



# **Audit and Governance Committee**

## **Annual Report 2014/2015**

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

I am pleased to present the annual report of the Audit and Governance Committee which outlines the Committee's work and responsibilities for the financial year 2014/15.

I hope that this Annual Report helps to demonstrate to Cheshire East residents and to the Council's other stakeholders the vital role that is carried out by the Audit and Governance Committee and the contribution it makes to the overall governance arrangements at Cheshire East Council. All the meetings are open to the public.

During the year, the Audit and Governance Committee was attended by: the Head of Resources and Stewardship and other senior members of staff, the Corporate Manager of Governance and Audit; and representatives from Grant Thornton, the Council's external auditors. This provides ongoing assurance about the Council's internal controls and systems.

The Audit and Governance Committee has played, and continues to play, a significant part in ensuring that appropriate governance arrangements have been introduced and function properly. This is an important role for the Council, and the new and emerging Alternative Service Delivery Vehicles.

We have continued to successfully develop the self-assessment arrangement. Areas for improvement have been progressed and tailored action plans developed.



Training sessions for Members of the Committee have been delivered. Assessment against the core knowledge and skill's framework is ongoing and has been developed during the year to help inform future training programmes.

I would like express my thanks to those officers and members who have supported the work of this Committee by presenting and discussing reports. The Committee has been well attended during the year with constructive questioning by members of the committee throughout. Issues that have been raised by members have been addressed and reported back to the Committee.

Finally, I would like to take this opportunity to thank Councillor John Wray for his tenure as Chair of the Committee until May this year and wish him every success in his new role with the Council.

***Councillor Lesley Smetham***  
**Chair of the Audit and Governance Committee**

**December 2015**

### Role of the Audit and Governance Committee

Audit Committees are an essential element of good governance. Good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an Audit Committee, independent from the executive and scrutiny functions.

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

### Statement of Purpose of the Audit and Governance Committee

- 1 The Audit and Governance Committee is a key component of the Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 It provides an independent assurance to the Council of the adequacy of the risk management framework and the internal control environment.
- 3 It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes.
- 4 It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
- 5 It promotes high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).

### Governance, Risk and Control within Cheshire East Council

The Council's framework of risk management, control and governance is assessed as adequate. (Annual Governance Statement 2014/15)

The Audit and Governance Committee outcomes for monitoring the governance, risk and control framework and arrangements of the Council during the year, include the following:

- Approving the Council's 2014/15 Statement of Accounts.
- Approving the Council's 2014/15 Annual Governance Statement.
- Reviewing the operation and compliance with the Council's Code of Corporate Governance and making recommendations on its content
- Overseeing internal audit's operations and receiving the Head of Internal Audit's Opinion.
- Monitoring the governance arrangements for the Council's Alternative Service Delivery Vehicles.
- Undertaking a self-assessment of the Committee against CIPFA guidance.
- Receiving the External Auditor's Annual Audit Letter, Audit Plans, and any other reports and significant matters deemed necessary by the External Auditor.
- Reviewing the progress and adequacy of management's response to internal and external audit recommendations
- Reviewing reports on the monitoring and review of risk management, to consider the effectiveness of arrangements.
- Monitoring the use of the council's use of its powers under the Regulation of Investigatory Powers Act 2000.

Significant assurances the Committee has received during the year include:

- **2014/15 Financial Statements Opinion (External Audit):** *"We issued an unqualified opinion on the Council's 2014/15 financial statements on 30 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council."*(October 2015)
- **2014/15 Value for Money Conclusion (External Audit):** *"On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015."* (October 2015)
- **2014/15 Internal Audit opinion:** *"The Council's framework of risk management, control and governance is assessed as adequate for 2014/15."* (June 2015)

### Effectiveness of the Committee

The Committee regularly undertakes a formal review of its own effectiveness. The 2014/15 self assessment carried out with the Chair and Vice Chair against the CIPFA guidance, *Audit Committees – Practical Guidance for Local Authorities and Police 2013* and the results reported to the Committee in March 2015. The Committee assessed as compliant or partially compliant against all areas. Actions to ensure the Committee becomes fully compliant are in place, with some already implemented.

The Committee's Terms of Reference based on the CIPFA guidance were approved by Council in May 2014. The Committee's 2014/15 Work Plan was in line with the new Terms of Reference to ensure that the Committee continued to work effectively and fulfil its purpose.

### Outline of the Work of the Committee

This annual report sets out how the work of the Committee during 2014/15 has met the Terms of Reference on pages 7 to 11.

