- Central Bedfordshire Council
- Warrington Borough Council
- East Riding of Yorkshire Council
- Shropshire Council
- Bath and North East Somerset Council
- Stockport Metropolitan Borough Council
- South Gloucestershire Council
- City of York Council
- Cheshire West and Chester Council
- Wiltshire Council
- North Somerset Council
- Cheshire East Council

# Key Indicators

## Overview of performance

Area of focus	Summary observations	Assessment
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>The Council's working capital ratio was low (0.88) at 31 March 2012 and remains low compared to similar authorities at 31 March 2013. This is primarily due to the Council holding the Growing Places grant creditor of £13m which funds the Cheshire and Warrington Local Enterprise Partnership (LEP). The LEP expects to use this money during 2013-14.</li> <li>The Council has retained its position among the top third of Unitary Councils in terms of council tax collection. Over 99% of Council Tax and Business Rates for 2011-2012 have been collected.</li> </ul>	 <b>Green</b>
<b>Borrowing</b>	<ul style="list-style-type: none"> <li>The Council's long term borrowing ratio (as a percentage of tax revenue) was the lowest of the comparator group in 2011-12 at 0.61, (at 0.63 in 2010-11) . Year end borrowing as at 31 March 2013 remains unchanged compared to March 2012.</li> <li>Following an in-year review of the balance sheet, undertaken by Treasury Advisors - Arlingclose, the Council decided to use existing capital reserves to finance capital expenditure which had in previous years been met from borrowing. In 2012-13 £15.6m was applied from capital reserves to repay borrowing for assets purchased after 2008.</li> <li>Borrowing is being repaid at a rate of £5.5m per year underpinned by the Treasury Management Strategy to finance capital expenditure from cash balances rather than raise long term loans.</li> </ul>	 <b>Green</b>
<b>Workforce</b>	<ul style="list-style-type: none"> <li>The Council employed 8,225 full time equivalents (FTEs) at 31 March 2013 – compared to 8,326 FTEs as at 31 March 2012. Some of the reduction is due to schools becoming academies. The overall reduction in staffing reduced the Council's pay bill by £21.7m - from £299.3m in 2011-12, to £277.6m in 2012-13.</li> <li>During 2012-13 the contracts of 110 staff were terminated at a cost of £2.631m (£4.820m in 2011-12). Of this total £2.25m was paid to 103 staff who were made redundant as part of the rationalisation of various services. A further £407,000 was paid to seven senior officers in the form of compensation for loss of office and enhanced pension benefits.</li> <li>Sickness absence in 2012-13 totalled 9.55 days per employee against a target of 8.50 days. This was reported to Cabinet on 24 June 2013 as part of the Corporate Scorecard. The Council needs to closely monitor sickness absence at a sufficiently detailed level to identify outliers, and take appropriate action. An action plan now exists to improve sickness levels – this includes the introduction of an employee assistance programme during 2013-14. The Council is now reporting sickness performance monthly to CLB and the informal Cabinet and is already seeing a reduction in absence levels.</li> </ul>	 <b>Green</b>

# Key Indicators

## Overview of performance

Area of focus	Summary observations	Assessment
<b>Performance Against Budgets: revenue &amp; capital</b>	<ul style="list-style-type: none"> <li>The Council's 2012-13 outturn position was a £300,000 underspend against its revenue budget of £239m .</li> <li>To achieve the revenue budget, the Council addressed budget pressures of £24.2m in Q4 of 2012-13 with remedial actions of £22.4m. This was supplemented by additional income particularly within Adults Service (health contribution for complex care £0.5m, winter pressures £0.5m, re-ablement funding £0.5m) and within corporate services (benefits subsidy £0.5m) .</li> <li>In-year capital spending was £51.4m, representing a £23.3m underspend compared to the revised capital programme which was approved by the Council on 13 December 2012.</li> </ul>	 <b>Amber</b>
<b>Reserve Balances</b>	<ul style="list-style-type: none"> <li>The Council increased its General Fund Reserves by £7.6m to £19m at March 2013 year end. This is in line with planned contributions. This takes the Council close to the £22.9m opening reserve position at 1 April 2009.</li> <li>The increase in General Reserves provides the Council with greater flexibility to manage its finances as it moves towards becoming a commissioning council. This is an improvement on the position of the last two years where reserves have only been adequate to cover risks.</li> </ul>	 <b>Green</b>
<b>Schools Balances</b>	<ul style="list-style-type: none"> <li>Schools balances have fallen by £2.3m to £12.6m at the year end. The key reasons for the reduction in balances relate to:               <ul style="list-style-type: none"> <li>funding cost pressures facing schools; and</li> <li>the transfer of balances following moves to academy status.</li> </ul> </li> <li>The Council plans to undergo an external revaluation of all schools. This process commenced with 16 schools in 2012-13 with 110 remaining for 2013-14.</li> <li>Two schools converted to Academy status during 2012-13.</li> </ul>	 <b>Green</b>

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# Strategic Financial Planning

## Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
<b>Focus of the MTFP</b>	<ul style="list-style-type: none"> <li>The Council appointed a new Leader in May 2012 and an interim Chief Executive joined in August 2012. Working together the new Leader and interim Chief Executive quickly recognised the need to provide clearer strategic direction and leadership - this is reflected in the 2012-13 MTFP and the new sustainable community strategy</li> <li>The longer term 2013 to 2016 MTFP was approved by the Council in February 2013. This plan sets out the core purpose of the Council, reflects the changing role of local government, responds positively to the challenge of major funding reductions, and is in line with policy changes at both national and local levels. It also reflects the major change programmes for service delivery in Cheshire East.</li> <li>The MTFP includes high level scenario analysis, the financial impact of pressures including business rate receipts, localisation of council tax benefit and the increase in academies. It now adequately considers significant funding changes, pressures and other scenarios which impact on the Council.</li> </ul>	 <b>Green</b>
<b>Adequacy of planning assumptions</b>	<ul style="list-style-type: none"> <li>The key planning assumptions include income, inflation, the Council's asset base and how these help deliver strategic priorities and service needs. Expected levels of council tax inflation and central government funding are adequately addressed. Council tax is frozen for 2013-14 and 2014-15.</li> <li>The key financial risks are identified in the plan for 2013-14 and properly addressed. These are set out as:               <ul style="list-style-type: none"> <li>- outturn spending against the budget;</li> <li>- increasing demand for services;</li> <li>- flexibility in general reserve levels;</li> <li>- reducing government grants;</li> <li>- movement towards local funding for local services; and</li> <li>- inflationary pressures.</li> </ul> </li> <li>However at the end of quarter one 2013-14 outturn is already showing budget pressure of £7.5m. Corrective action is already in place to address £4.3m of this pressure. The most recent forecast for 2013-14 is an overspend of £3.7m. The Council will have to continue to closely monitor performance and redress the shortfall during the remainder of 2013-14.</li> </ul>	 <b>Green</b>

# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
<b>Scope of the MTFP and links to annual planning</b>	<ul style="list-style-type: none"> <li>The MTFP is the over-arching strategy of the Council which fits into other strategies and business plans. The business challenge process has continued to develop during 2012-13. It encourages radical thinking and challenges service delivery and alternative ways of working including collaborative working. This process must continue to develop and become fully embedded in 2013-14.</li> <li>The MTFP and budget for 2013-14 adequately reflect the Council's proposals after consideration of all relevant information. However the MTFP identifies budget shortfalls of £8.3m in 2014-15 and £14.1m in 2015-16. Again, this will require members to take difficult decisions to agree a balanced budget at the same time as moving towards the new operating model.</li> <li>Significant progress was made during 2012-13 to enable informed transparent decision making which are subject to appropriate scrutiny and risk management using the Gateway model. The model was introduced in August 2012 to provide overall assurance and controlled start up of major projects. This was in part a response to address criticisms around business planning and governance arrangements reported in 2012. The Gateway process is made up of the new Executive Management Board (EMB) and Technical Enabler Group (TEG). Monthly meetings of these groups are held to review, challenge and endorse all new major projects and programmes. EMB also oversees the monthly monitoring of major projects and programmes to ensure the objectives of capital projects are consistent with the Council's MTFP and its strategic objectives.</li> <li>The Council experienced significant management turnover during 2012-13. It is now completing a comprehensive re-structure expected to improve efficiency and cut costs. The revised structure is an important element of the Council's vision to become a commissioning authority in the medium term.</li> <li>It has already started to create arms length bodies to deliver some services. These include a development company, waste, leisure and bereavement services. In December 2012 the Council also set up a wholly owned company - Tatton Park Enterprises - to manage the park's catering services. Outsourcing of services follows the government's agenda but the Council must ensure that governance arrangements are in place to ensure the new bodies operate successfully.</li> </ul>	 <b>Amber</b>
<b>Review processes</b>	<ul style="list-style-type: none"> <li>An established review process is in place to update the MTFP each year. It is also kept under review in the light of changing circumstances. This is particularly relevant given the current financial pressures in funding from central government. The MTFP is monitored and reported to Members throughout the year.</li> <li>A revised budget setting process for 2014-15 onwards was approved by Council in July 2013. This recognises that the budget setting process for 2014-17 requires closer links to the Sustainable Community Strategy and Council Plan Priorities.</li> </ul>	 <b>Green</b>
<b>Responsiveness of the Plan</b>	<ul style="list-style-type: none"> <li>The MTFP is refreshed annually including financial risks and a detailed budget setting approach is agreed. The key financial risks to achieving the plan are clearly explained to Members.</li> </ul>	 <b>Green</b>

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## Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

### Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

### Engagement

- There is engagement with stakeholders including budget consultations.

### Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	Assessment
<b>Understanding the Financial Environment</b>	<ul style="list-style-type: none"> <li>The Executive Management Team monitor the financial position on a monthly basis. Executive members also maintain a strong focus on the financial position through the challenge process.</li> <li>Historically, the Council has a poor track record of delivering its budget without major variances. A number of improvements were made during 2012-13 to improve budget setting and in year monitoring and reporting. The revenue budget was achieved for 2012-13 with a small surplus.</li> <li>Members receive regular briefings and attend training days at which issues such as financial scenario planning, growth agenda issues and capital programming are considered.</li> </ul>	 <b>Green</b>
<b>Executive and Member Engagement</b>	<ul style="list-style-type: none"> <li>The level of senior management and member level engagement in the financial management process remains appropriate. Quarterly budget update reports are presented and debated at Council.</li> <li>The introduction of the Financial Resilience Update (FRU) for Cabinet in July 2013 is a significant step. The overall aim of the FRU is to support member decision making and help create a sustainable financial environment for the Council. The approach is intended to promote decisions that can make a valuable difference to residents in the medium and long term and place less focus on detailed day-to-day operational management. The intention is for the report to act as a guide at the start of the planning process and then be reviewed periodically to include updated plans and reports. New charts and data can be added as members become more engaged with the process.</li> <li>The Audit and Governance Committee provides adequate challenge. However, the committee needs to focus on its terms of reference and ensure that its agendas and discussions reflect its responsibilities. A new Chair of the Audit and Governance Committee takes over in September 2013 – this provides a good opportunity to refresh the committees terms of reference and review its performance.</li> </ul>	 <b>Green</b>

# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	Assessment
<b>Overview for controls over key cost categories</b>	<ul style="list-style-type: none"> <li>Budget reporting arrangements are in place for both revenue and capital in the form of quarterly performance reports during 2012-13.</li> <li>Variances to budget were identified in a timely way and clearly reported to the Executive. However, in year variances are typically too high which causes uncertainty and prevents effective control.</li> <li>The outturn for 2013-14 quarter one shows that services already face budget pressures totalling £7.5m, with identified remedial actions of £4.3m to mitigate these issues. Realistic forecasting is essential if the Council is to keep control over key cost categories.</li> <li>The Council's 2011-12 VFM conclusion was qualified because its processes to develop business proposals and manage significant projects needed to be improved. A lot of progress has been made since late 2012 including the introduction of the gateway process.</li> <li>Good progress is also being made to improve the Council's performance management framework including a proposed suite of indicators. The latest proposals were shared with the Corporate Leadership Board in September 2013.</li> </ul>	 <b>Amber</b>
<b>Budget reporting: revenue and capital</b>	<ul style="list-style-type: none"> <li>While in-year financial forecasting is improving it remained unreliable for much of the year. At 31 December 2012 the Council reported an expected revenue budget overspend of £6.8m with services reporting emerging pressures of £21.5m. At that stage remedial action to mitigate these pressures totalled £14.7m.</li> <li>In the final quarter of the year the Council addressed its budget pressures and managed its outturn position to report a small surplus of £300,000 against its revenue budget of £239m. The final position was also helped by some additional income particularly within the adults service (health contribution for complex care £0.5m, winter pressures £0.5m, re-ablement funding £0.5m) and within corporate services (benefits subsidy £0.5m). In quarter three, the Council recognised that this additional income was likely but remained prudent by not recognising it until it was secured. The Council needs to forecast more accurately and plan for revenue streams rather than rely on late solutions.</li> <li>In-year capital spending was £51.4m, representing a £23.3m underspend compared to the revised capital programme approved by the Council on 13 December 2012. The Council needs to more accurately identify and agree capital schemes and agree a realistic capital budget. Good progress is now being made through the use of the gateway approval process.</li> <li>Whilst the Council has a strong outward focus and considers some external performance data, it needs to demonstrate a more robust use of national benchmarking information. This is developing in 2013/14 with the Financial Resilience Update which provides better information to members in terms of key financial indicators and benchmark data. This reporting suite will be further embedded and developed during 2013-14.</li> </ul>	 <b>Amber</b>

# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	Assessment
<b>Adequacy of other committee reporting</b>	<ul style="list-style-type: none"><li>• Overall the Council has satisfactory reporting arrangements in place. The new Financial Resilience updates will provide better information to members including key financial health indicators and improved benchmark data.</li><li>• There have been instances in previous years relating to the adequacy and transparency of Council decision making, especially in relation to the Lyme Green waste transfer station. Whilst the Council's decision making processes have improved, there remains a need to ensure the approach is clear, transparent and subject to appropriate scrutiny, challenge and review - and be seen to be so.</li></ul>	 Amber
<b>Monitoring and review</b>	<ul style="list-style-type: none"><li>• Following governance failings reported by internal audit, the Council's previous auditor and the designated independent person's (DIP) review of Lyme Green there have been a number of changes in senior staff. The timing of these changes meant that three of the Council's most senior officers were interim appointments for large parts of 2012-13. Under the leadership of the interim Chief Executive the management team have made good progress to address the reported issues.</li><li>• The Council has a significant number of corporate policies and procedures not all of which are fully understood and embedded across the Council. These have now been mapped by the Corporate Governance Group. It remains important that compliance with these policies and procedures is properly monitored and reviewed to ensure that they are followed and also that they remain appropriate during the Council's transition to its new operating model.</li><li>• The Council's governance framework continues to develop to enhance cabinet members' roles in decision making and support new scrutiny arrangements and policy development groups. The annual governance statement for 2012-13 recognises the weaknesses in the Council's organisational culture which have sometimes caused confusion, poor decision making, and inefficiency. The new structure is an important part of addressing these issues.</li></ul>	 Amber

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# Financial Control

## Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

### Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

### Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

### Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

### Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

### Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

# Financial Control

## Internal arrangements

Area of focus	Summary observations	Assessment
<b>Budget setting and monitoring - revenue and capital</b>	<ul style="list-style-type: none"> <li>The Council has well established budget setting processes that encourage ownership from budget holders. Training is also provided to officers and members.</li> <li>In year forecasting is improving. The Council has consistently reported significant variances against budget including Q1 of 2013-14. The net underspend for 2012-13 was £300,000 compared to the forecast overspend of £6.8m at the end of quarter 3. The net overspend for 2011-12 was £8.2m. Proper understanding of budgets and costs will become increasingly important if/when budgets are devolved to new providers.</li> <li>The Budget setting process for 2013-17 should improve following the introduction of revised arrangements agreed by Council in July 2013. This reflects the changes brought in by the interim senior management team and on-going review of the Council's structures as it moves towards its new operating model, whilst recognising a potential funding shortfall of £35m over the three year period. The Council recognised that the budget setting process needed more closely aligning to the resource allocation requirements to deliver the Sustainable Community Strategy and Council Plan Priorities. The revised arrangements include the new project management framework, wider member involvement and increased transparency and availability of information. In addition, the preparation deadline for large project business cases is now extended from September to October to allow more time to test proposals.</li> </ul>	 <b>Amber</b>
<b>Performance against Savings Plans</b>	<ul style="list-style-type: none"> <li>In addition to delivering a small surplus in 2012-13 the Council made its planned contribution of £7.6m to reserves.</li> <li>The Council originally budgeted to generate savings of £21.7m during 2012-13 to achieve a balanced budget. This was achieved but required savings of £22.4m through a mixture of corrective measures in quarter four and additional income streams.</li> <li>The Council is increasingly making use of financial health indicators to monitor its performance and developing key financial ratios.</li> <li>The Council's year on year savings plans are incorporated into the budget. There is no reported performance against the savings plans, only against overall budget. This makes it harder to identify where savings are being made.</li> </ul>	 <b>Amber</b>
<b>Key Financial Accounting Systems</b>	<ul style="list-style-type: none"> <li>The Council has an effective in-house Internal Audit function which undertakes a comprehensive programme of work including reviewing the Council's key financial systems. For 2012-13 Internal Audit concluded that the Council has in place a satisfactory framework of governance and internal control which provides reasonable assurance regarding the economic, efficient and effective achievement of its objectives.</li> <li>No significant issues were identified by Internal Audit on the operation of critical financial systems during the year.</li> </ul>	 <b>Green</b>

# Financial Control

## Internal and external assurances

Area of focus	Summary observations	Assessment
<b>Finance Department Resourcing</b>	<ul style="list-style-type: none"> <li>In 2012-13 The Corporate Finance Team comprised 14.8 FTE, and was fully staffed throughout the year. Five members of the team are professionally qualified and a further three are part qualified/studying. Nine members of the team have completed the Accountancy Technician qualification or equivalent.</li> <li>The staff resourcing in the Council's Finance Department is stable and the turnover is low. External audit interaction with the Finance Department indicates they are both competent and experienced. The Finance Department has specialised skills in areas including, capital and financial planning.</li> </ul>	 <b>Green</b>
<b>Internal audit arrangements</b>	<ul style="list-style-type: none"> <li>The Council has an in-house Internal Audit service of 11 staff (9.2 FTE) which is well respected within the Council.</li> <li>Of the 11 Internal Audit staff five are fully qualified. Two staff also have the CIPFA Diploma in Public Audit.</li> <li>A comprehensive risk based Internal Audit Plan is developed each year after consultation, including with external audit.</li> <li>External audit work has confirmed that Internal Audit meets the CIPFA Code of Practice requirements.</li> <li>The Head of Internal Audit post has remained unfilled since July 2011. The Council's Management Review Phase 2 has resulted in one 'Internal Audit Manager' post (which formally has the roles and responsibilities of a Head of IA), although the process and consultation period is still on-going.</li> <li>The Internal Audit service continues to provide an independent and satisfactory service to the Council.</li> </ul>	 <b>Green</b>
<b>External audit arrangements</b>	<ul style="list-style-type: none"> <li>Grant Thornton UK LLP became the Council's external auditors from November 2012.</li> <li>There were significant concerns raised in the 2011/12 Annual Governance Report and Annual Audit Letter , primarily around the VFM conclusion - an "except for" opinion around securing economy, efficiency and effectiveness. This was due to inadequate processes at the Council to develop business proposals and manage significant projects.</li> <li>There were no significant issues included in the external audit interim report issued in March 2013. Management have responded to the issues raised in the Audit Commission's 2011-12 audit report and annual audit letter, although it is recognised that some of the improvements will take time to embed.</li> </ul>	 <b>Green</b>

# Financial Control

## Internal and external assurances

Area of focus	Summary observations	Assessment
<b>Assurance framework/risk management</b>	<ul style="list-style-type: none"><li>• The Council has risk management arrangements in place and reports to Members.</li><li>• The 2014-17 MTFP shows a good understanding of the financial implications of risks facing the Council at the planning stage.</li><li>• The financial implication of risks are also considered as part of the process for risk assessing the adequacy of general reserves.</li><li>• However the financial outturn for 2013/14 quarter one already shows that Services face budget pressures totalling £7.5m, with identified remedial actions of only £4.3m to mitigate these issues.</li><li>• Realistic forecasting is essential if the Council is to keep control over key cost categories. The pattern in 2012-13 was to report adverse budget variances throughout the year with late remedial measures introduced in Q4 to address the risks and achieve financial balance.</li></ul>	 <b>Amber</b>

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# Key Indicators of Financial Performance

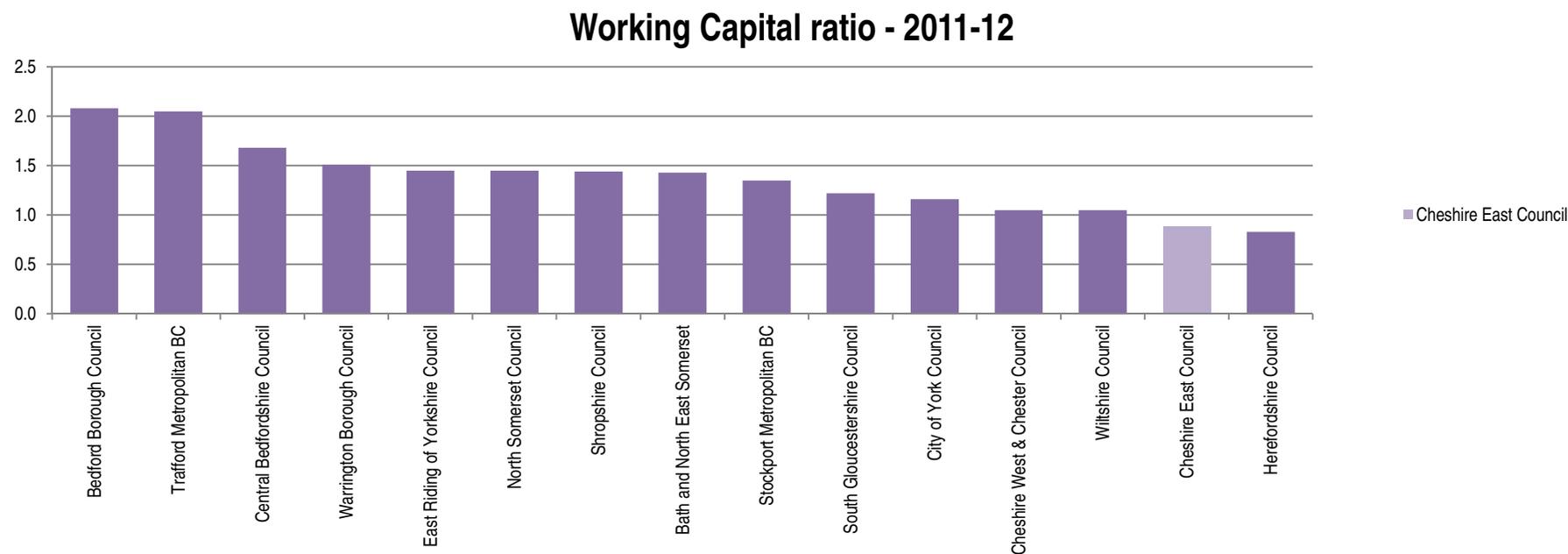
## Working Capital Ratio – 2011/2012

### Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

### Findings

The Council's 2011-12 working capital ratio is 0.88. The Council had the second lowest working capital ratio in the benchmarking group for 2011-12.



