

## **Audit and Governance Committee**

### **Agenda**

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**Date:** Thursday, 17th March, 2016  
**Time:** 2.00 pm  
**Venue:** Committee Suite 1,2 & 3, Westfields, Middlewich Road,  
Sandbach CW11 1HZ

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

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

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

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

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For requests for further information

**Contact:** Cherry Foreman

**Tel:** 01270 686463

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

4. **Minutes of Previous meetings** (Pages 1 - 10)  
To approve as a correct record the minutes of the meetings held on 10 December 2015 and 18 February 2016.
5. **Informing the External Risk Assessment for Cheshire East Council** (Pages 11 - 44)  
To consider Management's response to questions posed by the External Auditor.
6. **External Audit Plan 2015/16** (Pages 45 - 70)  
To receive and comment on the External Audit Plan for 2015/16.
7. **Internal Audit Interim Report 2015/16** (Pages 71 - 84)  
To consider a summary of Internal Audit work undertaken between October and December 2015.
8. **Summary Internal Audit Plan 2016/17** (Pages 85 - 102)  
To approve the summary Internal Audit Plan for 2016/17.
9. **Members Code of Conduct - Standards Report** (Pages 103 - 108)  
To note the numbers and outcomes of complaints under the Code of Conduct for Members between 1 September 2015 and the end of February 2016.
10. **Performance Management Arrangements**  
To receive a presentation on the arrangements and controls in place to prepare, manage, and report on the Council's budget and medium term financial strategy.
11. **Compliance with Data Protection Act 1998, Freedom of Information Act 2000, and Environmental Information Regulations 2004** (Pages 109 - 116)  
To consider an update on Cheshire East Council's performance in its obligations under the Data Protection Act (1988), and the Freedom of Information Act (2000), including the Environmental Information Regulations during 2015/16.

12. **Compliance with RIPA 2000** (Pages 117 - 120)

To consider an update on how the Council has complied with the RIPA legislation during 2015/16.

13. **Anti Fraud and Corruption Policy** (Pages 121 - 136)

To consider a new Anti-Fraud and Corruption Policy, and an update on work to counter the threat of fraud and corruption.

14. **Cheshire East Email and Archiving Arrangements**

To receive a presentation on the Council's development of best practice email and archiving management arrangements.

15. **Managing Complaints Upheld by the Local Government Ombudsman**

To receive a presentation on the process for the review and administration of Local Government Ombudsman reports during 2015/16.

16. **Arrangements for the Forward Plan for the Council's Key Decisions**

To receive a presentation on the Council's commitment to open government and proposed arrangements to encourage residents to have their say on the decisions that affect them, their families and the community as a whole.

17. **Work Plan 2016** (Pages 137 - 150)

To consider the Work Plan and any amendments needed.

18. **Waivers and Non Adherences** (Pages 151 - 156)

To update the Committee on the quantity and reasons for Waiver and Non Adherences (WARNs) which have been approved since 10 December 2015.

19. **Exclusion of the Press and Public**

The reports relating to the remaining items on the agenda have been withheld from public circulation and deposit pursuant to Section 100(B)(2) of the Local Government Act 1972 on the grounds that the matters may be determined with the press and public excluded.

The Committee may decide that the press and public be excluded from the meeting during consideration of the following items pursuant to Section 100(A)4 of the Local Government Act 1972 on the grounds that they involve the likely disclosure of exempt information as defined in Paragraphs 1 and 2 of Part 1 of Schedule 12A to the Local Government Act 1972 and public interest would not be served in publishing the information.

**PART 2 – MATTERS TO BE CONSIDERED WITHOUT THE PUBLIC AND PRESS PRESENT**

20. **Waivers and Record of Non Adherence Notifications**

To present, at the meeting, the approved WARNs issued since 10 December 2015 for review.

**CHESHIRE EAST COUNCIL**

Minutes of a meeting of the **Audit and Governance Committee**  
held on Thursday, 10th December, 2015 in Committee Suite 1,2 & 3,  
Westfields, Middlewich Road, Sandbach CW11 1HZ

**PRESENT**

Councillor D Marren (Vice-Chairman)

Councillors C Andrew, G Baxendale, S Corcoran, R Fletcher, A Kolker, M Simon,  
A Stott and S Edgar.

**Councillors in attendance:**

Councillors L Durham, P Groves and A Moran and J Saunders.

**Officers in attendance:**

Peter Bates – Chief Operating Officer

Anita Bradley – Head of Legal Services and Monitoring Officer

Andrew North – Corporate Manager Governance and Audit

Mike Suarez – Chief Executive

Alex Thompson – Manager Strategy and Reporting

Jo Wilcox – Corporate Finance Manager

Cherry Foreman – Democratic Services Officer

**External Auditors (Grant Thornton)**

Alison Rhodes and Jon Roberts.

**29 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors M Hardy and L Smetham.

**30 DECLARATIONS OF INTEREST**

Councillors D Marren and A Kolker declared personal interests by virtue of being the Chair of Orbitas Bereavement Services Ltd, and a member of the Board of Civicance, respectively.

**31 PUBLIC SPEAKING TIME/OPEN SESSION**

No members of the public wished to speak.

**32 MINUTES OF PREVIOUS MEETING**

Consideration was given to the minutes of the meeting held on 24 September 2015. Jon Roberts and Alison Rhodes, External Auditors, were added to the list of those present at the meeting. With reference to minute 27 (Committee Work Programme) it was requested that 'Cardiff Checks' be added to the Committee Work Programme as had been discussed; this was agreed.

### RESOLVED

That, subject to the inclusion of the above additions, the minutes of the meeting held on 24 September 2015 be approved as a correct record.

### 33 EXTERNAL AUDIT ANNUAL LETTER 2014/15

Consideration was given to the Annual Audit Letter which summarised the External Auditor's findings from the 2014/15 audit. The letter was intended to communicate key messages to the Council and external stakeholders including members of the public. Jon Roberts, of Grant Thornton, reported that an unqualified opinion on the accounts had been issued confirming that the financial statements gave a true and fair picture of the Council's financial position and of the income and expenditure recorded by the Council. The certificate of completion of the audit had been issued on 21 October.

The Value for Money Conclusion was also unqualified. The Council therefore, in the opinion of the Auditor, having proper arrangements in place to secure economy, efficiency and effectiveness. The External Auditors were asked for their view on the award of contract process in the case of Core Fit. Clarification was also requested concerning an upfront payment of £30,000 agreed in respect of that contract which had not been listed on the Council's website.

The Auditor advised that amounts in relation to the specific contract were not significant enough to have an impact on the 2014/15 accounts. With regard to the upfront payment the External Auditors had worked with Internal Audit and would be expecting this to be properly reported. Payment of £2,000 had been made to Grant Thornton to look at specific matters raised by the Council, and details were requested of the work that had entailed.

The Chief Executive addressed the meeting and reported that he had commissioned Internal Audit to carry out a review of procurement arrangements. A report would be prepared for consideration at the next meeting of the Committee along with the comments of the External Auditor. Key issues had been discussed with Internal Audit during the course of its work and to date there was no evidence of wrongdoing that an outside agency would have an interest in investigating. An informed decision would be made as to whether any action was required and if Contract Procedure Rules had been breached then an investigation in accordance with the appropriate policy would be commissioned. The External Auditor had confirmed he was comfortable with this approach and was maintaining a watching brief.

A discussion ensued in respect of the use of waivers which are a facility to exempt contracts from normal competition in certain circumstances as part of the Council's Contract Procedure Rules.

*At this stage, and for reasons of openness, the Monitoring Officer declared she is involved in the signing some waiver forms; Members needed to bear in mind the work coming forward would put this in perspective with the normal procedure process. She was responding in her capacity as the Monitoring Officer and this was in respect of her involvement with WARNS as a general principle.*

The Committee was supportive of the approach that had been outlined by the Chief Executive but also expressed concern at the reputation of the Council being undermined. The Chief Executive assured Members he would want to make sure the reputation of the Council was maintained and also that, as part of the review, he had asked for other WARNs that had been issued to be compared and contrasted so everybody could learn from them.

### **RESOLVED**

That the report, and discussions, be noted.

### **34 EXTERNAL AUDIT CERTIFICATION OF CLAIMS AND RETURNS 2014/15**

Consideration was given to a summary of the key findings identified during the External Auditors certification process for the 2014/15 housing benefit subsidy claim which, it was reported, took place six to nine months after the claim period.

In addition, the Council was required to obtain a reasonable assurance report on their annual Teachers Pension return; Grant Thornton had provided an unqualified report.

### **RESOLVED**

That the Certification Letter be received and noted.

### **35 AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT 2014/15**

Consideration was given to the draft report of the Chairman of the Committee on its performance and effectiveness in 2014/15 with regard to its terms of reference and purpose.

The report included details of governance and risk management, internal control frameworks, financial reporting arrangements and internal and external functions. In considering its effectiveness the report listed the additional areas of work that had been requested by the Committee around emerging issues, these being the Better Care Fund, Payments to Directors of Council Owned Companies, Compliance with Contract Rules of Procedure, Disclosure of Officer Remuneration in the Statement of Accounts, ASDV Governance and Stewardship and Managing Complaints received by the Local Ombudsman. Members requested that in the future this section of the report be expanded to provide greater detail and also an assessment of the outcome and effectiveness of the work.

In discussing the outcomes of this work it was noted that the work on contract procedure rules had included the subject of waivers and it was requested that from now on, and in order to provide greater scrutiny of their use, the Audit and Governance Committee receive a regular report on the occasions of their use; this to include every waiver approved from that date on. It was noted this would not hold up procurement activity as the notices were for comment/noting not for approval. Some of the content of the forms might need to be redacted or moved to the closed agenda.

Training and development was also highlighted, and the work and involvement of the member officer groups for audit, financial statements, fraud management, governance and risk management; these enabled individual members to become more involved in specific areas of audit and governance work and to develop an in depth knowledge and expertise in those areas.

### **RESOLVED**

1. That the draft Annual Report for 2014/15 be approved for consideration by the Council at its meeting on 17 December.
2. That future annual reports be expanded to include greater detail on any areas of additional work requested by the Committee to provide it with additional assurance, and that it also include analyses of its effectiveness.
3. That the Committee receive a regular report on the use of waivers in contract procurement and copies of the actual approved WARNs for appropriate review.

### **36 DRAFT TREASURY MANAGEMENT STRATEGY AND MINIMUM REVENUE PROVISION STATEMENT 2016/17**

Consideration was given to the report of the Chief Operating Officer which updated Members on the Council's Treasury Management Strategy for 2016/17. The report detailed the key elements of the Strategy and reported that the capital programme for 2016/19 was currently being updated with new proposals for capital investment as a result of which the prudential indicators in the draft Treasury Management Strategy (App A) would be subject to change; the final capital programme would be reported to Cabinet and then to Council for approval on 25 February 2016.

In response to a request the Chief Operating Officer agreed to include comparisons in the indicator sets used in Annex C (Prudential Indicators) for which, the Committee was advised, a useful set of information was being prepared for the budget Council meeting.

### **RESOLVED**

That the proposed Treasury Management Strategy and Minimum Revenue Provision Statement for 2016/17, set out in appendix A of the report, be received and noted.

### **37 DRAFT RISK MANAGEMENT POLICY STATEMENT / STRATEGY AND OUTLINE FRAMEWORK.**

The Committee has responsibility for monitoring the effectiveness of the Council's risk management arrangements and, to support it in this role, a new draft Risk Management Policy Statement and Strategy had been produced following a comprehensive review; an outline of the risk management framework that underpinned this was included as an appendix to the report.

It was reported that the Corporate Assurance Group and the Risk Management Sub-Group, which included Officer and Portfolio Holder representation, had been

involved in developing these documents. Their implementation would include promotion and explanation at staff meetings and on the Council's intranet system.

### **RESOLVED**

1. That the new Risk Management Policy Statement and Strategy, set out in Appendix A of the report, be recommended to Cabinet for approval.
2. That the Outline Framework in appendix B be noted.

### **38 ANNUAL GOVERNANCE STATEMENT UPDATE**

Consideration was given to the report of the Corporate Assurance Group the purpose of which was to provide assurance that the Annual Governance Statement was underpinned by an appropriate framework of assurance, and to allow the Committee to monitor the implementation of actions to improve governance arrangements and respond to emerging issues. The report also detailed a number of ongoing developments in governance and audit arrangements.

In response to discussion on the items which were considered to have been completed, or required further monitoring, it was agreed that:

- Business Continuity Planning (Principle 1) remain on the list for a further year to allow action plans to become embedded.
- Health and Social Care Integration (Principle 2) remain on the list for a further year as whilst assurance had been received some considered its removal to be premature.

It was also suggested that the Corporate Assurance Group, currently attended by the Portfolio Holders for Risk and Governance, be extended to include non executive members; this was agreed.

### **RESOLVED**

1. That the progress against the issues reported in the 2014/15 Annual Governance Statement, including the feedback from the Corporate Assurance Group on each item, be noted.
2. That the production of the 2015/16 Annual Governance Statement be endorsed subject to the retention of Business Continuity Planning and Health and Social Care Integration.
3. That the changes to governance, risk management and audit arrangements be noted.
4. That membership of the Corporate Assurance Group be extended to include non-executive members.

**39 INTERNAL AUDIT INTERIM REPORT 2015/16 AND INTERNAL AUDIT CHARTER**

*(During consideration of this item Councillor R Fletcher declared a personal interest in respect of Leisure Centre contracts by virtue of being a governor at Alsager School)*

Consideration was given to the report of the Corporate Manager Governance and Audit on progress against the Internal Audit Plan 2015/16, revisions to it and a summary of the work carried out during the first half of this year. In addition it was requested that approval be given to an updated Audit Charter.

During discussion, and in respect of the ongoing procurement audit, it was reiterated that the outcome of that work would come to the Committee. In considering the Internal Audit Charter the Committee was advised that it followed national best practice and that Internal Audit was authorised 'full, free and unrestricted access to any and all of Cheshire East Council's records, physical properties, and personnel pertinent to carrying out any engagement' and that no problems had been encountered in this regard.

**RESOLVED**

1. That the issues identified be noted, and the approach to achieving adequate audit coverage in the remainder of 2015/16 be endorsed.
2. That approval be given to the updated Internal Audit Charter.

**40 AUDIT AND GOVERNANCE COMMITTEE SELF- ASSESSMENT**

The Committee considered the report of the Chairman on progress in implementing the actions arising from the 2014/15 self assessment of the Audit and Governance Committee, reported in March 2015. The evaluation was made against progress made in implementing the agreed actions and whether there was scope to do more. The issues that had been raised were shown with the proposed action and progress to date.

**RESOLVED**

1. That progress in relation to the implementation of actions to improve the Committee's effectiveness be noted.
2. That the self-assessment of the Audit and Governance Committee against good practice, and the evaluation of its effectiveness for 2015/16, be brought to the March 2016 meeting.

**41 WORK PLAN 2015/16**

The Committee considered its Work Plan for the forthcoming months. Members were informed that the unallocated items on the Plan would be scheduled for the meeting in June. Taking into account decisions made during the course of this meeting it was agreed that the following items be added:

- Amendments to the audit charter

- The addition of Cardiff Checks (on the work programme for the Fraud Working Group)
- WARNs to come to the Committee for review
- Report on procurement to the meeting in March, or to an earlier meeting if that was warranted.

### **RESOLVED**

That the Work Plan and the above additions be approved.

The meeting commenced at 2.05 pm and concluded at 4.15 pm

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## CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**  
held on Thursday, 18th February, 2016 at Council Chamber - Town Hall,  
Macclesfield, SK10 1EA

### PRESENT

Councillor L Smetham (Chairman)

Councillors C Andrew, G Baxendale, R Fletcher, A Kolker and A Stott.

#### **Councillor in attendance:**

Councillor M Beanland.

#### **Officers in attendance:**

Daniel Dickinson – Legal Team Manager

Bill Norman – Director of Legal Services and Monitoring Officer

Cherry Foreman – Democratic Services Officer

### 42 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors D Marren, S Corcoran, M Hardy and M Simon.

### 43 DECLARATIONS OF INTEREST

There were no declarations of interest.

### 44 PUBLIC SPEAKING TIME/OPEN SESSION

No members of the public were present.

### 45 DISPENSATIONS UNDER SECTION 33 OF THE LOCALISM ACT 2011

Consideration was given to the report of the Director of Legal Services on the granting of dispensations under Section 33 of the Localism Act 2011 (the Act) in response to any request made by a Member or Members in respect of forthcoming meetings of the Strategic Planning Board, the Cabinet and Council, at which the Local Plan was due to be considered.

The report detailed the relevant sections of the Act with reference to disclosable pecuniary interests and to the granting of dispensations to allow Members with such interests to take part in the consideration of such a matter and, in appropriate cases, also allow them to vote on that matter.

The Committee was informed that advice from Counsel had confirmed the Act sought to separate the personal and private interests of Members from those that arise on account of a Member's wider public life. A Member would not, therefore, have a Disclosable Pecuniary Interest simply because they were a Director of a Council owned company for example, or were otherwise fulfilling a role on an

external organisation that they had been appointed to by the Council. In the light of this advice no relevant requests for dispensation had been received.

In order to clarify an apparent inconsistency in the Constitution, the Committee was then asked to determine whether it wished the Director of Legal Services to have delegated authority to grant dispensations in the future and, if so, under what circumstances. The report listed the circumstances under which local authorities are permitted to grant dispensations and the Committee agreed the Director of Legal Services, and if the Director of Legal Services was absent or conflicted the Deputy Monitoring Officer, in consultation with the Chairman and Members of the Audit and Governance Committee, should be given delegated authority to determine applications for dispensations as set out in the report.

## **RESOLVED**

1. It be noted that no written applications for dispensation needed to be considered at this meeting.
2. That, the Director of Legal Services, and if the Director of Legal Services is absent or conflicted the Deputy Monitoring Officer, in consultation with the Chairman and Members of the Audit and Governance Committee, be given delegated authority to determine applications for dispensations under Section 33 of the Localism Act 2011, under sub-paragraphs (a), (b), (c), (d) and (e) of Section 33(2) as follows:

(a) if it is considered that without the dispensation the number of persons prohibited by section 31(4) from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business,

(b) if it is considered that without the dispensation the representation of different political groups on the body transacting any particular business would be so upset as to alter the likely outcome of any vote relating to the business,

(c) if it is considered that granting the dispensation is in the interests of persons living in the authority's area,

(d) if it is an authority to which Part 1A of the Local Government Act 2000 applies and is operating executive arrangements, it is considered that without the dispensation each member of the authority's executive would be prohibited by section 31(4) from participating in any particular business to be transacted by the authority's executive, or

(e) it is considered that it is otherwise appropriate to grant a dispensation.

The meeting commenced at 9.00 am and concluded at 9.45 am

Councillor L Smetham (Chairman)

## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of Meeting:** 17 March 2016

**Report of:** Chief Operating Officer

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

**Portfolio Holder:** Councillor Peter Groves

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#### 1.0 Report Summary

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

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

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

#### 2.0 Recommendation

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

#### 3.0 Reasons for Recommendations

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

## **4.0 Wards Affected**

4.1 All Wards

## **5.1 Local Ward Affected**

5.1 Not applicable.

## **6.0 Policy Implications**

6.1 Not applicable.

## **7.0 Financial Implications (Authorised by the Chief Operating Officer)**

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

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

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

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

## **9.0 Risk Assessment**

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

## **10.0 Background and Options**

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

- Fraud (ISA 240)
  - Laws and Regulations (ISA 250)
  - Going Concern (ISA 570)
  - Accounting Estimates (ISA 540)
  - Related Party Transactions (ISA 550)
- 10.2 The report, attached at Appendix A, includes a series of questions on each of these areas and the response that Grant Thornton has received from Cheshire East Council's management.
- 10.3 The Council has in place arrangements to identify fraud risks and respond to them accordingly. There is a Corporate fraud risk which is supplemented by a detailed fraud risk assessment that engages service managers in the process of identifying not only areas which may be susceptible to fraud, but also controls that are in place to mitigate these risks.
- 10.4 The arrangements for responding to fraud issues, including the Anti Fraud and Corruption Strategy and the Whistleblowing Policy are subject to regular review and Members receive update reports on these matters through this Committee.
- 10.5 Member oversight of fraud is further strengthened by the Member/Officer Group which provides a more detailed understanding of the issues and arrangements in this area.
- 10.6 The Council has in place arrangements to ensure compliance with relevant laws and regulations via procedure rules contained within the Constitution and throughout the decision making process. Assurance on compliance is achieved through the internal audit work programme and the completion of the Annual Governance Statement which members will receive in September for approval.
- 10.7 The Council has arrangements in place to assess its ability to continue as a going concern through its sound financial management and budget planning processes. The following Corporate Risk has been formally considered in accordance with the Council's Risk Management Framework:
- CR4 Financial Control:** Risk that the Council fails to manage income and expenditure within the medium term financial strategy , due to inaccurate financial planning and/or ineffective financial control leading to a failure to maintain an adequate level of resources, thereby threatening financial stability and service continuity and preventing the achievement of Cheshire East's objectives and outcomes.
- 10.8 Arrangements are in place to ensure that accounting estimates and the disclosure of related parties transactions are fully compliant with the CIPFA Code and associated guidance.