### Additional Assurance

Additional assurance work requested by the Committee was also provided around emerging issues including;

- Better Care Fund update (November 2014)
- Payments to Directors of Council Owned Companies (November 2014)
- Compliance with Contract Rules of Procedure (November 2014)
- Disclosure of Officer Remuneration in the Statement of Accounts (March 2015)
- Alternative Service Delivery Vehicle Governance and Stewardship (March 2015)
- Managing complaints received by the Local Government Ombudsman (June 2015)

### Members of the Committee

Members of the Committee during 2014/15 are set out on pages 12 to 14.

### Statutory Requirements, New Guidance and Recommended Practice

During the year, the Committee has carried out a number of statutory requirements such as approving the Financial Statements and approving the Annual Governance Statement. It has also ensured that it is up to date in adopting new guidance and/or recommended practice, including:

- The annual review of the Terms of Reference, based on CIPFA guidance.
- Approving the Internal Audit Charter, based on new Public Sector Internal Audit Standards.
- Undertaking a self-assessment of the Committee, based on new CIPFA guidance.

### Training and Development

The following training was carried out during the year:

- Induction for new and existing Members of the Committee
- Statement of Accounts
- Annual Governance Statement

The Member/Officer Groups continued to meet through 2014/15. The groups 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, and cover the following areas:

- Audit
- Financial Statements
- Fraud Management
- Governance
- Risk Management

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

As part of the Committee's self-assessment (reported to the Committee in March 2015), it was recognised that membership of the Committee needed to be assessed against the core knowledge and skills framework included in the new CIPFA guidance on Audit Committees. A training session in early September 2014 was held with a further session covering the knowledge and skills framework delivered in November 2014. Governance and Finance training was delivered May 2015 and September 2015.

### Agendas and Minutes

The committee meetings reviewing the key outputs for the 2014/15 financial year were:

- 26<sup>th</sup> June 2014
- 25<sup>th</sup> September 2014
- 20<sup>th</sup> November 2014
- 22<sup>nd</sup> January 2015
- 19<sup>th</sup> March 2015
- 25<sup>th</sup> June 2015
- 24<sup>th</sup> September 2015

### Work programme for 2015/ 2016

The Committee has an agreed work programme for 2015/16, which includes the many annual statutory requirements (e.g. approval of the Statement of Accounts, approval of the AGS etc.) of the Committee and also those regular reports and assurances it receives on External Audit, Internal Audit, Risk Management, Treasury Management, Whistleblowing and other areas. Additionally we will;

- Continue to develop the pro active nature of the Committee to facilitate actions by officers to ensure that risks are identified risks and assurances are identified as early as possible and remedial actions are taken in a timely fashion.
- Oversee the restructuring required of the Audit and Governance Committee to comply with the requirements of the Local Audit and Accountability Act 2014 (including the appointment of Independent Members)
- Continue to review governance arrangements to ensure the Council adopts the latest best practice and moves towards becoming a open and transparent public organisation
- Continue to support the work of internal and external audit and ensure that responses are given to their recommendations
- Oversee the implementation of the Public Sector Internal Auditing Standards
- Continue to help the Council to manage the risk of fraud and corruption
- Continue to develop the Audit and Governance Committee to review the risk and partnership issues and safeguarding public sector assets
- Equip existing and new Members to fulfil our responsibilities by providing more detailed and focused training on all key areas of responsibility, including financial arrangements and risk management, governance and audit planning.

This work programme is regularly reviewed to ensure that the Committee continues to work effectively and fulfil its purpose.

## Audit and Governance Committee – How the Terms of Reference have been met in 2014/15: Summary

Terms of Reference of Committee	Relevant activity in 2014/15
<b>Annual Report</b>	
To report to full Council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.	The December 2015 Audit and Governance Committee meeting has been asked to review and approve the 2014/15 annual report for submission to the December 2015 Council meeting.
<b>Governance, Risk and Control</b>	
To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.	The Committee received and approved an update to the Code of Corporate Governance and also received an update on the Corporate Governance Group's ongoing work on the Governance Framework (both November 2014).
To review and approve the Annual Governance Statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.	The Committee received and approved the 2014/15 Annual Governance Statement in September 2015. (2013/14 Annual Governance Statement in September 2014.) An update on progress against previous AGS Action Plans is received each November and endorses the process for the production of the Annual Governance Statement. <i><b>Note:</b> The draft Annual Governance Statement is brought to Committee in June with the final version to be approved at the September meeting.</i>
To monitor the effective development and operation of risk management in the council.	The Committee received update reports on Risk Management (January 2015 and March 2015).
To monitor progress in addressing risk related issues reported to the committee and to review the assessment of fraud risks and potential harm to the Council from fraud and corruption. To monitor the counter fraud strategy, actions and resources.	The Committee monitors Anti-Fraud and Corruption arrangements on an ongoing basis. The Audit and Governance committee Member/Officer sub group for anti-fraud and corruption discusses and reviews arrangements and current issues as part of their work plan. The Committee considered the Anti-Fraud and Corruption update report in January 2015.