# Key Indicators of Financial Performance

## Long Term Borrowing to Tax Ratio – 2011/2012

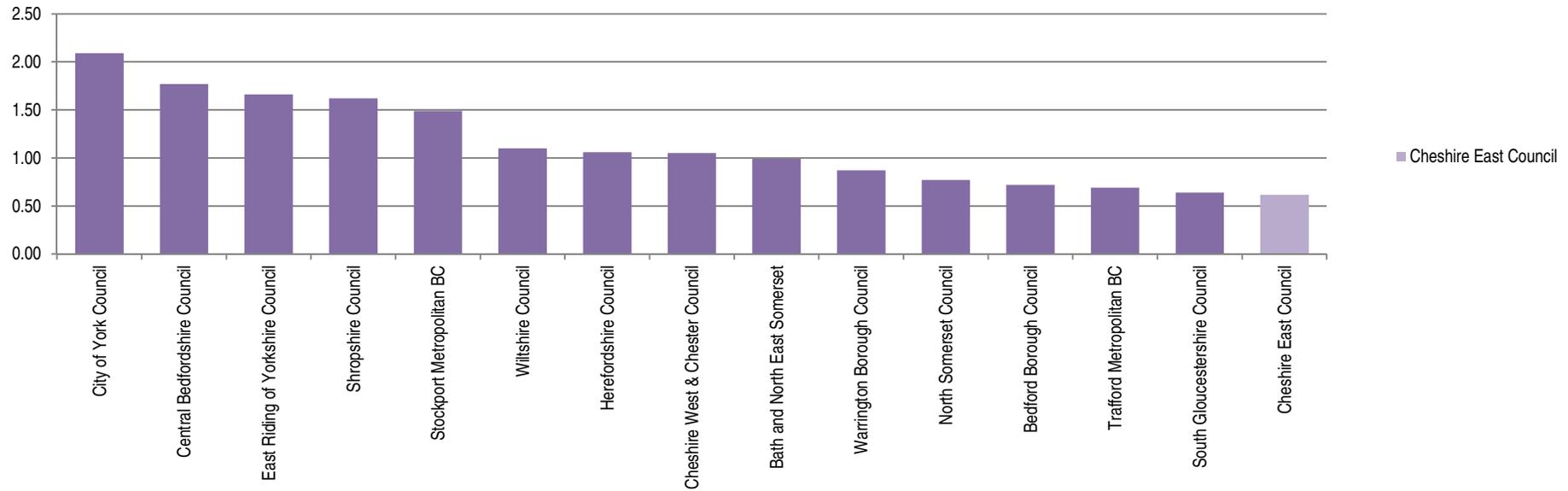
### Definition

Shows long term borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

### Findings

The Council's 2011-12 long term borrowing ratio as a proportion of tax revenue is 0.61 placing the Council as the lowest of its benchmarked group.

Long Term Debt to Tax Revenue ratio 2011-12



# Key Indicators of Financial Performance

## Long Term Borrowing to Long Term Assets – 2011/2012

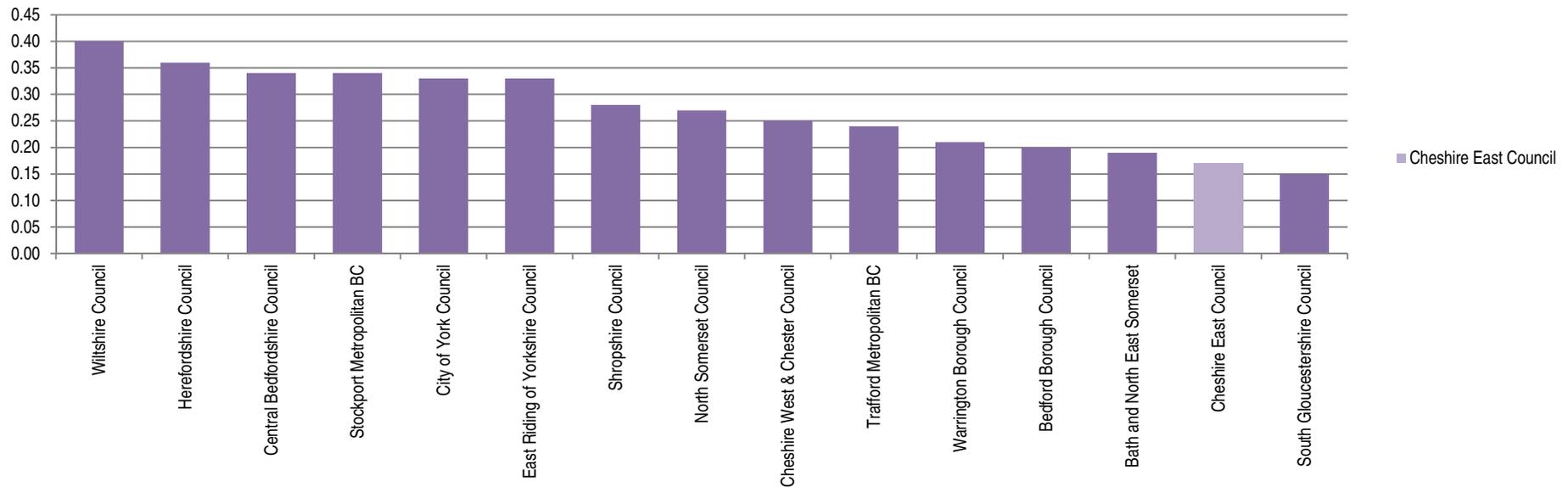
### Definition

This ratio shows long term borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

### Findings

The Council's 2011-12 long term borrowing to long term assets ratio is 0.17. The Council's ratio is the second lowest of the benchmarked group.

Long Term Debt to Long Term Assets ratio 2011-12



# Key Indicators of Financial Performance

## Usable Reserves to Gross Revenue Expenditure – 2011/2012

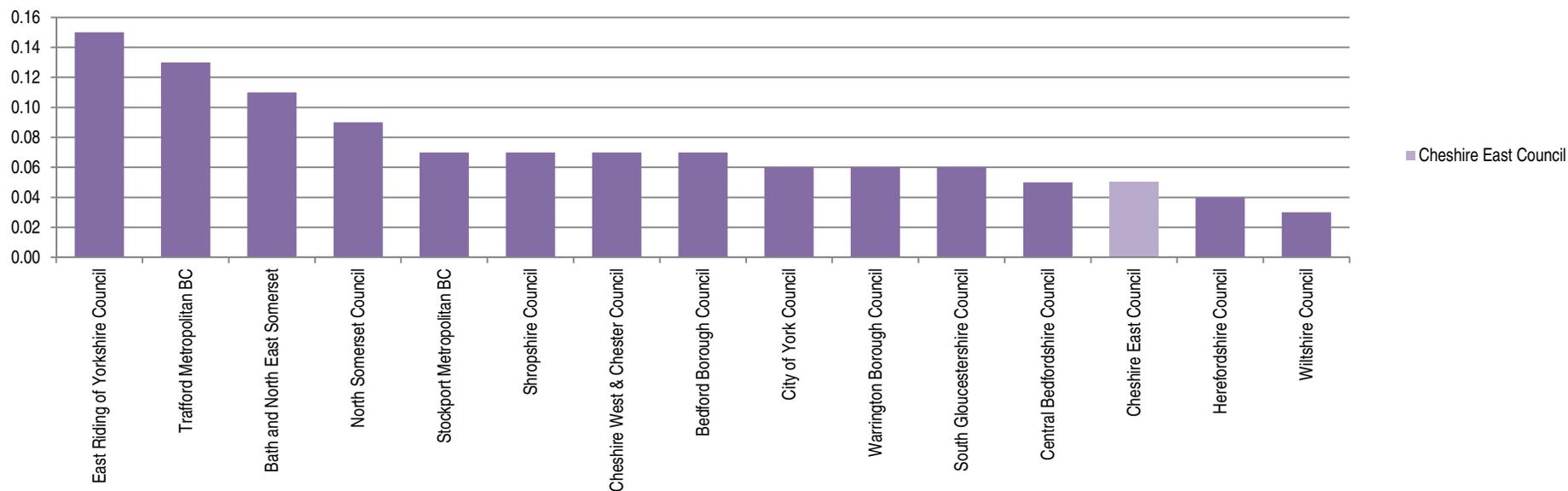
### Definition

This ratio shows the Council's reserves which are available for use as a proportion of gross revenue expenditure. A higher ratio indicates the Council has a greater ability to fund expenditure from available reserves.

### Findings

The Council's 2011-12 usable reserves to gross revenue expenditure total 0.05, at the third lowest of the benchmarked group.

### Usable Reserves to Gross Revenue Expenditure ratio 2011-12



# Key Indicators of Financial Performance

## Schools Balances to Dedicated Schools Grant – 2011/2012

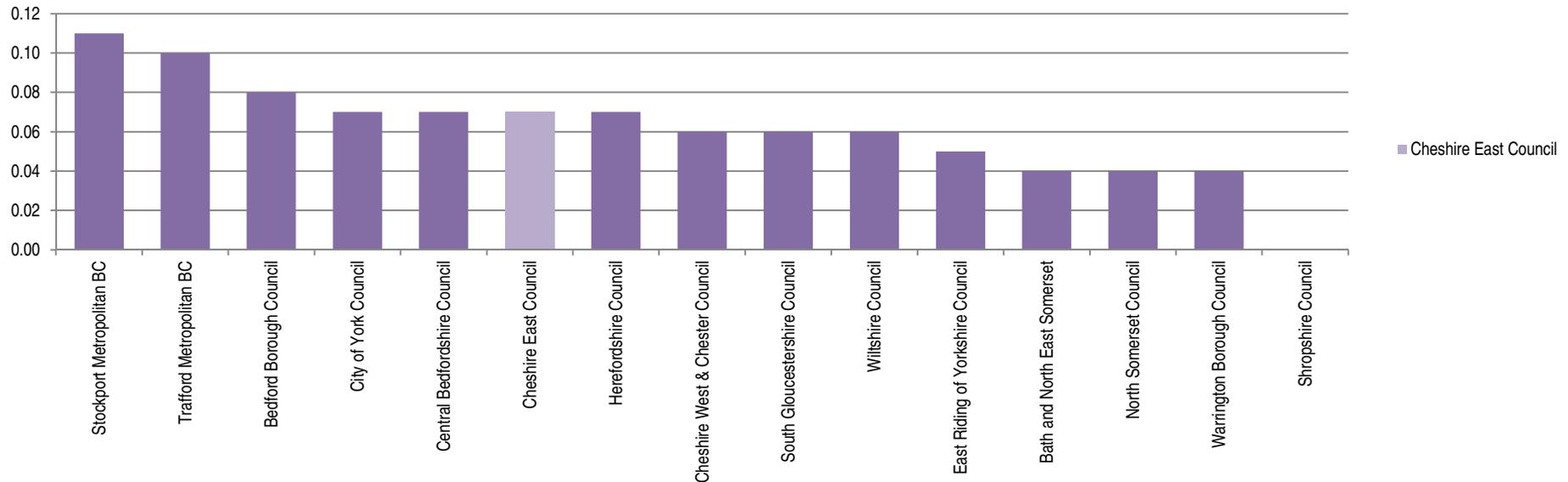
### Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

### Findings

The level of the Council's 2011-12 schools balances to DSG is 0.07, broadly at the midpoint of the benchmarked group.

### Schools Balances to Dedicated Schools Grant ratio 2011-12





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## **CHESHIRE EAST COUNCIL**

### **REPORT TO: AUDIT & GOVERNANCE COMMITTEE**

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**Date of Meeting:** 27<sup>th</sup> September 2013  
**Report of:** Interim Chief Operating Officer  
**Subject/Title:** 2012-13 Statement of Accounts (Audited)  
**Portfolio Holder:** Councillor Peter Raynes (Finance)

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#### **1.0 Report Summary**

- 1.1 Following completion of the statutory audit, in accordance with the Accounts and Audit Regulations 2011, the Statement of Accounts are now presented to the Committee for approval prior to publication.

#### **2.0 Recommendation**

- 2.1 That the Statement of Accounts be approved and accepted as presenting a true and fair view of the Council's expenditure and income for the year and its overall position.

#### **3.0 Reasons for Recommendations**

- 3.1 To ensure compliance with the Accounts and Audit Regulations 2011.

#### **4.0 Wards Affected**

- 4.1 Not applicable.

#### **5.0 Local Ward Members**

- 5.1 Not applicable.

#### **6.0 Policy Implications including - Climate change - Health**

- 6.1 None.

#### **7.0 Financial Implications**

- 7.1 As covered in the report.

#### **8.0 Legal Implications (Authorised by the Borough Solicitor)**

- 8.1 There are no specific legal implications with regard to this report.

## 9.0 Risk Management

9.1 The Local Government Act 2003 and the Local Government and Housing Act 1989 require the Statement of Accounts to be produced in line with recommended accounting practices.

## 10.0 Background and Options

10.1 At the meeting on 27<sup>th</sup> June 2013 members received a report setting out the key elements of the Council's draft Statement of Accounts for 2012/13.

10.2 The audit of the Accounts has been completed and as a result of the audit and the Council's own scrutiny of its Accounts a number of amendments have been identified and reflected in the final version of the Statements.

10.3 A training session was held with the Committee on 4<sup>th</sup> September 2013, which provided members with the opportunity to consider more detailed aspects of the Accounts.

## 11.0 Amendments to the Accounts

11.1 At the time of writing the following amendments have been agreed and reflected in the final Statement of Accounts.

- and associated with the Extra Care PFI scheme was overstated by £4.900m and has been removed from the asset register. L
- accrued interest on borrowing, £1.513m has been moved from Long Term Borrowing to Short Term Borrowing. A
- Note 1 has been amended to reflect the correct analysis of adjustments involving the Capital Grants Unapplied Account. N
- Note 6 – Property, Plant and Equipment has been amended to reflect the correct disclosure of revaluation losses and accumulated depreciation. This does not affect the net book value.
- Note 26 – Salaries, fees and allowances for senior employees were understated by £0.089m.
- Note 27 – Termination benefits were understated by £0.365m, due to the omission of schools employees.
- The Collection Fund has been amended to include scheme deferrals £0.564m and 2010/11 debit adjustments £4.387m. T

11.2 The remainder of the changes are presentational and include minor changes to wording to improve readability.

## 12.0 Summary of Final Accounts

- 12.1 The full set of Accounts will be provided to Members at the Committee. The changes outlined in the body of this report have had no material impact on the position reported in June. The revised summary statements are provided below.

Comprehensive Income and Expenditure Account

- 12.2 This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

Summarised Comprehensive Income and Expenditure Statement	2012-13			2011-12
	Spend £000	Income £000	Total £000	Total £000
Expenditure on Services	713,221	(285,858)	427,363	412,770
Corporate and Democratic Core	8,858	(5,387)	3,471	4,877
Non-distributed Costs	4,897	(69)	4,828	5,039
<b>Cost of Services</b>	<b>726,976</b>	<b>(291,314)</b>	<b>435,662</b>	<b>422,686</b>
Other Operating Income & Expenditure	45,898	(1,455)	44,443	37,283
Financing and Invt Income and Expenditure	20,213	(2,000)	18,213	3,949
Taxation and Non-Specific Grant Income	0	(430,524)	(430,524)	(411,581)
<b>(Surplus)/Deficit on Services</b>	<b>793,087</b>	<b>(725,293)</b>	<b>67,794</b>	<b>52,337</b>
Surplus on Revaluation of Assets/Invts	0	0	6,611	(12,992)
(Surplus)/Deficit on Pensions	0	0	69,826	84,614
<b>Total</b>	<b>0</b>	<b>0</b>	<b>144,231</b>	<b>123,959</b>

- 12.3 Movement in Reserves Statement

This statement shows the movement in year on the different reserves held by the Authority, analysed into 'useable reserves (i.e., those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves.

Summarised Movement in Reserves Statement	General Fund £000	Earmarked Reserves £000	Other Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Opening Balance 1/4/12	11,381	23,301	26,103	317,122	377,907
Surplus / (Deficit) on Services	(67,794)	0	0	0	(67,794)
Other Expenditure and Income	0	0	0	(76,437)	(76,437)
Accounting Adjustments	74,783	0	(14,256)	(60,527)	0
Transfer to Earmarked Reserves	566	(1,390)	746	78	0
<b>Closing Balance 31/3/13</b>	<b>18,936</b>	<b>21,911</b>	<b>12,593</b>	<b>180,236</b>	<b>233,676</b>

Balance Sheet

- 12.4 This statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council.

Summarised Balance Sheet	31 March 2013 £000	31 March 2012 £000	Change £000
Non-Current (Fixed) Assets	806,900	882,859	(75,959)
Long Term Investments and Debtors	28,146	24,115	4,031
<b>Long Term Assets</b>	<b>835,046</b>	<b>906,974</b>	<b>(71,928)</b>
Debtors	48,178	52,292	(4,114)
Cash & Cash Equivalents	32,688	34,592	(1,904)
Short Term Investments	11,490	3,687	7,803
Other Current Assets	1,569	9,996	(8,427)
<b>Current Assets</b>	<b>93,925</b>	<b>100,567</b>	<b>(6,642)</b>
Short Term Creditors	(93,230)	(102,094)	8,864
Short Term Borrowing	(7,588)	(5,521)	(2,067)
Provisions	(7,323)	(6,039)	(1,284)
<b>Current Liabilities</b>	<b>(108,141)</b>	<b>(113,654)</b>	<b>5,513</b>
Long Term Borrowing	(126,264)	(128,880)	2,616
Net Pension Liability	(431,324)	(360,242)	(71,082)
Other Long Term Liabilities	(29,566)	(26,858)	(2,708)
<b>Long Term Liabilities</b>	<b>(587,154)</b>	<b>(515,980)</b>	<b>(71,174)</b>
<b>Net Assets</b>	<b>233,676</b>	<b>377,907</b>	<b>(144,231)</b>
Usable Reserves	53,440	60,785	(7,345)
Unusable Reserves	180,236	317,122	(136,886)
<b>Total Reserves</b>	<b>233,676</b>	<b>377,907</b>	<b>(144,231)</b>

### **13.0 Next Steps**

- 13.1 The final version of the Statement of Accounts will be published on the Cheshire East website before the statutory deadline of 30<sup>th</sup> September and a more accessible version of this information will be made available in the form of a Summary Statement of Accounts.

### **14.0 Access to Information**

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

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Designation: Corporate Finance Lead  
Tel No: (01270) 685869  
Email: [joanne.wilcox@cheshireeast.gov.uk](mailto:joanne.wilcox@cheshireeast.gov.uk)

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## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 27 September 2013  
**Report of:** Corporate Governance Group  
**Title:** Annual Governance Statement (AGS) 2012/13  
**Portfolio Holder:** Councillor Peter Raynes

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#### **1.0 Report Summary**

- 1.1 The purpose of the report is for the Committee to approve the Annual Governance Statement 2012/13 for signature by the Leader of the Council and the Chief Executive. Once approved, the AGS will accompany the Statement of Accounts and be published on the Council's website.