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

**11.0 Access to Information**

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

Name: Peter Bates

Designation: Chief Operating Officer

Tel No: 01270 686013

Email: [peter.bates@cheshire.gov.uk](mailto:peter.bates@cheshire.gov.uk)

# Informing the audit risk assessment for Cheshire East Council

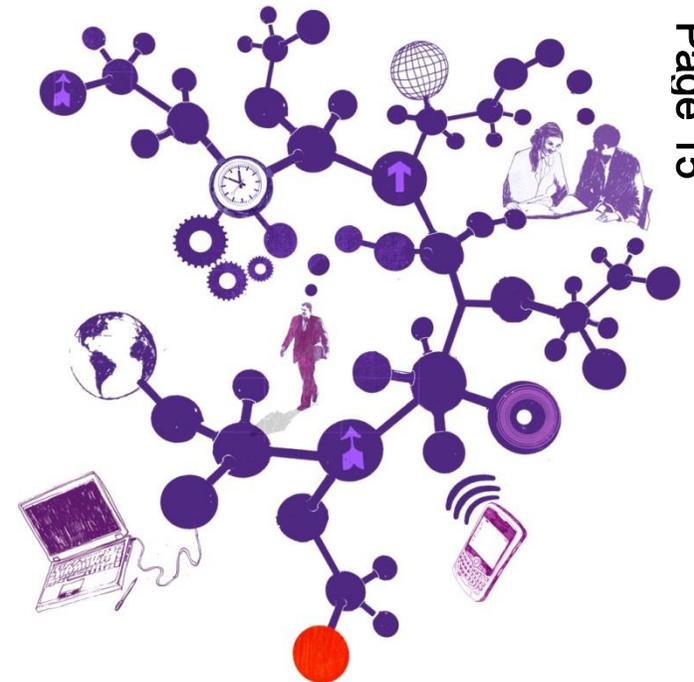
**Year ended 31 March 2016**

7 March 2016

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

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# Purpose

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

## Background

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

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

## Communication

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

- fraud
- laws and regulations
- going concern
- accounting estimates
- related party transactions.

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

# Fraud

## Matters in relation to fraud – auditors introduction

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls. As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions that follow together with responses from the Council's management.

# Fraud risk assessment

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

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

**Fraud Risk:** *Risk that the Council fails to have proper, adequate, effective and efficient management arrangements, policies and procedures in place to mitigate the risk of fraud and corruption including bribery, 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.*

Risks are subject to on going review in accordance with the Council's Risk Management Strategy. The fraud risk was last formally reviewed in November 2015 when, following the identification and assessment of mitigating controls, the net risk was scored as medium.

In 2013 an ASDV framework, described in detail in the 14/15 response, was produced setting out the approach of the Council to setting up new ASDVs. The framework has been updated throughout 2015 to take on board the lessons learnt from the companies launched in 2014 and 2015. A revised framework will be issued to all relevant staff in 2016.

All proposals to set up ASDVs are subject to scrutiny and approval through the Council's standard project management framework. This involves the creation of an outline business case which is developed into a detailed business case, which is then considered and critiqued by an officer Technical Enabler Group (TEG) and an Executive Monitoring Board (EMB). Projects which gain approval from these bodies then progress through to Cabinet for final approval. The detailed business cases for all ASDVs have been through this process.

# Fraud risk assessment continued

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

In addition to the strategic risk identified at page 6, a detailed Fraud and Bribery Risk Assessment has been produced in order to identify service specific risks to which the Council may be vulnerable.

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

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

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

Prior to the transfer of the Council's Housing Benefit Fraud staff to the DWP Single Fraud Investigation Service on 30 November 2015, Cheshire East Council had in place robust arrangements for the identification, investigation and prosecution of Housing Benefit fraud. Although arrangements are less developed in other areas, no specific or significant frauds have been detected during the year.

Following the loss of the investigatory resource, the Council is considering its options with regards to how best to respond to fraud against the council. This will be influenced by an assessment of risk and discussions are currently ongoing with regards to whether the most appropriate solution would be a shared Counter Fraud Team covering a number of neighbouring authorities.

Cheshire East has in place a Fraud and Bribery Risk Assessment that was developed based upon local and national knowledge and seeks to identify areas that are vulnerable to fraud. Internal Audit will seek assurance as to the effectiveness of mitigating controls in line with the Annual Audit Plan.

# Fraud risk assessment continued

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

The AGS ensures a continuous review of the Council's governance arrangements, to give assurance on the effectiveness of the arrangements and/or to address identified weaknesses including the application of internal controls. The AGS is considered by the Management Group Board with the collection of evidence for, and the drafting of it being the responsibility of the Corporate Assurance Group (CAG). The review of governance arrangements in place is informed by the work of Internal Audit and senior managers and also comments made by the External Auditors and other review agencies/inspectorates.

Sources of assurance include the Directors, Heads of Service and senior managers signing off the adequacy of controls within their service areas/directorate via disclosure statements. The disclosures are made available to, and considered by the Audit and Governance Committee in order that Members may discharge their duties with regard to approving the AGS. Where weaknesses are identified they are addressed by the production of an action plan which is subject to monitoring by CAG. The production of the AGS also takes into account the annual internal audit opinion which provides assurance as to the adequacy of the Council's control environment and the action taken to ensure that any shortcomings are rectified promptly.

With regards to the production of the AGS for 2015/16, a draft statement and action plan will be presented to the Audit and Governance Committee in June 2016 along with Internal Audit's Annual Report, and the final version will be put in front of the September 2016 meeting of the Committee.

Internal Audit work also provides assurance as to the effectiveness of internal controls and, where weaknesses are identified, mitigating actions are recommended to managers. A programme of audits is carried out in accordance with the Audit Plan that is approved by the Audit and Governance Committee. The work includes the Council's fundamental financial systems in order to gain assurance that the systems of financial control are in place and operating effectively. Internal Audit undertakes testing on internal controls by examining their effectiveness and in this way the Council can gain reasonable assurance with regard to the potential for override of management controls or other inappropriate influence over the financial reporting process. The outcome of each audit assignment is reported to management in order to:

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

Interim reports on progress against and revisions to the Internal Audit Plan, together with a summary of work undertaken are received by the Audit and Governance Committee. The reports provide the Committee with an overview of the Council's response to internal audit activity to ensure any shortcomings in the control environment are rectified promptly. In June 2016 the Audit and Governance Committee will receive Internal Audit's annual opinion on the overall adequacy and effectiveness of the Council's control environment for 2015/16.

## Fraud risk assessment continued

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

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

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

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

# Fraud risk assessment continued

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

Audit and Governance Committee receive regular Risk Management Update reports which provide information relating to the Corporate Risk Register. The latest, received in January 2015, provided an update on the status of risks included within the Corporate Risk register, including the fraud risk. A further report is being taken to the March 2016 meeting of the Audit and Governance Committee.

The AGS process, particularly the Head of Service Assurance Statements, provides the Audit and Governance Committee with an understanding of the processes in place, any identified issues and mitigating actions.

Internal Audit Update Reports to the Committee include details of Counter Fraud Work undertaken in accordance with the plan and in addition to this the Committee received the following reports during the past year:

- March 2015 Informing the Risk Assessment for Cheshire East Council- this provided detailed information regarding the anti fraud and corruption arrangements and how the Council identifies and responds to the risk of fraud. This report also included details of the number of prosecutions taken by the Housing Benefit Fraud Team.
- March 2016 Fraud and Corruption Update Report – this will provide Members with an overview of developments taking place nationally, an update on activity at Cheshire East, and, details of work planned to ensure compliance with best practice including the Code of Practice on Managing the Risk of Fraud and Corruption. An updated Anti Fraud and Corruption Policy will also be presented to Members for approval and adoption.

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

# Fraud risk assessment continued

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

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

Cheshire East Council adopted a Code of Corporate Governance in 2009 which was updated in June 2015 and is subject to annual review, and update, where necessary.

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

Principle 3 of the Council's Code of Corporate Governance is promoting the values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour. The following paragraphs summarise the arrangements:

- All employees are governed by the Council's Financial and Contract Procedure Rules. They are required to follow the standards set out in the Code of Conduct, which is issued to all staff along with their Contract of Employment. Employees who consider other employees to be guilty of misconduct must report this to their line manager or raise it through one of the other available procedures. Employees are further governed by the Council's HR Policies (Disciplinary Procedure etc.), which are issued to all staff. The Codes are communicated via briefings, training and are available on the Council's intranet and internet.
- The role that employees are expected to play in the Council's framework of internal control is included in staff induction procedures by their line manager and then subsequently through corporate induction training, as appropriate.
- The Anti Fraud and Corruption Strategy states that Cheshire East Council expects its employees to comply with codes of practice or other relevant professional obligations issued by professional bodies of which they may be members. Furthermore it reminds employees that they must comply with Section 117 of the Local Government Act 1972 which requires any interests in contracts that have been proposed to be entered into by the Council to be declared. The Legislation also prohibits the acceptance of fees or rewards other than by means of proper remuneration.
- Employees must register any interests they may have in the departmental register recording Declarations of Interests.
- All offers of gifts and hospitality, regardless of whether the offer was accepted or declined, must be recorded in the departmental register. Such registers should be reviewed by the appropriate departmental management team on a regular basis and a record kept of such review.

# Fraud risk assessment continued

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

The Council's Anti Fraud and Corruption Strategy states that Cheshire East Council's Members and employees are positively encouraged to raise concerns regarding fraud and corruption, immaterial of seniority, rank or status, in the knowledge that such concerns will be taken seriously and wherever possible, treated in confidence and properly investigated.

Concerns must be raised when Members or employees reasonably believe that one or more of the following has occurred, is in the process of occurring, or is likely to occur:

- a criminal offence
- a failure to comply with a statutory or legal obligation
- improper and/or unauthorised use of public or other funds
- a miscarriage of justice
- maladministration, misconduct or malpractice
- endangering of an individual's health and safety
- damage to the environment
- deliberate concealment of any of the above

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

- Heads of Service, Directors, or the Chief Executive, who will report such concerns to the Internal Audit Manager or their authorised representative
- Directly to the Internal Audit Manager or a senior member of the internal audit team
- The External Auditor, who depending upon the nature of the concern will liaise with the Internal Audit Manager or Section 151 officer
- The Monitoring Officer as outlined in the Confidential Reporting (or Whistleblowing Protocol)
- The Customer, Compliments, Comments and Complaints procedure for use by the general public

The Council ensures that any allegations received in any way, including by anonymous letters or telephone calls are taken seriously and investigated in an appropriate manner.

In order to facilitate the reporting of concerns, the Council has in place a Whistleblowing Policy which was produced in accordance with best practice as set down in the PAS 1998:2008 Whistleblowing Arrangements Code of Practice which was produced by the British Standards Institute. The Whistleblowing Policy is reviewed and, if appropriate, updated on an annual basis. The policy was last updated in June 2014 with the latest review reported to Audit & Governance Committee in June 2015.

# Fraud risk assessment continued

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

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

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

## Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2015?

None which have a material impact on the financial statements.

Cheshire East Council actively pursued those committing benefit fraud offences, prior to the transfer of staff to DWP's Single Fraud Investigation Service on 30 November 2015, issuing cautions, administrative penalties and in the most serious cases taking criminal proceedings through the courts. The number of sanctions and prosecutions for the period 1 April 2015 - 30 November 2015 are as follows:

Admin Penalties	35
Cautions	38
Prosecutions	33
<b>Total</b>	<b>106</b>

## Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2015? If so how does the Audit and Governance Committee respond to these?

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

Audit and Governance Committee last received a report detailing whistleblowing activity in June 2015 with the next update scheduled for the June 2016 meeting.

# Laws and regulations

## Matters in relation to laws and regulations – auditors introduction

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out in the following pages together with responses from management.

# Impact of Laws and regulations

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

# Impact of Laws and regulations

Question	Management response
<p><b>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015 with an on-going impact on the 2015/16 financial statements?</b></p>	<p>No instances of non-compliance are known to exist that will have an ongoing impact on the 2015/16 financial statements.</p>
<p><b>What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</b></p>	<p>Legal Services assess litigation claims in conjunction with Finance Officers.</p> <p>The process to identify any litigation or claims in year that would affect the financial statements is completed as part of the closure of the accounts. This includes a year end review undertaken by the Head of Legal Services and the Accountancy Service Manager.</p> <p>Where the Council believes that there is a potentially legitimate legal claim against it then this will be recognised on the balance sheet as a provision using the Council's best estimate of the likely costs it may incur. Where a claim is less likely to be successful but if successful could be material then it will be disclosed in the financial statements as a contingent liability.</p> <p>The status of insurance claims are reviewed regularly. In 2014/15 an actuarial investigation of the claims reserves was undertaken. The results have been factored into the Council's assessment of the level of its self-insurance and the procurement of external insurance.</p>
<p><b>Is there any actual or potential litigation or claims that would affect the financial statements?</b></p>	<p>Legal Services have confirmed that they are not aware of any actual or potential litigation/claims that would have a material impact on the financial statements.</p>

# Impact of Laws and regulations

Question	Management response
<b>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?</b>	<p>In 2015/16 there have been 3 VAT Inspections by HMRC</p> <ul style="list-style-type: none"><li>• Cheshire East Borough Council – no issues found and no report issued by HMRC</li><li>• Ansa Environmental Services Ltd – 2 issues identified prior to inspection and notified to HMRC. These were incorrect classification of income to Ansa relating to bulky/green waste collections and failure to account for VAT on some sales income. Assessment was issued by HMRC agreeing to the suspension of penalties on bulky/green waste but with penalties of £83.25 payable on under-declared sales income. Penalties were suspended on bulky/green waste income as there was no loss to HMRC. There were no other issues found during the inspection.</li><li>• Orbitas Bereavement Services – HMRC found that many invoices were not correctly addressed to Orbitas but instead were addressed to Cheshire East BC. However, these were allowed to remain as part of the Orbitas VAT claim after the Council demonstrated that they had not reclaimed these amounts and that they were issued when the service was in transition from the Council to Orbitas. HMRC disagree with the VAT status of the income charged by Orbitas to Cheshire East BC for managing the burial and cremation services. Orbitas treat this income as standard rated but HMRC maintain that this should be exempt and as a result the company is partially exempt. HMRC have requested the partial exemption calculations for Orbitas. These have not yet been supplied and, after taking external advice, Orbitas has requested that HMRC conduct a formal review of their decision that the services supplied are exempt. We are now awaiting the outcome of that review.</li></ul>

# Going Concern

## Matters in relation to Going Concern – auditors introduction

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

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

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

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

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

# Going Concern Considerations

Question	Management response
<p><b>Does the Council have procedures in place to assess the Council's ability to continue as a going concern?</b></p>	<p>Yes, the Council undertakes a review of its status in advance of producing the Annual Statement of Accounts and has procedures in place to make that assessment including the following:</p> <ul style="list-style-type: none"> <li>• The Councils Medium Term Financial Strategy 2015/18 and Treasury Management Strategy were approved by Council on 26 February 2015.</li> <li>• The Three Year Summary Position identified the continued grant funding stream from government and future levels of council tax income. The report also considered the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals, so that members had authoritative advice available to them when they made their decisions.</li> <li>• The Council has also published Guidance and Data on the Financial Resilience of the Council. The Council's Three-Quarter Year Review of Performance was reported to Cabinet in February 2015. This predicted a small underspend of £0.2m against budget.</li> <li>• Financial Control is identified as a key risk in the Corporate Risk Register: <ul style="list-style-type: none"> <li><b><i>Financial Control: 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.</i></b></li> </ul> </li> <li>• As part of the approval process for the Statement of Accounts the Section 151 Officer will provide assurance regarding the key risks, policies and concepts applicable to the accounts and any such disclosures that are necessary to present fairly the financial position of the Council at its year end.</li> <li>• All wholly owned companies benefit from a number of guarantees put in place by the authority. Their contributions to the Cheshire Pension Fund are guaranteed by the Council and each company receives regular payments in advance from the Council to cover known expenses. To cover unforeseen events each company also has access to an automatic loan facility from the council, repayable on commercial terms.</li> </ul>

# Going Concern Considerations

Question	Management response
<p><b>Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?</b></p>	<p>There are no events or conditions which would impact on the Council's status as a going concern.</p> <p>The Council has set a balanced budget for 2016/17 and provided projections for future years with knowledge of all anticipated changes in Council expenditure and funding through to 2018/19. Given the Council's cautious attitude to including income or savings only when definite projects or government announcements are known, there is a gap between income and expenditure in years two and three. As in previous years the Council expect these challenges to be overcome in good time to present a further balanced budget for 2017/2018.</p>
<p><b>Are arrangements in place to report the going concern assessment to the Audit and Governance Committee?</b></p>	<p>Yes, as part of the reporting process to the Audit and Governance Committee which includes the Treasury Management Strategy and Annual Report; the Statement of Accounts and Annual Governance Statement and regular updates on the Corporate Risk Register.</p>
<p><b>Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?</b></p>	<p>The Council has set a balanced budget for 2016/17 and this will have taken into account relevant financial assumptions and financial information provided through the year.</p> <p>At the third quarter stage of 2015/16, the Council's reserves strategy remains effective with a small forecast underspend of £0.3m (0.1%) against a budget of £246.5m. Portfolio Holders and the Management Group Board continue to focus on managing this position to avoid any impact on the Council's general reserves at year end.</p>

# Going Concern Considerations

Question	Management response
<p><b>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on the going concern?</b></p>	<p>Yes, the Councils Three Year Plan and reports to Cabinet throughout the year set out the implications of statutory or policy changes. All reports to Cabinet contain a section on Financial Implications authorised by the Section 151 Officer. The Corporate Plan has recently been updated for 2016-18 and reported to Cabinet / Council in February 2016</p>
<p><b>Have there been any significant issues raised with the Audit and Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</b></p>	<p>No significant issues have been reported to date in 2015/16 which would cast doubt on the assumptions made. The Audit and Governance Committee receives regular reports from internal and external audit throughout the year and will receive the Statement of Accounts and the Annual Governance Statement for approval in September 2016.</p>
<p><b>Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?</b></p>	<p>Financial information on revenue and capital expenditure is reported to managers via a suite of financial reports on a monthly basis. Performance on treasury management is reported monthly to the Finance Portfolio Holder and Senior Managers and quarterly to Cabinet through the Financial Performance Report. The Council receives quarterly performance monitoring reports from all its ASDVs</p> <p>No adverse financial indicators have been identified.</p> <p>The process for reporting performance on the payment of invoices is incorporated into the contract with Co-Socius and these indicators are monitored through monthly performance reports.</p>

# Going Concern Considerations

Question	Management response
<p><b>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives?</b></p> <p><b>If not, what action is being taken to obtain those skills?</b></p>	<p>Corporate Risk 3 addressed Strategic Leadership and Management and was described as:</p> <p><i>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.</i></p> <p><i>These factors include:</i></p> <ul style="list-style-type: none"> <li>• <i>new strategic commissioning operating model</i></li> <li>• <i>management restructure</i></li> <li>• <i>new and incoming senior appointments</i></li> <li>• <i>scale of delivery on substantial change programmes</i></li> </ul> <p>In March 2014 the Audit and Governance Committee was informed that this risk was recognised as a dying risk, the net score had reduced to 4 low risk and that it was to be removed from the corporate risk register.</p>

# Related Parties

## Matters in relation to Related Parties

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: Related party disclosures. The Code identified the following as related parties to local government bodies:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries)
- Associates
- Joint ventures in which the authority is a venturer
- An entity that has an interest in the authority that gives it significant influence over the authority
- Key management personnel, and close members of the family of key management personnel
- Post –employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the authority and the related party.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

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

# Accounting Estimates

## Matters in relation to Accounting Estimates – auditors introduction

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. This objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need to an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of the estimates that the Council are using as part of their accounts preparation: the significant estimates are detailed in appendix 1 to this report.

The audit procedures we conduct on the accounting estimate will demonstrate that :

- The estimate is reasonable
- Estimates have been calculated consistently with other accounting estimates within the financial statements.

