

Committee: Accounts, Audit and Risk Committee
Date: Monday 22 March 2010
Time: 6.30 pm
Venue: Bodicote House, Bodicote, Banbury, OX15 4AA

Membership

Councillor John Donaldson (Chairman)	Councillor Trevor Stevens (Vice-Chairman)
Councillor Ken Atack	Councillor Simon Holland
Councillor Devena Rae	Councillor Lawrie Stratford
Councillor Rose Stratford	Councillor Barry Wood

AGENDA

1. Apologies for Absence and Notification of Substitute Members

2. Declarations of Interest

Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.

3. Petitions and Requests to Address the Meeting

The Chairman to report on any requests to submit petitions or to address the meeting.

4. Urgent Business

The Chairman to advise whether they have agreed to any item of urgent business being admitted to the agenda.

5. **Minutes** (Pages 1 - 6)

To confirm as a correct record the Minutes of the meeting of the Committee held on 20 January 2010.

6. **Accountancy Progress Report - Closedown and IFRS** (Pages 7 - 28)

Report of Head of Finance

Summary

To provide the Committee with a progress report on the work of the Financial Information Team in relation to the production of the 2009/10 Statement of Accounts and to advise the Committee on how officers are progressing in the adoption of IFRS.

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of this report and the officers' proposed actions to deal with the closure of the 2009/10 Accounts and production of the Statement of Accounts.
- (2) Note the contents of this report and the officers' proposed actions to deal with the implementation of IFRS.
- (3) Approve the accounting policies for inclusion in the Statement of Accounts 2009/10.

7. **Corporate Governance Panel 2010/11**

Verbal Update by Chief Financial Officer

Summary

The Committee is reminded that the Corporate Governance Panel reviews the draft Annual Governance Statement which eventually forms part of the Statement of Accounts which the Committee will consider in June 2010. The draft Annual Governance Statement will be available in late April and a meeting of the Corporate Governance Panel will be arranged at a time convenient to the Members involved.

It is also intended to convene additional meetings, perhaps quarterly, of the Corporate Governance Panel during 2010/11 to consider the Council's whole approach to Governance on an ongoing basis and in particular any issues or recommendations arising from the officer Corporate Governance Group.

The membership of the Corporate Governance Panel is formed of two representatives of the Accounts, Audit and Risk Committee and one representative of the Standards Committee. The Accounts, Audit and Risk Committee representatives for the 2009/10 Corporate Governance Panel were agreed as Councillors Atack and Hallchurch. As Councillor Hallchurch is no longer a member of this Committee, it is therefore necessary for the committee to appoint a new member to the panel.

Recommendation

The Accounts, Audit and Risk Committee is recommended to:

- (1) Confirm the two Accounts, Audit and Risk representatives of the Corporate Governance Panel for 2010/11.

8. Internal Audit Progress Report (Pages 29 - 44)

Report of Chief Internal Auditor

Summary

This report provides the Committee with an update of the work of Internal Audit since the last meeting and the revisions made to our 2009/10 audit plan.

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Consider and approve this report.

9. Internal Audit Final Plan 2010/11 (Pages 45 - 58)

Report of Chief Internal Auditor

Summary

This report provides the Committee with a final version of the 2010/11 internal audit plan.

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Consider and approve this plan.

10. Corporate Risk Register and Risk Strategy 2010/11 (Pages 59 - 82)

Report of Chief Executive

Summary

To present the proposed Corporate Risk Register and the Risk Strategy for 2010/11 for consideration and comment by the Accounts, Audit and Risk Committee in advance of their consideration by the Council's Executive.

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Agree the principles of risk management set out in this report.
- (2) Agree the Corporate Risk Register for 2010/11.
- (3) Agree the Risk Strategy 2010/11.
- (4) Agree the arrangements for reporting on risk management to the Executive and the Accounts, Audit and Risk Committee.
- (5) Agree the views of the Accounts, Audit and Risk Committee are reported to the Executive when they consider this item.

11. Certification of Claims and Returns 2008/09 - Audit Commission (Pages 83 - 98)

Report of Head of Finance

Summary

The purpose of this report is to allow consideration of the Certificate of Claims and Returns Report 2008/09 produced by the Audit Commission (see Annex). The report reviews the council's arrangements for the preparation and administration of grant claims within the council.