#### **2.0 Recommendation**

- 2.1 That the Committee approves the Annual Governance Statement.

#### **3.0 Reasons for Recommendation**

- 3.1 In accordance with the Accounts and Audit Regulations, the Annual Governance Statement should be approved by Members meeting as a whole Committee at the same time as the Statement of Accounts is approved, i.e. by 30 September.

#### **4.0 Wards Affected**

- 4.1 All wards.

#### **5.0 Local Wards Affected**

- 5.1 Not applicable.

#### **6.0 Policy Implications**

- 6.1 None.

## **7.0 Financial Implications**

- 7.1 There are no specific financial implications. The production of the AGS aligns with the production of the Annual Accounts and is published alongside the audited accounts (approved by end of September 2013).

## **8.0 Legal Implications**

- 8.1 The production of the AGS is required by the Accounts and Audit Regulations 2011.

## **9.0 Risk Assessment**

- 9.1 The Authority is required to prepare and publish an Annual Governance Statement to meet the statutory requirement set out in Regulation 4 of the Accounts and Audit Regulations. Failure to do so could result in non-compliance with the requirements of the Regulations.

## **10.0 Background and Options**

- 10.1 As previously reported to the Audit and Governance Committee, the Council is required to prepare and publish an Annual Governance Statement (AGS). This requirement was introduced by the revised CIPFA/SOLACE Good Governance Framework (Delivering Good Governance in Local Government) and is necessary to meet the statutory requirement set out in Regulation 4 of the Accounts and Audit Regulations.
- 10.2 At the last meeting in June, the Committee considered the draft Annual Governance Statement. The AGS has been amended to take account of Members comments at that meeting and also any feedback received in the interim period from Members and Officers.
- 10.3 Once finalised, the AGS will be published on the Council's website, along with the Statement of Accounts, for members of the public, Members, Officers and other stakeholders to view.
- 10.4 A workshop for Members that examines the draft AGS and supporting documentation has taken place prior to this Committee meeting.
- 10.5 Regular updates on progress on the AGS Action Plan will be brought to this Committee during 2013/14.

**11.0 Access to information**

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

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Designation: Interim Chief Operating Officer

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

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# Cheshire East Council

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Annual Governance Statement  
2012/13

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# Cheshire East Council – Annual Governance Statement 2012/13

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## **Foreword**

Despite the significant amount of change during 2012/13, the Council has finished the year in a stronger position than it started. 2013/14 and future years will bring new challenges, through different ways of working and delivering services as a Strategic Commissioning Council.

Our role will grow to one of ensuring that our high standards of governance on behalf of the people we serve are shared with, and can be demonstrated by, the local organisations we partner with as we work to deliver agreed outcomes.

The past year has been a challenging and demanding time for Cheshire East Council. Dealing with the investigation into the Lyme Green development project and the weaknesses it exposed in our organisational governance have had to be a priority for us.

As a publicly accountable body, we are responsible for ensuring that our business is conducted in accordance with the law and with proper ethical and professional standards, that public money is safeguarded and properly accounted for, and that our shrinking resources are used economically, efficiently and effectively. In the case of Lyme Green, we fell below those high standards of governance we expect. The actions taken to learn from the experience, and to make extensive improvements as a result, demonstrate the Council's commitment to maintaining those high standards.

This past year has also been an exceptionally busy period, in terms of making the changes needed to deliver the Council's ambitious service transformation plan. The Council's review of our management roles and

responsibilities is the first element of this, as we move to put in place our new operating model as a Strategic Commissioning Council. This new structure and way of working is now becoming visible and will roll-out across the whole organisation by the end of 2013. This will pose some new governance challenges for us which we will meet.

There are also many positives from the past year. In conducting the review to produce this Annual Governance Statement, we have been able to demonstrate, with assurance that work within the Council is generally carried out to the high standards local people expect. Where there have been difficulties in meeting these, they have been dealt with appropriately and action has been taken to minimise the risk of it happening again.

Our Members and staff have high standards of conduct and behaviour. There are, occasionally, isolated exceptions, but we can be increasingly confident that our culture, values, and ways of working will reduce the opportunity for poor or inappropriate practice to occur, and increase the likelihood of detection if they do.

**Mike Suarez**  
**Chief Executive**  
**September 2013**

# Cheshire East Council – Annual Governance Statement 2012/13

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# Cheshire East Council – Annual Governance Statement 2012/13

## 1. Cheshire East Council's Governance Framework

### Scope of Responsibility

- 1.1. Cheshire East Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.2. Cheshire East Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.3. In discharging this overall responsibility, Cheshire East Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and arrangements for the management of risk.
- 1.4. Cheshire East Council has approved and adopted a [Code of Corporate Governance](#), updated in October 2012, which is consistent with the principles and requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) Framework '[Delivering Good Governance in Local Government](#)'. A summary of the principles of the Code is shown in **Figure 1**. Our Chief Executive, Mike Suarez, is a member of the CIPFA / SOLACE working group which developed this guidance document.

Figure 1: Summary of the CIPFA/SOLACE Framework Principles



- 1.5. A summary of the Council's Code of Corporate Governance is described in **Figure 2**.

# Cheshire East Council – Annual Governance Statement 2012/13

Figure 2: Summary of Cheshire East Council’s Code of Corporate Governance

<b>1) Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas</b>	<b>2) Members and officers working together to achieve a common purpose with clearly defined functions and roles</b>	<b>3) Promoting the values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour</b>	<b>4) Taking informed and transparent decisions which are subject to effective scrutiny and managing risks</b>	<b>5) Developing the capacity and capability of members and officers to be effective</b>	<b>6) Engaging with local people and other stakeholders to ensure robust public accountability</b>
<u>1.1)</u> Exercising strategic leadership by developing and clearly communicating the authority’s purpose and vision, and its intended outcome for citizens and users	<u>2.1)</u> Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function	<u>3.1)</u> Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance	<u>4.1)</u> Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny	<u>5.1)</u> Making sure that members and officers have their skills, knowledge, experience and resources they need to perform well in their roles	<u>6.1)</u> Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountable relationships
<u>1.2)</u> Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning	<u>2.2)</u> Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard	<u>3.2)</u> Ensuring that organisational values are put into practice and are effective	<u>4.2)</u> Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs	<u>5.2)</u> Developing the capability of people with governance responsibilities and evaluating their performance as individuals and as a group	<u>6.2)</u> Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning
<u>1.3)</u> Ensuring that the authority makes best use of resources, that tax payers and service users receive excellent value for money, and the charge to tax payers to be affordable and reasonable	<u>2.3)</u> Ensuring relationships between the authority, its partners and the public are clear so that each knows what to expect of each other		<u>4.3)</u> Ensuring that an effective risk management system is in place	<u>5.3)</u> Encouraging new talent for membership of the authority so that best use can be made of individual’s skills and resources in balancing continuity and renewal	<u>6.3)</u> Making best use of human resources by taking an active and planned approach to meet responsibility to staff
			<u>4.4)</u> Using their legal powers to the full benefit of the citizens and communities in their area		

# Cheshire East Council – Annual Governance Statement 2012/13

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- 1.6. The Council undertakes an annual review of its governance arrangements to ensure continuing compliance with best practice as set out in the Framework.
- 1.7. This Annual Governance Statement (AGS) is that review and explains how the Council has complied with the Code and meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011, which requires all relevant bodies to prepare an Annual Governance Statement.

## The Purpose of the Governance Framework

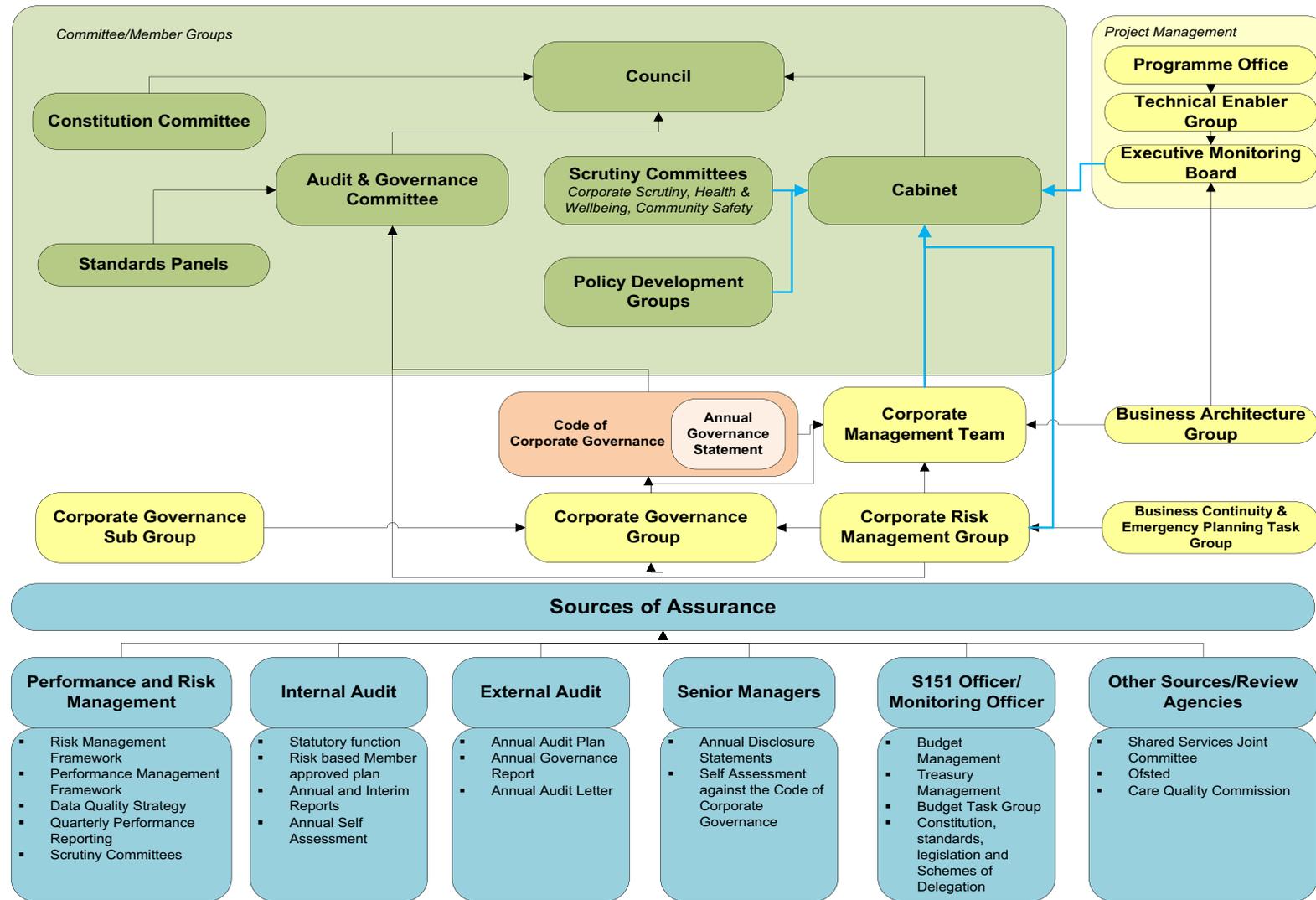
- 1.8. The Governance Framework comprises the systems, processes, cultures and values by which the Authority is directed and controlled and its activities through which it accounts to, engages and leads with the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 1.9. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.
- 1.10. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives; to evaluate the likelihood of those risks being realised; the impact should they be realised; and to manage them efficiently, effectively and economically.

## The Governance Framework

- 1.11. The Governance Framework shown in **Figure 3** has been operating for the majority of the 2012/13 and was in place at 31<sup>st</sup> March 2013. Changes to the Framework during the year include the introduction of governance arrangements for Major Projects and Programmes in October 2012.
- 1.12. Six [Policy Development Groups](#) (PDGs) have been introduced in 2012/13 covering: Finance, Communities, Environment & Prosperity, Health & Adult Social Care, Corporate & Performance, and Children & Family Services.
- 1.13. The PDGs actively involve backbench Members on a cross-party basis, giving them a key role in the formulation of policy. They operate closely with scrutiny committees and the Cabinet, being informed by and informing the work of those bodies. The groups hold some meetings in private, particularly in the initial stages, but also meet in public to ensure open accountability for their decisions. A review of the PDGs has begun; due to the ongoing Management Review this will continue into the autumn.
- 1.14. [Scrutiny Committees](#) have been reviewed and refocused from six to three: Community Safety, Health & Wellbeing and Corporate Scrutiny.
- 1.15. The Standards Committee has been removed in line with the Localism Act 2011. The Authority continues to promote and maintain high standards of conduct by its Members, and has updated the Audit and Governance Committee's Terms of Reference to include responsibility for ethical standards and conduct issues.

# Cheshire East Council – Annual Governance Statement 2012/13

Figure 3: Governance Framework as at 31<sup>st</sup> March 2013



# Cheshire East Council – Annual Governance Statement 2012/13

## 2. Review of Effectiveness

- 2.1. Cheshire East Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review process is co-ordinated by the Corporate Governance Group, and is informed by a variety of assurance sources.
- 2.2. It is important that the AGS is reported on both within the Authority, to the audit committee or other appropriate member body, and externally with the published accounts, to provide assurance that:
- governance arrangements are adequate and operating effectively in practice, or
  - where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in future
- 2.3. We have reviewed the effectiveness of the Governance Framework as depicted in **Figure 3**. We have also highlighted where enhancements have been introduced during the year, or where opportunities for further improvement have been identified. In reviewing each principle we have identified the relevant sources of assurance.
- 2.4. The following paragraphs describe the sources of assurance as set out in **Figure 3**.
- 2.5. We have reviewed assurance statements completed by all Heads of Service responsible during 2012/13, and also assessed any partnership or other working arrangements with external partners, relating to their area of responsibility.
- 2.6. The assurance statements and review of Partnership Governance arrangements have been countersigned by the relevant Directors.
- 2.7. A self-assessment against the Council's Code of Corporate Governance has been carried out; work on this has been ongoing throughout 2012/13 by the Corporate Governance Group.
- 2.8. Assurance is also derived from the Head of Internal Audit's Annual Report for 2012/13. The Council has generally established an adequate framework of risk management, control and governance. Evidence throughout 2012/3 would however, indicate that although appropriate strategies and policies are in place and have been communicated, understanding, application and compliance are inconsistent across the organisation. Action has been, and is being taken to address the issues.
- 2.9. The Audit and Governance Committee plays a key role in the review of the effectiveness of the governance framework by seeking assurance on the adequacy of the Council's risk management, control and governance arrangements and monitoring the AGS action plan.
- 2.10. During 2012/13 the Council assessed the effectiveness of its internal audit by self assessing compliance with the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- 2.11. A self-assessment of the Audit and Governance Committee was carried out by the Chair and Vice Chair in conjunction with the Audit Managers and reported to the Audit and Governance Committee in March 2013.
- 2.12. Our review is also informed by the reports, feedback and action plans of the External Auditors and other review agencies and

# Cheshire East Council – Annual Governance Statement 2012/13

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Inspectorates. Grant Thornton became the Council's External Auditors on 1<sup>st</sup> September 2012.

Statement, informing the final version presented to Audit and Governance Committee.

- 2.13. Each of the six principles of Cheshire East Council's Code of Corporate Governance, summarised in **Figure 2**, is reviewed individually in the tables below. Actions for improvement have been identified. Where there has been a failure to reach the standards expected and further actions are ongoing/required, these issues have been included in the Significant Governance Issues and Action Plan 2012/13 (Section 4).
- 2.14. Many of the sources of assurance are referred to across more than one of the principles; a summarised list of the sources of assurance is provided at **Appendix A**.
- 2.15. A number of significant governance issues were identified in the Annual Governance Statement for 2011/12, including Issues and Actions arising from Lyme Green, and Awareness and Compliance with Council Policies and Procedures. Elements surrounding these issues still require improvement, and this year's Action Plan describes in further detail.
- 2.16. Progress on the 2011/12 improvement actions has been reported on throughout 2012/13. Sufficient progress has been made against the other issues not to be included in this year's action plan.
- 2.17. The process of preparing the AGS adds value to the corporate governance and internal framework of the Council. Both officer and Member involvement in the drafting process ensures that the document is robust and reflective of the Authority's governance and internal control arrangements for 2012/13.
- 2.18. The draft Annual Governance Statement was presented to the Audit and Governance Committee on 27th June 2013 to provide an opportunity for Members to comment and feedback upon the

# Cheshire East Council – Annual Governance Statement 2012/13

## Principle 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas.

This is what we've done during 2012/13:	The evidence of this is in:
<ul style="list-style-type: none"> <li>• Members have worked with Officers, to develop a clear vision of the Authority's purpose and intended outcomes for citizens and service users; these have been expressed in a variety of documents:                             <ul style="list-style-type: none"> <li>○ The Sustainable Communities Strategy; "Ambition for All" 2012-25 sets out the collective vision for the area, and the priority actions which need to be addressed to achieve that vision.</li> <li>○ The Council's Three Year Plan setting out the strategic direction of the Council, its purpose and its main outcomes – approved by Council in February 2013.</li> <li>○ The Medium Term Financial Strategy 2013/16 sets out how the Council will meet its three-year priorities through major change programmes and transformation.</li> <li>○ The Budget Report 2013/16 confirms the proposals being put forward are deliverable and sustainable whilst managing continuing financial pressures and a 30% reduction in funding from Government as a result of national austerity measures.</li> <li>○ Service Plans are developed to express these plans at operational levels, and the Personal Development Review (PDR) process establishes individual objectives, all in support of delivering the outcomes initially expressed in either the Budget Report or the Service Plan.</li> </ul> </li> <li>• The Council ensures that users receive a high quality of service by measuring our performance, and publicly reporting our financial position. Services use a variety of performance measures to monitor the quality of service provision. Locally set performance indicators are monitored through the CorVu system and form part of the quarterly performance reports to Cabinet.</li> <li>• We ensure the best use of resources for tax payers and services through the 2013/16 Business Planning process. A thorough financial challenge was carried out as part of the budget setting process, leading to a comprehensive change programme and other efficiencies.</li> <li>• The Council's External Auditors issued a qualified Value for Money (VfM) opinion during 2012/13, in relation to the 2011/12 financial year. A small number of high level recommendations were agreed between the External Auditor and the interim Chief Executive which should improve the Council's arrangements. There are strong links between these and the recommendations made by Internal Audit in relation to the Lyme Green project investigation. These recommendations have been implemented, for example, by the introduction of the Project Management Framework, improvements to the Business Planning Process, setting of the Three Year Plan and the review and improvement of the Council's Performance Management Framework.</li> <li>• Council Tax was frozen again in 2012/13 and will be in 2013/14 and 2014/15. The Council has also introduced a Council Tax Support Scheme, following abolition of Council Tax Benefits by the Government. The scheme began in April 2013 after public consultation in</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable Communities Strategy</li> <li>• Medium Term Financial Strategy</li> <li>• Budget Report 2013/16</li> <li>• Service Plans</li> <li>• PDRs</li> <li>• Statement of Accounts 2012/13</li> <li>• Quarterly performance reports to Cabinet, including <a href="#">Final Outturn Performance</a></li> <li>• Consultation exercises</li> <li>• Compliments and Complaints</li> <li>• LGO Annual Report</li> <li>• Cabinet reports on alternative service delivery models</li> <li>• <a href="#">Council Tax Support Scheme</a></li> </ul>

# Cheshire East Council – Annual Governance Statement 2012/13

## Principle 1 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local areas.

This is what we've done during 2012/13:	The evidence of this is in:
<p>2012/13.</p> <ul style="list-style-type: none"> <li>• Improved control of finances during 2012/13 resulted in a small under spend for the year, reported in the Final Outturn report. Spending pressures still remain in areas such as Adult Social Care, Waste and Leisure but these are being tackled by a number of remedial actions, including in some cases, alternative service delivery options. In addition, the capital programme has been subject to more rigorous review from both Officers and Cabinet members through a new project management system and a Gateway Approval system.</li> <li>• The Council has continued to work with partners to deliver services, and over 2012/13 increased service delivery via external organisations. Examples of this include the approval of the Shared Service to become a Single Legal Entity, and the agreement of an operating partner for the Lyceum Theatre. The intention of these arrangements is to guarantee high quality service delivery at the best possible value to the local tax payer.</li> <li>• Governance arrangements for existing key partnerships are in place and embedded. Examples include the Local Area Partnership, the Shared Service Back Office, and the Local Enterprise Partnership. As the Council moves to becoming a Commissioning Organisation, there is a need to make sure we are working with adequate and appropriate resource to support the governance of such arrangements.</li> <li>• The new post of Chief Operating Officer is responsible for the design, planning and operation of all the 'core' business support functions which underpin the strategic commissioning framework of the Council, together with the monitoring, evaluation and reporting of the performance of all providers (including in-house service teams) used by the Council (and its partners where such provision is delivered on a joint or integrated basis), against the agreed outcomes for local people. They will also ensure sound democratic decision making, good governance, and openness/access to information. In addition, the Chief Operating Officer also undertakes the statutory role of Section 151 Officer.</li> <li>• Financial Management arrangements continue to be compliant with CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010). Although there have been staffing changes at a senior level, there has been a Section 151, or authorised Deputy in place throughout the year.</li> <li>• Use of the Council's Corporate Complaints procedure is monitored to identify the number of complaints received, and those escalated to the Local Government Ombudsmen. The Local Government Ombudsmen's Annual Review will be reported to the Audit and Governance Committee in November 2013.</li> </ul>	