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

# Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property , plant and equipment valuations	The valuation of operational assets is based on 'Current Value' – dependent on the class of assets (which will determine EUV, MV or DRC, MEA).  Surplus assets and Investment property are required to be valued at Fair Value in accordance with IFRS 13.	A 3 stage QA process with Deloitte's, Assets and finally Finance , quality assuring and challenging the valuations.  Liaison with Valuers to be assured that where applicable, valuations are in accordance with IFRS 13 requirements.	Yes - Deloitte's have been appointed on a 5 year contract	When completing the valuation process and in line with the RICs and CIPFA standards, all valuations are considered on number of basis before a decision is made to take a particular one.	No
Estimated remaining useful lives of PPE	For Buildings and Land Deloitte's use Building Surveyor information to determine a useful life. With all other PPE valued at cost, the service user determines the useful life of an asset.	Part of the challenge process above particularly if a life has significantly increased or decreased. For other PPE ensure they are in line with our accounting policies.	Yes – Deloitte's used for Buildings and Land	The valuers and service users provide the estimate for the remaining useful life	No
Depreciation and amortisation	Straight line method	Consistent application of depreciation calculation in line with CIPFA accounting standards and the Council's accounting policies	No (except to determine useful life)	No	No

# Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Conduct an impairment review annually, review helpdesk queries to establish whether any buildings have suffered an impairment and confirm whether the repairs have been remediated.	Quality Assurance from Valuation Team in conjunction with Facilities Management officers	Yes- in house valuation team	The same process as with a valuation – if an impairment has occurred Deloitte's would be required to give a valuation based on the reason for the impairment of the asset	No
Long term obligations under PFI schemes	The Council has assessed these arrangements under IFRIC 12 – recognising the assets used to deliver the services on the Council's balance sheet along with a corresponding liability.	The model developed by Grant Thornton is used to calculate the relevant accounting entries.	Deloitte's have been appointed to revalue the buildings.	The initial recognition of the asset/liability is based on costs within the operator's financial model and the embedded finance lease repayments are estimated by deducting service and lifecycle costs from the Unitary Charge.	No
Pension liability	The Council is an admitted body to the Cheshire Local Government Pension Scheme. The administering authority (Cheshire West and Chester Council) engage the Actuary who provides the estimate of the pension liability	Payroll data is provided to the Actuary along with any details of significant changes. Management review the actuary's report to determine the accounting entries.	Yes - Consulting Actuary	As disclosed in the actuary's report.  Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No
Non-adjusting events – events after the BS date	A review is completed at year end requesting information from Corporate Management Team, Heads of Services and Finance.	Peer review to check all non-adjusting events have been captured.	No	None	No

## Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead Allocation	A model has been derived to identify cost drivers and appropriate methodology for each type of overhead.	Calculated in accordance with CIPFA Guidance to establish Total Cost of Service.	No	Apportionment bases are reviewed each year to ensure that they remain appropriate and equitable.	No
Bad Debt provision	A review of balances is carried out annually and an impairment provision for doubtful debts is made in accordance with the accounting policy.	Calculated in accordance with the accounting policy.	No	Calculation takes into account historical experience, current trends and other relevant factors.	No
Provision for liabilities	Provisions and contingent liabilities identified as part of Lead Review referred to at page 26.	Assessed in accordance with CIPFA guidance and IAS37	No	None	No
Accruals	Auto Accruals Process  Commitment Accounting Reports	In accordance with the Council's accounting policies and controlled through the budget monitoring process.	No	None	No
Investments in companies valuations	Estimates are based on the use of accepted valuation models. These are prepared by the Council based on the audited financial statements of the companies: <ul style="list-style-type: none"> <li>• Alderley Park Holdings Ltd</li> <li>• Manchester Science Parks Ltd</li> </ul>	These will be based on the Company's financial statements and reviewed by the corporate finance team.	When necessary external advice will be sought.	None	No

# Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value measurement of Financial Instruments: <ul style="list-style-type: none"> <li>• PWLB loans</li> <li>• Market LOBO loans</li> <li>• Investments</li> </ul>	IFRS 13 sets out the framework for the fair value of financial instruments. These estimates include: <ul style="list-style-type: none"> <li>• PWLB loans – fair values based on information provided by PWLB.</li> <li>• Market LOBO loans – fair values based on discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate and adding the value of the embedded options.</li> <li>• Investments - fair value based on prices generated by market transactions involving comparable assets</li> </ul>	Part of established year end plan for dealing with financial instrument valuations.  Liaison with treasury advisors to be assured that valuations in accordance with IFRS 13 requirements.	Yes – Arlingclose Ltd	Does not give rise to any material differences in the accounts – expertise of company with access to market information used, no alternatives considered	No – the definition of fair value is now set out in IFRS 13.



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## CHESHIRE EAST COUNCIL

### REPORT TO: AUDIT & GOVERNANCE COMMITTEE

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**Date of Meeting:** 17<sup>th</sup> March 2016  
**Report of:** Chief Operating Officer  
**Subject/Title:** Grant Thornton 2015/16 Audit Plan for Cheshire East Council  
**Portfolio Holder:** Councillor Peter Groves

---

#### **1.0 Report Summary**

1.1 The Audit Plan for the year ending 31 March 2016 is set out in Appendix 1.

#### **2.0 Recommendation**

2.1 That members receive and comment on the Audit Plan for 2015/16.

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

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

#### **4.0 Wards Affected**

4.1 Not applicable.

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

5.1 Not applicable.

#### **6.0 Policy Implications**

6.1 None.

#### **7.0 Financial Implications (Authorised by the Chief Operating Officer)**

7.1 The Audit Plan sets out the level of fees for the audit work specified by the external auditors.

7.2 The audit fees as set out on page 20 of the report are £171,198 for the main Council audit and grant certification work and £4,800 relating to the teachers pension return. The fees will be met from within the existing revenue budget.

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

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

## **9.0 Risk Management**

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

## **10.0 Background and Options**

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

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

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

10.4 The Audit Plan sets out the requirements for the audit of the Group Accounts. The audit will consider the Council's assessment of the group boundary and the adequacy of the determination of those entities that are to be included within Group Accounts in 2015/16. The auditors will also review the approach to align the accounting policies, review the consolidation adjustments and assess whether the disclosures within the group financial statements are in accordance with the Code requirements.

10.5 Grant Thornton will be attending the meeting to answer any questions raised by members on the 2015/16 Audit Plan.

## **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: Corporate Finance Manager  
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Email: [Joanne.wilcox@cheshireeast.gov.uk](mailto:Joanne.wilcox@cheshireeast.gov.uk)

Appendix 1: Grant Thornton Certification Report 2015/16 for Cheshire East Council

# The Audit Plan for Cheshire East Council

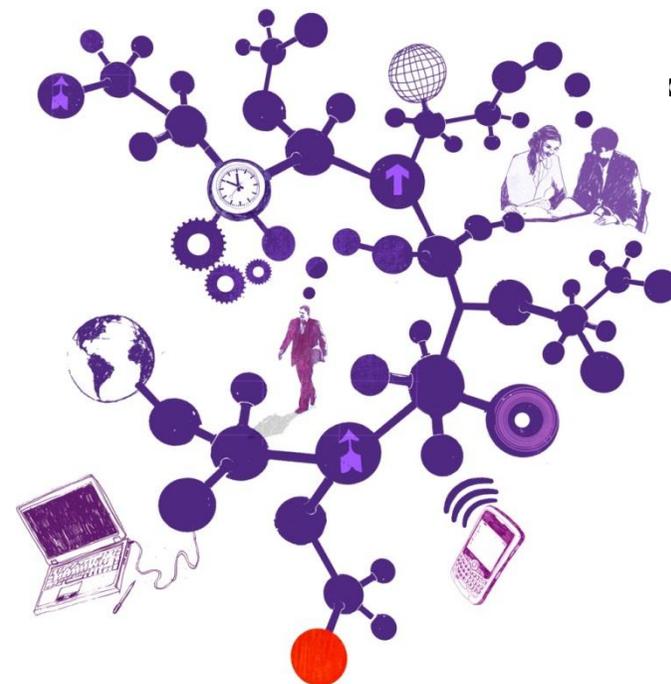
**Year ending 31 March 2016**

7 March 2016

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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.

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

7 March 2016

Dear Members of the Audit and Governance Committee

### **Audit Plan for Cheshire East Council for the year ending 31 March 2016**

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

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

Our responsibilities under the Code are to:

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

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

Yours sincerely

Jon Roberts, for and on behalf of Grant Thornton UK LLP

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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.
- The latest financial settlement confirms that the Council's Revenue Support Grant is withdrawn by 2019/20. The Council is also uncertain what the impact of business rates retention or changes to New Homes Bonus, will have on its funding levels.

### 2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- You are involved in plans for devolution across Cheshire and Warrington, through discussion with central government.

### 3. Integration with health sector

- You contribute to the Better Care Fund in Cheshire as part of a partnership with your NHS partners. Whilst the Council's financial commitment to the Better Care Fund is not in itself financially significant, the Council's work with its partners and developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.

### 4. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.



## Our response

- We will review the Council's Medium Term Financial Plan and financial strategy as part of our work on, as part of our work to reach our VFM conclusion.

- We will discuss your plans as part of the local devolution agenda through our regular meetings with senior management and those charged with governance.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will consider how the Council is working with partners, as part of our work in reaching our VFM conclusion.
- We will review the Council's treatment of entries relating to the Better Care Fund in the financial statements.

- We will continue to work with you to identify areas where you can further develop good practice and learn from the experience of other authorities.
- We will carry out more of our testing at an earlier stage of the audit than in previous years.
- We will complete substantive work in our audit of your financial statements by 31 July 2016.

# Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

### 1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

### 2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

### 3. Highways Network Asset

- Although you are not required to identify the Highways Network Asset on your balance sheet until 2016/17, this will then be a significant change to your financial statements and you will need to make preparations and obtain valuations this year.
- We have already discussed the impact of this and your plans to undertake this significant exercise, with the finance team.

### 4. Joint arrangements

- Local authorities are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- Having established a number of different companies, you have a new planning company, wholly-owned by the council, that has started trading in 2015/16 and will be consolidated into the Group Accounts in 2015/16.
- The joint venture CoSocius is anticipated to come to an end from 1 April 16 with services returning to be provided by one of the two Councils.



## Our response

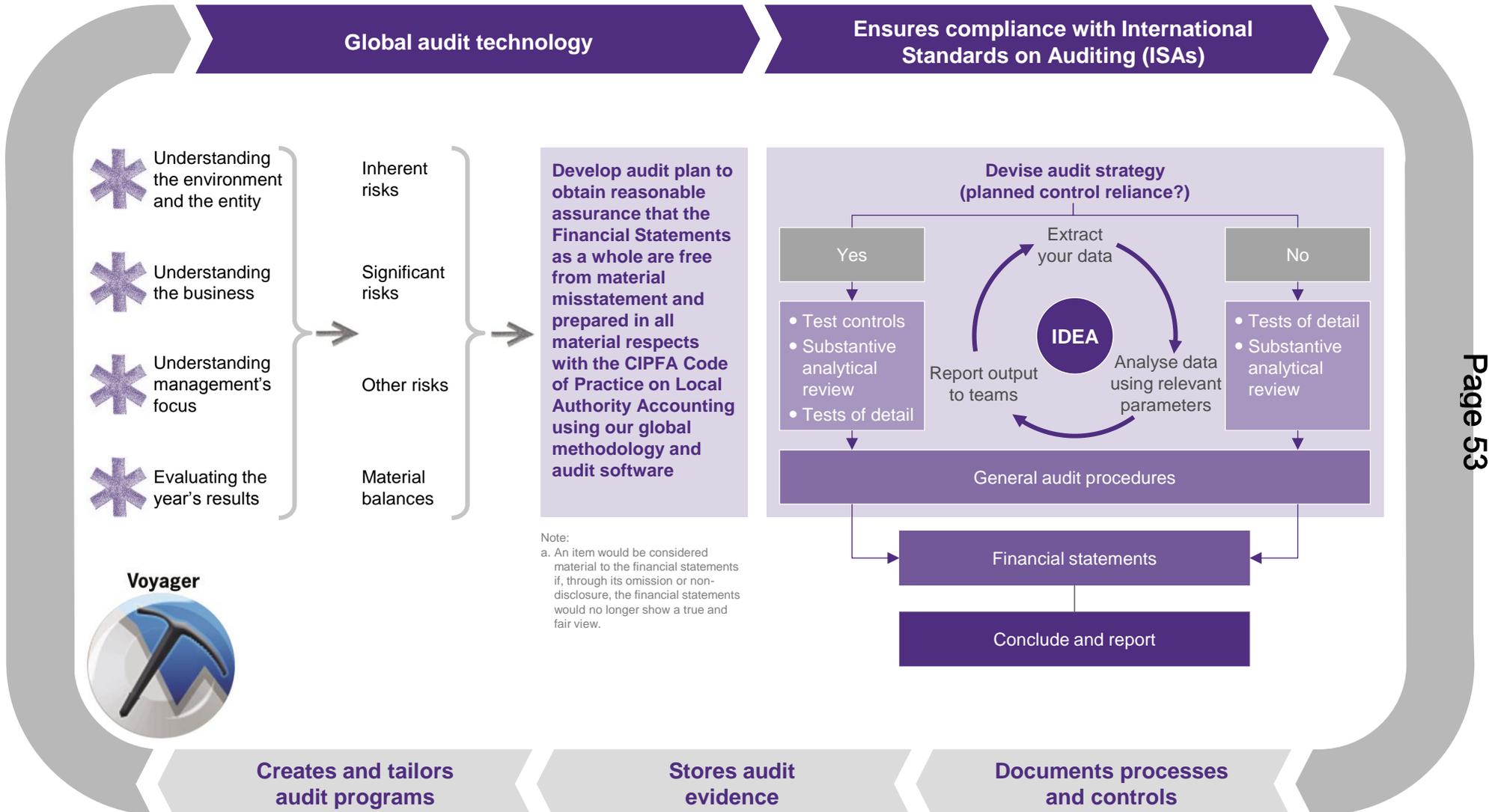
- We have discussed with the finance team the impact of IFRS 13, the financial reporting requirements and the planned approach to valuation of these assets and will continue this dialogue throughout the year.
- We will review your arrangements for obtaining valuations in accordance with IFRS 13.
- We will review your draft financial statements to ensure you have complied with the accounting and disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.
- We invited finance staff to our technical update workshops.
- We will continue to discuss progress with your finance and highways staff.

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.
- We will review the arrangements for returning the services provided by CoSocius back to the two Councils. The factors that have led to this decision are also relevant to our wider consideration of partnership working as part of the VFM conclusion.

# Our audit approach



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £12,132k (being 1.8% of prior year audited gross revenue expenditure for the group). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

In the previous year, we determined materiality to be £13,489k (being 2% of prior year unaudited gross expenditure).

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £607k for the group.

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

We have identified the following items where we are not setting a separate materiality threshold, but where we are undertaking more extensive testing:

Balance/transaction/disclosure	Explanation
Cash	Although the balance of cash in hand and at the bank may be immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of the external audit fee in the notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.

# Significant risks identified

"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 outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. For this Council, we have concluded that the greatest risk of material misstatement relates to the occurrence/ existence of other income and receivables.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheshire East Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Cheshire East Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<b>Work planned:</b> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual and significant transactions</li> </ul>

## Significant risks identified (continued)

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

# Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures" (ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning. These apply to both the Council and Group financial statements.

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Walkthrough of your controls in place over operating expenditure</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review the completeness of subsidiary interfaces and control account reconciliations</li> <li>• Obtain an understanding of the accruals process and test a sample of accruals (and other creditors balances)</li> <li>• Cut off testing of a sample of payments after the year end</li> <li>• Test a sample of operating expenses transactions in the year to ensure these are accurately accounted for and in the correct period (part completed)</li> </ul>
Employee remuneration	Employee remuneration accruals understated	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Walkthrough of your controls in place over payroll expenditure</li> <li>• Review the completeness of the payroll reconciliation between the subsidiary system and the ledger (completed to Month 9)</li> <li>• Trend analysis of monthly payroll runs to Month 9</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of the year-end reconciliation of your payroll system to the general ledger</li> <li>• Update the trend analysis of the monthly payroll runs for the year</li> <li>• Test a sample of senior officers remuneration payments</li> <li>• Test a sample of employee remuneration payments in the year to ensure accurately accounted for and in the correct period (part completed)</li> </ul>

---

# Other risks identified (continued)

## Other material balances and transactions

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

- Property, plant and equipment
- Investment property
- Assets held for sale
- Investments (long term and short term)
- Long and short term debtors
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Welfare benefits
- Segmental reporting
- Officers' remuneration
- Leases
- Related party transactions
- Capital expenditure and capital financing
- Financial instruments
- Collection Fund and associated notes
- Group consolidation

## Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

# Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Council has assessed the requirements of *IFRS 10 consolidated financial statements* and *IFRS 11 Joint arrangements* and determined that Group Accounts will be prepared to incorporate the financial results of five wholly owned subsidiary companies (Ansa Environmental Services Ltd, Orbitas Bereavement Services Ltd, Transport Service Solutions Ltd, East Cheshire Engine of the North Ltd & Civicance Ltd) along with CoSocius Ltd as a joint venture. The Council has determined that other subsidiaries & associates (Cheshire East Residents First Ltd, Tatton Park Enterprises Ltd, Cheshire & Warrington Enterprise Ltd) may be excluded from the group accounts on the basis that this does not have a material impact. Investment in other entities such as Everybody Sport and Leisure Trust (ESAR) are not to be consolidated as the Council does not have 'control'. The Council is still in the process of assessing the impact of the District Heating joint venture.

We will consider the Council's assessment of the group boundary and the adequacy of the determination of those entities that are to be included within Group Accounts in 2015/16. The table below considers whether the 'components' to be consolidated into the group accounts are anticipated to be individually significant or whether the risk of material misstatement can be addressed by applying analytical procedures at the group level.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Wholly owned companies: <ul style="list-style-type: none"> <li>• Ansa Environmental Services Ltd</li> <li>• Orbitas Bereavement Services Ltd</li> <li>• Transport Solutions Ltd</li> <li>• Engine of the North Ltd</li> <li>• Civicance Ltd</li> </ul>	Not individually significant components	Analytical	At this stage we have identified no specific risks of material misstatement.  This will be the first year of the operation of Civicance Ltd, however arrangement in place mirror those of the other companies so there no additional risks identified.  We will inform the Audit and Governance Committee of any changes to this assessment.	Liaison with the finance team to discuss any complex matters, emerging issues or areas of difficulty.  Liaison with the auditors of the Council's companies (also Grant Thornton UK LLP but a separate team).  Analytical procedures at the group level - desktop review of the Council's consolidation of the financial results of the subsidiaries into the group accounts, including the adjustments to align accounting policies and remove the transactions between the companies and the Council.
CoSocius Ltd : 50% joint venture interest	Not individually significant components	Analytical	None at this stage but we will be mindful that from 1 April 16 the back office service currently provided by CoSocius will return to the two Councils.	Analytical procedures at the group level - desktop review of the Council's consolidation of the financial results of the joint venture into the group accounts using the 'equity' method.