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the Certification of claims and returns - annual report.
- (2) Note the agreed Action Plan presented as Appendix 2 to the Audit Commission Report.

12. Audit Protocol (Pages 99 - 112)

Report of Head of Finance

Summary

This document sets out the basis for the joint working arrangements between Cherwell District Council's Internal Audit Service (IA) and the Audit Commission (AC), as the Council's external auditors.

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the Audit Protocol report.

Information about this Agenda

Apologies for Absence

Apologies for absence should be notified to democracy@cherwell-dc.gov.uk or (01295) 221589 prior to the start of the meeting.

Declarations of Interest

Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item. The definition of personal and prejudicial interests is set out in Part 5 Section A of the constitution. The Democratic Support Officer will have a copy available for inspection at all meetings.

Personal Interest: Members must declare the interest but may stay in the room, debate and vote on the issue.

Prejudicial Interest: Member must withdraw from the meeting room and should inform the Chairman accordingly.

With the exception of the some very specific circumstances, a Member with a personal interest also has a prejudicial interest if it is one which a Member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest.

Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates

Members are reminded that any member who is two months in arrears with Council Tax must declare the fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

Queries Regarding this Agenda

Please contact Natasha Clark, Legal and Democratic Services natasha.clark@cherwell-dc.gov.uk (01295) 221589

Mary Harpley
Chief Executive

Published on Friday 12 March 2010

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Agenda Item 5

Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, OX15 4AA, on 20 January 2010 at 6.30 pm

Present: Councillor John Donaldson (Chairman)
Councillor Trevor Stevens (Vice-Chairman)

Councillor Ken Atack
Councillor Devena Rae
Councillor Lawrie Stratford
Councillor Rose Stratford

Apologies for absence: Councillor Barry Wood

Officers: Mary Harpley, Chief Executive and Head of Paid Service
Karen Curtin, Head of Finance
Pat Simpson, Head of Customer Service & Information Systems
Natasha Clark, Trainee Democratic and Scrutiny Officer

45 **Declarations of Interest**

There were no declarations of interest.

46 **Petitions and Requests to Address the Meeting**

There were no petitions or requests to address the meeting.

47 **Urgent Business**

There was no urgent business.

48 **Minutes**

The Minutes of the meeting held on 12 December 2009 were agreed as a correct record and signed by the Chairman.

49 **Serious Incident Review Follow-Up**

The Committee considered a report of the Head of Customer Service and Information Systems which updated Members on the recommendations made

by the Committee at its meeting on 23 September 2009 in respect of serious incidents in general and the ICT incident of February 2009 in particular.

The Head of Customer Service and Information Systems advised the Committee that on 11 and 12 January 2010, the Internal Audit team had undertaken a review of arrangements in ICT as follow up to their February 2009 report on the original incident. The report was not yet available; however the Committee was advised that the initial debriefing had been positive. The report would be circulated to Members when it was available.

The Audit Team Leader updated Members on recommendations 3 and 4, a review of project management and serious incident management. The Committee was advised that the draft Internal Audit Plan 2010/11 included days for additional follow up.

With regard to out of hours ICT support provision (recommendation 1), the Head of Customer Service and Information Systems advised Members that Executive had considered a report on 7 December 2010 which sought approval for a major strategic project to improve the resilience of the Council's computer systems, and to progress the means of identifying options for the medium and long term delivery of ICT services.

Executive had resolved to establish a Member and Officer review group, which would be tasked with surveying the options for ICT service delivery and driving efficiencies through technology in the future. The Committee agreed that the review groups remit should also include consideration of out of hours ICT support provision.

The Head of Customer Service and Information Services advised the Committee that the review group had not yet been established. Members agreed that it was important for the Committee to be involved in the development of and represented on the Member/Officer review group. The Chief Executive and Head of Customer Service and Information Services agreed to circulate a briefing note to Committee Members with further information about the review group.

The Head of Customer Service and Information Systems reported that she was receiving monthly updates covering service availability, major incidents, changes, helpdesk call statistics, capital and operational projects status, operational issues and staff training (recommendation 2). The reports were also sent to the Portfolio Holder.