# Cheshire East Council – Annual Governance Statement 2012/13

Principle 2 – Members and Officers working together to achieve a common purpose with clearly defined functions and roles.	
This is what we've done during 2012/13:	The evidence of this is in:
<ul style="list-style-type: none"> <li>• The Interim Chief Executive introduced a new management structure, which has begun to take shape during 2013/14. This will see the Council become a commissioning organisation, working with alternative service delivery models and partners to deliver services, and signals an end to 'silo working', which was identified as one of the internal failings in the review of Lyme Green.</li> <li>• Interim senior staffing arrangements have been introduced to minimise disruption following the departure of a number of senior officers. This initially involved the use of deputies to ensure compliance with statutory responsibilities such as Section 151 responsibilities, and the subsequent use of interim appointments to provide additional support. The interim appointment of a Monitoring Officer and the Chief Operating Officer has been supported by the first round of appointments to the new management structure.</li> <li>• Cllr Michael Jones was appointed as Leader of the Council on 16<sup>th</sup> May 2012. Kim Ryley has served as Interim Chief Executive during 2012/13; however a new permanent Chief Executive, Mike Suarez was appointed by Council on 7<sup>th</sup> May 2013, and has taken up the post with effect from 12<sup>th</sup> August 2013. New working relationships are already developing through valuable discussions and meetings.</li> <li>• The Business Planning process is summarised in 2013/2016 Budget Report, which clearly sets out how resources will be matched against the delivery of priorities set out in the Council's Three Year Plan and major change programme.</li> <li>• Section 2 of the Budget Report sets out the approach to delivering Financial Stability and a balanced budget over the medium term. Annex 7 of the report includes a comprehensive risk assessment used to underpin the Council's Reserves Strategy.</li> <li>• All reports on decision making matters require input from the Section 151 Officer and the Monitoring Officer regarding the financial and legal implications respectively.</li> <li>• Delegated Decisions and Non-Compliances (of Contract Procedure Rules) have been reviewed and approved at CMT during 2012/13. A report to Audit and Governance Committee on 27<sup>th</sup> September 2012 provided an initial update on the revised procedure. Subsequently the appropriate Member/Officer working group considered specific examples. In addition, the Internal Audit plan 2012/14 contains a review in this area.</li> <li>• The Constitution published on 1<sup>st</sup> February 2013 was updated to include the requirement to report to Audit and Governance Committee on the number of non-compliance instances on a half yearly basis and the first of these reports is scheduled for the September 2013 meeting.</li> <li>• Additional training on Procurement rules has been carried out, and all Schemes of Financial Delegation have been subject to review and were updated in July 2012. Further work on ensuring Schemes of Financial Delegation remain up to date as efficiently as possible</li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">Chief Executive report to Council 28/02/13</a></li> <li>• <a href="#">Cheshire East Council Constitution</a></li> <li>• Council agenda, reports and minutes</li> <li>• <a href="#">Compliance with Contract Procedure Rules report to Audit and Governance Committee</a></li> </ul>

# Cheshire East Council – Annual Governance Statement 2012/13

Principle 2 – Members and Officers working together to achieve a common purpose with clearly defined functions and roles.	
This is what we've done during 2012/13:	The evidence of this is in:
<p>is ongoing. Schemes will need to be updated regularly as the Council moves into its new structure.</p> <ul style="list-style-type: none"> <li>• The Council is currently going through a management review as part of its transition to becoming a “Commissioning Council”. This is significantly changing its management structure. In order to take account of this, the Council meeting on 15<sup>th</sup> May 2013 made a resolution to ensure that there would be no “gap” in terms of the officer delegation scheme, during the period of the restructure. The last set of general amendments were approved by Constitution Committee on 24<sup>th</sup> January and published 1<sup>st</sup> February 2013, but further amendments will be required following the meeting of Council on 15<sup>th</sup> May 2013.</li> <li>• Section 38 of the Localism Act 2011 requires the authority to publish a Pay Policy Statement by 31<sup>st</sup> March on an annual basis. The purpose of the statement is to provide transparency with regard to the Council’s approach to setting the pay of its employees. The Pay Policy in effect for 2012/13 was agreed by Council on 23<sup>rd</sup> February 2012 and the Policy for 2013/14 agreed by Council on 28<sup>th</sup> February 2013.</li> <li>• A new Independent Remuneration Panel was appointed during 2012/13 and is reviewing the Members allowance scheme.</li> <li>• A Partnerships Protocol, to inform and enable well governed relationships where the Council delivers services with external organisations was being drafted during 2012/13, however, this has been halted pending the outcome of the organisational redesign; the need for guidance to ensure we understand, introduce and comply with appropriate governance for new ways of working as a commissioning organisation has been recognised by the Corporate Governance Group and will be monitored closely during 2013/14.</li> <li>• During 2012/13 the Council has improved its appraisal process and introduced a new set of Corporate Behaviours. This is a comprehensive framework with different levels appropriate for different grades of staff in the Council and now forms part of the appraisal discussion(s). It enables managers to focus on ‘how’ staff go about their job and the way they achieve their objectives rather than focusing on the achievement of objectives in isolation. The behaviours go hand in hand with the ASPIRE (Action – Support – People – Integrity – Respect – Excellence) values to help create the very best culture for Cheshire East.</li> </ul>	

# Cheshire East Council – Annual Governance Statement 2012/13

## Principle 3 – Promoting the values of the authority and demonstrating the values of good governance, through upholding high standards of conduct and behaviour.

This is what we've done during 2012/13:	The evidence of this is in:
<ul style="list-style-type: none"> <li>• The Authority's purpose and values are key to the Council's new Three Year Plan and the organisational redesign of the Council.</li> <li>• The Council's ASPIRE values have been updated to outline how the Council will work under the new design: we take <b>action</b> with <b>integrity</b>; we <b>respect</b> and <b>support</b> each other; together we achieve <b>excellence</b> for <b>people</b> in Cheshire East</li> <li>• The Employee Code of Conduct has been reviewed and updated and issued to all staff in June 2012. It is available on the Council's CEntranet site.</li> <li>• The Authority adopted a new Member Code of Conduct on 19<sup>th</sup> July 2012, in line with the requirements of the Localism Act 2011. The Code is intended to ensure all Members observe the highest standards when carrying out their duties</li> <li>• The Standards Committee met for the last time on 18<sup>th</sup> June 2012 and was formally decommissioned in November 2012. During 2012/13, under the old Code of Conduct, the Council dealt with twelve complaints (four Borough, eight Parish), the majority of which were completed before the new arrangements began, although four required further action post - 19<sup>th</sup> July 2012.</li> <li>• Under the new Member Code of Conduct, periodic reports will be going to the Audit and Governance Committee, showing the number and outcome of complaints received. Decision notices from public meetings will be published in full on the Council's website. The first of these reports is scheduled for the September 2013 meeting.</li> <li>• The Council's Data Protection Policy has been updated in line with the Information Commissioner's Office (ICO) undertaking. As part of the Heads of Service self-assessment, contributing to this statement, it was recognised that this change had not been immediately communicated to Officers through the usual channels, because of disruption caused by senior staff departure and reorganisation. Guidance is now being made available via CEntranet and will be highlighted via Team Talk and targeted email. There have been no problems identified as a result of the change not being communicated.</li> <li>• The Council has a Whistleblowing Policy which has been reviewed during 2012/13 and remains in line with best practice. This review, along with details of reports received under the policy was reported to the Audit &amp; Governance Committee (28<sup>th</sup> March 2013).</li> </ul>	<ul style="list-style-type: none"> <li>• Council's Three Year Plan</li> <li>• Staff Code of Conduct</li> <li>• <a href="#">New Code of Conduct for Members</a></li> <li>• Data Protection Policy</li> <li>• <a href="#">Whistleblowing Policy</a></li> </ul>

# Cheshire East Council – Annual Governance Statement 2012/13

Principle 4 – Taking informed and transparent decisions which are subject to effective scrutiny and managing risks	
This is what we've done during 2012/13:	The evidence of this is in:
<ul style="list-style-type: none"> <li>• There is a Gateway model (as per the Constitution) in place to provide assurance and controlled start up of projects. This has been established since August 2012 and involves the Executive Monitoring Board (EMB) and Technical Enabler Group (TEG). Monthly meetings of these groups are now held to review, challenge and give endorsement for all new major projects and programmes. EMB also oversee the monthly monitoring of major projects and programmes as well as commission health checks, as required.</li> <li>• There is a Corporate Programme Management Office (PMO) in place which monitors programmes and projects and provides guidance. It also runs and supports EMB/TEG. An external provider has been providing programme and project management training for Senior Responsible Owners and Project/Programme Managers. The training is mandatory for all officers who are accountable for programme/projects and/or are managing projects and/or are part of a project team.</li> <li>• Annual reports on Corporate Complaints, Data Protection and Freedom of Information are presented to the Audit and Governance Committee.</li> <li>• All Council payments over £500 are published on the Authority's website.</li> <li>• The organisation's assurance arrangements are broadly compliant with the requirements of the CIPFA statement on the Role of the Head of Internal Audit, although the Head of Internal Audit post remained unfilled during 2012/13, due to the revision of the management structure. The Audit Managers reported directly to the s151 Officer, with a direct reporting line to the Chief Executive available. Internal Audit has moved to the "Governance and Democratic Services" section in the new management structure.</li> <li>• A self assessment of compliance with the Code of Practice for Internal Audit in the United Kingdom 2006 was carried out during 2012/13. The review concluded that, although there are areas for improvement, the Internal Audit service is being delivered to the required standard. From 1<sup>st</sup> April 2013 the authority will need to demonstrate compliance with the <a href="#">Public Sector Internal Audit Standards</a>.</li> <li>• Opportunities for Internal Audit to collaborate with neighbouring authorities and partners continued to be explored during 2012/13 and into 2013/14.</li> <li>• Member/Officer sub groups continued to be used to develop and support the work of the Audit and Governance Committee.</li> <li>• A new Financial Reporting Centre has been launched during 2012/13 to provide self-serve access for managers to a consistent set of reports. The month-end processing timetable has been reviewed and accelerated to allow for reports to be published by the first Monday following the calendar month end. Further development work is planned to enhance the basic reports through inclusion of commitment data from interfaced systems.</li> </ul>	<ul style="list-style-type: none"> <li>• EMB/TEG Agendas and Reports</li> <li>• Internal Audit Annual Report 2012/13</li> <li>• Audit and Governance Committee agendas and reports for 2012/13</li> <li>• Corporate Risk Management Group reports to the Audit and Governance Committee 2012/13.</li> <li>• Ofsted report</li> <li>• <a href="#">Council payments &gt; £500</a></li> </ul>

# Cheshire East Council – Annual Governance Statement 2012/13

Principle 4 – Taking informed and transparent decisions which are subject to effective scrutiny and managing risks	
This is what we've done during 2012/13:	The evidence of this is in:
<ul style="list-style-type: none"> <li>• On-line audit trails have been activated in Oracle and investment in interrogation software is planned to allow audit logs to be analysed and checked.</li> <li>• A data quality issue has been recognised within Licensing, arising from problems in transferring data from the former Council's legacy systems and we know that this has had an impact on the quality of the data which can be returned in the National Fraud Initiative. Internal Audit has completed a review to establish the wider impact of the data quality issue, and an action plan has been agreed to progress the issues identified.</li> <li>• The Council's arrangements for the protection of children were inspected by Ofsted in March 2013. Although the inspectors acknowledged that there were examples of good practice throughout services, there were a number of areas for improvement identified, and therefore the effectiveness of our arrangements was judged to be "Inadequate" overall. An action plan has been agreed with Ofsted and the Senior Leadership Team for Children's Services.</li> <li>• The Council has a Corporate Risk Management Group which meets every two months and is chaired by the Portfolio Holder responsible for risk. The Group reports regularly to the Audit and Governance Committee on risk management. Cabinet and the Corporate Management Team (CMT) began to review the key corporate risks and risk register in late 12/13. Work on updating and prioritising the risks and the production of an accompanying action plan and heat map is continuing.</li> <li>• Risk management was an integral part of the Council's service planning processes during 2012/13. There is a risk management section on the report template for all decision papers so that report writers may highlight the key risks associated with any decision making and guidance on risk management was made available for report writers and policy makers to assist with this.</li> <li>• Cabinet and CMT have agreed that the Council should aim to achieve a consistent level of "risk managed" in terms of risk maturity. Currently the level of risk maturity is judged to be between "risk aware" and "risk defined". Whilst this gives a good foundation, work is required to further embed risk management understanding and techniques, such as risk identification.</li> <li>• The Council maintains a register of hospitality and declarations of interests. Officers and Members are required to complete an annual declaration.</li> </ul>	

# Cheshire East Council – Annual Governance Statement 2012/13

<b>Principle 5 – Developing the capacity and capability of Members and Officers to be effective</b>	
<b>This is what we've done during 2012/13:</b>	<b>The evidence of this is in:</b>
<ul style="list-style-type: none"> <li>• The Council has a comprehensive Corporate Training Programme which continues to grow each year. We have also had significant uptake of our online courses through the Learning Lounge intranet site, which offers a wide range of courses including Health and Safety, Time Management, Project Management, Equalities and Diversity amongst others.</li> <li>• Training across a range of issues is provided to all elected members each year. In early 2013, the Council began work on developing a comprehensive training programme for members around the topics of leadership, constructive working relationships and its new role as a commissioning Council for delivery in 2013/14.</li> <li>• The introduction of the Policy Development Groups has helped to develop the capability of Members on a cross-party basis, giving them a key role in the formulation of policy. In addition, the use of Cabinet Support Members has been important in succession planning.</li> <li>• We have invested in Oracle to further develop our online appraisal process and incorporate the new behaviours. All staff and managers (with online access) are required to complete their appraisal online and provide an assessment against the achievement of objectives, the corporate behaviours as well as an overall rating for the performance year. This will provide valuable management information about the overall performance levels across the Council and specific gaps /areas of development.</li> <li>• Cheshire East is accredited as training employer, for example, by CIPFA, the Association of Accounting Technicians (AAT) and the Association of Chartered Certified Accountants (ACCA). Staff are professionally trained and qualified where necessary; for example, the Finance team as a whole includes 40 qualified or part qualified accountants and 25 qualified or part qualified accounting technicians. We also have 45 staff who are full or student members of the Institute of Revenues Rating and Valuation (IRRV).</li> <li>• Core competencies identified as part of senior management review place appropriate emphasis on financial management skills and accountabilities. New pay structures/policies will incentivise improved financial management practice. Training provided as part of FRC launch and roll-out should enhance financial literacy/awareness amongst budget managers. Finance Policy Development Group provides new opportunity to develop and embed more focussed understanding amongst members of key financial issues. Regular 1:1 meetings with Finance Portfolio Holder and programme of benchmarking activity/collaboration with other authorities provide opportunities for member development and learning.</li> <li>• A series of staff road shows were run during the winter of 2012 involving around 1500 members of staff in a range of venues across the borough. Entitled “Shaping our future together” the purpose of the road shows was to inform and engage staff around the new era in local government, the challenges and choices ahead and to discuss and explore the new deal for staff. The road shows provided valuable feedback and insights into how staff felt about the new deal and our transformational journey and this has helped shape our approach to effectively managing and embedding the required change.</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Training Programme</li> <li>• Personal Development Review framework</li> <li>• <a href="#">Policy Development Groups</a></li> </ul>

# Cheshire East Council – Annual Governance Statement 2012/13

Principle 6 – Engaging with local people and other stakeholders to ensure robust public accountability.	
This is what we've done during 2012/13:	The evidence of this is in:
<ul style="list-style-type: none"> <li>• The Scrutiny Function has been revised, and now comprises three committees instead of six; Corporate Scrutiny, Community Safety and the Health and Wellbeing Scrutiny Committee.</li> <li>• The Health and Wellbeing Board was in shadow operation during 2012/13, and went 'live' at the start of April 2013. Relationships and processes are still developing between the Health and Wellbeing Board and Scrutiny Committee.</li> <li>• The newly introduced Community Safety Scrutiny Committee reviews the work of the Community Safety Partnership. It will also need to develop relationships and processes.</li> <li>• Six policy development groups have been introduced covering the following areas; Finance, Communities, Environment and Prosperity, Health and Adult Social Care, Corporate and Performance, and Children and Family's Services. The groups actively involve backbench Members on a cross-party basis, giving them a key role in the formulation of policy. They operate closely with both scrutiny committees and the Cabinet, being informed by and informing the work of those bodies. The groups hold some meetings in private, but also meet in public to ensure open accountability for their decisions.</li> <li>• The People's Panel has continued to meet over the course of 2012/13. The Panel meets monthly and provides a platform for employees to share their views, ideas, information and influence key decisions.</li> <li>• The Council launched a 'Media Hub' on the Council's Intranet Page during 2012/13. This provides a central point of contact between the Council's Communications Team, and anyone interested in the work of the authority; residents, media, businesses and partners. It provides quick links to the latest news from the authority and our social media channels; YouTube, Flickr, Twitter accounts and Facebook.</li> <li>• "Cheshire East Direct" was launched in April 2013, as a weekly email available to staff, members, and residents, providing an update on the Council's news.</li> <li>• A number of Consultation exercises have been carried out, most extensively on the <a href="#">Local Plan</a> to provide the widest possible opportunity for engagement with local people and other stakeholders. Consultation opportunities are generally advertised via the Council's <a href="#">website</a> and provide an opportunity to invite public opinion and inform decisions on service delivery.</li> <li>• Public engagement continues to be a priority of the Council and is maintained through the use of the Citizens Panel. The panel affords the Council an opportunity to engage with a representative group of citizens across the Borough. The panel, 'Influence Cheshire East' (ICE) continues to grow and now has over 3,000 members. The Spring Survey 2012 had a 64% completion rate. Results were published in October 2012 and included specific findings/outcomes on Libraries, Food Waste Collection and Health and Wellbeing. Results and analysis have been used and will continue to be used to inform and evaluate the Council's three year plan outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>• Scrutiny Committee agendas and reports</li> <li>• <a href="#">Policy Development Groups</a></li> <li>• <a href="#">Media Hub</a></li> <li>• <a href="#">Cheshire East Direct</a></li> <li>• Consultations on <a href="http://www.cheshireeast.gov.uk">www.cheshireeast.gov.uk</a></li> <li>• <a href="#">Influence Cheshire East</a></li> </ul>

# Cheshire East Council – Annual Governance Statement 2012/13

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## 3. Emerging governance issues

3.1. There are a number of emerging issues with the potential, if not well managed, to become significant governance issues. These are summarised below, and will be monitored by the Corporate Governance Group during 2013/14, and escalated to Corporate Leadership Board and/or Audit and Governance Committee as necessary.

- Unprecedented pace of change currently within the Council, including:
  - Challenges of being a Commissioning Council – establishing needs assessment, commissioning plan and ensuring that Members and Officers are suitably skilled and trained.
  - High staff turnover – maintaining effective governance arrangements during transition period, particularly around statutory roles and functions.
  - Alternative service delivery models – including governance arrangements and roles and responsibilities.
  - Constitution – will require maintaining and updating to reflect changing organisational structure and new ways of working.
- The Government released a single year Comprehensive Spending Review for 2015/2016 on 26th June 2013. This set out a headline funding reduction of 10% in real terms. However, there are a number of other changes and pressures to be considered. These include changes to New Homes Bonus and Council Tax freeze compensation grants. As such the final impact on funding levels could be higher and several issues are being consulted on.

The Council's existing financial plans for 2015/2016 to 2016/2017 are based on a set of prudent assumptions including overall reductions in funding of 30% over those two years. Given all the uncertainty there are no plans to alter that position at this stage.