# Value for Money

## Background

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

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

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

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

## Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider :

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

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

## Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>The Council has historically managed its finances well and has consistently achieved savings targets. It is on course to achieve a balanced budget for 2015/16. However, following the most recent settlement and changes to the expectation of levels of government grant, the scale of efficiencies and savings required has changed. This is affected by:</p> <ul style="list-style-type: none"> <li>• The removal of revenue support grant by 2019/20 but with less certainty about the funding that will arise from business rates retention or the impact of changes to New Homes Bonus</li> <li>• The impact of demand led services, such as the cost pressures experienced in Children and Families services and Adult Social Care.</li> </ul>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>We propose to:</p> <ul style="list-style-type: none"> <li>• review the Council's progress in updating its medium term financial strategy and the reports to Members</li> <li>• review the outturn position for 15/16 and the budget plans for 16/17 and 17/18</li> <li>• meet with key officers to discuss key strategic challenges and the Council's proposed response.</li> </ul>
<p>Whilst the Council's financial commitment to the Better Care Fund is not in itself financially significant, the Council's work with its partners towards the sustainability of adult health and social care services is an important step. Working with partners from different organisations and service areas with potentially conflicting priorities, and particular financial challenges means that projects are increasingly complex and high profile.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will discuss with key officers and review the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.</p>

# Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>The Local Plan sets planning policies and allocates sites for development. It is the Statutory Development Plan for Cheshire East and is the basis for deciding planning applications. The original plan to guide development up to 2030 was submitted to the Secretary of State for Communities and Local Government in 2014, but required amendment and the Council is still going through this process of independent examination. Without this formal planning framework, the Council is more vulnerable to unplanned development, budget pressures, and this poses a risk to its plans for development sites in the right places and stimulate growth in the local economy.</p>	<p>This links to the Council's arrangements for planning finances effectively to maintain statutory functions and to manage and utilise assets effectively to support the delivery of strategic priorities.</p>	<p>We will discuss with key officers and review reports to consider what progress is being made to get the Local Plan in place and how the Council is addressing the risks and challenges associated with the delay.</p>
<p>The Council commissions services from a range of different delivery models, including companies, the leisure trust and a joint venture for support services that has now been brought to an end. The Council's arrangements to monitor the performance and governance of these 'alternative service delivery vehicles' is important to the effective delivery of its objectives.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will discuss with key officers and review the Council's project management and risk assurance frameworks to establish how it is assured that its objectives are being sufficiently met.</p>
<p>The Council have faced some challenges over the robustness of its procurement arrangements and the CEO arranged for a review by Internal Audit. A police investigation into certain related matters is also currently underway.</p>	<p>This links to the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance.</p>	<p>We will review the findings of Internal Audit's review of procurement arrangements and meet with key officers to discuss how the Council is identifying and managing any risks or perceived weaknesses in its controls.</p>

## Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

# Results of interim audit work

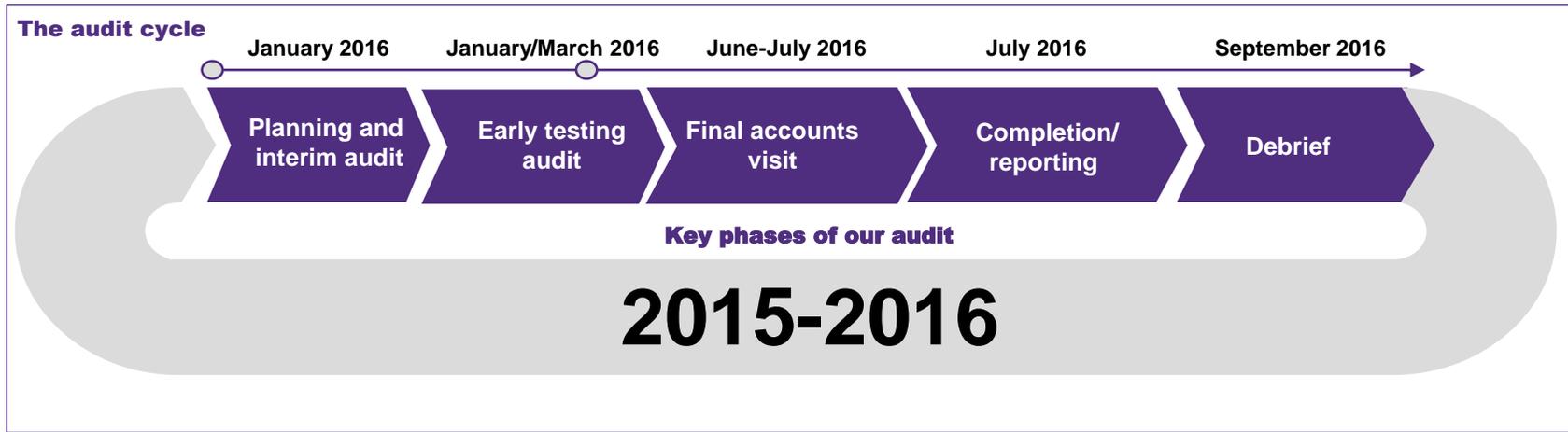
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

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

## Results of interim audit work (continued)

	Work performed	Conclusion
<b>Walkthrough testing</b>	We have completed walkthrough tests of the Council's controls operating in all areas where we consider that there is a risk of material misstatement to the financial statements.	Our work has not identified any weaknesses which impact on our audit approach.
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and to identify any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We have also undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review.</p>	<p>We have not identified any concerns to date surrounding journals from our documentation of journal controls and testing of journals up to Month 9.</p> <p>Any findings from completion of this work and further testing for the remainder of the year will be reported in the Audit Findings report.</p>
<b>Early substantive testing</b>	<p>We have carried out sample testing of transaction processed to month 9 in the following areas:</p> <ul style="list-style-type: none"> <li>- Other revenues</li> <li>- Operating expenditure</li> <li>- Payroll expenditure</li> <li>- Journals processed</li> </ul>	<p>No issues have been identified to date that we wish to highlight for your attention.</p> <p>We will complete further testing later in March 2016 around deeds, grants and benefit payments and 'top up' testing already undertaken to month 9, through to the year end.</p> <p>Our findings will be reported in the Audit Findings report along with our other audit work.</p>

# Key dates



Date	Activity
January 2016	Planning and interim audit
18 – 29 January 2016 7 – 18 March 2016	Early testing audit
17 March 2016	Presentation of audit plan to Audit and Governance Committee
6 June – 22 July 2016	Year end fieldwork
To be arranged	Audit findings clearance meeting with the Chief Operating Officer and the Corporate Manager – Planning and Performance
29 September 2016	Report audit findings to those charged with governance (Audit and Governance Committee)
By 30 September 2016	Sign financial statements opinion

# Fees and independence

## External Audit Fees

	£
Council external audit	154,590
Grant Certification	16,608
<b>Council audit fees (excluding VAT)</b>	<b>171,198</b>
External audit fees for the wholly owned companies ( <i>not yet confirmed for 2015/16 accounts</i> ):	6,250
• Engine of the North Limited	11,750
• ANSA Environmental Services Limited	6,250
• Orbitas Bereavement Services Limited	6,250
• Transport Service Solutions Limited	6,250
• Civicance Limited	
External audit of CoSocius Limited (Cheshire East Council has 50% ownership)	13,500
<b>Total audit fees (excluding VAT)</b>	<b>221,448</b>

### Our fee assumptions include:

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

## Fees for other services

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

## Fees for other services

Audit related services	£
Reasonable assurance report for teachers pension return (November 2015)	4,800
Reasonable assurance report for Local Authority Major Transport Scheme return	TBC
Non audit related services	£
Employment taxes helpline service August 2015 – January 2016	1,250
Additional services provided to the Cheshire East Companies for 2015/16:	
• Tax compliance services for 5 wholly owned companies	7,500
• Tax compliance service for CoSocius	2,300

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## Grant certification

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

## 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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

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

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (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.

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

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

## Respective responsibilities

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

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

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

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

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

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# Appendices

# Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

In our Audit Finding Report on the 2014/15 financial statements, we agreed a number of recommendations with management. Progress against these recommendations is shown below.

Rec No.	Recommendation	Priority	Management response on progress
1	It is recommended that the Council reviews its personal declaration forms and guidance to emphasise that the declaration in respect of related parties should include all Board responsibilities, including those with the wider group entities.	Low	The Council will review the personal declaration forms and associated guidance to ensure all Board responsibilities are included.  March 2016
2	Our review of the IT control environment at the Council and CoSocius (where appropriate) identified potential risks relating to: <ul style="list-style-type: none"> <li>The segregation of user roles within the Oracle system</li> <li>Inappropriate access to business process controls</li> <li>And in areas including system administration and privileges, access rights, audit logging and password controls.</li> <li>The Council should ensure the necessary improvements are made to strengthen controls in these areas.</li> </ul>	Medium	The Council has agreed the following responses with CoSocius. CoSocius will produce assurance reports on: <ul style="list-style-type: none"> <li>•Assignment of privileges per individual (grouped by organisation hierarchy)</li> <li>•Number of staff with access to processes tabs (also known as AZN</li> <li>•Menus)</li> <li>•Self-Assigned Privileges (Quarterly)</li> </ul> Cheshire East staff will be notified as to incorrect privilege levels or practices. Where this highlights any CoSocius staff they will undertake changes to correct privilege levels or practices. The Council will ensure the necessary improvements are made to strengthen controls in these areas  Ongoing



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## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 17 March 2016  
**Report of:** Corporate Manager Governance and Audit  
**Title:** Internal Audit Interim Report 2015/16  
**Portfolio Holder:** Councillor Peter Groves

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#### 1.0 Report Summary

1.1 The purpose of the report is to:

- i) update the Audit and Governance Committee on progress against the Internal Audit Plan 2015/16, revisions to the plan and to summarise work undertaken between October and December 2015 (see Appendix A).
- ii) present the updated Internal Audit Charter for approval by the Committee (see Appendix B).

#### 2.0 Recommendation

2.1 That the Committee:

- i) note the issues identified, endorse the approach to achieving adequate audit coverage in the remainder of 2015/16 and discuss future audit issues and ways of working as appropriate.
- ii) approve the updated Internal Audit Charter.

#### 3.0 Reasons for Recommendation

3.1 The Interim Report addresses emerging issues in respect of the whole range of areas to be covered in the Internal Audit Annual Report, due in June 2016.

3.2 The Internal Audit Charter is reviewed periodically (as a minimum annually) by the Corporate Manager Governance and Audit and presented to the Management Group Board and forwarded to the Audit and Governance Committee for approval.

#### 4.0 Wards Affected

4.1 All wards.

#### 5.0 Local Wards Affected

5.1 Not applicable.

## **6.0 Policy Implications**

6.1 Not applicable.

## **7.0 Financial Implications (Authorised by the Chief Operating Officer)**

7.1 The Internal Audit team must be appropriately resourced to comply with statutory and best practice requirements.

## **8.0 Legal Implications (Authorised by the Director of Legal Services)**

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

## **9.0 Risk Assessment**

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

## **10.0 Background**

10.1 The Public Sector Internal Audit Standards (PSIAS) states that in addition to the annual report, arrangements should be made for interim reporting to the organisation in the course of the year.

10.2 Members were provided with a detailed Interim Report at the December 2015 meeting of this Committee. As such, the latest update, which can be found at Appendix A, has been prepared in the form of a highlight report and covers the programme of work delivered between October and December 2015 along with a brief outline of work planned for the remainder of the financial year.

10.3 The Internal Audit Charter was first approved by the Committee in November 2013. This has now been reviewed and updated for the following:

- Changes in reporting arrangements following the departure of the Head of Corporate Resources and Stewardship to meet the expectation of both CIPFA and the IIA (as detailed in the PSIAS Local Government Application Note) that the Chief Audit Executive should not report administratively or be managed at a lower level than the corporate management team :

*Para 5.1* “The Corporate Manager Governance and Audit will report functionally to the Audit and Governance Committee and administratively (i.e. day to day operations) to the Director of Legal

Services on an interim basis. This administrative reporting line will be subject to review following the appointment of the Director of Resources.”

*Para 6.2 “* Any assurance activity in areas where the Corporate Manager Governance and Audit has operational responsibility will be carried out by auditors with no involvement in the process and overseen by the Director of Legal Services, thus maintaining independence and objectivity in line with the ‘the Standards’.

- Latest review date i.e. January 2016.

### **11.0 Access to information**

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

**Name:** Andrew North

**Designation:** Corporate Manager Governance and Audit

**Tel No:** 01270 686226

**Email:** andrew.north@cheshireeast.gov.uk

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# Internal Audit

## Interim Report 2015/16

October 2015 - December 2015

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[www.cheshireeast.gov.uk](http://www.cheshireeast.gov.uk)

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Internal Audit

First Floor, Westfields

Cheshire East Council

Sandbach CW11 1HZ

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## 1 Introduction

1.1 This report covers the programme of work delivered between October and December 2015 along with a brief outline of work planned for the remainder of the financial year.

## 2 Summary of Audit Work undertaken

2.1 The work carried out between October and December 2015 can be summarised as follows:

### 2.2 Assurance Work

- 1 audit progressed to the draft report stage.
- 7 audits either in progress or the terms of reference agreed with management.
- 3 audits where the terms of reference were issued to management.

2.3 In accordance with normal practice, once the reports have been finalised, further detail will be provided to the Committee on any of these audits with 'Limited' or 'No' assurance.

### 2.4 School Audits

- 21 audits completed and reports issued.
- 1 further visit rescheduled for quarter four.

### 2.5 Supporting Corporate Governance

- Continued monitoring of issues raised in the 2014/15 Annual Governance Statement (AGS), update of the

associated AGS Action Plan and development of the proposed process for production of the 2015/16 AGS.

- Details of the above were provided to Members in a report to the December 2015 meeting of this Committee.
- Internal Audit has continued to provide support to, and Chair, the Corporate Assurance Group (CAG).
- This included the production of reports to Management Group Board (MGB) and provision of advice with regards to the continuing development of the Council's approach to governance and risk management, including the draft risk management policy.

### 2.6 Risk Management

- Work to further develop and embed risk management, continued during the quarter. This included the review and update of corporate risks and work within departments to develop operational risk registers.
- A detailed update report will be presented to Committee in June 2016.

### 2.7 Anti-Fraud and Corruption

- The existing Anti-Fraud and Corruption Strategy has been reviewed against best practice and as a result, a new Anti Fraud and Corruption Policy has been developed.

- Approval of this new Anti Fraud and Corruption Policy is sought in a separate report to this Committee.

## 2.8 Technical Enabler Group

- Attendance at TEG meetings has continued during the period with the provision of support, advice and constructive challenge to the consideration of proposed projects.

## 2.9 Consultancy and Advice

- Internal Audit has continued to support management with the provision of advice - at the specific request of management. The nature and scope of these engagements are generally aimed at improving governance, risk management and control and contribute to the overall audit opinion as well as building good relationships across the Council.
- Advice and guidance provided during Quarter 3 has included disposal of assets, suspected scams/frauds in schools and across the council, and management of client monies in social care settings.

## 2.10 Implementation of Recommended Actions

- Work has continued to obtain assurance from management that Internal Audit recommendations have been implemented in accordance with agreed timescales.
- The approach taken is dependent upon the level of assurance provided by the initial audit review. Those

with Limited or No Assurance are subject to a more detailed review process.

- In accordance with normal practice, detailed performance figures relating to the implementation of recommended actions within agreed timescales will be reported in the Annual Report 2015/16. This will allow the figures to reflect those actions that are due to be implemented during quarter 4.

## 2.11 Supporting the Audit and Governance Committee

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

### 10 December 2015

- Audit and Governance Committee Annual Report
- Risk Management Policy Statement, Strategy and Outline Framework
- Annual Governance Statement Update
- Internal Audit Interim Report
- Internal Audit Charter
- Audit and Governance Committee Self-Assessment
- Audit and Governance Committee Work Plan

The following Member/Officer Groups also met during November 2015:

- Financial Statements and Audit

- Corporate Governance and AGS
- Risk Management
- Fraud

### 3 Ongoing and Forthcoming Areas of Work

- 3.1 As Members will be aware, the ongoing review of Procurement that was discussed in detail at the December 2015 meeting of this Committee took priority over other pieces of work and, as such, the resources available to carry out planned work were reduced.
- 3.2 This work continued until the end of December 2015 when Cheshire Police commenced an investigation into related matters which required Internal Audit to pause their work in this area.
- 3.3 Further updates will be provided to Members with regards to the status of the audit work in this area as and when it is appropriate to do so.
- 3.4 In recognition of these resource issues, the annual plan has been revisited and a refocus of planned audit work for the remainder of the year was completed in order to reflect the revised resource position.
- 3.5 In delivering the remainder of the 2015/16 Audit Plan, priority will be given to those pieces of work which inform the Corporate Manager Audit and Governance’s annual audit opinion, such as:

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

- 3.6 In addition to completing the planned work relating to 2015/16, we will be preparing the Audit Plan for 2016/17.
- 3.7 The plan will need to carefully balance statutory responsibilities and risk with the resources available within the team.
- 3.8 This will involve meetings with senior managers and heads of service to discuss the risks associated with their areas of responsibility and to agree priorities for the coming year.
- 3.9 It will also require detailed consideration of strategic and service risk registers, other sources of assurance such as external inspection reports and issues identified during the current year.
- 3.10 The proposed plan will be presented to the March 2016 meeting of this Committee for consideration and approval.

# 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 Cheshire East Council. It assists the Council 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 Regulations 2015, which states that a relevant body must:
- ‘undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’.
- 2.2 The standards in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [‘the Standards’].

## 3 Professionalism

- 3.1 Internal Audit will govern itself by adherence to ‘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 Internal Audit's performance.
- 3.2 The Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (LGAN) will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to Cheshire East Council's relevant policies and procedures and the Internal Audit Manual.

## 4 Authority

- 4.1 Internal Audit, in accordance with the Accounts and Audit Regulations and with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Cheshire East Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit will also have free and unrestricted access to the Audit and Governance Committee.

# Internal Audit Charter

## 5 Organisation

5.1 The Corporate Manager Governance and Audit will report functionally to the Audit and Governance Committee and administratively (i.e. day to day operations) to the Director of Legal Services on an interim basis. This administrative reporting line will be subject to review following the appointment of the Director of Resources.

The Audit and Governance Committee will:

- Approve the Internal Audit Charter.
- Approve the risk based internal audit plan.
- Receive communications from the Corporate Manager Governance and Audit on Internal Audit's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Corporate Manager Governance and Audit to determine whether there is inappropriate scope or resource limitations.
- Receive the annual report, which includes:
  - the annual opinion,
  - a summary of the work on which internal audit has based the opinion,
  - a statement on conformance with PSIAS and the LGAN and
  - the results of the quality assurance and improvement programme.

5.2 The Corporate Manager Governance and Audit will communicate and interact directly with the Chair of the Audit and Governance Committee as appropriate and will also have free and unfettered access to the Chief Executive.

## 6 Independence and Objectivity

6.1 Internal Audit 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 Any assurance activity in areas where the Corporate Manager Governance and Audit has operational responsibility will be carried out by auditors with no involvement in the process and overseen by the Director of Legal Services, thus maintaining independence and objectivity in line with the 'the Standards'.

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.

## Internal Audit Charter

- 6.4 The Corporate Manager Governance and Audit will confirm to the Audit and Governance Committee, at least annually, the organisational independence of Internal Audit.

### 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 Council'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 Council'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 Council.
- 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 Council'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 and minimise duplication of effort.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation.
- Reporting periodically on Internal Audit'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 Audit and Governance Committee.
- Evaluating specific operations at the request of the Audit and Governance Committee or management, as appropriate.

- 7.2 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the organisation that these arrangements are in place and operating properly.

## Internal Audit Charter

- 7.3 The provision of assurance is, therefore, the primary role for internal audit. This role requires the Corporate Manager Governance and Audit to provide an annual internal audit opinion and report which is timed to inform the Annual Governance Statement and is based on 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, and work for other bodies, subject to there being no impact on the core assurance work and the availability of skills and resources.
- 7.5 The Corporate Manager Governance and Audit will be made aware of major new systems and proposed initiatives. The Corporate Manager Governance and Audit will 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 Corporate Manager Governance and Audit 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 Corporate Manager Governance and Audit will submit to the Management Group Board and the Audit and Governance Committee 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 Corporate Manager Governance and Audit will communicate the impact of resource limitations and significant interim changes to the Management Group Board and the Audit and Governance Committee.
- 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 the Management Group Board and the Audit and Governance Committee. The Corporate Manager Governance and Audit will review and adjust the plan, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the Management Group Board and the Audit and Governance Committee through periodic activity reports.

## Internal Audit Charter

### 10 Reporting and Monitoring

- 10.1 A written report will be prepared and issued by the Corporate Manager Governance and Audit or designee following the conclusion of most internal audit assignments and will be distributed as appropriate. Internal audit results will also be communicated to the Audit and Governance Committee.
- 10.2 The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will 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 Internal Audit will be responsible for appropriate follow-up on engagement findings and recommendations.
- 10.4 The Corporate Manager Governance and Audit will periodically report to the Management Group Board and the Audit and Governance Committee on Internal Audit'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 the Management Group Board and the Audit and Governance Committee.
- 10.5 The Corporate Manager Governance and Audit 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 Council's framework of governance, risk management and control.

### 11 Quality Assurance and Improvement Programme

- 11.1 Internal Audit will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of Internal Audit'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 Internal Audit and identifies opportunities for improvement.
- 11.2 The Corporate Manager Governance and Audit will communicate to the Management Group Board and the Audit and Governance Committee on Internal Audit's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

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## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of Meeting:** 17<sup>th</sup> March 2016  
**Report of:** Corporate Manager Governance and Audit  
**Title:** Internal Audit Plan 2016/17  
**Portfolio Holder:** Councillor Peter Groves

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#### 1.0 Report Summary

1.0 The purpose of this report is for the Committee to receive and approve the Summary Internal Audit Plan for 2016/17.

#### 2.0 Recommendations

2.1 That the Committee:

- i) approve the Summary Internal Audit Plan 2016/17 (Appendix A); and
- ii) note that a more detailed Internal Audit Plan will be developed and produced in the first quarter of 2016/17 that will be discussed and agreed with the relevant Member/Officer group.

#### 3.0 Reasons for Recommendations

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

#### 4.0 Wards Affected

4.1 All wards.

#### 5.0 Local Wards Affected

5.1 Not applicable.

#### 6.0 Policy Implications

6.1 Not applicable.

#### 7.0 Financial Implications (Authorised by the Chief Operating Officer)

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

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

- 7.2 The Summary Internal Audit Plan 2016/17 has been prepared, based on current resources, to cover the core areas of work required to deliver an annual audit opinion. Once the detailed audit plan has been set, this will be compared to resource availability and where there is an imbalance between the two, the Committee will be informed of proposed solutions.
- 7.3 Matters that jeopardise the delivery of the detailed audit plan or require significant changes to it will be identified, addressed and reported to the Committee.