The Head of Customer Service and Information Systems updated Members on the measures taken since the incident and the progress as to how the new control and logging systems and culture were embedding in the service (recommendation 5).

Resolved

- 1) That the updates to recommendations 1, 2 and 5 be noted.

- 2) That the verbal update from Internal Audit about the review of project management and serious incident management (recommendations 3 and 4) across the council be noted.
- 3) That the Member/Officer review group being established as a result of the decision by the Executive in December 2009, be asked to include out of hours and standby provision as part of its remit.
- 4) That the verbal update on the preliminary findings of an Internal Audit review of arrangements in ICT as follow up to their February 2009 report on the original incident (taking place 11 and 12 January 2010) be noted.

50 **Internal Audit Progress Report**

The Committee considered a report of the Chief Internal Auditor which summarised the progress made against the internal audit plan for 2009/2010 for the period from December 2009 to January 2010. The Committee was advised that 81% of the plan had been completed and that the remainder would be completed by the end of the financial year.

The Audit Team Leader reported that since the Accounts, Audit and Risk Committee meeting of 14 December 2009, three final reports had been issued, three reports were in draft form and fieldwork had commenced in six areas.

In response to Members' questions about the Risk Management Workshop, the Chief Executive advised the Committee that the Corporate Management Team were considering the outcomes of the workshop. The proposed new strategic risks would be presented to the Accounts, Audit and Risk Committee for consideration.

The Chief Executive advised the Committee that the project to integrate the risk and performance management frameworks remained on track. All strategic, corporate and service risks were currently being reviewed before being added to the integrated performance and risk register. Responsibility for strategic risk management would be taken on by the Corporate Strategy, Performance and Partnerships Team. The Performance Management Framework would be updated to include risk, resulting in a fully integrated approach to performance and risk from 2010/11.

Resolved

- 1) That the internal audit progress report be approved.

51 **Proposals for Internal Audit Plan 2010/2011**

The Committee considered a report of the Chief Internal Auditor which presented the first draft of the proposed 2010/11 internal audit plan. The Audit Team Leader advised Members that the report was based on the Internal Audit teams Strategic Plan for 2009-12 and had been updated following the annual risk assessment and risk management workshops.

The Audit Team Leader advised the Committee that the draft Internal Audit Plan had been drafted in order to ensure that the risks facing Cherwell District Council were adequately managed and internal audit resources were effectively utilised. The final version would be presented to the Committee's March meeting for approval.

Resolved

- 1) That the contents of the report be approved.

52

Overview of Treasury Management Performance Quarter 3

The Committee considered a report of the Head of Finance which updated Members on the actual return on investments for the period to December 2009, detailed the counterparties that have been used for investments and considered compliance with the investment strategy.

The Head of Finance reminded Members that as part of the Council's Investment Strategy the Committee had responsibility for considering the investment performance to date and the Council's compliance with counterparties being used. The Committee was advised that the performance for Quarter 3 was in line with expectations and within budget tolerances

The Head of Finance updated Members on the Treasury Strategy. The Treasury Strategy would be presented to Executive on 1 February 2010 and full Council on 23 February as part of the Budget book. The 2010/11 Strategy was essentially the same as the current Strategy, with minor revisions to ensure compliance with the update CIPFA guidance.

The Head of Finance advised the Committee that Finance staff had been working on a joint basis with Oxford City Council to retender the Council's contract for treasury advice. The tender opportunity had been advertised on 14 January 2010 and submissions were due back on 12 February. A panel comprising Members and Officers from Cherwell District and Oxford City councils would convene in March to consider tender presentations by the shortlisted suppliers. Members of the Accounts, Audit and Risk Committee were asked to contact the Head of Finance if they wished to sit on the Panel.

The Head of Finance updated Members on the current situation regarding the Council's investments with the failed Icelandic bank Glitnir. The administration committee of the Glitnir bank had not given Local Authorities preferred creditor status and as such each would recover only a percentage of its investment. Local Authorities had objected to this creditor status and were being represented by the Local Government Association. The objections of the Local Authorities would now be considered under the processes followed under Icelandic insolvency law, and court action would be taken as necessary.

Resolved

- 1) That the contents of the report and performance to date be noted.