# Cheshire East Council – Annual Governance Statement 2012/13

## 4. **Significant governance issues and Action Plan 2012/13**

- 4.1. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.
- 4.2. There are a number of issues that require attention and development over the course of the next year. These are listed in the table below; “Significant Governance Issues and Action Plan 2012/13”.
- 4.3. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed:**

<b>Leader of the Council</b>	<b>Chief Executive</b>
Dated:	

# Cheshire East Council – Annual Governance Statement 2012/13

## Significant Governance Issues and Action Plan 2012/13

Ref	Improvement Area	Actions required	Responsibility	Target date
1	<b>Management Structure &amp; Organisational Culture</b>			
	<p>Weaknesses in the Council’s organisational culture, which were a product of separate professional “silos” in the Council’s management structure. These have sometimes caused confusion, poor decision making, and inefficiency, because it was not always clear who had authority to act and who was accountable ultimately for the success or failure of particular initiatives.</p> <p>See: <a href="#">Cabinet Report 4<sup>th</sup> February 2013</a></p>	<p>Move to new ‘Strategic Commissioning’ Operating Model</p> <p>Implement new management structure</p>	Chief Executive	September 2013
2	<b>Embedding Corporate Policies and Procedures and Ensuring Compliance</b>			
	<p>The Council has a significant number of corporate policies and procedures, which have been mapped by the Corporate Governance Group.</p> <p>There is insufficient evidence from the various assurance sources that all Council policies and procedures are currently embedded amongst Officers. With minimal resources, monitoring to ensure compliance with policies and procedures is currently limited.</p>	<p>Map Council’s Assurance Framework and review to ensure adequate coverage in ensuring compliance.</p>	Chief Executive	September 2013

# Cheshire East Council – Annual Governance Statement 2012/13

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## **Appendix A: Sources of Assurance**

- [Code of Corporate Governance](#)
- [Sustainable Community Strategy: “Ambition for All”](#)
- [Budget Report 2013/16](#)
- [Medium Term Financial Strategy 2013/16](#)
- [Constitution \(February 2013\)](#)
- Quarterly Performance Reports to Cabinet
- [Internal Audit Annual Plan 2012/13](#)
- [Internal Audit Annual Report 2012/13 \(June 2013\)](#)
- [External Audit Annual Audit Letter 2011/12](#)
- [Pay Policy 2012/13](#)
- [Committee Agendas, Reports and Minutes 2012/13](#)
- Audit and Governance [Committee Terms of Reference](#) and [work plan 2012/13](#)
- [Audit and Governance Committee Self Assessment 2012/13](#)
- [Annual Report on Risk Management 2012/13 \(June 2013\)](#)
- [Consultation exercises](#)
- [Compliments and complaints](#)
- Local Government Ombudsmen Annual Report (September 2013)
- [Code of Conduct for Members](#)
- Staff Code of Conduct
- Whistleblowing Policy
- Data Protection Policy
- [Ofsted Report – Local Authority arrangements for the protection of young children](#)
- [Council payments >£500](#)
- [Cheshire East Council Media Hub](#)

## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 27 September 2013  
**Report of:** Audit Managers  
**Title:** Update on Public Sector Internal Audit Standards (PSIAS) and Audit Charter  
**Portfolio Holder:** Councillor Peter Raynes

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#### **1.0 Report Summary**

1.1 In order to comply with Public Sector Internal Audit Standards (PSIAS) and the relevant CIPFA/IIA Application Note, the Council must introduce an Internal Audit Charter. This report advises the Committee on the content of a draft Internal Audit Charter which, it is proposed, will form the basis of the Cheshire East Internal Audit Charter. The draft Charter will, following this meeting, be finalised and presented to the Audit and Governance Committee for final approval in November.

#### **2.0 Recommendation**

2.1 That the Committee notes (i) the contents of this report, (ii) that the draft Internal Audit Charter (Appendix A) will form the basis of the Cheshire East Internal Audit Charter and (iii) that the Charter will be finalised and presented to this Committee for approval in November.

#### **3.0 Reasons for Recommendation**

3.1 The new Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013. The Authority needs to comply with the Standards, and the relevant CIPFA/IIA Application Note, in order to satisfy proper internal audit practices.

3.2 The PSIAS require an Internal Audit Charter (similar to the previous Internal Audit Strategy and Terms of Reference) which must formally define the purpose, authority and responsibility of the internal audit activity as well as the terms 'Board' and 'Senior Management'.

3.3 This report has been prepared to stimulate discussion and agreement with senior management and Members particularly with regard to the significant aspects of the Standards that affect the Audit Charter. A draft Internal Audit Charter is attached at Appendix A, that is based on the Institute of Internal Auditors Model Internal Audit Activity Charter. Following this meeting, the Internal Audit Charter will be finalised and presented to the Audit and Governance Committee for final approval in November.

- 3.4 CIPFA guidance does recognise that not all elements of the PSIAS will be in place from 1 April 2013.

#### **4.0 Wards Affected**

- 4.1 All wards.

#### **5.0 Local Wards Affected**

- 5.1 Not applicable.

#### **6.0 Policy Implications**

- 6.1 Not applicable.

#### **7.0 Financial Implications**

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

#### **8.0 Legal Implications**

- 8.1 The Accounts and Audit Regulations 2011 require the Council to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control'. The PSIAS and the relevant CIPFA/IIA Application Note constitute proper practices as set out in the Regulations.

#### **9.0 Risk Management**

- 9.1 The Audit and Governance Committee is responsible for overseeing the Council's role and responsibilities in respect of Corporate Governance and Audit. The Internal Audit Charter provides evidence of governance arrangements in respect of the provision of the internal audit activity and contributes significantly to effectively managing the risk of non-compliance with the Accounts and Audit Regulations 2011.

#### **10.0 Background and Options**

- 10.1 The Public Sector Internal Audit Standards state that the purpose, authority and responsibility of internal audit must be formally defined in an Internal Audit Charter. These issues have previously been dealt with through the Internal Audit Strategy and Terms of Reference which set out the type of content required by the PSIAS, with financial regulations covering some other high-level aspects of the required content. The adoption of the PSIAS will result in the Charter replacing the Strategy and Terms of Reference and is likely to require amendments to the Council's Constitution.
- 10.2 The Charter establishes Internal Audit's position within the organisation, including the nature of functional and administrative reporting, authorises

access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities. Final approval of the Internal Audit Charter resides with the “Board”.

- 10.3 A draft document, based on the Institute of Internal Auditors Model Internal Activity Charter is attached at Appendix A, which it is proposed will form the basis of the Cheshire East Internal Audit Charter.

#### Relevant Issues

- 10.4 Within the PSIAS, the terms ‘Board’ and ‘Senior Management’ must be interpreted in the context of governance arrangements within Cheshire East Council. The CIPFA/IIA local government application note for the UK Public Sector Internal Audit Standards states it is expected that the audit committee, where one exists, will fulfil the role of the board in the majority of instances.

- 10.5 It is suggested, therefore, that for the purposes of the Internal Audit Charter the term:

- ‘board’ is defined as the Audit and Governance Committee which, in accordance with the Constitution, is responsible for overseeing the Council’s role and responsibilities in respect of Corporate Governance and Audit; and
- ‘senior management’ is defined as the Corporate Leadership Board which, in accordance with the Constitution, provides strategic advice to the Council and co-ordinates the Council’s activities to ensure high standards of performance.

- 10.6 The Model Internal Audit Activity Charter is based on the original IIA Standards which suggest that the internal audit activity is established by the Board of Directors, Audit Committee or highest level of governing body and that responsibilities are defined by the Board as part of their oversight role. Furthermore, it suggests that the internal activity will govern itself by adherence to the IIA mandatory guidance. The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2011. The standards for proper practices in relation to internal audit are laid down in the PSIAS 2013.

- 10.7 The original IIA Standards use the term ‘Chief Audit Executive’ (CAE) throughout, and this has been adopted by the PSIAS, as well as in the Application Note. The term, however, only describes a role and the PSIAS state that the specific job title may vary across organisations (the term head of internal audit’ or ‘chief internal auditor’ are more common in the UK public sector). The CAE describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the Internal Audit Charter, the definition of the Code of Ethics and the Standards. The PSIAS do not stipulate an administrative reporting line for local authorities although CIPFA and the IIA expect that the CAE should not report administratively to or be managed at a lower level than the corporate management team.

- 10.8 In accordance with current arrangements the Audit Managers will report directly, for administrative purposes, to the Governance and Democratic Services Manager with reporting lines to the Chief Operating Officer (who assumes the role and responsibilities of the Chief Financial Officer, a specific job title more traditionally associated with the public sector). The CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* states that the Chief Financial Officer (CFO) must:
- Ensure an effective audit function is resourced and maintained
  - That the authority has put in place effective arrangements for internal audit of the control environment
  - Support the authority's internal audit arrangement, and
  - Ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.
- 10.9 The relationship between the CAE and the CFO is therefore of particular importance in local government.
- 10.10 The PSIAS state that organisational independence is effectively achieved when the CAE reports functionally to the Board. The draft Charter includes examples of functional reporting included in the PSIAS although the public sector interpretation and the CIPFA/IIA Application Note both recognise that some of these roles are unusual such as the 'Board' approving the appointment, removal and remuneration of the CAE. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. The PSIAS suggest that this could, for example, be achieved by the chief executive or the chair of the audit committee being involved in the performance appraisal of the CAE. The application note, however, recognises that in practice remuneration/performance decisions within organisations will depend on the arrangements within the local authority. The Charter will, therefore need to reflect Cheshire East arrangements. As part of these arrangements the Chief Audit Executive will confirm to the board, at least annually, the organisational independence of the internal audit activity.
- 10.11 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. 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 organisations objectives.
- 10.12 The CAE is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In the context of the standards, the opinion means that Internal Audit will have done

sufficient, evidenced work to form a supportable conclusion about the activity it has examined. Internal Audit may also undertake non-assurance work including fraud related and consultancy work, at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.

- 10.13 CIPFA's 'Statement on the Role of the Head of Internal Audit' states that the CAE (Head of Internal Audit in the original document) must be asked to consider the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks. CAEs should be made aware of major new systems and proposed initiatives to help ensure risks are properly identified and evaluated and appropriate controls built in. The CAE should consider what if any audit work needs to be done and also how the proposals fit with the organisation's strategic objectives.
- 10.14 There is no longer a requirement to produce an audit strategy, instead a risk based plan must incorporate or be linked to a strategic or high level statement which sets out how the internal audit service will be provided and developed in accordance with the Charter and how it will link to the council's objectives and priorities. Where the CAE believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the Board.
- 10.15 The CAE must develop and maintain a formal quality assurance and improvement programme that covers all aspects of the internal audit activity. This programme must include both internal and external assessments. External assessments must be conducted at least every five years by a qualified, independent assessor or assessment team from outside of the organisation. The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.
- 10.16 The Internal Audit Charter must be reviewed periodically (as a minimum annually) by the CAE and presented to senior management and the audit committee for approval.

## **11.0 Access to information**

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

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# Draft Internal Audit Charter

## 1 Introduction

- 1.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the operations of <organisation>. It assists the <organisation> in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes.

## 2 Role

- 2.1 The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2011, which states that a relevant body must:

'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

- 2.2 The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 ['the Standards'].

## 3 Professionalism

- 3.1 The internal audit activity will govern itself by adherence to the Public Sector Internal Audit Standards 2013 ['the Standards']. The mandatory Standards constitute the fundamental requirements for the professional practice of internal auditing in the public sector and for evaluating the effectiveness of the internal audit activity's performance.
- 3.2 The CIPFA local government application note for the United Kingdom Public Sector Audit Standards will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to <organisation> relevant policies and procedures and the internal audit activity's standard operating procedures manual.

## 4 Authority

- 4.1 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of <organisation> records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Board.

## Draft Internal Audit Charter

### 5 Organisation

5.1 The Chief Audit Executive will report functionally to the Board and administratively (i.e. day to day operations) to the <designation>.

The Board will:

- Approve the internal audit charter.
- Approve the risk based internal audit plan.
- Approve the internal audit budget and resource plan.
- Receive communications from the Chief Audit Executive on the internal audit activity's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Chief Audit Executive.
- Approve the remuneration of the Chief Audit Executive.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.

5.2 The Chief Audit Executive will communicate and interact directly with the Board, including in executive sessions and between Board meetings as appropriate.

### 6 Independence and Objectivity

6.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

6.2 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

6.3 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

6.4 The Chief Audit Executive will confirm to the board, at least annually, the organisational independence of the internal audit activity.

## Draft Internal Audit Charter

### 7 Responsibility

- 7.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:
- Evaluating risk exposure relating to achievement of the organisation's strategic objectives.
  - Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
  - Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation.
  - Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
  - Evaluating the effectiveness and efficiency with which resources are employed.
  - Evaluating operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
  - Monitoring and evaluating governance processes.
  - Monitoring and evaluating the effectiveness of the organisation's risk management processes.
  - Evaluating the degree of coordination between internal and external providers of assurance – sharing information and coordinating activities to ensure proper coverage.
  - Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation.
  - Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
  - Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
  - Evaluating specific operations at the request of the Board or management, as appropriate.
- 7.2 The <organisation> is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the organisation that these arrangements are in place and operating properly.
- 7.3 The provision of assurance is, therefore, the primary role for internal audit. This role requires the Chief Audit Executive to provide an annual internal audit opinion and report which is timed to inform the Annual Governance Statement and is based on

## Draft Internal Audit Charter

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

- 7.4 Internal Audit may also undertake non-assurance work including fraud related and consultancy work, at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.
- 7.5 The Chief Audit Executive should be made aware of major new systems and proposed initiatives. The Chief Audit Executive should consider what if any audit work needs to be done to help ensure risks are properly identified and evaluated and appropriate controls built in.

### 8 Role of Internal Audit in Fraud Related Work

- 8.1 Managing the risk of fraud and corruption is the responsibility of management. The Chief Audit Executive will be informed of all suspected or detected fraud, corruption or impropriety to inform their opinion on the internal control environment and Internal Audit's work programme.
- 8.2 At the request of management, Internal Audit may go beyond the work needed to meet its assurance responsibilities and assist with, for example, the investigation of suspected fraud and corruption.

### 9 Internal Audit Plan

- 9.1 At least annually, the Chief Audit Executive will submit to senior management and the Board an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next financial year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Board.
- 9.2 The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Board. The Chief Audit Executive will review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Board through periodic activity reports.

### 10 Reporting and Monitoring

- 10.1 A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement (assurance) and will be distributed as appropriate. Internal audit results will also be communicated to the Board.

## Draft Internal Audit Charter

- 10.2 The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- 10.3 The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.
- 10.4 The Chief Audit Executive will periodically report to senior management and the Board on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.
- 10.5 The Chief Audit Executive is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

### 11 Quality Assurance and Improvement Programme

- 11.1 The internal audit activity will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 11.2 The Chief Audit Executive will communicate to senior management and the Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

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## CHESHIRE EAST COUNCIL

### REPORT TO: AUDIT AND GOVERNANCE COMMITTEE

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**Date of Meeting:** 27<sup>th</sup> September 2013  
**Report of:** Interim Chief Operating Officer  
**Subject/Title:** Treasury Management Update  
**Portfolio Holder:** Councillor Peter Raynes

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#### **1.0 Report Summary**

1.1 The Treasury Management Policy requires regular reporting on the performance of the Council's treasury management operation.

1.2 This report contains:

- An update on treasury management activity for the period April – July 2013.
- The Annual Report for 2011/12 which was considered by Cabinet on 19<sup>th</sup> August 2013 (Appendix A).

#### **2.0 Decision Requested**

2.1 To note the treasury management activity for the period covered in the report.

#### **3.0 Reasons for Recommendations**

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.

#### **4.0 Wards Affected**

4.1 Not applicable

#### **5.0 Local Ward Members**

5.1 Not applicable

#### **6.0 Policy Implications including – Carbon Reduction - Health**

6.1 None

#### **7.0 Financial Implications**

7.1 Contained within the report.

## **8.0 Legal Implications (Authorised by the Borough Solicitor)**

8.1 As noted in paragraph C47 of the Finance and Contract 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. C47 to C52 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 under rule C52.

## **9.0 Risk Management**

9.1 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management function will be measured.

## **10.0 Background and Options**

### Borrowing Strategy for 2013-14

10.1 The Council will continue to minimise borrowing by making use of internal balances. Any new borrowing will be undertaken in consultation with the Council's treasury management advisors, Arlingclose. They advise that delaying the raising of loans until such time as they are needed is the correct approach. Arlingclose are of the view that the cost of holding the cash received when long term loans are raised ahead of their actually being needed far outweighs any benefits that may be gained as result of such loans being raised ahead of a possible increase in long term interest rates.

10.2 The long term loans portfolio comprises of:-

- £116 million of fixed rate loans from the Public Works Loans Board (PWLB)
- £18 million of Lender's Option Borrower's Option (LOBO) Loans from commercial banks.

The average interest rate for long term debt is 4%.

10.3 In order to take advantage of current lower rates and reduce the interest rate risk inherent in forced borrowing in the future when rates may be higher, maturing loans will be replaced with PWLB 10 year Equal Instalments of Principal (EIP) loans. Current EIP loans are maturing at a rate of £6m per year. There are also 3 maturity loans of £2.543m each at rates in excess of 9% that are due to mature, two in 2014/2015 and one in 2015/2016. Refinancing of these loans would be at considerably lower rates.

10.4 The Council has registered with the Department of Communities and Local Government (DCLG) for the PWLB Certainty Rate; this provides a reduction of 20 basis points (0.2%) on loans from PWLB.

#### Lending Strategy for 2013-14

- 10.5 The rate of interest earned on fixed term deposits with banks and building societies remain at very low levels. This can be attributed to the introduction by the Bank of England, of the Funding for Lending Scheme (FLS) and a desire by banks and building societies to be less reliant on wholesale deposits (i.e., large one-off loans from large public and private sector organisations) for their funding and more reliant on retail deposits (i.e., deposits from individuals).
- 10.6 The Monetary Policy Committee (MPC) has provided some explicit guidance regarding the future conduct of monetary policy. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until the unemployment rate has fallen to a threshold of 7%. It currently forecasts this level to emerge in Quarter 3 of 2016.
- 10.7 The Council's total average interest rate for the first quarter of 2013/14 was 0.37%. This is disappointing and lower than the London Inter-bank Bid Rate for 7 days at 0.45%. The lower return for quarter 1 is a direct result of volatility in the managed pooled funds. This returned disappointing results in May and June due to a slowing down of growth in the emerging markets such as China and sharp reactions in the bond markets to comments made in the USA about possible changes to their quantitative easing programme. The situation is being monitored and regular meetings are being held with fund managers to assess the on-going performance, future directions and suitability of these funds.

#### Capital Financing Budget

- 10.8 The capital financing budget for 2013/14 is £11.9m, which accounts for 4.6% of the Council's net revenue budget. The budget is forecast to be on target for the year.

#### Heritable Bank

- 10.9 During August, the Council received the 14<sup>th</sup> dividend from the Administrators of Heritable Bank of £773,000. This is more than expected and takes the total recovery up to around 94% of the original claim (expected 85-88%). This will be of benefit of around £300k to the Income & Expenditure account this year.

#### Retender of the Contract for Banking Services

- 10.10 Work is on-going on the tender of the Council's banking services and Members will be updated as soon as the procurement exercise is concluded.

#### Training

- 10.11 Members of the Finance Policy Development Group received a briefing from Arlingclose on 8<sup>th</sup> July 2013, which considered alternative investment

opportunities including the use of Registered Providers and Credit Unions to diversity investments.

10.12 Officers have attended a workshop on Treasury Management Practices (TMPs) provided by Arlingclose. The Council's TMPs have recently been updated in line with this guidance.

### **11.0 Access to Information**

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

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Appendix A – Treasury Management Annual Report 2012/13

**Treasury Management Annual Report 2012/13**

**Introduction and Background**

The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Cabinet receive an annual report and regular updates through the Quarterly Financial Performance Reports. The scrutiny of treasury policy, strategy and activity is delegated to the Audit and Governance Committee.

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."

Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

This report:

- a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
- b) presents details of capital financing, borrowing, debt rescheduling and investment transactions;
- c) reports on the risk implications of treasury decisions and transactions;
- d) gives details of the outturn position on treasury management transactions in 2012/13;
- e) confirms compliance with treasury limits and Prudential Indicators.

## 1. Treasury Year End Position

The amount of investments outstanding at 31<sup>st</sup> March 2013 was £68.5m as follows:

	31/03/12	31/03/13
	£m	£m
<b>BANKS (Fixed Deposits)</b>		
Lloyds TSB	3.1	6.0
Standard Chartered Bank	-	2.0
<b>MONEY MARKET FUNDS</b>		
Prime Rate	5.0	6.5
IGNIS	4.5	8.5
Deutsche	4.0	3.0
Scottish Widows	3.5	3.9
<b>INSTANT ACCESS ACCOUNTS</b>		
Royal Bank of Scotland	5.0	5.5
Santander (UK)	5.0	8.5
Co-op Reserve	-	1.5
<b>NOTICE ACCOUNTS</b>		
Royal Bank of Scotland	-	3.0
<b>MANAGED FUNDS</b>		
Investec – Pooled Funds	20.0	20.1
<b>TOTAL</b>	<b>50.1</b>	<b>68.5</b>

The net investment income received in 2012/2013 after allowing for fees and interest due to the Growing Places fund was £567,000. This is favourable compared to the budget of £300,000. The investment income includes £34,000 relating to deposits made by the former Cheshire County Council with the Icelandic Heritable Bank which were received in 2012/13.

The overall average rate of interest on all investments in 2012/13 was 0.74% compared to the benchmark 7 day LIBID return of 0.49%. The base rate remained at 0.50% for the full year.

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 2012/13 was £14.8m which accounts for 6% of the Council's total revenue budget. Overall the budget was under spent by £0.9m, this is due to the levels of capital expenditure being lower than originally forecast which reduced the level of debt

repayment and savings on external interest payments as a result of maximising the use of the Council's internal borrowing capacity.

We will continue to monitor performance during 2013/14 through the benchmarking service provided by the Council's Treasury Management Advisors, Arlingclose.

## **2. Icelandic Bank Deposits**

Repayment of monies due from Heritable Bank has been continuing and in August 2011 the administrators announced that we are likely to receive around 88% of the original claim, an increase from the original estimate of 85%.

From the total claim of £4.62m we have now received £3.57m (77%).