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

- 8.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”
- 8.2 The guidance accompanying the Regulations recognises that with effect from 1st April 2013, the Public Sector Internal Audit Standards (PSIAS) represent “proper internal audit practices”. The PSIAS apply to all internal audit service providers within the UK public sector.

### **9.0 Risk Assessment**

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

## 10.0 Background

- 10.1 All principal local authorities subject to the Accounts and Audit Regulations 2015 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS). The Standards state that the provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive (or equivalent) to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Internal audit can also, where resources and skills exist, provide additional services. Additional services would normally be advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.
- 10.2 In order to ensure that internal audit resources continue to be focussed on areas where assurance is most needed, particularly during periods of change, it is essential that clients' needs are understood. Consequently, a wide ranging consultation process took place with key stakeholders including Senior Management, Strategic Risk Owners/Managers and other assurance providers in order to establish priorities for audit activity in 2016/17.
- 10.3 The intelligence gathered by this consultation process has been supplemented by the outcome of further planning activity, including a risk assessment of local, regional and national issues and consideration of the Council's corporate plan 2016-2020.
- 10.4 Following the consultation process, the proposed audit activity was collated and matched against the internal audit resources available and prioritised accordingly and a risk-based summary internal audit plan for 2016/17 (Appendix A) prepared. In accordance with the PSIAS the plan is fixed for a period of no longer than one year. It outlines the assignments to be carried out, their respective priorities (by differentiating between assurance and other work) and the estimated resources needed. Management Group Board has considered the plan prior to presentation to the Audit and Governance Committee.
- 10.5 The plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the Annual Governance Statement. However, as in previous years, it is proposed that a more detailed audit plan will be developed and produced throughout the forthcoming year as a number of factors progress and the impact on the current level of audit resource becomes known. These include:
- outcomes of the business/commissioning planning process
  - the ongoing impact on audit resource following the transfer of responsibility of the Corporate Business Continuity Function from April 2015.
  - whether the centralised risk management resource adequately supports the objective of improving risk management in the Council and the impact

this will have on the audit resource following the transfer of the function to Internal Audit in 2014.

- the impact on audit resources with regard to assurance engagements for functions over which the Corporate Manager Governance and Audit has responsibility.
- determining the requirement to use specialists, e.g. IT or contract and procurement auditors
- outcomes from collaborative working including the development of the Quality Assurance and Improvement Programme (QAIP) and in particular the external assessment against the PSIAS (i.e. the Definition of Internal Auditing, the Code of Ethics and the Standards themselves) for compliance
- confirmation on the Alternative Service Delivery Vehicles' specific requirements for internal audit and risk management
- Declarations of interest made by the Internal Audit team to ensure there are no conflicts of interest

10.6 In accordance with the Council's Internal Audit Charter the Audit and Governance Committee is asked to review and approve the summary internal audit plan 2016/17. In doing, so Members should consider whether the:

- scale and breadth of activity is sufficient to allow Internal Audit to provide an independent and objective audit opinion that can be used to inform the AGS
- level of resources in any way limits the scope of Internal Audit, or prejudices the ability to deliver a service consistent with the Standards
- level of non-assurance work has an adverse impact on the core assurance work.

### **11.0 Access to Information**

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

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Designation: Corporate Manager Governance and Audit

Tel No: 01270 686226

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



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# Summary Internal Audit Plan 2016/17

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[www.cheshireeast.gov.uk](http://www.cheshireeast.gov.uk)

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Internal Audit

First Floor, Westfields

Cheshire East Council

Sandbach, CW11 1HZ

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## Cheshire East Council - Summary Internal Audit Plan 2016/17

### 1 Introduction

- 1.1 The development of the 2016/17 Internal Audit Plan has been undertaken against the backdrop of ongoing fundamental strategic and operational change throughout Cheshire East Council. As a consequence, the audit planning process has been directed by the key issues and financial challenges currently facing the Council. This plan has been drawn up on the basis that the control environment and risk profile of the Council will inevitably change over the next financial year.
- 1.2 Therefore the 2016/17 audit plan has inbuilt flexibility to respond to the changing demands for assurance work. This flexible approach will allow quicker targeting of resources to high risk areas as they arise throughout the year.
- 1.3 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council that these arrangements are in place and operating properly.
- 1.4 The provision of assurance is, therefore, the primary role for Internal Audit. This role requires the Corporate Manager Governance and Audit, as the Chief Audit Executive, to provide an annual internal audit opinion

based on an objective assessment of the framework of governance, risk management and control (i.e. the control environment).

- 1.5 An Internal Audit plan is produced each year to ensure that:
- the scale and breadth of activity is sufficient to allow the Corporate Manager Governance and Audit to provide an independent and objective opinion to the Council on the control environment
  - audit activity focuses on areas where assurance is most needed
- 1.6 This document sets out Cheshire East Council's Summary Internal Audit Plan for 2016/17 and includes how the service will be delivered and developed in accordance with the Internal Audit Charter and how the plan links to the Council's objectives and priorities.
- 1.7 The summary Internal Audit plan for 2016/17 is shown in Table 1 at the end of this document.

### 2 Responsibilities and Objectives of Internal Audit

- 2.1 Internal Audit is an independent, objective assurance and consulting service designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic,

## Cheshire East Council - Summary Internal Audit Plan 2016/17

disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

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

### 3 Summary and Process

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

3.2 The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework.

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

- Internal Audit's own risk assessment, which considers issues at an organisation, regional and national level.
- Consideration of Cheshire East Council's Corporate Plan, 2016-2020<sup>2</sup>.
- Consultation with key stakeholders, internal to CEC: Management Group Board, Senior Management

<sup>1</sup>

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

<sup>2</sup>

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

## Cheshire East Council - Summary Internal Audit Plan 2016/17

including Strategic Risk Owners/Managers, Internal Audit staff,

- External key stakeholders: External Audit, Cheshire West and Chester Internal Audit, and the North West Chief Audit Executive Group.

3.4 The Plan will be further defined in the first quarter of 2016/17, through the following:

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

3.5 The 2016/17 Plan will need to take account of the following:

- The ongoing impact on audit resource following the transfer of responsibility of the Corporate Business Continuity Function from April 2015.
- whether the centralised risk management resource adequately supports the objective of improving risk management in the Council and the impact this will

have on the audit resource following the transfer of the function to Internal Audit in 2014.

- the impact on audit resources with regard to assurance engagements for functions over which the Corporate Manager Governance and Audit has responsibility.
- the requirement to use specialists, e.g. IT or contract and procurement auditors
- outcomes from collaborative working including the development of the Quality Assurance and Improvement Programme (QAIP) and in particular the external assessment against the PSIAS (i.e. the Definition of Internal Auditing, the Code of Ethics and the Standards themselves) for compliance
- confirmation on the Alternative Service Delivery Vehicles' specific requirements for internal audit and risk management
- Declarations of interest made by the Internal Audit team; these are considered to ensure there are no conflicts of interest.

### 4 Key Themes and Outputs

4.1 There are a number of key themes emerging within the 2016/17 Internal Audit Plan, including:

- Governance of partnership and commissioning arrangements

## Cheshire East Council - Summary Internal Audit Plan 2016/17

- Reviewing commissioning lifecycles across services
- Reviewing secondary control functions; policy development, compliance, monitoring and escalation processes.

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

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

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

- Key Financial Systems
- Corporate Core and Cross Service Systems
- Service Specific Systems
- Anti- Fraud and Corruption – Proactive reviews
- Project/contract audit
- ICT/Computer audit
- Investigations
- Continuous auditing/monitoring
- Probity/compliance audit
- External clients

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

- **Corporate Governance and Risk**
  - Support and contribution to production of the Annual Governance Statement (AGS)
  - Production of Assurance Statements to support the AGS (from Senior Managers)
  - Development of the Council's Assurance Framework
- **Statutory Returns**
  - Internal Audit may be required, as a stipulation of funding or similar, to carry out an audit/give assurance on the programme/project or aspects,

## Cheshire East Council - Summary Internal Audit Plan 2016/17

thereof, and report back to the statutory/funding body.

- **Anti Fraud & Corruption**

- National Fraud Initiative – results are recorded on the Audit Commission secure website, update reports presented to the Corporate Assurance Group.

- **Follow Up**

- Monitoring implementation of audit recommendations and targeted follow up of recommendations based on audit opinion/recommendation rating, where necessary.

- **Advice and Guidance**

- The exact nature and scope of any internal audit work, is agreed in advance with the manager.

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

- **Corporate Work**

- Responsibility for centralised risk management function

- Responsibility for centralised business continuity management function
- Supporting the Audit and Governance Committee including production of reports
- External Audit liaison
- Support and contribution to Corporate Working Groups
- Regional Collaboration

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

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

4.6 In accordance with CIPFA guidance<sup>3</sup> the Corporate Manager Governance and Audit should be made aware of major new systems and proposed initiatives to help ensure risks are properly identified and evaluated and

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

## Cheshire East Council - Summary Internal Audit Plan 2016/17

appropriate controls built in. Some of the work described in 4.5 contributes to this awareness.

- 4.7 The assurance framework will be further reviewed and developed during 2016/17 to highlight existing sources of assurance provision, ensuring effective planning and efficient deployment of resources.
- 4.8 In addition time has been allocated in the plan for the service to be developed and improvements made.
- 4.9 Internal Audit also provides services to PATROL<sup>4</sup>, as Cheshire East Council is the host Council.

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

### 5 Resources

- 5.1 The resources currently available are outlined below:

Audit Year	2016/17	2015/16
<b>Maximum Days</b>	<b>2,244</b>	<b>2,114</b>
<b>Unavailable Working Days –</b> Annual Leave, Bank Holidays, Estimated Sick Leave, Estimated Special Leave	<b>389</b>	<b>370</b>
<b>Available Working Days</b>	<b>1,855</b>	<b>1,744</b>
<b>Non Chargeable Sub Total -</b> Training, Planning, Team Management & Housekeeping, Service Development	<b>397</b>	<b>378</b>
<b>Chargeable Days</b>	<b>1,458</b>	<b>1,366</b>

- 5.2 The overall increase in chargeable days in 2016/17 reflects the inclusion of a Risk Management Officer. This appointment is expected to be in effect from Quarter 2 2016/17.
- 5.3 Following the unexpected and tragic loss of Jon Robinson, the team's Audit Manager, there will also be a need to consider how the team structure develops in due course.

## Cheshire East Council - Summary Internal Audit Plan 2016/17

- 5.4 The Summary Internal Audit Plan 2016/17 has been prepared, based on current resources, to cover the core areas of work required in order to deliver an annual audit opinion. A contingency figure is normally included to recognise that the plan needs to be flexible to be able to reflect the changing risks and priorities of the Council. The plan does include a small amount of time for advice and guidance. It does not include an additional general contingency, although there a specific contingency for reactive fraud investigation, which may be undertaken or supported by Internal Audit after appropriate risk assessment.
- 5.5 As described in 3.4, further work will now take place in the first quarter of 2016/17 to produce a more detailed plan for the year.
- 5.6 Where there is an imbalance between the work plan and the resources available, the Audit and Governance Committee will be informed of proposed solutions. The more detailed Audit Plan will be discussed and agreed by the Member/Officer group responsible for Audit.
- 5.7 In further defining the audit plan, areas of work may be highlighted which the Internal Audit function is not currently sufficiently staffed/skilled to provide assurance on, for example, specialist ICT audits. In these cases, the Council may wish to consider procuring external audit resource to provide the necessary assurance.
- 5.8 Significant matters which jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and brought to the attention of the Management Group Board and the Audit and Governance Committee.
- 5.9 Internal Audit's key priority will always be to deliver the assurance programme of work in order to provide the Council with an informed annual audit opinion.
- 6 Progress Reporting**
- 6.1 During the year, Internal Audit will produce interim progress reports for the Audit and Governance Committee, detailing key issues arising from audits and progress made against the Audit Plan. Any significant matters affecting the delivery of the plan or requiring changes to the plan will also be reported to the Committee.
- 6.2 At the end of the year, an Annual Report is presented to the Audit and Governance Committee to provide assurance or otherwise on the effectiveness of the internal control framework of the Council. This will be based on the findings of the work carried out during the year.

## Cheshire East Council - Summary Internal Audit Plan 2016/17

### 7 Quality Assurance and Improvement Programme

- 7.1 During 2016/17 Internal Audit will maintain a quality assurance and improvement programme that covers all aspects of its activity. The programme will include an evaluation of Internal Audit's compliance with the PSIAS and an evaluation of whether internal auditors apply the Code of Ethics. The programme will also assess the efficiency and effectiveness of Internal Audit and identifies opportunities for improvement.
- 7.2 The Corporate Manager Governance and Audit will communicate to the Management Group Board and the Audit and Governance Committee on Internal Audit's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years. Our external assessment is currently scheduled for April 2017.

#### Performance Indicators

- 7.3 Internal Audit has a number of existing Performance Indicators that are reported to the Audit and Governance Committee through the year via interim reporting and the Annual Report. For 2016/17 these are:

Performance Indicator	2016/17 Target	2015/16 Target	2014/15 Target
Percentage of Audits completed to user's satisfaction	95%	92%	92%
Percentage of significant recommendations agreed	90%	90%	90%
Productive Time (Chargeable Days)	80%	80%	80%
Draft report produced promptly (per Client Satisfaction Form)	95%	95%	95%

- 7.4 Targets for the 2016/17 will be set following assessment of actual performance within 2015/16.
- 7.5 A further performance indicator, requested by the Audit and Governance Committee was introduced during 2014/15, monitoring the implementation of internal audit recommendations within timescale. The timely implementation of audit recommendations is a good indicator of both the effectiveness of Internal Audit in securing action and the Council's commitment and capacity to improve. The target for this indicator is 90% implementation, 75% within agreed timescales.

## Cheshire East Council - Summary Internal Audit Plan 2016/17

### Benchmarking

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

**Table 1: Summary Internal Audit Plan 2016/17**

Audit Theme/Area <i>Identified Key Areas</i>	Drivers/Risks	2016/17 Planned Audit Days	2016/17 Planned %
<b>Chargeable Days</b>		1,458	
<b>Less: Corporate Work</b>		420	
<i>Includes:</i> <ul style="list-style-type: none"> <li>Corporate Requirements: Corporate Management, Performance Development Review Process,</li> <li>Corporate Groups and Assurance: Executive Monitoring Board, Corporate Assurance Group, Annual Governance Statement, Assurance Framework development</li> <li>Audit and Governance Committee: Reports taken on behalf of other areas of the Council, Committee Administration, Work Plan Development, Member Liaison and Development. Member/Officer Sub Groups</li> <li>Direct responsibility for Risk Management and Business Continuity Management functions.</li> </ul>	<ul style="list-style-type: none"> <li>Activities which the Internal Audit function are required to participate in corporately, or have direct responsibility for providing.</li> </ul>		
<b>Available Audit Days</b>		1,038	100
<b>Corporate Governance</b>		87	8
<i>Includes:</i> <ul style="list-style-type: none"> <li>Audit and Governance Committee: Internal Audit reports to Committee. Administration and Work Plan development.</li> <li>Corporate Groups - Technical Enabler Group, Information Governance Group</li> <li>Collaboration: External Audit - Grant Thornton Liaison</li> <li>Regional Collaboration - Working with regional internal audit partners</li> <li>Reviewing corporate and operational risk management</li> </ul>	<ul style="list-style-type: none"> <li>Statutory requirements</li> <li>Work supporting the overall provision of assurance and the annual internal audit opinion.</li> </ul>		
<b>Anti-Fraud and Corruption - Proactive Reviews</b>		75	7
<i>Includes:</i> National Fraud Initiative, Developing an anti-fraud culture, Review of associated	<ul style="list-style-type: none"> <li>Statutory requirement – NFI/ Responding to fraud trends/ Awareness</li> </ul>		

Audit Theme/Area <i>Identified Key Areas</i>	Drivers/Risks	2016/17 Planned Audit Days	2016/17 Planned %
policies, Proactive assurance reviews.	raising.		
<b>Anti-Fraud and Corruption - Reactive Investigations</b>		<b>30</b>	<b>3</b>
In response to demand.	<ul style="list-style-type: none"> <li>Undertaken/supported as necessary after appropriate risk assessment.</li> </ul>		
<b>Chief Operating Officer - Key Financial Systems</b>		<b>250</b>	<b>24</b>
<i>Includes:</i> Accounts Payable, Accounts Receivable, Payroll, Housing Benefits, General Ledger, Treasury Management, Business Rates, Council Tax, Revenue and Capital Budget Monitoring, Schools Financial Value Standard establishment visits.	<ul style="list-style-type: none"> <li>Provision of assurance to S151 Officer on identified high risk areas</li> <li>Review of new arrangements and follow up of previous recommendations</li> <li>Potential risk of mis-statement in the Authority's financial statements.</li> </ul>		
<b>Chief Operating Officer - Corporate Core and Cross Service</b>		<b>115</b>	<b>11</b>
<i>Includes:</i> Second Line of Defence Reviews, Strategic Commissioning, ASDV Governance, Information Governance, CoSocius Transfer, Replacement Enterprise Resource Planning (ERP) System, Benefit Realisation	<ul style="list-style-type: none"> <li>Key Corporate and Cross service risks</li> <li>Assurance relating to specific service areas reporting to COO, including commissioning arrangements for key service delivery areas and assurance on management and delivery of key projects</li> </ul>		
<b>Children's Services</b>		<b>95</b>	<b>9</b>
<i>Includes:</i> Children's Services Transport Commissioning, Children's Placement and Commissioning, Children's Policy - Compliance and Monitoring, Children's Services - Review of Financial System/Information Governance	<ul style="list-style-type: none"> <li>Outcome from reviewing key departmental and service risk areas; commissioning arrangements for key service delivery areas, and arrangements for monitoring compliance with Children's Policy</li> </ul>		
<b>Adult's Social Care and Independent Living</b>		<b>95</b>	<b>9</b>

Audit Theme/Area <i>Identified Key Areas</i>	Drivers/Risks	2016/17 Planned Audit Days	2016/17 Planned %
<i>Includes:</i> Commissioning Lifecycle, Health and Social Care Integration – delivery review, Performance Management and Reporting	<ul style="list-style-type: none"> <li>Outcome from reviewing key departmental and service risk areas; performance management and reporting arrangements, delivery of integrated health and social care services and commissioning arrangements for key service delivery areas</li> </ul>		
<b>Public Health</b>		<b>10</b>	<b>1</b>
<i>Includes:</i> Commissioning and Performance Management arrangements – follows on from 2015/16 work	<ul style="list-style-type: none"> <li>Outcome from reviewing key departmental and service risk areas; commissioning arrangements for key service delivery areas.</li> </ul>		
<b>Communities</b>		<b>50</b>	<b>5</b>
<i>Includes:</i> Civil Enforcement activities, Highways Contract – Client Management	<ul style="list-style-type: none"> <li>Outcome from reviewing key departmental and service risk areas; commissioning arrangements for key service delivery areas and reviewing performance management in front line service area.</li> </ul>		
<b>Economic Growth and Prosperity</b>		<b>75</b>	<b>7</b>
<i>Includes:</i> Planning Service, Asset Management, Local Economic Partnership,	<ul style="list-style-type: none"> <li>Outcome from reviewing key departmental and service risk areas; review key delivery areas of high financial value and high levels of customer interaction.</li> </ul>		
<b>Providing Assurance to External Organisations</b>		<b>60</b>	<b>6</b>
<i>Includes:</i>	<ul style="list-style-type: none"> <li>Host Authority arrangement (PATROL) –</li> </ul>		

Audit Theme/Area <i>Identified Key Areas</i>	Drivers/Risks	2016/17 Planned Audit Days	2016/17 Planned %
<i>PATROL, (Other organisations may request assistance in year, subject to available resource.)</i>	provide assurance in agreed format, similar to former Small Bodies Annual Return <ul style="list-style-type: none"> <li>Assurance provided to External Organisations</li> </ul>		
<b>Advice and Guidance</b>		<b>26</b>	<b>3</b>
<i>Includes:</i> Provision of ad-hoc advice and guidance to services as requested during 2016/17	<ul style="list-style-type: none"> <li>Add value and improve overall governance, risk management and control processes within the organisation.</li> </ul>		
<b>Other Chargeable Work</b>		<b>70</b>	<b>7</b>
<i>Includes:</i> Certification of grants, Follow up and additional reporting on the implementation of agreed audit actions <b>Note: Contingency is currently zero.</b>	<ul style="list-style-type: none"> <li>Specific requests from services</li> <li>Follow up implementation of recommendations, including further testing or additional work where necessary.</li> </ul>		
<b>Total Audit Days</b>		<b>1,038</b>	<b>100</b>

## CHESHIRE EAST COUNCIL

### Audit and Governance Committee

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<b>Date of Meeting:</b>	17 March 2016
<b>Report of:</b>	Director of Legal Services
<b>Subject/Title:</b>	Members' Code of Conduct: Standards Report
<b>Portfolio Holder:</b>	Councillor Paul Findlow

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#### 1.0 Report Summary

- 1.1 The purpose of the report is to advise the Committee of the number of complaints received under the Code of Conduct for Members which have been considered by the Director of Legal Services (in his capacity as the authority's Monitoring Officer) and the Independent Person. The report also notes the outcome, where complaints have been concluded.
- 1.2 The report previously considered by the Committee contained details of complaints received up to and including 31 August 2015. This report covers the period 1 September 2015 to the end of February 2016.