## Audit and Governance Committee – How the Terms of Reference have been met in 2014/15: Summary

Terms of Reference of Committee	Relevant activity in 2014/15
To review and monitor the Council's treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.	A Treasury Management update report was received by the audit committee in September 2014, and the Treasury Management 2014/15 Annual Report was received in September 2015. The 2015/16 Treasury Management Strategy and Minimum Revenue Position (MRP) Statement was reviewed at the January 2015 committee meeting.
<b>Internal Audit</b>	
To approve the internal audit charter.	The internal audit charter was approved at the November 2014 committee meeting.
To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.	<i>Internal Audit:</i> The Committee approved the overall strategy and annual 2014/15 programme of audits (March 2014) and monitored progress against the plan (November 2014, January 2015, March 2015 and June 2015).
To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions. To consider summaries of specific internal audit reports as requested.	Internal Audit interim reports against the 2014/15 plan were received in November 2014 and January 2015, with the 2015/16 Internal Audit Plan received in March 2015. Internal Audit interim reports include a summary of internal audit completed and the significant issues arising from individual assignments.
To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.	The committee are updated in the Head of Internal Audit opinion on the progress made on assessment criteria required to comply with public sector internal audit standards. The Member/Officer sub group for audit covers the requirements in detail and the actions required.
To consider the head of internal audit's annual report.	The Internal Audit Annual Report, including the annual audit opinion was presented to the Committee in June 2015. (The 2013/14 Internal Audit Annual Report was presented to the Committee in June 2014.)

## Audit and Governance Committee – How the Terms of Reference have been met in 2014/15: Summary

Terms of Reference of Committee	Relevant activity in 2014/15
To support the development of effective communication with the Head of Internal Audit.	The Head of Internal Audit meets on a regular basis with the Chair and Deputy Chair of the committee. There is also a regular meeting of Member/Officer groups which meet on a regular basis to discuss a variety of assurance issues in more detail. These meetings include the Head of Internal Audit opinion.
<b>External Audit</b>	
To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.	The 2014/15 Audit Findings Report and Review of the Council's Arrangements for Securing Financial Resilience was presented to Committee in September 2015 by the External Auditor. (The 2014/15 Audit Findings Report was reported to the September 2014 meeting). The 2014/15 Annual Audit Letter was issued in November 2015 and will be reported to the December 2015 Committee meeting. (The 2013/14 Annual Audit Letter was reported to the November 2014 meeting.)
To consider specific reports as agreed with the external auditor.	The Committee received and considered the work of the External Auditor (all meetings during the year.)
To comment on the scope and depth of external audit work and to ensure it gives value for money	Audit and Governance Member/ Officer sub group for audit review external audit work throughout the year and assess the value that the Council receives from the work completed and reported.
To commission work from internal and external audit and to advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.	The Audit and Governance committee and the Member/Officer sub groups will consider the work plan at all meetings and commission additional work where committee members determine that additional assurance is required. The relationship between internal and external audit is reviewed at least annually together with any requirements to liaise with any other relevant agencies.
<b>Financial reporting</b>	
To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns	The Statement of Accounts 2014/15 was approved at Committee in September 2015. (The Statement of Accounts 2013/14 was approved at Committee in September 2014.)




## Audit and Governance Committee – How the Terms of Reference have been met in 2014/15: Summary

Terms of Reference of Committee	Relevant activity in 2014/15
arising from the financial statements or from the audit that need to be brought to the attention of the Council.	
To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.	The 2014/15 Audit Findings Report and Review of the Council's Arrangements for Securing Financial Resilience was presented to Committee in September 2015 by the External Auditor. The 2013/14 Annual Audit Letter was reported to the Committee in November 2014. (The 2014/15 Annual Audit Letter will be reported to the Committee in December 2015.)
<b>Related Functions</b>	
To approve and monitor Council policies relating to "whistleblowing" and anti fraud and corruption.	Revised and updated whistleblowing policy arrangements were brought to the committee in June 2014 and June 2015. Fraud and corruption work monitored throughout the year.
To seek assurance that customer complaint arrangements are robust	Annual Report of Corporate Complaints and Local Government Ombudsman's Annual Review 2013/14 presented to Committee in September 2014. Annual Report of Corporate Complaints and Local Government Ombudsman's Annual Review 2014/15 presented to Committee in September 2015.
<b>Standards</b>	
Promoting high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).	Members Code of Conduct Standards Reports updates recording decisions relating to complaints were submitted to the Committee in November 2014, March 2015 and September 2015. Audit & Governance Committee Members have attended Complaints Hearings through the year. A Review of Standards Arrangements for Dealing with Code of Conduct Complaints was received by the committee in September 2015.
Ensuring that Members receive advice and training as appropriate on the Members Code of Conduct.	Members of the Audit & Governance Committee have been advised on the Code of Conduct during the year.