Further repayments are forecast as follows:

2013/2014 - £0.44m

## **3. Interest Rates and Prospects for 2012/13**

The Councils' treasury advisors, as part of their service assisted in formulating a view on interest rates. However, there has been no change to the bank base rate since March 2009.

	<b>Q1 2012</b>	<b>Q2 2012</b>	<b>Q3 2012</b>	<b>Q4 2012</b>	<b>Q1 2013</b>
<b>Base Rate</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>

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

During the financial year the Councils' operated within the treasury limits and Prudential Indicators set out in the Councils' Treasury Policy Statement and annual Treasury Strategy Statement (see section 8).

## **5. Investment Strategy for 2012/13**

The Council had regard to the DCLG Guidance on Local Government Investments ("the Guidance") issued in March 2004 (revised in 2010) and the revised CIPFA Treasury Management Code and the revised Prudential Code ("the CIPFA TM Code").

Investment instruments identified for use in the financial year are listed under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits were set through the Councils' Treasury Management Strategy Statement and Investment Strategy.

## **Investment Objectives**

All investments were in sterling. The general policy objective of the Council was the prudent investment of its treasury balances. The Councils' investment priorities are the security of capital and liquidity of its investments.

The Council aimed to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. The DCLG maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

## **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 minimum long-term counterparty credit rating determined for the 2012/13 treasury strategy was A-/A-/A3 across rating agencies Fitch, S&P and Moody's.

In June Moody's downgraded a swathe of banks with global capital market operations, including the UK banks on the Council's lending list - Barclays, HSBC, Royal Bank of Scotland/Natwest, Lloyds TSB Bank/Bank of Scotland, Santander UK plc - as well as several non UK banks, but none of the ratings fell below the Council's minimum A-/A3 credit rating threshold.

## **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/ the use of call accounts.

## **Yield**

The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year.

The Council considered an appropriate risk management response to uncertain and deteriorating credit conditions in Europe was to shorten maturities for new investments. Short term money market rates also remained at very low levels which had a significant impact on investment income.

## **Use of External Fund Managers**

In May 2011 the Council placed £20m with Investec in pooled funds, for which the aim is to generate higher returns in a low interest rate environment through investment in a diverse range of instruments. The return on these funds after fees was 0.77%.

Whilst the performance of the fund since we joined is not as good as we originally hoped, these investments should be seen as a longer term investment so true performance can only be judged over a longer period of time.

## **6. Borrowing strategy**

At the end of the year 2012/13 the Council had debt outstanding of £131.7m. Of this £17m represented loans raised from commercial banks whilst £114.5m represented loans from the PWLB.

The Council's capital financing requirement (CFR) currently exceeds the amounts actually borrowed with the shortfall being funded from cash balances. Borrowing is currently being repaid at a rate of £5.5m per year which means the gap between the CFR and actual borrowing is increasing which exposes the Council to interest rate risk in the future if cash balances were to fall and borrowing had to be taken at prevailing rates at the time. To reduce exposure to interest rate risk and prevent excessive use of internal resources a new loan of £5m was taken in 2012/13 to replace most of the maturing debt.

In accordance with the Treasury Management Strategy the Council sought 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 use to finance capital expenditure payments was less than the amount of interest payable on any new loans that would have been raised.

In December 2012 the Council agreed to changes in the method of financing the capital programme and the use of capital receipts. The capital receipts reserve (£16.3m as at 31 March 2012) has been utilised to finance capital expenditure which has taken place in previous years and has been met from borrowing. This will reduce the capital financing requirement and therefore the level of revenue provision required for the repayment of debt in 2013/14 and future years.

## **7. Economic events of 2012/13**

The global outlook stabilised mainly due to central banks maintaining low interest rates and expansionary monetary policy for an extended period. Equity market assets recovered sharply with the FTSE 100 registering a 9.1% increase over the year. This was despite economic growth in G-7 nations being either muted or disappointing.

In the UK the economy shrank in the first, second and fourth quarters of calendar 2012. It was the impressive 0.9% growth in the third quarter, aided by the summer Olympic Games, which allowed growth to register 0.2% over the calendar year 2012. The expected boost to net trade from the fall in the

value of sterling did not materialise, but raised the price of imports, especially low margin goods such as food and energy. Avoiding a 'triple-dip' recession became contingent on upbeat services sector surveys translating into sufficient economic activity to overhaul contractions in the struggling manufacturing and construction sectors.

Household financial conditions and purchasing power were constrained as wage growth remained subdued at 1.2% and was outstripped by inflation. Annual CPI dipped below 3%, falling to 2.4% in June before ticking up to 2.8% in February 2013. Higher food and energy prices and higher transport costs were some of the principal contributors to inflation remaining above the Bank of England's 2% CPI target.

The lack of growth and the fall in inflation were persuasive enough for the Bank of England to maintain the Bank Rate at 0.5% and also sanction additional £50 billion asset purchases (QE) in July, taking total QE to £375 billion. The possibility of a rate cut was discussed at some of Bank's Monetary Policy Committee meetings, but was not implemented as the potential drawbacks outweighed the benefits of a reduction in the Bank Rate. In the March Budget the Bank's policy was revised to include the 2% CPI inflation remit alongside the flexibility to commit to intermediate targets.

The resilience of the labour market, with the ILO unemployment rate falling to 7.8%, was the main surprise given the challenging economic backdrop. Many of the gains in employment were through an increase in self-employment and part time working.

The Chancellor largely stuck to his fiscal plans with the austerity drive extending into 2018. In March the Office for Budgetary Responsibility (OBR) halved its forecast growth in 2013 to 0.6% which then resulted in the lowering of the forecast for tax revenues and an increase in the budget deficit. The government is now expected to borrow an additional £146bn and sees gross debt rising above 100% of GDP by 2015-16. The fall in debt as a percentage of GDP, which the coalition had targeted for 2015-16, was pushed two years beyond this horizon. With the national debt metrics out of kilter with a triple-A rating, it was not surprising that the UK's sovereign rating was downgraded by Moody's to Aa1. The AAA status was maintained by Fitch and S&P, albeit with a Rating Watch Negative and with a Negative Outlook respectively.

The government's Funding for Lending (FLS) initiative commenced in August which gave banks access to cheaper funding on the basis that it would then result in them passing this advantage to the wider economy. There was an improvement in the flow of credit to mortgagees, but was still below expectation for SMEs.

The big four banks in the UK – Barclays, RBS, Lloyds and HSBC – and several other global institutions including JP Morgan, Citibank, Rabobank, UBS, Credit Suisse and Deutsche came under investigation in the Libor rigging scandal which led to fines by and settlements with UK and US regulators. Banks' share prices recovered after the initial setback when the news first hit the headlines.

**Europe:** The Euro region suffered a further period of stress when Italian and Spanish government borrowing costs rose sharply and Spain was also forced to officially seek a bailout for its domestic banks. Markets were becalmed after the ECB's declaration that it would do whatever it takes to stabilise the Eurozone and the central bank's announcement in September of its Outright Monetary Transactions (OMT) facility, buying time for the necessary fiscal adjustments required. Neither the Italian elections which resulted in political gridlock nor the poorly-managed bailout of Cyprus which necessitated 'bailing-in' non-guaranteed depositors proved sufficient for a market downturn. Growth was hindered by the rebalancing processes under way in Euroland economies, most of which contracted in Q4 2012.

**US:** The US Federal Reserve extended quantitative easing through 'Operation Twist', in which it buys longer-dated bonds with the proceeds of shorter-dated US Treasuries. The Federal Reserve shifted policy to focus on the jobless rate with a pledge to keep rates low until unemployment falls below 6.5%. The country's extended fiscal and debt ceiling negotiations remained unresolved.

**Gilt Yields and Money Market Rates:** Gilt yields ended the year lower than the start in April. By September the 2-year gilt yield had fallen to 0.06%, raising the prospect that short-dated yields could turn negative. 10-year yields fell by nearly 0.5% ending the year at 1.72%. The reduction was less pronounced at the longer end; 30-year yields ended the year at 3.11%, around 25bp lower than in April. Despite the likelihood the DMO would revise up its gilt issuance for 2012/13, there were several gilt-supportive factors: the Bank of England's continued purchases of gilts under an extended QE programme; purchases by banks, insurance companies and pension funds driven by capital requirements and the preference for safe harbour government bonds.

One direct consequence of the Funding for Lending Scheme was the sharp drop in rates at which banks borrowed from local government. 3-month, 6-month and 12-month Libid rates which were 1%, 1.33% and 1.84% at the beginning of the financial year fell to 0.44%, 0.51% and 0.75% respectively.

## **8. Prudential Indicators 2012/13**

The Council can confirm that it has complied with its Prudential Indicators for 2012/13, which were approved on 23<sup>rd</sup> February 2012 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 2012/13. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

## **9. Other Items**

### **PWLB Project Rate**

The 2012 Autumn Statement announced that the Government would make available a new concessionary public works loan rate to an infrastructure project nominated by each LEP (excluding London) in England, with total borrowing capped at £1.5 billion. The Government will provide a UK guarantee to allow the Mayor of London to borrow £1 billion at a new preferential rate to support the Northern Line Extension to Battersea.

The March 2013 Budget announced details of the “project rate” which will enable English local authorities (LAs) working with their Local Enterprise Partnership (LEP) to access cheaper borrowing on up to £1.5 billion of investment.

The Public Works Loan Board (PWLB) project rate has been set at 40 basis points below the standard rate across all loan types and maturities. It will be available to local authorities in England from 1 November 2013. This discounted borrowing is being made available to support strategic local capital investment projects. The Government is asking each LEP to work with LAs in their area to agree which project should benefit from the cheaper borrowing support. This will give LEPs, in consultation with LAs, the power to prioritise the projects that best support shared local goals. The Government is now seeking business cases from LEPs, agreed with LAs, setting out borrowing requirements for their chosen local project.

**Annex 1****Capital Financing Requirement (CFR)**

Estimates of the Council's cumulative maximum external borrowing requirement for 2012/13 to 2014/15 are shown in the table below:

	31/3/2013 Estimate £m	31/3/2013 Actual £m	31/3/2014 Estimate £m	31/3/2015 Estimate £m
Gross CFR	234	192	226	252
<b>Less:</b> Other Long Term Liabilities	24	27	26	24
<b>Borrowing CFR</b>	<b>210</b>	<b>165</b>	<b>200</b>	<b>228</b>
<b>Less:</b> Existing Profile of borrowing	128	134	134	128
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>82</b>	<b>31</b>	<b>66</b>	<b>100</b>

In the Prudential Code Amendment (November 2012), it states that the Section 151 Officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to her, since any such deviation may be significant and should lead to further investigation and action as appropriate.

	31/03/2013 Approved £000s	31/03/2013 Actual £000s	31/03/2014 Estimate £000s	31/03/15 Estimate £000s
CFR	210	165	200	228
Gross Debt	128	134	134	128
<b>Difference</b>	<b>82</b>	<b>31</b>	<b>66</b>	<b>100</b>
<b>Borrowed in excess of CFR? (Y/N)</b>	<b>N</b>	<b>N</b>	<b>N</b>	<b>N</b>

**Usable Reserves**

Estimates of the Council's level of Balances and Reserves for 2012/13 to 2014/15 are as follows:

	31/3/2013 Estimate £m	31/3/2013 Actual £m	31/3/2014 Estimate £m	31/3/2015 Estimate £m
Usable Reserves	37	53	51	49

## **Prudential Indicator Compliance**

### **(a) Authorised Limit and Operational Boundary for External Debt**

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Council's Affordable Borrowing Limit was set at £268m for 2012/13.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Operational Boundary for 2012/13 was set at £258m.
- The Interim Chief Operating Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year; borrowing at its peak was £137m.

### **(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	<b>Limits for 2012/13 %</b>	<b>Maximum during 2012/13 %</b>
<b>Upper Limit for Fixed Rate Exposure</b>	100%	100%
Compliance with Limits:	Yes	Yes
<b>Upper Limit for Variable Rate Exposure</b>	100%	0%
Compliance with Limits:	Yes	Yes

### **(c) Maturity Structure of Fixed Rate Borrowing**

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

<b>Maturity Structure of Fixed Rate Borrowing</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>	<b>Actual Fixed Rate Borrowing as at 31/03/2013 £m</b>	<b>% Fixed Rate Borrowing as at 31/03/2013</b>	<b>Compliance with Set Limits?</b>
under 12 months	25%	0%	23.0	17%	Yes
12 months and within 24 months	25%	0%	11.1	8%	Yes
24 months and within 5 years	35%	0%	20.5	16%	Yes
5 years and within 10 years	50%	0%	16.8	13%	Yes
10 years and within 20 years	100%	0%	21.8	16%	Yes
20 years and within 30 years	100%	0%	14.2	11%	Yes
30 years and within 40 years	100%	0%	8.8	7%	Yes
40 years and within 50 years	100%	0%	15.3	12%	Yes
50 years and above	100%	0%	0	0%	Yes

The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date<sup>1</sup>

(d) **Actual External Debt**

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

<b>Actual External Debt as at 31/03/2013</b>	<b>£m</b>
Borrowing	134
Other Long-term Liabilities	27
<b>Total</b>	<b>161</b>

(e) **Total principal sums invested for periods longer than 364 days**

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- This indicator allows the Council to manage the risk inherent in investments longer than 364 days.
- The limit for 2012/13 was set at 40% of total investments.
- One investment of £2m was made in 2012/13 for a period of 365 days which represented a maximum of 4% of investments at any one time.

(f) **Capital Expenditure**

- 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 and in the case of the HRA, housing rent levels.

<b>Capital Expenditure</b>	<b>2012/13 Estimate £m</b>	<b>2012/13 Actual £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>
<b>Total</b>	<b>83.9</b>	<b>51.4</b>	<b>121.1</b>	<b>71.6</b>

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

<b>Capital Financing</b>	<b>2012/13 Estimate £m</b>	<b>2012/13 Actual £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>
Capital receipts	14.3	12.1	10.0	5.0
Government Grants	36.1	29.7	46.9	10.5
External contributions	0.2	0.9	23.2	20.3
Revenue contributions	0.6	0.2	1.0	0
Supported borrowing	1.8	0.0	0.0	0
Unsupported borrowing	30.9	8.5	40.0	35.8
<b>Total Financing and Funding</b>	<b>83.9</b>	<b>51.4</b>	<b>121.1</b>	<b>71.6</b>

(g) **Ratio of Financing Costs to Net Revenue Stream**

- 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 ratio is based on costs net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2012/13 Estimate %</b>	<b>2012/13 Actual %</b>	<b>2013/14 Estimate %</b>	<b>2014/15 Estimate %</b>
<b>Total</b>	<b>6.01</b>	<b>5.64</b>	<b>4.58</b>	<b>5.35</b>

**(h) Incremental Impact of Capital Investment Decisions**

- This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent 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.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2012/13 Approved £</b>	<b>2013/14 Estimate £</b>	<b>2014/15 Estimate £</b>
Increase in Band D Council Tax	6.02	11.92	10.77

**(i) Adoption of the CIPFA Treasury Management Code**

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

<b>Adoption of the CIPFA Code of Practice in Treasury Management</b>
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 23 <sup>rd</sup> February 2012

**(j) Gross and Net Debt**

- The purpose of this treasury indicator is to highlight a situation where the Authority is planning to borrow in advance of need.

<b>Upper Limit on Net Debt compared to Gross Debt</b>	<b>2012/13 Actual £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>
Outstanding Borrowing (at nominal value)	132	208	228
Other Long-term Liabilities (at nominal value)	27	26	25
<b>Gross Debt</b>	<b>159</b>	<b>234</b>	<b>253</b>
<b>Less: Investments</b>	<b>(68)</b>	<b>(68)</b>	<b>(68)</b>
<b>Net Debt</b>	<b>91</b>	<b>166</b>	<b>185</b>

***N.B. CIPFA has acknowledged that the upper limit does not work as was intended and is working on a revised indicator. This indicator will be amended once revised guidance has been received from CIPFA.***

**(k) Upper Limit for Total Principal Sums Invested Over 364 Days**

- The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

<b>Upper Limit for total principal sums invested over 364 days</b>	<b>2012/13 Approved £m</b>	<b>2012/13 Revised £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>	<b>2015/16 Estimate £m</b>
	40%	40%	40%	40%	40%

## CHESHIRE EAST COUNCIL

### REPORT TO: AUDIT & GOVERNANCE COMMITTEE

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**Date of meeting:** 27 September 2013  
**Report of:** Performance and Risk Manager  
**Title:** Risk Management Update Report  
**Portfolio Holder:** Councillor David Brown

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#### **1.0 Report Summary**

1.1 This is a summary of risk management work undertaken since the previous meeting of the Audit and Governance Committee. The Audit and Governance Committee has a key role in providing an oversight of the effectiveness and 'embedding' of risk management processes, and in testing and seeking assurance about the effectiveness of control and governance arrangements. In order to form an opinion on these arrangements, it needs to establish how key risks are identified, evaluated and managed, and the rigour and comprehensiveness of the review process. The purpose of this report is to provide the Audit and Governance Committee with a summary of recent risk management work so that it may undertake this oversight.

#### **2.0 Decision Requested**

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

#### **3.0 Reasons for Recommendations**

3.1 Risk management is central to good governance and effective strategic management. Cheshire East Council is publicly accountable and must be able to demonstrate effective management of the kinds of risks which threaten the achievement of its strategic objectives, the effectiveness of its operations, the reliability of its financial reporting, and the security and value of its assets. Risk Management provides a structured, consistent and continuous process across the whole of Cheshire East Council for identifying, assessing, deciding on responses to, and reporting on opportunities and threats that affect the achievement of the Council's 3 Year Plan objectives and outcomes.

3.2 The benefit of a strong risk management framework from a governance viewpoint is that it gives a greater level of confidence that management have properly and adequately fulfilled their responsibility in operating an effective system of internal control. This in turn gives confidence to both Members and staff to support a higher appetite for risk, at a time when major change is necessary and desirable.

#### **4.0 Cheshire East Council 3 Year Plan – Corporate Risk Update**

4.1 Setting out the Council's vision and medium term priorities as part of the 3 Year Council Plan brings us new risk challenges and opportunities. Cabinet and Managers will have a significant challenge in ensuring that the vision, culture and organisational structure are fully aligned, as the Council works as one to increase efficiency and undertake major change programmes to innovate as effectively and cost efficiently as possible. At a time of considerable and constant change, when managers are dealing with many competing demands, it is possible to miss the risks that arise suddenly or unexpectedly. Risk identification and assessment is therefore an integral part of the development of our 3 Year Council planning processes. Consideration and response to existing and new threats, and the ability to recognise and seize new opportunities, is fundamental to achieving the future outcomes that we want.

- 4.2 It is considered good practice to include an update to Audit and Governance Committee at every meeting on progress against key risks. Attached at **Appendix A** is a summary of the Council's Key Corporate Risk descriptions and the net risk rating for the risks scored to date. The summary provides a tracking of the direction of travel of risks, with a commentary for any risks that change. This can then be utilised as a tool to ensure that any risks not being managed to an acceptable level are monitored, reported on and escalated as required.
- 4.3 At its meeting on 16 August 2013, the Corporate Risk Management Group discussed and considered the risk ratings for the following key risks:-  
Corporate Risk 3 – Strategic Leadership and Management (Threat)  
Corporate Risk 9 – Workforce (Threat)  
Corporate Risk 11 – Commissioning and Service Delivery Chains (Threat)  
Corporate Risk 13 – New Responsibilities for Public Health and Wellbeing (Threat)
- 4.4 As detailed on **Appendix A** and shown on the heat map attached at **Appendix B**, six of the key corporate risks, CR1 Political, CR3 Leadership and Management, CR4 Financial Control, CR9 Workforce, CR11 Commissioning and Service Delivery Chains and CR18 Legal, have been assessed as having a 'High' net risk rating. The Corporate Risk Management Group has requested further work on the accuracy of the risk description for CR13 New Responsibilities for Public Health and Wellbeing. The Group also agreed to increase the likelihood rating for corporate risk 9 – Workforce, increasing the net risk rating to 12 High.
- 4.5 Work is ongoing to review and score the remaining opportunities and threats as identified.
- 4.6 The assessment methodology used to score the risks is attached at **Appendix C** to this report for information.
- 5.0 Wards Affected**
- 5.1 All
- 6.0 Local Ward Members**
- 6.1 All
- 7.0 Policy Implications**
- 7.1 Risk management is integral to the overall management of the authority and, therefore, key policy implications and their effective implementation are considered within service risk registers and as part of the risk management framework.
- 8.0 Financial Implications (Authorised by the Director of Finance and Business Services)**
- 8.1 There are no financial implications in relation to this report. However, a risk around financial control is included as a corporate risk.
- 9.0 Legal Implications (Authorised by the Borough Solicitor)**
- 9.1 As well as the need to protect the Council's ability to achieve its strategic aims and to operate its business, general principles of good governance require that it should also identify risks which threaten its ability to be legally compliant and operate within the confines of the legislative framework, and this report is aimed at addressing that requirement.
- 10.0 Risk Management**
- 10.1 This report relates to overall risk management; the Audit and Governance Committee should know about the most significant risks facing the Council and be assured that the risk management framework is operating effectively. The content of this report aims to mitigate the following risks:-

Key Risks
That Cheshire East Council fails to properly develop, implement and demonstrate an effective risk management framework
That Cheshire East Council fails to apply its risk management policy consistently across the Council
That Cheshire East Council fails to recognise risk or make correct decisions to tolerate, treat, transfer or terminate threats or to exploit, share, enhance or ignore opportunities due to poor risk management

## 11.0 Background and Other Risk Work

### 11.1 Project Management

The Risk Manager has been working alongside the Programme Management Office to provide advice and guidance on risk management, as part of the Council's project and programme management methodology. Risk registers are included as part of the standard templates for project managers and an assessment guide for significant projects has been produced. The Risk Manager recently presented a master class for project managers on 'Risk Management and Objective Setting' as this was identified as an area that could be strengthened as part of the continuous improvement of the programme methodology.