#### 2.0 Recommendation

- 2.1 To note the report.

#### 3.0 Reasons for Recommendations

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

#### 4.0 Wards Affected

- 4.1 All

#### 5.0 Local Ward Members

- 5.1 All

#### 6.0 Policy Implications

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

## **7.0 Financial Implications**

7.1 None identified.

## **8.0 Legal Implications**

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

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

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

## **9.0 Risk Management**

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

## **10.0 Background**

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

10.2 The report sets out details of the complaints received under the Members' Code of Conduct from 1 September 2015 to February 2016 and, where concluded, the outcome.

10.3 Of the complaints received before 1 September 2015 and reported to the last meeting; one parish complaint remains ongoing; which was referred for external investigation.

## **11.0 Summary of Complaints received September 2015 to February 2016**

11.1 Between 1 September 2015 and 29 February 2016, fifteen complaints were received by the Monitoring Officer. Eight complaints were against members of Cheshire East Council. Seven complaints were against members of town or parish councils within the borough.

11.2 The complaints can be broken down further as follows.

## 12.0 Complaints made against Cheshire East Councillors

12.1 Of the eight complaints received between 1 September 2015 and 29 February 2016, the following paragraphs of the Cheshire East Council Members' Code of Conduct were identified as allegedly having been breached:

### Part A: General obligations paragraph

1	Selflessness	5
2	Integrity	4
3	objectivity	5
4	Accountability	2
5	openness (a) transparency	3
	openness (b) disclosure	0
6	honesty (a) declaring interests	4
	honesty (b) use of resources	1
7	respect for others (a) courtesy	4
	respect for others (b) equality	0
	respect for others (c) impartiality	0
	respect for others (d) bullying	2
8	leadership	3
9	gifts and hospitality	1

### Part B: registering and declaring pecuniary and non pecuniary interest

Failure to register	1
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[Note: the numbers may not tally with the number of complaints received as a complainant may identify none or more than one paragraph in his/her complaint.]

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

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

**13.0 Complaints made against Town/Parish Councillors**

13.1 Of the seven complaints received between 1 September 2015 and 29 February 2016, the following paragraphs of the relevant town/parish council code of conduct were identified as allegedly having been breached:

Part A: General obligations paragraph

1	selflessness	4
2	integrity	2
3	objectivity	2
4	accountability	2
5	openness (a) transparency	2
	openness (b) disclosure	0
6	honesty (a) declaring interests	4
	honesty (b) use of resources	0
7	respect for others (a) courtesy	2
	respect for others (b) equality	0
	respect for others (c) impartiality	0
	respect for others (d) bullying	1
8	leadership	2
9	gifts and hospitality	0

Part B: registering and declaring pecuniary and non pecuniary interest

Failure to register	1
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[Note: the numbers may not tally to the number of complaints received as a complainant may identify none or more than one paragraph in his/her complaint.]

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

Complaints awaiting initial assessment	5
No further action to be taken	2
Referred to the Monitoring Officer for informal resolution	0
Referred to Group Leader for informal action	0
Referred by the Monitoring Officer for external investigation	0
Referred to the Police or other regulatory agency	0

**14.0 Administering the process**

14.1 The revised procedure for dealing with standards complaints, adopted by Council in July 2014, has significantly increased the speed at which complaints have been dealt with.

14.2 Notwithstanding this, the Monitoring Officer continues to receive a steady number of complaints. Dealing with these complaints and often the preliminary advice and interaction with complainants before a formal complaint is received, takes a significant number of officer hours. The process itself by its very nature is detailed and requires a clear record of all decisions and complaints to be maintained.

**15.0 Access to information**

There are no background papers relating to this report.

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## CHESHIRE EAST COUNCIL

### REPORT TO: AUDIT & GOVERNANCE COMMITTEE

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**Date of Meeting:** 17<sup>TH</sup> March 2016  
**Report of:** Customer Relations and Compliance Manager  
**Subject/Title:** Compliance with Data Protection Act (1998),  
Freedom of Information Act (2000) and Environmental  
Information Regulations (2004)  
**Portfolio Holder:** Councillor Paul Findlow

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#### **1.0 Report Summary**

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

#### **2.0 Decision Requested**

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

#### **3.0 Wards Affected**

- 3.1 All wards.

#### **4.0 Local Ward Members**

- 4.1 Not applicable.

#### **5.0 Policy Implications**

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

#### **6.0 Financial Implications**

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

**7.0 Legal Implications (authorised by the Borough Solicitor)**

7.1 These are set out in the report.

**8.0 Risk Management**

8.1 The risks of non-compliance are significant (as outlined in 6.1). Additionally, the penalties which may be imposed under the forthcoming European Data Protection Regulation are significantly greater than the current maximum penalty for non-compliance (see 15.1).

**9.0 Background**

9.1 The tables below show the number and sources of requests received in 2015 (January – December) and the services to which they relate. Figures are provided for 2014 for comparison. Any company wholly owned by one or more public authorities is subject to FOI legislation. Therefore, most of the new ASDV’s (Alternative Service Delivery Vehicles) established by the Council in recent years are also subject to FOI. If a Freedom of Information request relates in any way to the environment, then it is classed as an Environmental Information Request, and is subject to the Environmental Information Regulations 2004 (EIR), rather than the Freedom of Information Act.

**Table 1**

<b>TYPE OF REQUEST</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
FOI/EIR requests	1625	1598	1614	1487
DP Subject Access requests	820 <sup>1</sup>	554	619	467
<b>TOTAL</b>	<b>2445</b>	<b>2152</b>	<b>2233</b>	<b>1954</b>

**Table 2**

<b>SOURCE</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Individuals	45%	46%	50%	37%
Commercial	18%	20%	18%	18%
Press/Media	15%	14%	10%	13%
Public Sector	9%	8%	9%	20%
‘What do they know’ <sup>2</sup>	6%	6%	6%	5%
Pressure Groups	5%	4%	5%	5%
MP’s/Councillors	2%	2%	2%	2%

<sup>1</sup> 418 of the requests were requests directly to Council Tax from various public authorities (224 in 2014)

<sup>2</sup> Website dedicated to Freedom of Information requests

Table 3

<b>SERVICE/ DEPARTMENT</b>	<b>2015</b>	<b>2014</b>
Children's and Adults Services	29%	27%
Communities	23%	26%
Chief Operating Officer Services	17%	17%
Economic Growth & Prosperity	15%	15%
Highways	8%	8%
ASDV'S	8%	7%

## **10.0 Freedom of Information/Environmental Information Requests**

- 10.1 Freedom of Information and Environmental Information requests increased marginally in 2015 to 1625. Over 87% of the requests were responded to within 20 working days (compared to 94% in 2014). New internal authorisation processes were introduced during 2015, which led to longer processing times. All responses now have to be authorised by a Head of Service and any withholding of information requires additional authorisation. Information is withheld in only a small number of cases (63 out of 1625 requests in 2015). However, this is an increase on 2014, when information was withheld in 39 cases out of 1598.
- 10.2 Most of the exemptions available to public authorities to withhold information are subject to a public interest test, i.e. does the public interest in disclosure outweigh the public interest in withholding it? There is a presumption in favour of disclosure, i.e. that it is in the public interest generally to disclose information in order to promote transparency and accountability. The Information Commissioner requires cohesive and comprehensive arguments from the Council for withholding information should requestors submit an appeal.
- 10.3 A new system – i-Casework – for processing FOI and DP requests was procured in 2015 and will be operational by April 2016. It is anticipated that this will significantly increase the efficiency of the processes both within the Compliance and Customer Relations Team and within individual departments, ensuring an improved service for requestors.
- 10.4 The implementation of i-Casework will also enable the production and publication of a FOI Disclosure Log on the Council's website, detailing requests received by the Council and the responses issued.

## **11.0 Referrals to the Information Commissioner**

- 11.1 The Information Commissioner received 8 complaints about Cheshire East Council during 2015, compared with 4 in 2014 and 13 in 2013. Three of these are ongoing, one was withdrawn by the requestor, three were upheld in the Council's favour and one was upheld in the requestor's favour (this related to a request which had not been responded to within the statutory timescales).

## 12.0 Independent Commission on Freedom of Information

- 12.1 The Commission was set up in July 2015 to review the Freedom of Information Act. It considered the balance between transparency, accountability and the need for sensitive information to be protected. The Terms of Reference required the Commission to 'consider the implications for the Freedom of Information Act 2000 of the uncertainty around the Cabinet veto and the practical operation of the Act as it has developed over the last 10 years in respect of the deliberative space afforded to public authorities'. The Commission also considered the balance between transparency and the burden of the Act on public authorities more generally.
- 12.2 The key recommendations from their report<sup>3</sup>, published on 1<sup>st</sup> March, 2016, are summarised in **Appendix 1**, but it was concluded that "the Act is generally working well, and that it has been one of a number of measures that have helped to change the culture of the public sector. It has enhanced openness and transparency....There is no evidence that the Act needs to be radically altered, or that the right of access to information needs to be restricted. In some areas, the Commission is persuaded that the right of access should be increased."

## 13.0 Transparency

- 13.1 The Council has stated its commitment to being open, honest and accountable regarding all decisions, actions and outcomes. A Transparency Officer was appointed in January 2015, the 'Transparency Project' was re-launched and significant progress was made during the year towards achieving this aim. The Freedom of Information Act 2000 provides an outline Publication Scheme which public authorities must adhere to and the Local Government Transparency Code 2015 makes it mandatory to publish certain information sets at prescribed intervals. The Council has achieved compliance with all mandatory requirements, except for information about certain contracts exceeding £5000. Information is published on all contracts exceeding £50,000 and some contracts between £10,000 and £50,000. Work is currently in progress to identify all contracts exceeding £5000.
- 13.2 It is the Council's intention to publish information over and above the mandatory requirements and ensure that all published information is meaningful, easily accessible and in a re-usable format. Frequently requested datasets are being identified and steps taken to proactively publish this information. Some service areas, such as School Admissions, Business Rates, Council Tax and Waste Services are already doing this.
- 13.3 A new data portal has been implemented to facilitate the internal process of uploading information and to make it more user-friendly for the public. It will also be of use internally and should make access to information easier and faster for employees and Members.

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<sup>3</sup> <https://www.gov.uk/government/publications/independent-commission-on-freedom-of-information-report>

#### **14.0 Data Protection Subject Access Requests**

14.1 There was a significant increase in Subject Access Requests from 2014 (554) to 2015 (820). 73% of the increase was in requests to Council Tax, which typically come from other public authorities. The Compliance and Customer Relations team received an additional 72 requests in 2015 compared to 2014. Requests into this team typically originate from individuals (including care leavers requesting access to their social care records), public authorities (including the Police) and commercial organisations (including insurance companies requesting CCTV footage and solicitors.)

#### **15.0 Forthcoming changes to Data Protection regulations**

15.1 The European Commission is planning to replace the previous Data Protection Directive with a European Data Protection Regulation, with the aim of harmonising current data protection laws in place across the EU member states. The fact that it is a “regulation” instead of a “directive” means it will be directly applicable to all EU member states without a need for domestic legislation. It is anticipated that this will take effect in 2018. The main changes are:

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

#### **16.0 Training and Awareness**

16.1 Refresher FOI training is currently being arranged for senior officers to ensure that all teams are fully aware of their obligations under the Freedom of Information Act, the Environmental Information Regulations and the Local Government Transparency Code. It is expected that this will be complete by May 2016.

16.2 Data Protection training is a mandatory requirement for all members of staff through the Performance Management process. Training and awareness in Data Protection,

including data handling, record keeping and security is delivered at Induction and across the organisation at regular intervals. In addition, refresher training is currently being arranged for all senior officers, to take place in Spring 2016.

**17.0 Access to Information**

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

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**Report of Independent Commission on Freedom of Information**

Key recommendations affecting Local Authorities

- Faster response times – authorities must keep to the 20 days’ statutory limit unless the request involves information that is complex or high volume or requires consultation with third parties who may be affected by the release of the information.
- Statutory time limit of 20 days to be imposed where a request is refused and the requestor asks the public authority for a review of its decision.
- Prosecution powers of the Information Commissioner (IC) to be strengthened to make it easier for him to prosecute offences relating to destroying information that has been requested under the Act and to increase the penalty for this offence.
- Increase in the amount of information that is released proactively by public authorities.
- All public authorities who employ at least 100 full time equivalent staff will be required to publish their compliance statistics in relation to their duties under the Act and to publish responses to requests where information is given out.
- More information to be proactively published about the expenses and benefits in kind paid to senior public sector executives.
- Information Commissioner to be given responsibility and powers of enforcement to ensure that public authorities are meeting their obligations to proactively publish information.
- Section 36 exemption which affords protection to information where its release would ‘prejudice the effective conduct of public affairs’ will no longer require the reasonable opinion of a qualified person to be obtained before the exemption can be applied.
- The number of appeal stages to be reduced. The right of appeal to the First-tier Tribunal against decisions of the IC to be removed. If someone remains dissatisfied with the IC decision, an appeal would still lie to the Upper Tribunal. However, this is limited to a point of law.
- With regard to the burden on public authorities, it is not considered appropriate to impose an up-front charge. However, Section 14 of the Act, which allows the refusal of vexatious or repeated requests, can be used to refuse requests which are disproportionately burdensome.

Provisional views (not recommendations)

- The Freedom of Information Act (2000) should be extended to those who are providing public services under contract. It is suggested this should be done by treating information about the performance of the contract as being held on behalf of the contracting public authority, although it is considered that this should be limited to new contracts only, and only those contracts where the annual value is £5m or greater.
- Changes to the cost limit. Currently an authority is able to issue a fees notice if it is considered that the effort involved in responding to a Freedom of Information request (not a request under the Environmental Information Regulations) is greater than 18 man hours. It is suggested that additional tasks (i.e. any necessary redaction for certain exemptions) should be included as a permitted activity in the 18 hour time limit (subject to the IC being able to overturn the refusal where there is a strong public interest in the request being responded to).

# CHESHIRE EAST COUNCIL

## REPORT TO: AUDIT & GOVERNANCE COMMITTEE

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**Date of Meeting:** 17<sup>th</sup> March 2016  
**Report of:** Compliance and Customer Relations Manager  
**Title:** Compliance with the Regulation of Investigatory Powers Act (2000) (RIPA)  
**Portfolio Holder:** Councillor Paul Findlow

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### 1.0 Report Summary

1.1 This report provides an update on how the Council has complied with RIPA legislation during 2015/16 and the number of RIPA applications which have been authorised to date.

### 2.0 Recommendation

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

### 3.0 Reasons for Recommendation

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

### 4.0 Wards Affected

4.1 All wards.

### 5.0 Local Ward Members

5.1 Not applicable.

### 6.0 Policy Implications

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

### 7.0 Financial Implications

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

## **8.0 Legal Implications**

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

## **9.0 Risk Management**

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

## **10.0 Background**

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

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

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

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

**12.0 Use of Covert Human Intelligence Source (CHIS)**

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

**13.0 Applications authorised**

	Directed surveillance	Communications Data	CHIS
2011-12	7	2	
2012-13	16 <sup>1</sup>	3	
2013-14	8	3	
2014-15	5	2	
2015-16 to date	4	2	1

- 13.1 The Housing Benefit Fraud Investigation Team moved to the Department of Work and Pensions on 1<sup>st</sup> December 2015. Numbers of applications for directed surveillance are expected to reduce considerably as a result of this move.

**14.0 Inspections.**

- 14.1 The Office of the Surveillance Commissioners (OSC) is responsible for inspecting the Council’s use of and compliance with RIPA, and the Council was last inspected on 2<sup>nd</sup> May 2013. The latest report was a positive one, with some recommendations for

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

further improvement. These recommendations have been implemented. The Council has received notification that the next inspection will take place on 23<sup>rd</sup> May 2016.

14.2 The Interception of Communications Commissioner's Office (IOCCO) is responsible for inspecting applications to access communications data. Inspections are carried out on NAFN rather than on the Council. The most recent report from the IOCCO stated that their inspection of NAFN showed 'very good compliance'.

**15.0 OSC Updates to procedures and guidance**

15.1 In December 2014, the OSC updated RIPA procedures and guidance. These changes have been incorporated into the Council's own policy and procedures, together with recommendations following the last RIPA inspection. Training materials have been updated accordingly and a new programme of training implemented.

**16.0 Access to information**

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

Sandra Smith  
Compliance and Customer Relations Manager  
01270 685865  
Sandra.smith@cheshireeast.gov.uk

## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 17 March 2016  
**Report of:** Corporate Manager Governance and Audit  
**Title:** Anti-Fraud and Corruption Policy  
**Portfolio Holder:** Councillor Peter Groves

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#### **1.0 Report Summary**

- 1.1 Audit & Governance Committee has responsibility for overseeing the Council's arrangements to counter the threat of fraud and corruption. As such, it is important that the Committee is kept up to date with the latest developments, both locally and nationally, in this area.
- 1.2 They are also required, in accordance with the Committee's Terms of Reference, to approve and monitor Council policies relating to "whistleblowing" and anti- fraud and corruption.
- 1.3 This report provides members with:
  - an update on anti-fraud and corruption activity at Cheshire East; and
  - a new Anti-Fraud and Corruption Policy (Appendix A) that has been produced in line with the requirements of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

#### **2.0 Recommendation**

- 2.1 Audit and Governance Committee is asked to note the content of this report and approve the proposed Anti-Fraud and Corruption Policy.

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

- 3.1 In order to ensure that the Council has robust arrangements to counter the threat of loss through fraud and corruption it is essential that the relevant systems and procedures are subject to regular review against best practice and that identified weaknesses are managed.
- 3.2 Audit and Governance Committee's role in overseeing the Council's counter fraud arrangements is crucial for the Council to achieve its anti fraud and corruption objectives.

**4.0 Wards Affected**

4.1 All wards.

**5.0 Local Wards Affected**

5.1 Not applicable.

**6.0 Policy Implications**

6.1 The existence of anti-fraud arrangements, in line with the Code of Practice on Managing the Risk of Fraud and Corruption will contribute towards good governance.

**7.0 Financial Implications (Authorised by the Chief Operating Officer)**

7.1 An overriding responsibility of the Council is the provision of effective and efficient services in a manner that seeks to ensure the best possible protection of the public purse in its delivery arrangements. Hence the Council must have appropriate policies and mechanisms to safeguard the Council's resources and reduce losses to fraud and corruption in all areas to an absolute minimum.

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

8.1 The responsibilities of public sector entities in relation to the prevention and detection of fraud and error are set out in statute, standards and other guidance. Local Government entities have a statutory duty to make arrangements for the proper administration of their financial affairs and appoint an officer to have responsibility for the administration of these arrangements.

**9.0 Risk Assessment**

9.1 The Council as a large organisation is at risk of loss due to fraud and corruption both from within the Council and outside it. The impact of fraud on the Council can have consequences that are serious and often far reaching. Financial loss is the obvious key risk but the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict a much greater damage than the act itself. In order to mitigate this risk the Council needs to be explicit about the way fraud will be regarded and dealt with.

## 10.0 Background

10.1 Fraud remains a major issue facing the United Kingdom, and Local Government is not exempt from this. The Annual Fraud Indicator 2013, which was prepared by the National Fraud Authority prior to it being dissolved in March 2014, estimated the total annual fraud loss against public bodies as £20.6bn with £2.1bn of this relating to Local Government.

10.2 In October 2014, CIPFA published a *Code of Practice on Managing the Risk of Fraud and Corruption*. This was followed up in December 2014, with detailed guidance notes in support of the Code of Practice. These built on, and replaced, CIPFA's previous guidance, *Red Book (Managing the Risk of Fraud, Actions to Counter Fraud and Corruption)* against which the Council's arrangements had been developed.

10.3 The Code is based upon the following five principles and the guidance notes provide detailed information on the implementation of each:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption

10.4 In response, Internal Audit has undertaken the following work during 2015/16 to develop the Council's response to the threat of fraud and corruption:

- The fraud risk assessment was subject to review and expanded to incorporate the bribery risk assessment into a single Fraud and Bribery Risk Register. The register covers nine areas of operation and includes over 100 risks identified by Internal Audit and service managers.
- Work is ongoing to document the controls that are in place to mitigate these risks and Internal Audit have undertaken several proactive reviews of high risk areas to obtain assurance that the documented controls are in place and operating effectively.
- The Counter Fraud Strategy that has been in place since 2009 has been rewritten to bring it in line with the Code of Practice and other best practice. The new Anti-Fraud and Corruption Policy, which replaces the aforementioned strategy, is attached as Appendix A to

this report and Members are asked to consider the content and approve the policy for adoption.