## Audit and Governance Committee – How the Terms of Reference have been met in 2014/15: Summary

Terms of Reference of Committee	Relevant activity in 2014/15
Granting dispensations under the provisions of the Localism Act 2011 to enable a member or co-opted Member to participate in a meeting of the Authority.	There have been no requests for individual dispensations during 2014/15. A report to approve the procedure for the recruitment of three Independent Persons to the Council under the Localism Act 2011 was received at the September 2015 committee.

## Audit and Governance Committee Members 2015

	<p><b>Councillor Lesley Smetham (Chair)</b></p> <p>Councillor Smetham became and elected member of Cheshire East Council since its beginning in April 2009 and was appointed as Chair of the Audit and Governance Committee in June 2015.</p>
	<p><b>Councillor David Marren (Vice Chair)</b></p> <p>Councillor Marren became an elected member of Cheshire East Council in May 2011 and has served on the Audit and Governance Committee since then, being Vice-Chair from January 2012 until the end of the 2011/12 municipal year. Councillor Marren was re-appointed as Vice Chair of the Audit and Governance Committee in June 2015.</p>
	<p><b>Councillor Chris Andrew</b></p> <p>Councillor Andrew became an elected member of Cheshire East Council in May 2015, and has been a member of the Audit and Governance Committee since June 2015.</p>
	<p><b>Councillor Gordon Baxendale</b></p> <p>Councillor Baxendale has been with Cheshire East Council from April 2009, and has been a member of the Audit and Governance Committee since June 2015.</p>
	<p><b>Councillor Amanda Stott</b></p> <p>Councillor Stott became an elected member of Cheshire East Council in May 2015, and has been a member of the Audit and Governance Committee since June 2015.</p>
	<p><b>Councillor Sam Corcoran</b></p> <p>Councillor Corcoran became an elected member of Cheshire East Council in May 2011 and has served on the Audit and Governance Committee since then.</p>

## Audit and Governance Committee Members 2015

	<p><b>Councillor Rod Fletcher</b></p> <p>Councillor Fletcher has been an elected member of Cheshire East Council since its beginning in April 2009 and has served on the Audit and Governance Committee since May 2011.</p>
	<p><b>Councillor Martin Hardy</b></p> <p>Councillor Hardy has been an elected member of Cheshire East Council since its beginning in April 2009. He has served on the Audit and Governance Committee since its inception in June 2010 and was Vice-Chair from May 2011 to January 2012.</p>
	<p><b>Councillor Andrew Kolker</b></p> <p>Councillor Kolker has been an elected member of Cheshire East Council since its beginning in April 2009. He served as Vice-Chair of the Governance and Constitution Committee for a time and has been on the Audit and Governance Committee from June 2010 to date.</p>
	<p><b>Councillor Margaret Simon</b></p> <p>Councillor Simon has been an elected member of Cheshire East Council since its beginning in April 2009. She has served on the Audit and Governance Committee since its inception in June 2010 and was Chair for the 2010/11 year.</p>
	<p><b>Councillor John Wray (Chair until June 2015)</b></p> <p>Councillor Wray has been an elected member of Cheshire East Council since its beginning in April 2009. He joined the Audit and Governance Committee as Chair following the Council meeting on 18<sup>th</sup> July 2013. Councillor Wray retired from the committee in June 2015 to become the Chair of one the Council's overview and scrutiny committees.</p>
	<p><b>Councillor Louise Brown</b></p> <p>Councillor Brown became an elected member of Cheshire East Council in May 2011 and has served on the Audit and Governance Committee as the Vice-Chair from the 2012/13 municipal year onwards. Councillor Brown stood down as a member of Cheshire East Council in May 2015.</p>

## Audit and Governance Committee Members 2015



### **Councillor Lloyd Roberts**

Councillor Roberts became an elected member of Cheshire East Council in May 2011 and has served on the Audit and Governance Committee from the start of the 2012/13 municipal year. Councillor Roberts retired from the committee in May 2015.