### 11.2 Business Unit Planning

Risk register templates are also included as part of the standard planning documentation for Business Units, as part of the 3 year planning for unit areas. Advice and guidance on this has been made available on the Centranet for managers and staff. A cross-section of risk registers from the business unit plans were considered by the Corporate Risk Management Group. There were a number of issues with the quality of both the Business Unit Plans and the associated risk registers which were to be raised through the Corporate Leadership Board.

### 11.3 Specialist Risk Areas – Insurance

11.3.1 The Corporate Risk Management Group received an overview of the recently introduced 'Ministry of Justice Reforms', the implications for Services and the cost savings opportunities arising from these reforms. These changes will affect the way that Employers Liability and Public Liability claims involving personal injury are handled across the insurance industry and will affect personal injury claims with an incident date of 31st July 2013 onwards, or disease claims notified from this date. These may be claims from members of the public and/or from employees but in both cases, the claims now have to be made through a solicitor, submitted via a national electronic Claims Portal and will be subject to a fixed legal cost fee structure. Indications received from industry commentators suggest that personal injury claims settlements under the new regime should generate a cost saving of circa 30% given the lower, fixed legal costs structure. In practical terms, there will be no alteration in the extent of information that is required from services, but we do now need to ensure that all relevant documentation is received and processed within much shorter timescales to ensure that where possible the lower range of legal costs will apply.

11.3.2 The Corporate Insurance Team have now developed a suite of reports to provide managers with information relating to claims involving their services. The aim of the distribution of these reports, whilst providing a useful communication tool between the insurance team and the services themselves, is also to provide a focus for service managers to allow them to assimilate the information provided and address any improvements that may be evident in their processes and procedures. Availability of these specific, tailored reports should aid improvements in risk assessment and awareness and, in time, should contribute to a reduction in the volume of successful claims made against the authority, thereby improving the financial position of the Council.

11.4 Specialist Risk Areas – Business Continuity

11.4.1 All major services have now identified their critical activities with high risk services (Adult and Children etc) developing Business Continuity plans. The next phase of the work, which is being co-ordinated by the Joint Cheshire Emergency Planning Team, will concentrate on developing Business Continuity plans for other key services, exploring the potential for embedding of Business Continuity Management planning into the business planning cycle for 2014-15, as well as the development of a Corporate Cheshire East Business Continuity plan. The purpose of this plan will be to identify measures that would be taken in the event of a major cross service business interruption e.g. loss of a corporate building. A Senior Crisis Management Team will be established to determine priorities should the authority be unable to deliver all of its critical functions at once.

11.4.2 Joint working is also taking place with Cheshire West and Chester Council to ensure Shared Services e.g. IT and Finance have appropriate Business Continuity plans in place to deliver the services they provide.

11.5 Alternative Delivery Model Risks

11.5.1 The Council's risk procedures are being updated to ensure there are adequate arrangements on risk management in relation to new and alternative delivery models. The Council needs to meet two key responsibilities for each new delivery model vehicle:-

- provide assurance that the risks associated with working as a new vehicle have been identified and prioritised and are being appropriately managed
- ensure that the new vehicle has effective risk management procedures in place

11.5.2 Each new vehicle must ensure that risk management is embedded in the business and that the risk management methodology conforms to good practice. The specific challenge is being clear about where the new vehicle's objectives overlap, and can be aligned, to address a common goal with common risks, as opposed to where they are fully independent. Consideration will need to be given to matters such as:-

- Reporting on shared key risks to management
- Defining arrangements for joint risk registers or escalating risks from the new vehicle to the Council's risk register
- Facilitating prioritisation of action plans

11.5.3 In considering the alternative models we need to think about risk appetite. This is not a single, fixed concept. There will be a range of appetites for different risks which need to align and these appetites may well vary over time. The risk appetite must take into account differing views of all stakeholders at a strategic, tactical and operational level. It needs to be measurable and should be developed in the context of both the Council's and the new vehicle's risk management capability and risk maturity. Risk appetite from a strategic level (Council's viewpoint) is proportionately more about risk taking than exercising control, while at the operational level (New Vehicle's viewpoint) the proportions are broadly reversed.

**12.0 Access to Information**

12.1 Risk Management Policy

The updated Risk Management Policy was approved by Cabinet at its meeting on 22 July 2013. The background papers relating to this report can be inspected by contacting the report writer:

Name: Joanne Butler  
Designation: Performance and Risk Manager  
Tel No: 01270 685999  
Email: joanne.butler@cheshireeast.gov.uk

## Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR1	Threat	<b>Political Environment:</b> That development and changes as a result of government policy and reviews compromise the Council's ability to deliver, preventing the achievement of all or some of our objectives and outcomes.	Chief Executive	Leader of the Council	12 High	↔	Review due now
CR2	Opportunity	<b>Managing Expectations:</b> Opportunity to ensure that there is a mutual understanding and recognition of responsibilities between the people of Cheshire East and the Council, preventing an expectations gap between expected and actual Council service delivery; such that we influence our Voluntary and Faith Groups and Communities, to become more self-reliant, reduce unnecessary demand, and improve public perception of the Council's effectiveness in its aim to best serve the people of Cheshire East and be a leading, commissioning and responsible Council.	Exec Director of Strategic Commissioning	Deputy Leader & Strategic Communities Portfolio Holder	TBD		Further work required on documenting actions taken and planned to exploit this opportunity before scoring.  (This includes engagement / consultation, citizens panel work, engagement workshops with health partners and the appointment of the Head of Resilient Communities.)

## Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR3	Threat	<p><b>Strategic Leadership and Management:</b> Risk that a number of interlinked change factors result in ineffective strategic leadership and management arrangements in place meaning there is no clear and consistent understanding of our business for staff, members and partners. This reduces our ability to achieve all of our priorities, objectives and outcomes.</p> <p>These factors include:</p> <ul style="list-style-type: none"> <li>➤ new strategic commissioning operating model</li> <li>➤ management restructure</li> <li>➤ incoming new Chief Executive and other senior appointments</li> <li>➤ scale of delivery on substantial change programmes</li> </ul>	Chief Executive	Leader of the Council	12 High	↔	Although there are significant existing controls some of these processes are perhaps not fully embedded yet, this risk is high on peoples' agenda and is being given priority. The likelihood of this risk occurring at present is 3 likely but it is envisaged that this risk will reduce as the restructure is completed and the new appointments settle into their new roles. The impact of this risk is critical to the achievement of the Council's objectives. Overall the current score is 12 high risk.

## Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR4	Threat	<b>Financial Control:</b> Risk that the Council fails to manage expenditure within budget, due to inaccurate financial planning in both the short term and longer term and/or ineffective financial control leading to a failure to maintain an adequate level of reserves, thereby threatening financial stability and service continuity and preventing the achievement of Cheshire East's objectives and outcomes.	Chief Operating Officer	Finance Portfolio Holder	12 High	↔	The net risk rating is 12 High Risk. The likelihood of this risk is currently assessed at 3 (likely). We set a 3 year balanced budget and delivered an overall under spend against the 12/13 budget, service spending in year broadly on target but with some key identified risks. The ambition around the major change programme and ongoing structure changes present an inherent threat to financial control. The impact on the corporate objectives if this risk materialised will always be a 4 critical
CR5	Opportunity	<b>External Funding:</b> Opportunity that the Council identifies, bids for, or captures new alternative sources of external funding or income, or aligns other public sector local expenditure (such as by the NHS) to create added public value and increases its ability to achieve its objectives and outcomes.	Chief Operating Officer	Finance Portfolio Holder	TBD		Further work required on documenting actions taken and planned to exploit this opportunity before scoring.

## Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR6	Opportunity	<b>Evidenced Decision Making:</b> Opportunity to more effectively utilise information and business intelligence to properly and adequately take into account supplementary evidence and public need, resulting in a better ability to apply evidence based decision making, and strengthening our ability to effectively and efficiently reshape our commissioning approach to deliver services more innovatively to best serve the people of Cheshire East and achieve our intended outcomes.	Chief Operating Officer	Business Intelligence and JSNA Portfolio Holder	TBD		Further work required on documenting actions taken and planned to exploit this opportunity before scoring.
CR7	Threat	<b>Reputation:</b> Risk that consideration is not given and management action is not taken, to effectively maintain the reputation of the Council, leading to a loss of public confidence, threatening the stability of the Council and our ability to meet the corporate priorities.	Chief Executive	Leader of the Council	9 Medium	↔	Review due. Overall rating remains at 9 medium risk because likelihood is always prevalent and impact is dependent upon subject matter but the scoring uses worst case scenario for impact. High profile events have affected our reputation but the response to them has been transparent and incisive which has helped to mitigate to some extent.

## Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR8	Opportunity	<b>Public Sector Effort:</b> Opportunity to ensure that a consensus approach and joint strategic planning by several Council partners reduces duplication of effort and ensures best use of resources in varying geographic areas, such that efforts are not contradictory and/or do not leave gaps and we maximise public resources such that the Council and its partners are better able to achieve intended outcomes.	Chief Executive	Leader of the Council	TBD		Further work required on documenting actions taken and planned to exploit this opportunity before scoring.  (This includes sub-regional work, work with other public sector commissioners i.e. health / police)

## Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR9	Threat	<p><b>Workforce:</b> Risk that the fast pace and scale of change in the Council results in a de-motivated, disengaged and poor performing workforce which prevents the Council from achieving all its outcomes and priorities and fails to be a leading Council.</p> <p>The fast pace and scale of change gives rise to:-</p> <ul style="list-style-type: none"> <li>➤ disconnect as roles and responsibilities change and settle</li> <li>➤ increased pressure on staff to improve their skills and knowledge</li> <li>➤ overstretched staff capacity</li> <li>➤ increase in staff stress and sickness levels</li> <li>➤ loss of productivity</li> <li>➤ loss of key staff, skills and knowledge</li> </ul>	Chief Executive	Performance Portfolio Holder	<b>12 High</b>	↔	The likelihood of this risk occurring is a 3 likely, capacity as Officers move into the new management structure but continue to undertake their previous roles is a concern, as is clarity over accountability during this time. Managing change in culture and attitude is key to managing this risk. Taking account of the existing mitigation the impact should this risk occur would also be a 4 as the workforce has a major impact on the achievement of the corporate outcomes and performance (reduction in likelihood may result in less disengaged staff and would result in a less negative impact on performance and capacity). The overall rating for this risk is 12 high risk.

## Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR10	Threat	<b>Contract, Project and Programme Management Skills:</b> Risk that the Council does not have a sufficiently number of skilled and knowledgeable staff managing contracts, projects and programmes, such that they fail to deliver expected outcomes and/or within budgeted costs and/or within expected timescales and/or fail to comply with contract agreements. This will affect the Council's ability to achieve all of its priorities and outcomes, realise agreed savings to ensure better value for money, and may have a detrimental effect on the Council's reputation for failing to deliver on our promises.	Chief Operating Officer	Performance Portfolio Holder	8 <i>Medium</i>	↓	<i>Draft score, risk to be reviewed and moderated by the Corporate Risk Management Group.</i>

Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR11	Threat	<p><b>Commissioning and Service Delivery Chains:</b> Risk that as the Council moves into a more active “market making” role, it will progressively form complex and more fragmented supply chains for both back office and front line services (i.e. outsourcing, contracted suppliers and providers, shared service delivery, joint ventures, private finance initiatives and partnership working) increasing the materialisation of commissioning and service delivery chain risks which would prevent the Council from achieving its planned objectives, priorities and outcomes. Examples of these risks include:-</p> <ul style="list-style-type: none"> <li>➤ inappropriate, ineffective and inefficient provider commissioning</li> <li>➤ failure to meet/deliver service expectations/standards</li> <li>➤ supplier/partner financial failure</li> <li>➤ increase in supplier incidents, non-compliance with contracts or agreements</li> <li>➤ tension between profit motives and public sector ethos</li> <li>➤ budget overruns</li> <li>➤ increase in systematic risks in increasingly shared services</li> <li>➤ disaffected voluntary sector</li> <li>➤ inadequate supplier and contract management/relationship</li> </ul>	Chief Executive	Corporate Policy Portfolio Holder	12 High	↔	<p>The likelihood of this risk at present is a 3 ‘likely’ and has a number of interdependencies with other corporate risks. We are working on strengthening our corporate infrastructure in order to become more strategic and commissioning and the staffing review plays an important role in this. The impact of this risk if it were to fully materialise would have a critical impact on the achievement of our corporate objectives and so is presently a 4, giving an overall risk rating of 12 ‘High Risk’.</p>

## Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR12	Threat	<b>Cheshire East Local Plan Examination:</b> Risk that the Cheshire East Core Strategy is found to be unsound and does not pass examination by the Planning Inspectorate during 2014. This may result in delays to the planning framework, leaving Cheshire East vulnerable to unwanted development, budget pressures, loss of public and government confidence, and impacting upon our ability to provide the right type of housing and development sites in the right places and stimulate growth in the local economy.	Director of Economic Growth and Prosperity	Deputy Leader and Strategic Communities Portfolio Holder	8 Medium	↓	<b>Draft score, risk to be reviewed and moderated by the Corporate Risk Management Group:</b> Whilst we have made this a corporate priority, put in substantial additional resource and followed all the guidance we can, the examination of the Core Strategy itself is outside of our control and we are unable to mitigate this risk completely, as such the likelihood of this risk has been scored as 2 'Unlikely'. The impact of this risk on the Council's outcomes is critical and therefore is scored at 4. The net risk rating is an 8 Medium Risk.

## Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
	Threat	<b>New Responsibilities for Public Health and Wellbeing:</b> Risk that there is a lack of understanding of the Council's statutory and other new responsibilities for Public Health services, activity and wider responsibilities for health improvement and protection. This may result in the Council being unable to successfully embed public health or place public health at the centre of its activities, leading to the ineffective planning or commissioning to improve the public's health. In turn this threatens our ability to protect or improve the health of the population, the consequences of which would be that the Council would be unable to achieve its intended outcome that local people live well and for longer.	Director of Public Health	Health and Adult Social Care Portfolio Holder	Defer		Risk scoring deferred by Corporate Risk Management Group decision to undertake further discussion on the accuracy of the risk definition.
CR14	Threat	<b>Business Planning –Resource:</b> Risk that we have not planned the resource required to deliver both business as usual and our significant projects, to be delivered over a relatively short period of time, causing overreliance on internal support services (e.g. Assets, Insurance, Legal, Procurement, ICT) and insufficient resource and capacity to deliver, resulting in increased costs, failure to deliver priority projects, business operational issues and an inability to achieve the Council's intended objectives and outcomes.	Chief Operating Officer	Performance Portfolio Holder	TBD		Further work required on documenting actions taken and planned to mitigate this threat before scoring.

## Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR15	Threat	<b>Protection of Children and Young People:</b> Risk that social workers do not always consider cases of children possibly at risk of harm carefully enough, such that there is poor recognition of risk, and decisions and actions to find out more about their situations are either not taken at all, or not taken quickly enough. This may result in children and young people being unprotected and at potential risk of harm thus impacting upon our ability to deliver the outcome of local people living well and for longer.	Executive Director of Strategic Commissioning	Children and Family Services Portfolio Holder	TBD		Further work required on documenting actions taken and planned to mitigate this threat before scoring.
CR16	Opportunity	<b>Intervention:</b> Opportunity to take co-ordinated intervention between internal and external partners resulting in fewer young people and families being escalated up the levels of need, fewer children and young people ending up in the criminal justice system and care, resulting in a decrease in exponential spend. This will have a positive impact on financial resources, public safety, health & wellbeing, positive contributions to society and successful transition to adulthood such that it will aid the achievement of the corporate outcomes for 2013-16.	Executive Director of Strategic Commissioning	Children and Family Services Portfolio Holder	TBD		Further work required on documenting actions taken and planned to exploit this opportunity before scoring. (Including the Improvement Plan)

## Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR17	Threat	<b>Vulnerable Care:</b> The risk of sufficient, quality placements/care packages not being available leaving vulnerable children and adults without safe and stable accommodation such that some may not be effectively safeguarded impacting upon our ability to deliver the outcome of local people living well and for longer, as well as to Government intervention continuing beyond the reasonable period to show good progress with required service improvements.	Executive Director of Strategic Commissioning	Health and Adult Social Care Portfolio Holder	TBD		Further work required on documenting actions taken and planned to exploit this opportunity before scoring.  (This includes the commissioning review of care, review of individual care needs, continuous drive via LSCB / LSAB to ensure strong partnership interventions and capabilities on all matters relating to safeguarding)
CR18	Threat	<b>Legal:</b> The rate of change and different delivery models may mean doing things quickly without recognising and/or acting accordingly to prevent a significant challenge to a decision, or a compensation trend emerges diverting significant financial and non financial resources into possibly lengthy legal disputes and impacting upon the Council's ability to achieve its key outcomes.  Examples include: <ul style="list-style-type: none"> <li>➤ inappropriate procurement of goods and services</li> <li>➤ no proper consultation undertaken or findings acted upon</li> <li>➤ no equality impact assessment undertaken or findings acted upon</li> </ul>	Chief Operating Officer	Leader of the Council	<b>12 High</b>	↔	There are a number of causes and interdependencies with other corporate risks that make this risk more likely at present, including legal capacity and resource to meet the change agenda, the impact is dependent upon the type or extent of legal challenge but to be prudent could cause a critical impact on corporate objectives, performance, reputation and financial consequences so is also a score of 4. The overall net risk rating is a 12 High Risk.

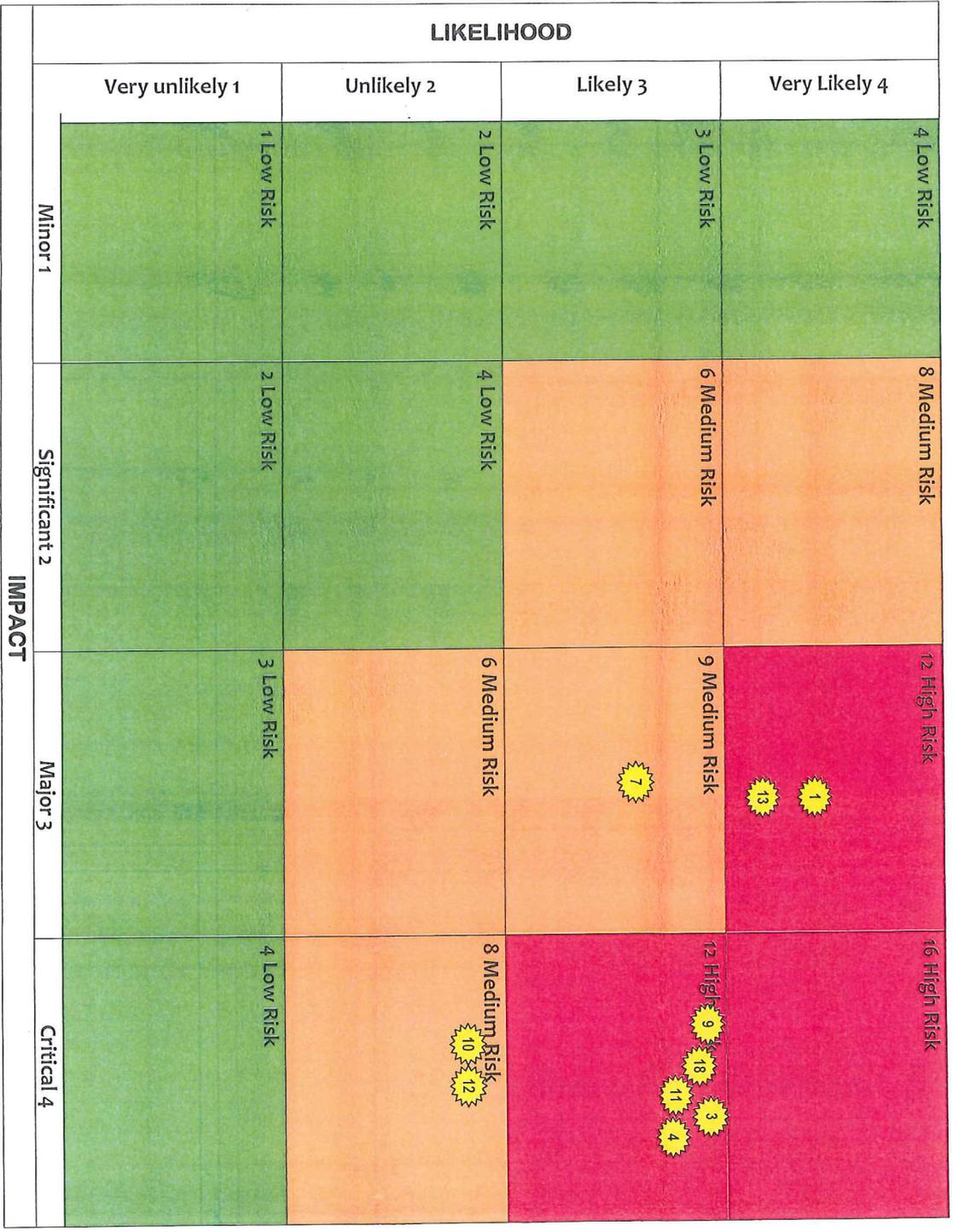
Corporate Risks Summary – September 2013

Risk Ref	Type	Risk Description	Agreed Risk Owner	Cabinet Member Strategic Lead	Net Risk Rating	Direction of Travel	Comments
CR19	Threat	<p><b>Fraud Risk:</b> 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, particularly at a time of financial hardship, such that public money is misappropriated. This would result in a loss of funds to the Council, have a detrimental effect on services users, a negative impact on the Council's ability to achieve all of its priorities, value for money, and may have a negative impact on the Council's reputation.</p>	Chief Operating Officer	Finance Portfolio Holder	TBD		Further work required on documenting actions taken and planned to mitigate this threat before scoring.