- Members will note that the policy includes a Policy Statement that sets out the Council's commitment to tackling the risk of fraud and corruption. This will be signed by the Chief Executive, Leader of the Council and Chair of Audit and Governance Committee thus providing high level support and endorsement to the policy.
- Work is ongoing to develop a Counter Fraud Strategy and detailed Fraud Response Plan to support the new Anti-Fraud and Corruption Policy.

10.5 In addition to the above, Internal Audit has also been involved in the following counter fraud activities:

### National Fraud Initiative

10.6 Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), a biennial exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

10.7 The 2014/15 exercise was the last to be carried out by the Audit Commission prior to closing at the end of March 2015, at which point responsibility passed to Cabinet Office.

10.8 As was the case in previous years, Internal Audit has coordinated the exercise and liaised with services to ensure that matches have been investigated and the outcomes recorded in the NFI website.

10.9 Investigations into the matches from the 2014/15 exercise are nearing completion and work is now underway in preparation for the 2016/17 exercise. This has included liaison with services, ASDV's and Cabinet Office to ensure that responsibilities have been allocated and an implementation plan has been developed to assist in the coordination role that Internal Audit fulfils.

10.10 Findings from the NFI exercise will also inform future proactive anti-fraud work and the fraud and corruption risk assessment.

### Counter Fraud Fund

10.11 As previously reported, Cheshire East were involved in a successful bid for monies from the government's Counter Fraud Fund during 2014/15.

10.12 The bid was a joint submission from the four Cheshire authorities to allow the appointment of a Counter Fraud Analyst. Warrington Borough

Council was the lead authority for the bid and the post was filled during early 2015/16.

- 10.13 Since being appointed, the Counter Fraud Analyst has begun work in the following areas across the four authorities:
- Development of electronic training materials to increase knowledge and awareness of fraud issues amongst staff and members.
  - Production of other awareness raising tools, for example newsletters and information for a Counter Fraud smart phone app.
  - Proactive analysis of areas of operation identified as being at high risk of fraud. Initially this is focussing on procurement fraud and insurance fraud which have been highlighted as significant risks by the Audit Commission in their last publication of Protecting the Public Purse 2014.
  - Consideration and potential investigation of any anomalies identified in the above analysis.
- 10.14 In addition to the wider pieces of work detailed above, an exercise has been carried out for Cheshire East in relation to Purchase Cards.
- 10.15 This involved a detailed analysis of transaction data between April 2014 and December 2015 to identify non-compliance with procedures and transactions that should be subject to further review. A report detailing the outcomes of this work is expected during March 2016 the findings of which will inform proactive work to be carried out in 2016/17.

### **11.0 Access to information**

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

**Name:** Michael Todd

**Designation:** Principal Auditor (Fraud)

**Tel No:** 01270 685864

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

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**CHESHIRE EAST COUNCIL ANTI-FRAUD AND CORRUPTION POLICY**

**1. FOREWARD**

- 1.1 We believe that the overwhelming majority of the council's employees, councillors, customers, contractors and suppliers are honest and have no thought to defraud the council. However, we recognise that a small minority will attempt to do just that. Any money lost in this way is money that we cannot spend delivering the critical public services we provide to the citizens of Cheshire East. Fraudsters not only cheat local taxpayers, but they deprive local people of the services they depend upon.
- 1.2 This is why fraud in Cheshire East will not be tolerated. We are determined to keep up a strong guard against it through the approach set out in this document.
- 1.3 We all have a part to play in stamping out fraud. As we deliver our services, we must recognise the importance of the controls set out in this document to protect us from fraud. We must all remain vigilant and recognise the many forms that fraud and corruption may take. We must have the conviction to raise any concerns we come across. And we must have the resolve to investigate those concerns promptly and to take tough action against proven fraudsters.
- 1.4 This document sets out a comprehensive approach to ensuring that fraud is reduced to an absolute minimum. Its success will depend on our co-operation to send out the robust message to potential fraudsters that they will be rooted out and dealt with.

.....  
Mike Suarez  
Chief Executive

.....  
Cllr. Rachel Bailey  
Leader of the Council

.....  
Cllr. Lesley Smetham  
Chair of Audit & Governance  
Committee

## **2. ANTI-FRAUD AND CORRUPTION POLICY STATEMENT**

- 2.1 The United Kingdom public sector maintains high standards of ethics and has a good reputation for protecting the public purse. Sound systems of public accountability are vital to effective management and in maintaining public confidence. Cheshire East Council shares these high standards and is committed to protecting the public funds entrusted to it. Although we have good policies and procedures they are sometimes not applied effectively and much of the fraud committed against local authorities happens when non-compliance with procedures leads to simple checks being neglected. The minimisation of losses to fraud and corruption is essential to ensure that resources are used for their intended purpose to provide services to the public.
- 2.2 The public is entitled to expect any local authority to conduct its affairs with integrity, honesty and openness, and to demand the highest standards of conduct from those working for it. This Anti-Fraud and Corruption Policy forms a part of the governance arrangements of Cheshire East Council and outlines the Council's commitment to creating an anti-fraud culture and maintaining high ethical standards in its administration of public funds.
- 2.3 The policy is based on a series of comprehensive and inter-related procedures, designed to prevent, detect and deter fraud and to take effective action against any attempted or actual fraudulent act affecting Cheshire East Council. The policy also satisfies the legislative requirements to have effective arrangements for tackling fraud, and conforms to professional guidance laid down in the Public Sector Internal Audit Standards.

## **3. Introduction**

- 3.1 The purpose of this Policy is to outline Cheshire East Council's approach, as well as defining roles and responsibilities, for dealing with the threat of fraud and corruption, both internally and externally. It applies to:
- councillors
  - employees
  - agency staff/contractors/consultants
  - suppliers
  - service users
  - employees and members of organisations funded by the Council including ASDV's and wholly owned companies of the Council
  - employees and principals of partner organisations

In addition to the above, the Council also expects the residents of Cheshire East to be honest in their dealings with the Council.

- 3.2 This policy sets out the Council's commitment to tackling fraud and corruption. It also makes it clear to all concerned that appropriate and decisive action will

be taken against those committing or attempting to commit, fraudulent or corrupt acts against Cheshire East Council.

3.3 In order for Cheshire East Council to be effective in its approach to dealing with the problem of fraud and corruption it is committed to ensuring that it creates a culture of 'zero tolerance' rather than indifference to such matters.

3.4 The following definitions are provided for the purposes of this policy and those who seek to commit fraudulent or corrupt acts will be dealt with in accordance with this Policy:

**Fraud:** is the intentional distortion of financial statements or other records by persons internal or external to the Council, which is carried out to obtain an advantage, avoid an obligation or cause loss to another party.

Fraud is therefore a deliberate, dishonest act by an individual or group of people, which can be committed, as per The Fraud Act 2006, by:

- False representation
- Failing to disclose information
- Abuse of position

**Bribery:** is offering, promising or giving someone a financial or other advantage to induce or reward that person to perform their functions or activities improperly as per The Bribery Act 2010, which came into force 1<sup>st</sup> July 2011. It is also an offence to request, receive or accept a bribe.

The Bribery Act 2010 also introduces a corporate offence of failing to prevent bribery, which requires adequate procedures to be in place and appropriately supported from the very top of the organisation.

**Theft:** is the dishonest appropriation of property belonging to another with the intention of permanently depriving the other of it.

3.5 The above definitions cover such acts as deception, forgery, extortion, blackmail, conspiracy, collusion, embezzlement, false accounting, false representation, concealment of material facts, the offering of a gift or reward to influence a person's actions and misappropriation.

3.6 Good Corporate Governance requires that the Council is firmly committed to dealing with fraud and corruption, including bribery, and will deal equally with perpetrators from inside and outside the Council. All cases will be viewed seriously and following investigation the action taken will be in line with the merits of each case and in accordance with other procedures and obligations applicable to Cheshire East Council.

#### **4. Corporate Framework and Culture**

4.1 Cheshire East Council has a range of interrelated policies and procedures that provide a corporate framework to counter fraudulent activity. These have been formulated in line with appropriate legislative requirements and professional best practice, and include:

- Codes of Conduct for members and employees
- Finance and Contract Procedure Rules
- Accounting procedures and records
- Sound systems of internal control
- Effective internal audit arrangements
- Effective recruitment and selection procedures
- Disciplinary Procedure
- Counter Fraud Strategy
- Whistleblowing Policy
- The Regulation of Investigatory Powers Act (RIPA) Procedure
- The Fraud Act 2006
- Anti Money Laundering Policy
- The Bribery Act 2010

4.2 Cheshire East Council believes that the maintenance of a culture of honesty and openness, based on values such as fairness, trust and integrity is a key element in tackling fraud. In this respect, each Member and officer of the Council is under a duty to report any reasonable suspicions and is encouraged to raise any concerns they may have in the knowledge that such concerns will be properly investigated. To this end, the Council has a Whistleblowing Policy to protect anyone who wishes to raise concerns about behaviour or practice.

#### **5. Prevention**

5.1 The Council recognises that fraud and corruption are costly, both in terms of reputational risk and financial losses. The prevention of fraud is therefore a key objective of the authority and fundamental roles and responsibilities are outlined below.

##### **Employees of Cheshire East Council**

5.2 Cheshire East Council recognises that employees are often the first line of defence in preventing fraud. A key preventative measure in that fight is the effective recruitment of employees.

5.3 Employee recruitment is undertaken in accordance with the Council's policies and procedures for recruitment and selection. These include pre employment checks that must be carried out prior to an offer of employment being made

which include; written references and checks to confirm the identity and right to work of all potential employees. Some posts, due to the nature of the work and potentially working with vulnerable people, also require a Disclosure and Barring Service (DBS) check to confirm whether any potential employee has a criminal record and if this would conflict with the post applied for.

- 5.4 All management and employees must abide by the Council's Code of Conduct for Employees, which sets out requirements on personal conduct and where applicable employees are also expected to follow the codes of conduct laid down by their respective professional institutes.
- 5.5 The responsibility for the prevention of fraud and corruption is placed on all employees and as such staff should be alert to the possibility of fraud and how to report any concerns that they may have. Cheshire East Council has a Whistleblowing Policy in place to assist employees in reporting concerns about fraud and corruption and other issues, including bribery, without fear of harassment, victimisation or any other detriment.
- 5.6 Cheshire East Council has in place disciplinary procedures for all employees and those found to have breached the Code of Conduct will be dealt with in accordance with these procedures. Where criminal activity is suspected or found, the matter will be referred to the police for investigation and possible prosecution. In addition, recompense will be sought from those who are found to have carried out fraudulent acts.
- 5.7 If an employee has been implicated in a criminal offence in their private life they must notify the Council in writing immediately. If the employee is found to have breached the code of conduct, disciplinary action may be taken.
- 5.8 Employees must operate within Section 117 of the Local Government Act 1972, regarding the disclosure of financial interests in contracts relating to the Council, or the non-acceptance of any fees, gifts, hospitality or any other rewards, other than their proper remuneration. The Bribery Act 2010 makes it an offence to request, agree to receive, or accept a bribe. It is also an offence to offer, promise or give a bribe.
- 5.9 Cheshire East Council policies and procedures support compliance with the Bribery Act 2010. The Codes of Conduct, which include Gifts and Hospitality and Declaration of Interest guidance, set out the acceptable conduct for both members and employees. Through the codes' strong ethical framework; along with transparency and scrutiny in decision making and clear procurement rules, the Council aims to ensure that employees and members comply with anti-bribery legislation. Non compliance by an employee or member may be perceived as bringing the Council into disrepute or using their office for personal gain which may result in disciplinary or criminal action being taken.

### **Council Members**

- 5.10 Members are required to operate within:
  - Cheshire East Council Member Code of Conduct

- The Local Authorities (Model Code of Conduct) Order 2007
  - Sections 94-97 of the Local Government Act 1972
  - Section 81 of the Local Government Act 2000
  - Local Authorities (Members' Interest) Regulations 1992 (SI 618); and amendment SI 1996/1215 2
  - Cheshire East Council Finance and Contract Procedure Rules
- 5.11 The Member Code of Conduct sets out what is required of Members when conducting, or giving the impression that they are conducting, the business of Cheshire East Council. Because of their potentially influential position Members should not use, or be perceived to use, their office for personal gain, and should ensure that their actions are not perceived to bring the Council into disrepute.
- 5.12 To this end the Member Code of Conduct includes rules on the registration and declaration, with the Monitoring Officer, of pecuniary and non-pecuniary interests.
- 5.13 Section 52 of the Local Government Act 2000 requires all members to give a written undertaking to comply with the Code of Conduct, if they are to remain on the Council.
- 5.14 Cheshire East Council has in place various Scrutiny Committees with responsibilities including the review of decisions and actions undertaken by the Council. Any matter arising from this process, in which fraud is suspected, should be referred to Internal Audit for independent investigation.
- 5.15 The Audit and Governance Committee has included within its functions responsibility to:
- Review the assessment of fraud risks and potential harm to the Council from fraud and corruption
  - Monitor the counter fraud strategy, actions and resources
  - Approve and monitor Council policies relating to “whistleblowing” and anti-fraud and corruption

#### **Internal Control Systems**

- 5.16 The Council has Finance and Contract Procedure Rules, Accounting Procedures, and various rules and Codes of Conduct in place. Employees are obliged to comply with these requirements when dealing with Council matters.
- 5.17 The Chief Operating Officer has a statutory responsibility under Section 151 of the Local Government Act 1972, to ensure proper arrangements are made for the Council's financial affairs. In addition, under the Accounts and Audit Regulations 2015, the Council is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and

governance processes, taking into account public sector internal auditing standards or guidance.

- 5.18 The Council has sound financial systems and procedures, which incorporate efficient and effective internal controls. For instance “separation of duties” is considered a fundamental control in such systems, especially when involving significant transactions. Senior managers are responsible for maintaining effective internal controls including the prevention and detection of fraud and other illegal acts. Internal Audit will monitor and report upon these controls.

### **Working with Others**

- 5.19 There are a variety of arrangements in place, which assist and support the regular exchange of information between Cheshire East Council and other Local Authorities and Agencies, for the purpose of preventing and detecting fraud. These involve national, regional and local networks of professionals such as Internal Auditors and Trading Standards Officers.
- 5.20 Cheshire East Council is a member of NAFN (formally known as the National Anti-Fraud Network) which provides access to information relating to fraud within the public sector. Fraud intelligence is collated and circulated to NAFN members, and an information service is provided to assist the more effective investigation of fraud.
- 5.21 As technologies develop, there is an ever increasing need to take advantage of the processing and analysis of data stored throughout Cheshire East Council and beyond. This enables information and intelligence to be generated, which is a recognised means of preventing fraud and corruption.

## **6. Detection and Investigation**

- 6.1 Internal Audit are not responsible for preventing fraud, irregularities and errors, this is the responsibility of those charged with governance and managers. As such, Senior Management, Heads of Service and managers are required to maintain effective control systems and procedures, and to ensure that all employees comply with the instructions contained therein.
- 6.2 In accordance with Finance and Contract Procedure Rules, any matters which involve, or are thought to involve, any fraud or other significant irregularity involving Council assets or those of a third party fund, must be notified immediately to the Corporate Manager Governance and Audit. This is essential to our approach to fraud and corruption and ensures:
- consistent treatment of information regarding fraud and corruption
  - proper investigation by an independent and experienced audit team
  - the optimum protection of Cheshire East Council’s interests
- 6.3 When information relating to potential fraud or corruption is obtained, the concerns will be tested to identify the appropriate action to be taken. Some

referrals will not warrant further investigation whilst others may be better dealt with as management issues; or a full investigation may be needed.

6.4 Depending on the nature and extent of the information obtained, Internal Audit will normally work closely with:

- Senior Management
- Human Resources
- Legal Services
- Other agencies, such as the Police, the Department for Work and Pensions, and other local Authorities

This will enable the organisation to determine who is best placed to take the issues forward. It also ensures that all allegations and evidence supplied are properly investigated and reported upon, and that where possible, losses are recovered for the Council. Where appropriate this will include the use of Proceeds of Crime legislation.

6.5 Cheshire East Council's Whistleblowing Policy provides clear guidance for individuals to raise any concerns of malpractice within the Council, without the fear of suffering detriment. Cheshire East Council will take appropriate action to protect any one who has raised a concern that they believe to be true. The Policy deals with the reporting of suspected fraud and corruption including bribery through formal channels, whether this is through management, the Monitoring Officer, or Internal Audit. The Policy also includes making disclosures to external bodies if there is an unsatisfactory outcome to a disclosure made internally. Schools are required to have their own Whistleblowing Policy and a template has been developed to assist with this.

6.6 Where it is found that a Council employee has been involved in fraudulent activity they will be subject to Cheshire East Council's disciplinary procedures.

6.7 Where financial non-compliance and wrongdoing is discovered relating to employees, members, or funded organisations, the Monitoring Officer will, in consultation with the appropriate Chief Officer and Corporate Manager Governance and Audit, decide whether the matter should be referred to the Police or other appropriate enforcement agency. Referral to the police will not necessarily prevent action under the disciplinary procedure.

6.8 The Council's External Auditor, currently Grant Thornton, also has powers to independently investigate fraud and corruption.

## **7. Deterrence**

7.1 There are a number of ways in which we deter potential fraudsters from committing or attempting fraudulent or corrupt acts, whether they are inside or outside of the Council. These include:

- Publicising the fact that Cheshire East Council will not tolerate fraud and corruption by promoting this at every appropriate opportunity, e.g. publicising successful prosecutions.
- Acting quickly, efficiently, and decisively when fraud and corruption is suspected and proven, e.g. the termination of contracts, the dismissal and prosecution of offenders.
- Taking action to recoup the maximum recoveries (including losses and costs) for Cheshire East Council, e.g. through agreement, court action, penalties, insurance, superannuation etc. Where appropriate the Proceeds of Crime Act will be used to maximise the penalty suffered by the fraudster, and the level of recovery by the Council.
- Having sound internal control systems, that still allow for innovation and calculated risk, to create maximum opportunities for the Council whilst minimising the potential for fraud and corruption.

7.2 It is the responsibility of Senior Management to communicate the Anti-Fraud and Corruption Policy to managers and employees and to promote a greater awareness of fraud within their Departments.

## **8. Raising Fraud Awareness**

8.1 Cheshire East Council recognises that the success and credibility of its Anti-Fraud and Corruption Policy will depend largely on how effectively it is communicated throughout the organisation and beyond. Every opportunity will be taken to bring it to the attention of employees, members and other stakeholders. The policy will also be shown on the Council's website and be available on the Council Intranet.

8.2 To facilitate the raising of awareness of this Policy, the Council supports the concept of induction training for all Members and officers of the Council. Support is also given to any anti-fraud and corruption awareness training that is subsequently deemed to be required with a view to ensuring everyone is aware of their responsibilities and duties regarding fraud and corruption and that such responsibilities and duties are reinforced from time to time. To this end consideration will be given to the most effective ways of increasing Member and employee awareness of this policy and their associated responsibilities in complying with it, including any e-learning training and awareness packages that may be available to the Council.

## **9. Conclusions**

9.1 Cheshire East Council has put into place a number of arrangements to protect itself from the risk of fraud. However in the current climate of change there are issues that will increase the risk of loss. Changes in structure, systems and the reduction of staff, as well as external pressures due to the economy, all contribute to our exposure to the risk of fraud. To mitigate against this risk the Council will carry out regular reviews of these arrangements.

9.2 The Anti-Fraud and Corruption Policy provides a framework for preventing and tackling fraudulent and corrupt acts against Cheshire East Council. The approval of the Policy by the Audit and Governance Committee, on behalf of Cheshire East Council, demonstrates the Council's commitment to protecting public funds and minimising losses to fraud and corruption. Having made this commitment, it is imperative that arrangements are put in place for circulating the policy and promoting fraud awareness, throughout the authority.

## **10. Equality**

10.1 Cheshire East Council will ensure that, when implementing this policy, no employee will be disadvantaged on the basis of age, disability, gender reassignment, marital status or civil partnership, pregnancy and maternity, race, religion or belief, sex or sexual orientation. This means that the policy may need to be adjusted to cater for the specific needs of an individual, including the provision of information in alternative formats where necessary.

## **11. Monitoring**

11.1 Data relating to counter fraud and corruption will be collated and monitored regularly to ensure that the Policy is operating fairly, consistently and effectively. Issues that are identified from the data will be dealt with appropriately.

## **12. Review**

12.1 The policy will be reviewed on an annual basis to take into account operating experience and/or changes in legislation and best practice.