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Cheshire East Council Corporate Risks – Heat Map (September 2013)

Corporate Risks		T=Threat / O=Opportunity
CR1	Political Environment	T
CR2	Managing Expectations	O
CR3	Strategic Leadership and Management	T
CR4	Financial Control	T
CR5	External Funding	O
CR6	Evidenced Decision Making	O
CR7	Reputation	T
CR8	Public Sector Effort	O
CR9	Workforce	T
CR10	Contract, Project and Programme Management Skills	T
CR11	Commissioning and Service Delivery Chains	T
CR12	CE Local Plan Examination	T
CR13	New Responsibilities for Public Health and Wellbeing	T
CR14	Business Planning – Resource	T
CR15	Protection of Children and Young People	T
CR16	Intervention	O
CR17	Vulnerable Care	T
CR18	Legal	T
CR19	Fraud Risk	T



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# Scoring Chart for Risk

## Scoring chart for IMPACT

	Factor	Score	Effect on Corporate Objectives	Effect on Service/Project	Embarrassment/ Reputation	Personal Safety	Financial Implications
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.	<b>Service</b> - Major loss of several important areas. Disruption 5+ Days <b>Project</b> - Complete failure or extreme delay (3 months or more)	Adverse and persistent national media coverage Adverse central government response	Death	> £1m Or >£5m for corporate risks
	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.	<b>Service</b> - Complete loss of an important area. Major effect to services in one or more areas for a period of weeks Disruption 3-5 Days <b>Project</b> - Significant impact on project or expected benefits fail/ major delay (2-3 months)	Adverse local publicity of a major and persistent nature Adverse publicity in professional/municipal press arena	Major injury	Between £1m and £500,000
	Significant	2	Significant impact on corporate objectives, performance and quality, could have medium term effect and be potentially expensive to recover from.	<b>Service</b> - Major effect on an important area or adverse effect on one or more areas for a period of weeks Disruption 2-3 Days <b>Project</b> - Adverse effect on project/ significant slippage (3 weeks–2 months)	Adverse local publicity /local public opinion aware	Severe injury	Between £500,000 and £100,000
	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.	<b>Service</b> - Brief disruption of important area Significant effect to non-crucial service area Disruption 1Day <b>Project</b> - Minimal impact to project/ slight delay less than 2 weeks	Complaint from individual/small group	Minor injury or discomfort	Less than £100,000
OPPORTUNITIES	Exceptional	4	Result in major increase in ability to achieve one or more strategic objectives	Major improvement to service, generally or across a broad range	Positive national press National award or recognition by national government	Major improvement in health, welfare & safety	Producing more than £50,000
	Significant	3	Impact on some aspects of the achievement of one or more strategic objectives	Major improvement to service or significant improvement to critical service area	Recognition of successful initiative Sustained recognition and support from local press	Significant improvement in health, welfare & safety	Producing up to £50,000

## Scoring Chart for Risk

### Scoring Chart for LIKELIHOOD

Factor	Score	THREATS - Description	Indicators	OPPORTUNITIES (Favourable Outcome) - Description	Indicators
Very likely	4	>75% chance of occurrence	Regular occurrence Frequently encountered - daily/weekly/monthly	>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.
Likely	3	40% - 75% chance of occurrence	Within next 1-2 yrs Occasionally encountered (few times a year)	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	10% - 40% chance of occurrence	Only likely to happen 3 or more years	<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.
Very unlikely	1	<10% chance of occurrence	Rarely/never before	<10% chance of occurrence	Has happened rarely/never before

### Risk Matrix – Likelihood and Impact

Likelihood		THE RISK MATRIX (With Scores)			
Very Likely	4	LOW	MEDIUM	HIGH	HIGH
Likely	3	LOW	MEDIUM	MEDIUM	HIGH
Unlikely	2	LOW	LOW	MEDIUM	MEDIUM
Very Unlikely	1	LOW	LOW	LOW	LOW
Impact		Minor 1	Significant 2	Serious 3	Major 4

## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 27 September 2013  
**Report of:** Interim Chief Operating Officer  
**Title:** Compliance with Contract Procedure Rules

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#### **1.0 Report Summary**

- 1.1 The purpose of the report is, as required by the Constitution, to provide the Committee with details of the operation of the procedure for Delegated Decisions to waive Contract Procedure Rules and Non-Compliances with Contract Procedure Rules and an update of those decisions, in order to see whether procedures are being complied with.

#### **2.0 Recommendation**

- 2.1 To note that procedures have been revised in this area since the last report to Committee in September 2012.
- 2.2 To note the update on Delegated Decisions and Non-Compliances since September 2012.
- 2.3 To note that further reports on the process, and its robustness, will be brought to the Committee as part of the regular monitoring of the Annual Governance Statement Action Plan.

#### **3.0 Reasons for Recommendation**

- 3.1 The Audit and Governance Committee has a key role in overseeing governance arrangements and ensuring the Council has appropriate policies and mechanisms to safeguard resources in place.
- 3.2 Contract Procedure Rule E11 states that *“a report will be made to the Audit and Governance Committee, at least on a half yearly basis, setting out the number of non-compliance instances in the previous period, broken down by Service, and a description of exceptional circumstances”*.

#### **4.0 Wards Affected**

- 4.1 All wards.

**5.0 Local Wards Affected**

5.1 Not applicable.

**6.0 Policy Implications**

6.1 The Interim Monitoring Officer has established a group to undertake a full review of the Constitution and propose and develop improvements where necessary. This will include Finance & Contract Procedure Rules, of which the Delegated Decision and Non-Compliance processes form a part. Subsequent changes to those Rules would result in changes to the Constitution, to be approved by the Constitution Committee and full Council.

**7.0 Financial Implications**

7.1 There are no direct financial implications associated with the decisions requested.

**8.0 Legal Implications**

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

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

**9.0 Risk Assessment**

9.1 Laws and regulations, policies and procedures have been implemented to help ensure the Council's objectives are achieved in a manner that promotes economic, efficient and effective use of public resources and that assets and interests are safeguarded. The controls these put in place are designed to provide reasonable assurance rather than absolute certainty, because systems are susceptible to human error and poor judgement, and controls can be deliberately circumvented or overridden.

9.2 An important way for the Council to assess the efficacy of, and provide assurance on, its risk management, internal control and governance arrangements is to monitor and identify adverse incidents that it has had to deal with, and provide public assurance that appropriate action has been

taken to ensure that any shortcomings are rectified promptly, and are less likely to be repeated in future. Often, it is sufficient to draw attention to the proper requirements and the likelihood of sanctions for non-compliance with them, supported by guidance and, where necessary, training.

## **10.0 Background and Options**

- 10.1 During 2011/12, a number of concerns were raised regarding the content and timeliness of Delegated Decisions to waive Finance & Contract Procedure Rules. As a result a revised procedure was adopted in May 2012. This included the use of a new Non-Compliance Form as a means of reporting those situations where an existing non-compliance was discovered. All forms are signed off by Legal, Procurement and Finance Officers, as well as the decision taking Officer along with the relevant Head of Service and Portfolio Holder. Formal sign off for both by the Corporate Management Team (CMT) at its weekly meeting was required.
- 10.2 There have since been two changes to the process, in January 2013 and in May 2013. In January 2013, a separate reporting form was introduced to record those cases where at least three quotes/tenders were not received although they had been requested. In May 2013, Delegated Decisions and Non-Compliance Forms were no longer routinely presented for approval at CMT.

### **Internal Audit Review**

- 10.3 An internal audit review of the operation and use of Delegated Decisions and Non-Compliances was undertaken and a draft report issued in July 2013. This has been discussed with the Chief Operating Officer and Monitoring Officer and a number of management actions identified.
- 10.4 The general findings from the internal audit review were that over the period of the review May 2012 to April 2013:
- The process in place has been in excess of that specified in Finance & Contract Procedure Rules.
  - Each Delegated Decision makes use of already specified exceptions, and requires input from a minimum of seven senior staff and one Member, and on average take one month to fully process.
  - There is no formal definition of “at risk” (Finance & Contract Procedure Rules).
  - It is not clear if the “at risk” requirement applies equally to Non-Compliances which may carry greater risk.
  - The full value of contracts may not be declared, hampered by a lack of original documentation in some cases.

A particular issue to note in relation to Delegated Decisions was the relatively low value of many of the Decisions. In fact 60% (twenty seven of the forty four during the period reviewed in the audit) were for values less than £75,000, the point below which the Council does not require formal tenders to be obtained. The significant issue for Non-Compliances related to the fact that a number of cases related to arrangements that had been running for several years, some pre-LGR in fact, where the full value may well exceed the relevant EU limit.

10.5 The key action from the draft audit report is for senior management, in conjunction with Members, to review the current arrangements and to determine what, if any, changes are necessary to ensure that the process is fit for purpose in terms of:

- Complying with the relevant laws and regulations;
- Providing timely and cost effective decision making;
- Robustly assessing risk;
- Providing for documented and transparent decision making, and addressing non-compliant practice.

10.6 The report has been discussed with senior managers and improvement actions agreed include:

- Changes to the process introduced in January 2013 and May 2013 to reduce the bureaucratic element of the process.
- Review of Constitution as a whole including the Finance & Contract Procedure Rules relating to seeking waivers to their application.
- Seeking additional support and expertise where appropriate e.g. engagement of V4 consultancy to support Corporate Procurement Unit.
- Development of standard contract documentation by Legal Services for up to £75,000 contracts.
- Formation of a review board (or similar) to receive reports on and to review practices and their application including the use of waivers on a regular basis.
- Audit and Governance Committee to continue receiving reports on compliance with procedures, use of exceptions, lessons learned and actions taken as specified in Finance & Contract Procedure Rules.

### **Delegated Decisions**

10.7 An analysis of the reasons for Delegated Decisions raised since the report to Committee in September 2012 until the end of August 2013 has been carried out. This showed that forty nine Delegated Decisions have been logged; forty seven of which were approved and two rejected. The main reasons for requesting Delegated Decisions were:

- Issues of urgency or efficiency of the service, generally on the basis that undertaking a full procurement process would add delay and /or costs.
- Less than three quotes obtained - these cases are now no longer dealt with via Delegated Decisions.
- Where the service consider it in the best interest of the client.
- Where there is a sole supplier or the requirement is for compatibility with an existing system or equipment.

An analysis of Delegated Decisions by Directorates under the previous management structure, which was in place for the majority of the period under review, shows:

<b>Directorate</b>	<b>Number</b>	<b>Percentage</b>
Children, Families & Adults	18	37%
Corporate	12	24%
Places & Organisational Capacity	19	39%
<b>Total</b>	<b>49</b>	<b>100%</b>

### **Non-Compliances**

- 10.8 A similar analysis for Non-Compliance Forms showed twenty three for the same period with two rejected and one deferred. The main purpose of the Non-Compliance Form is to formally declare those situations where an instance of non-compliance is recognised or discovered after the procurement. As such these cases can be more complicated and several have been for arrangements that have been in place for a number of years.

With instances of non-compliance, there can be several aspects to consider. The most common reason has been that a non-competitive award has been recognised; there may be a lack of original contract or tender documentation available and an interim continuation is required to provide time for a compliant procurement process to be undertaken.

The main reasons for raising Non-Compliance Forms were:

- Notifying a previous non-competitive award requiring a period to re-procure; of which some did not have a formal contract document;
- Notifying a previous non-competitive award with no ongoing requirement;
- Notifying the lack of a formal contract document.

An analysis of Non-Compliance Forms by Directorates under the previous management structure, which was in place for the majority of the period under review, shows:

<b>Directorate</b>	<b>Number</b>	<b>Percentage</b>
Children, Families & Adults	8	35%
Corporate	4	17%
Places & Organisational Capacity	11	48%
<b>Total</b>	<b>23</b>	<b>100%</b>

#### **11.0 Access to information**

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

Name: Rachel Musson  
Designation: Interim Chief Operating Officer  
Tel No: 01270 685882  
Email: [rachel.musson@cheshireeast.gov.uk](mailto:rachel.musson@cheshireeast.gov.uk)

## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 27 September 2013  
**Report of:** Audit Manager  
**Title:** Work Plan 2013/14  
**Portfolio Holder:** Councillor Peter Raynes

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#### **1.0 Report Summary**

1.0 To present an updated Work Plan for 2013/14 to the Committee for consideration.

#### **2.0 Recommendation**

2.1 That the Committee:

- consider the Work Plan for 2013/14 and determine any required amendments;
- note the changes to the plan since it was last discussed in June 2013; and
- note that the plan will be periodically brought back to the Committee for development and approval.

#### **3.0 Reasons for Recommendations**

3.1 The Audit and Governance Committee has a key role in overseeing and assessing the risk management, control and corporate governance arrangements and advising the Council on the adequacy and effectiveness of these arrangements. A forward looking programme of meetings and agenda items is necessary to ensure that the Committee fulfils its responsibilities.

#### **4.0 Wards Affected**

4.1 All wards.

#### **5.0 Local Ward Affected**

5.1 Not applicable.

#### **6.0 Policy Implications**

6.1 Not applicable.

## **7.0 Financial Implications**

- 7.1 When reviewing the Work Plan, Members will need to consider the resource implications of any reviews they wish to carry out both in terms of direct costs and in terms of the required officer support.

## **8.0 Legal Implications**

- 8.1 The Work Plan must take account of the requirements of the Accounts and Audit Regulations 2011.

## **9.0 Risk Assessment**

- 9.1 Effective internal control and the establishment of an audit committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, an effective audit committee can:

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

- 9.2 A comprehensive Work Plan is necessary to ensure that the Committee fulfils its responsibilities.

## **10.0 Background and Options**

- 10.1 A forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities has been attached at Appendix A of this report. The Committee is asked to consider the contents of the Work Plan and establish any additional agenda items/training/briefing sessions that will enable it to meet its responsibilities. In doing so it should be noted that the following changes have been made to the programme that was discussed in June 2013:

- The Annual Report of the Chair of the Audit & Governance Committee to Council has been moved from September 2013 to November 2013 as requested by Members.

- An update on the Public Sector Internal Audit Standards (PSIAS) and Audit Charter has been included on the September Agenda. It is anticipated that the Internal Audit Charter will come to the November Committee for approval.
- The June Committee did not identify a Risk Owner Mitigation Plan to be included on the September Agenda.
- The position with regard to Standards is as follows:
  - The Members Code of Conduct – Complaints Update report has been deferred and will come forward in due course.
  - A Standards report on the way forward for the Standards process has been deferred and will come forward in due course.
  - As a consequence, the January 2014 Members Code of Conduct complaints update report has been moved to March 2014.

10.2 It should be noted that the Work Plan will be re-submitted to the Committee periodically for further development and approval.

#### **11.0 Access to Information**

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

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**Audit & Governance Committee  
Work Plan**

Committee Date/Agenda Item	Description
<b>27 Sept 2013</b>	
External Audit – Audit Findings Report 12/13	Summary of findings from the 12/13 audit and key issues identified by External Audit in issuing their opinion on the Council's financial statements and its arrangements for securing economy, efficiency & effectiveness in the use of resources.
Financial Resilience Report	A report from the Council's External Auditors
Statement of Accounts 2012/13 Audited	Approval of the final 12/13 Financial Statements.
Final AGS 12/13	Final AGS 12/13 for approval.
Update on Public Sector Internal Audit Standards (PSIAS) and Audit Charter	This report advises the Committee on the content of a draft Internal Audit Charter which, it is proposed, will form the basis of the Cheshire East Internal Audit Charter.
Treasury Management Update Report	Update report on Treasury Management.
Risk Management Update Report	Update report on Risk Management
Compliance with Contract Procedure Rules	A report setting out the number of non-compliance instances in the previous period, broken down by Service, and a description of exceptional instances
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
<b>28 Nov 2013</b>	
Annual Report 12/13	Annual Report of the Chair of the Audit & Governance Committee to Council
External Audit – Annual Audit Letter 12/13	Summary of the External Audit findings from 12/13 audit.
External Audit update report and audit fee letter	To consider an update report from Grant Thornton in delivering their responsibilities as external auditors. The report will also specify the level of audit fees.
Internal Audit Interim Report	Progress report against the Internal Audit Plan 13/14.
Internal Audit Charter	The Internal Audit Charter defines the internal audit activity's purpose, authority and responsibility.

**Audit & Governance Committee  
Work Plan**

<b>Committee Date/Agenda Item</b>	<b>Description</b>
Update on Governance Framework and Code of Corporate Governance, 12/13 Action Plan & 13/14 Process	Council's Governance Framework for discussion/agreement and approval of updates to Code of Corporate Governance. Progress to date on the 12/13 AGS Action Plan and suggested approach for the 13/14 AGS for approval.
Anti Fraud and Corruption Update	Periodic review of Anti Fraud and Corruption Policy and arrangements against best practice.
Annual Report of Corporate Complaints and Local Government Ombudsman's Annual Review 12/13	Summary of the complaints received by the Council and also those dealt with by the Local Government Ombudsman about the Council for 12/13.
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
<b>30 Jan 2014</b>	
Internal Audit Interim Report	Progress against the Internal Audit Plan 13/14.
Treasury Management Strategy and MRP Statement 2014/15	The CIPFA Code of Practice on Treasury Management requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years. The Treasury Management Strategy is also reported to Cabinet before being presented to Full Council for approval.
Data Protection and Freedom of Information Update	Update on Data Protection and Freedom of Information issues including volumes of requests and trends.
Compliance with International Auditing Standards 2013/14	To comply with International Auditing Standards, each year the Council's External Auditors are required to refresh their understanding of how the Audit and Governance Committee gain assurance over management processes and arrangements.
Risk Management Update Report <i>including Risk Owner Mitigation Plan</i>	Update report on Risk Management and attendance by a Corporate Risk Owner to explain their mitigation
Work Plan	Forward looking programme of meetings and agenda items to ensure

**Audit & Governance Committee  
Work Plan**

Committee Date/Agenda Item	Description
	comprehensive coverage of the Committee's responsibilities.
<b>27 March 2014</b>	
Compliance with Contract Procedure Rules	A report setting out the number of non-compliance instances in the previous period, broken down by Service, and a description of exceptional instances.
External Audit – Audit Plan 13/14	External Audit's planned work for the audit of financial statements and the value for money conclusion 13/14
External Audit – Certification of Claims & Returns	Annual report on the issues, amendments and qualifications arising from certification work of grant claims and returns.
Internal Audit Plan 13/14	Approval of risk based Internal Audit Plan for following year.
Audit Committee Self Assessment	Self assessment of the effectiveness of the Committee, which feeds into the AGS process.
Whistleblowing Policy	To provide the Committee with an update on the effectiveness of the Council's Whistleblowing Policy and a breakdown of the number of reports received during 2013/14
Risk Management Update Report <i>including Risk Owner Mitigation Plan</i>	Update report on Risk Management and attendance by a Corporate Risk Owner to explain their mitigation
Compliance with Regulation of Investigatory Powers Act (RIPA)	A report on the Council's compliance with the Regulation of Investigatory Powers Act.
Members Code of Conduct Complaints Update	Update on the number and outcome of complaints
Work Plan	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.
	<b><i>It should be noted that the following items will be presented to the Committee but have not, as yet, been allocated to a specific agenda.</i></b>
Standards Report	An options report on the way forward for the standards process.
Members Code of Conduct Complaints Update	Update on the number and outcome of complaints
	<b><i>The following items may, subject to requirement, be presented to the</i></b>

**Audit & Governance Committee  
Work Plan**

<b>Committee Date/Agenda Item</b>	<b>Description</b>
	<b><i>Committee.</i></b>
Insurance	The Committee is, where necessary, responsible for overseeing and agreeing the arrangements for Members to be indemnified for and insured against risks and liabilities arising from the performance of their duties as Members of the Council, and as the Council's representatives on outside bodies.  To be included in a future Risk Management Update Report.
Anti Money Laundering	Consideration of any updates to the Anti Money Laundering Policy and assurance from management that measures are operating effectively.
Training for Standards Hearings	Hearings training for panel members.