12.2 The outcome of such reviews will be reported to Audit and Governance Committee.

## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 17 March 2016  
**Report of:** Corporate Manager Governance and Audit  
**Title:** Work Plan 2015/16  
**Portfolio Holder:** Councillor Peter Groves

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#### **1.0 Report Summary**

1.0 The report presents an updated Work Plan (Appendix A) to the Committee for consideration.

#### **2.0 Recommendation**

- 2.1 That the Committee:
- i. note the changes to the 2015/16 Work Plan since it was last discussed in January
  - ii. consider the draft agenda for June 2016 and determine any required amendments
  - iii. note that the 2016/17 plan will be brought back to the Committee in June 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 Council's risk management, control and corporate governance arrangements. It advises the Council on the adequacy and effectiveness of these arrangements. A forward looking programme of meetings and agenda items is necessary to enable the Committee to fulfil its responsibilities.

#### **4.0 Wards Affected**

4.1 All wards.

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

5.1 Not applicable.

#### **6.0 Policy Implications**

6.1 Not applicable.

#### **7.0 Financial Implications (Authorised by the Chief Operating Officer)**

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

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

- 8.1 The Accounts and Audit Regulations 2015 revoke the Accounts and Audit Regulations 2011 (S.I. 2011/817), although those regulations continue to have effect in relation to financial years ending on or before 31<sup>st</sup> March 2015.
- 8.2 The Work Plan for 2015/16 has therefore taken account of the requirements of the Accounts and Audit (England) Regulations 2011 and The Accounts and Audit Regulations 2015.

## **9.0 Risk Assessment**

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

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

## **10.0 Background and Options**

- 10.1 Aspects of the Audit and Governance Committee agenda are determined by statutory requirements such as the Statement of Accounts and Annual Governance Statement. Outside these agenda items, the Committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference. The Committee is asked to consider the contents of the Work Plan (Appendix A) and establish any amendments that will enable it to meet its responsibilities. In doing so it should be noted that:

- following discussions at the December 2015 meeting of this Committee it was resolved that the Committee receive a regular report on the use of waivers in contract procurement. This was in order to provide greater scrutiny of their use, and the report would

include every waiver approved from that date on. It was noted this additional scrutiny would not hold up procurement activity as the WARN's covered by the report were for comment/noting not for approval.

- following presentation of the Risk Management Update Report and the Corporate Risk Register to Management Group Board (MGB) on 24 February 2016, these reports have been deferred to the June 2016 meeting of this Committee. This is to enable MGB to hold a workshop to facilitate the detailed review of all corporate risks and their mitigating controls.
- the Audit and Governance Committee Self-Assessment report will be presented to the June 2016 meeting as Members were provided with an update in December 2015. This will also allow further consideration to take place at the Member/Officer subgroups.
- a presentation has been added to the agenda detailing the arrangements for publishing forward plans relating to key decisions and performance against these arrangements.
- further discussion in the specialist Member/Officer groups is necessary in order to draft a Work Plan that extends beyond June 2016. It is proposed, therefore, that the draft Plan for the remainder of 2016/17 will be brought back to Committee in June for approval

10.2 In order to help with their deliberations, Members are asked to consider whether:

- the inclusion of each item on its agenda results in added value; as
  - the assurance process has a cost to the organisation and it should therefore be proportional to the risk
  - care should be taken to avoid duplication and maintain the focus of an audit committee on its core functions as defined by its terms of reference rather than wider issues that are subject to the work of other committees or assurance functions.
- there are any time consuming aspects of Committee business that could be more effectively addressed elsewhere; as
  - an audit committee should operate at a strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers
  - the number and frequency of reports should be proportional to the risk in order to give the core business of an audit committee sufficient focus and attention and to avoid lengthy and thus unproductive meetings.

10.3 The Work Plan will be re-submitted to the Committee for further development and approval.

## 11.0 Access to Information

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

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## Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
<b>17 March 2016</b>			
Informing the External Audit Risk Assessment for Cheshire East Council.	A report that facilitates compliance with International Standards on Auditing (UK and Ireland).	32	To consider specific reports as agreed with the external auditor.
Grant Thornton 2015/16 Audit Plan for Cheshire East Council.	External Audit's planned work for the audit of financial statements and the value for money conclusion 2015/16.	33	To comment on the scope and depth of external audit work and to ensure it gives value for money.
Internal Audit Interim Report 2015/16 October – December 2015	Progress report against the Internal Audit Plan 2015/16.	12	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions, including calling managers to explain progress.
		21	To approve significant interim changes to the risk-based Internal Audit Plan and resource requirements.
		23	To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include: a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work. b) Regular reports on the results of the Quality Assurance and Improvement Programme.

## Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
		25	c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.  To consider summaries of specific internal audit reports as requested.
Draft Internal Audit Plan 2016/17	Approval of risk based Internal Audit Plan for 2016/17.	20	To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
Members' Code of Conduct: Standards Report	The report gives details of the numbers and outcomes of complaints under the Code of Conduct for Members between September 2015 and February 2016.	5	To promote high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).
Performance Management Arrangements.	Receive a briefing to better understand the Council's performance management arrangements.  The focus will be on financial reporting and financial governance rather than on wider issues of performance and spending priorities.	8	At the request of Members in January 2015. To consider the Council's arrangements to secure value for money and to review and scrutinise assurances and assessments on the effectiveness of these arrangements.

## Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
Compliance with Data Protection Act (1998), Freedom of Information Act (2000) and Environmental Information Regulations (2004)	An update on how Cheshire East Council fulfils its obligations under the Data Protection Act (1998) and the Freedom of Information Act (2000) (including the Environmental Information Regulations (EIR)). It also highlights volumes of requests, trends and current and future issues.	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
Compliance with the Regulation of Investigatory Powers Act (2000) (RIPA)	This report provides an update on how the Council has complied with RIPA legislation during 2015/16 and the number of RIPA applications which have been authorised to date.	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
Anti- Fraud and Corruption Policy	Updated Anti-Fraud and Corruption Policy for approval and adoption.	13  15  40	To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.  To monitor the counter fraud strategy, actions and resources.  To approve and monitor Council policies relating to "whistleblowing" and anti- fraud and corruption.
Cheshire East Email and Archiving Arrangements	Report updating Members on the Council's Email Retention and Archiving Policies		At the request of Members in September 2015.

## Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
Administration Arrangements for Ombudsman Complaints	Presentation addressing the dissemination of lessons learned from upheld Ombudsman complaints.		At the request of Members in September 2015.
Waivers and Non Adherences (WARNs)	Report to update Committee on the quantity and reasons for WARNs approved since December 2015 and the total number of WARNs for 2015/16. Approved WARNs will also be presented as a Part 2 item.		At the request of Members in December 2015.
Forward Plans	Presentation detailing the arrangements for forward plans relating to key decisions and performance against these arrangements.		At the request of Members.
Work Plan 2016	Forward looking programme of meetings and agenda items to ensure comprehensive coverage of the Committee's responsibilities.	All	
<b>30 June 2016</b>			
External Audit – Update Report.	To consider an update report from Grant Thornton in delivering their responsibilities as external auditors.	31	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
Internal Audit Annual Report 2015/16.	Opinion on the overall adequacy and effectiveness of the Council's control environment for 2015/16.	24	To consider the head of internal audit's annual report:  a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local

## Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
			<p>Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.</p> <p>b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.</p>
Draft Annual Governance Statement (AGS) 2015/16.	Draft AGS 2015/16 for comment/agreement; final version to be approved at September meeting.	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
		7	To review and approve the Annual Governance Statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
		8	To consider the Council's arrangements to secure value for money and to review and scrutinise assurances and assessments on the effectiveness of these arrangements.
Draft Pre-Audit Statement of	This report introduces the 2015/16 pre-audit statement of accounts to the	36	To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting

## Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
Accounts 2015/16.	Committee for consideration and comment.		policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
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 2015/16.	40	To approve and monitor Council policies relating to "whistleblowing" and anti- fraud and corruption.
Internal Audit Annual Report 15/16	Opinion on the overall adequacy and effectiveness of the Council's control environment for 2015/16	24	To consider the head of internal audit's annual report:  a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.  b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
Audit and Governance Committee Self-	Self- assessment of the effectiveness of the Committee, which feeds into the AGS process.	28	To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.

## Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
Assessment			
Risk Management Update Report	Update report on Risk Management deferred from March 2016 at the request of Management Group Board to allow a workshop to be held to facilitate a detailed review of Corporate Risks.	10	To monitor the effective development and operation of risk management in the council.
		11	To monitor progress in addressing risk related issued reported to the committee.
Work Plan.	Forward looking programme of meetings and agenda items 2016/17 to ensure comprehensive coverage of the Committee's responsibilities.	All	
<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>			
Review of the Code of Corporate Governance	In response to the CIPFA/SOLACE review of the <i>Framework: Delivering Good Governance in Local Government</i> to ensure that it remains 'fit for purpose'.  The finalised Framework and new guidance will be published early next year, with current expectations that organisations would produce their 15/16 AGS with reference to the new guidance.	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
Assessment of the Committee against core knowledge and skills framework.	Members of the Committee to be assessed against CIPFA's core knowledge and skills framework.		At the request of Members in March 2015.

## Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
<b><i>It should be noted that the following items may require reports to the Committee but has not, as yet, been allocated to a specific agenda</i></b>			
Value for Money Arrangements.	Assurance with regard to both the arrangements to ensure value for money and the progress in achieving value for money.	8	To consider the Council's arrangements to secure value for money and to review and scrutinise assurance and assessments on the effectiveness of these arrangements.  At the request of Members in March 2015.  Subject to an exercise to benchmark what assurance other Audit Committees receive. Future reporting requirements will also be determined in the context of what other Committees of the Council are doing.
Work Programme for Member/Officer Working Groups	Forward looking programme of meetings and agenda items to: <ul style="list-style-type: none"> <li>• enable individual Members to become more involved in specific areas of the Committee's work as a means of developing in-depth knowledge and expertise</li> <li>• address some of the more time consuming aspects of the Committee's work.</li> <li>• ensure that the Committee continues to work effectively and fulfils its purpose.</li> </ul>		At the request of Members in September 2015.
Feedback from Member/Officer	The outcome of Member/Officer Groups work which, where possible, will be fed		At the request of Members in September 2015.

## Work Plan 2015/16

Agenda Item	Description	Terms of Reference May 2014	
		No	Detail
Working Groups	back to the Committee during the relevant agenda item. However, some of the feedback may, at the request of the Committee, require specific reports.		
Emerging Issues Report.	A report from the External Auditor highlighting emerging national issues and developments which might be of relevance to Cheshire East.	31	To consider the external auditor's annual report, relevant reports, and the report to those charged with governance.

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## CHESHIRE EAST COUNCIL

### REPORT TO: Audit and Governance Committee

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**Date of meeting:** 17 March 2016  
**Report of:** Chief Operating Officer  
**Title:** Waivers and Non Adherences (WARNs)  
**Portfolio Holder:** Councillor Paul Findlow

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#### **1.0 Report Summary**

1.1 The purpose of the report is to:

- i) update the Audit and Governance Committee on the quantity and reasons for Waiver and Non Adherences (WARNs) which have been approved since December 2015.
- ii) update the Audit and Governance Committee on the total number of WARNs for 2015/16.
- iii) present the approved WARNs to the committee for review.

#### **2.0 Recommendation**

2.1 That the Committee:

- i) note the quantity and reason of WARNs
- ii) note the approved WARNs since December 2015

#### **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 It is a requirement of the Audit and Governance Committee to review all approved WARNs since December 2015.

#### **4.0 Wards Affected**

4.1 All wards.

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

5.1 Not applicable.

## **6.0 Policy Implications**

6.1 Not applicable.

## **7.0 Financial Implications (Authorised by the Chief Operating Officer)**

7.1 As per the Council's Constitution (Finance Procedure Rule B25), Management Group Board are responsible for working within their respective budget limits and to utilise resources allocated to them, and further to allocate resources in the most efficient, effective and economic way.

7.2 Along with comments from Procurement and Legal Officers, Finance Officer's are invited to make comments in respect of each WARN, to help ensure Finance Procedure Rules are adhered to in this regard (e.g. that the relevant Service has identified sufficient existing budget to cover the proposal; and also that the Service has considered how to achieve best value for money via this particular recommended course of action). Finance Officers will also advise if other actions are required (e.g. transfer of budget from one area to another, to meet any further expenditure requirements) again to comply with and utilise the provisions in the Finance Procedure Rules.

## **8.0 Legal Implications (Authorised by the Director of Legal Services)**

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

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

## **9.0 Risk Assessment**

9.1 Item 18 on the Council's Corporate Risk Register considers Governance. The focus is the risk that processes are not complied with, which increases the likelihood of legal challenge causing significant financial and reputational risk to the Council. This includes procurement processes.

9.2 The corporate risk is owned by the Chief Operating Officer and at the last review was rated as a nine (where 0 is the lowest rating and 16 is the maximum level).

## **10.0 Background**

10.1 During 2015 a number of concerns were raised regarding WARNs which has resulted in the revised procedure to bring all approved WARNs before the Audit and Governance Committee.

- 10.2 All WARNs approved in the period between the Audit and Governance Committee will be presented to the following Committee. However the cut off period for reporting the WARNs will be the end of the month previous to writing the report. The cut off period for this report is the 31<sup>st</sup> of January 2016.
- 10.3 All WARNs will be presented to the Audit and Governance Committee without any information being redacted. However they will be presented in part 2 of the Committee as they may contain commercially sensitive information or Officer details below the salary grade Cheshire East release under FOI. The main report will be presented in part 1. Procurement is taking advice on how to present these.
- 10.4 Previously WARNs were referred to as Delegated Decisions under the Finance and Contract Procedure Rules and were the responsibility of Services to complete and obtain the relevant authorisation.

In 2014 a review of the procurement function was commissioned. The key findings were

1. Procurement was fragmented and should centralise to become a cross Council strategic function
2. Contract Procedure Rules need to be re-written
3. A new procurement strategy drafted and implemented
4. Adopt a risk based approach for below EU Threshold procurement
5. Spend data needs improving
6. Contracts register needs improvement.

As part of this review and in accordance with the revised Contract Procedure Rule the responsibility for WARNs became part of the Procurement role. The procurement team review, administer and critique, obtain comments from the relevant enabling services, ensure the Head of Service has signed and takes responsibility for the actions and presents the WARNs to the Chief Operating Officer and Director of Legal and Monitoring Officer.

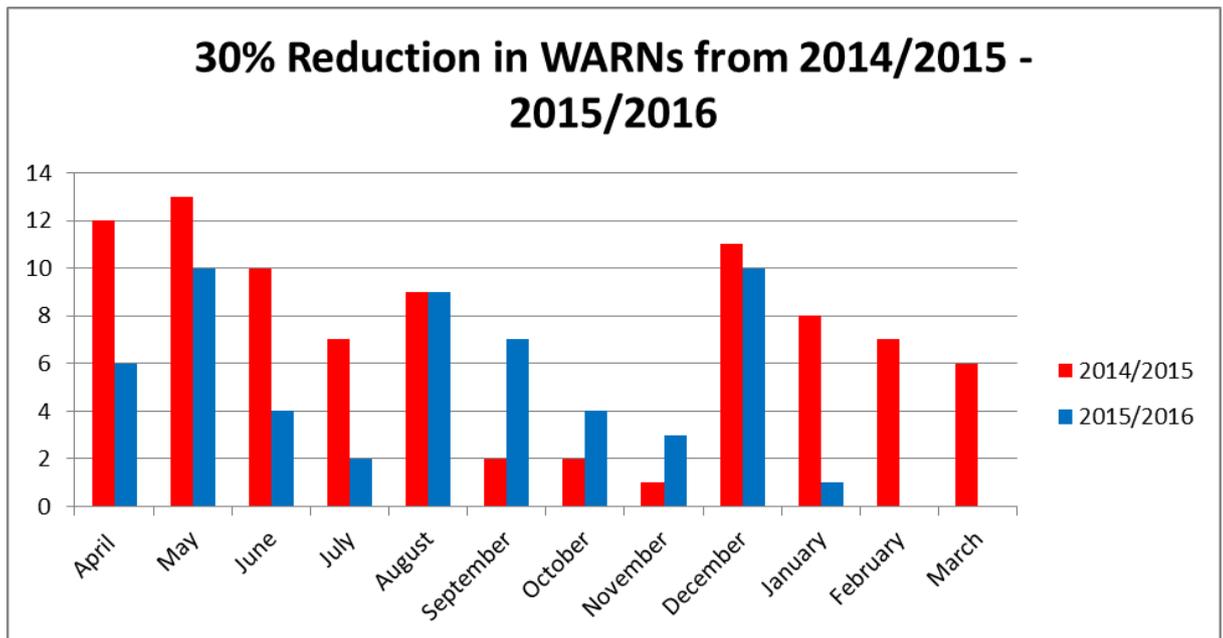
All WARNs are then recorded on a log along with a final signed copy of the WARN and actions are monitored and recorded once completed. These are actively chased by the procurement team.

- 10.5 All WARNs are analysed and presented to the Procurement Board where trends are identified and solutions put in place for repeat WARNs in category areas. The most recent example of this is a new contract for consultancy. The number of WARNs for consultants in 2014-2015 was 33 totalling £2 million and for 2015-2016 is 35 totalling £4.4 million. A new contract has now been approved with NEPRO using the NEPO (North East Purchasing Organisation) framework which should reduce or eliminate WARNs for consultancy.
- 10.6 The WARN process records the following;
- Waivers to the Contract Procedure Rules – These are agreed waivers in accordance with 5.2.1 of the Contract Procedure Rules.

- Non Adherence to the Contract Procedure Rules – This is a breach of the Contract Procedure Rules in accordance with 5.3.1.

10.7 A summary of WARN's for the period 2014-2015 and 2015-2016 is set out below:

WARNs	2014-2015	2015-2016
Non Adherence to CPRs	20	22
Waiver to the CPR's	62	34
<b>Grand Total</b>	<b>82</b>	<b>56</b>



The number of WARNs for the period April 2015 to January 2016 has reduced by 30% compared to the same period the previous year. This is due to forward planning using the contracts register to drive procurement activity.

The number of WARNs per service area and the reasons is detailed below.

Row Labels	Non Adherence to CPRs	Waiver to Requirements of Competition	Total
Children's	8	6	14
Strategic & Economic Planning	3	8	11
Adults	3	3	6
Safer and Stronger Communities	2	3	5
ICT Strategy	2	3	5
Public Health		3	3
HR Strategy	1	2	3
Revs & Bens	1	1	2
Democratic Services	1		1
Environmental Health		1	1

Communication team		1	1
Tatton Park	1		1
Life Long Learning		1	1
Planning		1	1
Finance		1	1
<b>Grand Total</b>	<b>22</b>	<b>34</b>	<b>56</b>

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

Row Labels	Non Adherence to CPRs	Waiver to Requirements of Competition	
<b>Children's</b>	<b>8</b>	<b>6</b>	<b>14</b>
B	1	3	4
E	1	1	2
G	3	1	4
H	3	1	4
<b>Strategic &amp; Economic Planning</b>	<b>3</b>	<b>8</b>	<b>11</b>
E	3	4	7
H		2	2
J		1	1
(blank)		1	1
<b>Adults</b>	<b>3</b>	<b>3</b>	<b>6</b>
D	1		1
E		2	2
G		1	1
H	2		2
<b>Safer and Stronger Communities</b>	<b>2</b>	<b>3</b>	<b>5</b>
D		1	1

E	1	2	3
G	1		1
<b>ICT Strategy</b>	<b>2</b>	<b>3</b>	<b>5</b>
D	2		2
G		3	3
<b>Public Health</b>		<b>3</b>	<b>3</b>
C		1	1
D		1	1
H		1	1
<b>HR Strategy</b>	<b>1</b>	<b>2</b>	<b>3</b>
D		1	1
E	1	1	2
<b>Revs &amp; Bens</b>	<b>1</b>	<b>1</b>	<b>2</b>
H	1	1	2
<b>Democratic Services</b>	<b>1</b>		<b>1</b>
H	1		1
<b>Environmental Health</b>		<b>1</b>	<b>1</b>
D		1	1
<b>Communication team</b>		<b>1</b>	<b>1</b>
G		1	1
<b>Tatton Park</b>	<b>1</b>		<b>1</b>
H	1		1
<b>Life Long Learning</b>		<b>1</b>	<b>1</b>
H		1	1
<b>Planning</b>		<b>1</b>	<b>1</b>
G		1	1
<b>Finance</b>		<b>1</b>	<b>1</b>
H		1	1
<b>Grand Total</b>	<b>22</b>	<b>34</b>	<b>56</b>

10.8 There are currently 14 WARNs in progress, 8 non adherences and 6 waivers and of these 3 have been unresolved since 2015. Procurement is actively chasing these WARNs and have escalated to the relevant Chief Officers.

10.9 It is anticipated that WARNs will increase during 2016 – 2017 due to the transfer of CoSocius ICT to Cheshire East on the 1<sup>st</sup> of April.

### 11.0 Access to information

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