- 2) That the update on the procurement process be noted.
- 3) That it be noted that Members of the Accounts, Audit and Risk Committee had been invited to participate in the Member/Officer Panel to consider the tender presentations of the shortlisted suppliers for the Council's new treasury advice contract.

53

Verbal Updates

a) Future Management of Risk and Insurance Management

The Chief Executive advised Members that the recommendations of the Value for Money review of risk and insurance were currently being taken forward. It had been the plan to outsource strategic risk management from 1 April 2010. However for a number of reasons it was now intended to ask the Risk Management and Insurance Officer to continue in her current role for a further year, working with the Corporate Strategy, Performance and Partnerships Team. Responsibility for insurance would be taken on by the Finance team as planned, but supported for the next year by the Risk Management and Insurance Officer who would provide the equivalent of one day a week's work on insurance, reporting on this to Finance.

b) International Financial Reporting Standard (IFRS) Update

The Head of Finance updated Members on the preparations for the implementation of the International Financial Reports Standard (IFRS). The Project Team had held two meetings and identified a number of key areas for further work.

The Head of Finance reported that the International Finance Reporting Standard Steering Group, comprising of Councillors Donaldson, Atack and Rose Stratford, the Chief Financial Officer, the Head of Finance and the Chief internal Auditor, had held their first meeting. The Steering Group would review the work of the Project Group, monitor the transition to IFRS and act as the champion of IFRS across the Council. The Steering Group would report any changes to the Accounts, Audit and Risk Committee.

The Head of Finance advised the Committee that the Council had obtained a 'green' rating from the Audit Commission for the progress to implementing the International Financial Reporting Standard.

54

Exclusion of the Press and Public

Resolved

That, in accordance with Section 100A(4) of Local Government Act 1972, the press and public be excluded from the meeting for the following items of business, on the grounds that they could involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1, Schedule 12A of that Act.

55 **Overview of Treasury Management Performance - Exempt Annex 2**

The Committee considered the exempt annex to the report of the Head of Finance updating Members on Treasury Management Performance, which listed the investments that Cherwell District Council had across all funds at 31 December 2009.

Resolved

- 1) That the exempt annex be noted.

The meeting ended at 8.10 pm

Chairman:

Date:

Accounts, Audit and Risk Committee

Accountancy Progress Report – Closedown and IFRS

22 March 2010

Report of Head of Finance

PURPOSE OF REPORT

To provide the Committee with a progress report on the work of the Financial Information Team in relation to the production of the 2009/10 Statement of Accounts and to advise the Committee on how officers are progressing in the adoption of IFRS.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of this report and the officers' proposed actions to deal with the closure of the 2009/10 Accounts and production of the Statement of Accounts.
- (2) Note the contents of this report and the officers' proposed actions to deal with the implementation of IFRS.
- (3) Approve the accounting policies for inclusion in the Statement of Accounts 2009/10.

Executive Summary

1. **Closure of the 2009/10 Accounts and production of the Statement of Accounts**
 - 1.1 The Accounts and Audit Regulations 2003 are made under powers conferred under section 27 of the Audit Commission Act 1998. The Accounts and Audit Regulations 2003 contain the dates by when the Council must approve its Statement of Accounts and by when they must be published.
 - 1.2 The statutory deadline for approval of the financial statement has remained at 30 June 2010. This Committee will be asked to approve the 2009/10 Statement of Accounts at its meeting on 23 June 2010. The audited

accounts will be reported on 22 September 2010 prior to the statutory publication date of 30 September 2010.

- 1.3 Cherwell improved its score on the Statement of Accounts from 2 to 3 in our recent Use of Resources assessment for Key Line of Enquiry 1.1 (KLOE1) and with the measures we are putting in place to improve closedown procedures we are aiming for an improved score of 4 in our next Use of Resources assessment.

These measures include

- producing our Annual Report to accompany the draft Statement of Accounts by 30 June 2010.
- improved management of the S106 Commuted Sums monies held by the Council.
- quarterly monitoring of fixed asset capital transactions done in year.
- move towards more automated working papers for the year-end.

- 1.4 Work on the 2009/10 closedown has already commenced. A comprehensive closedown timetable with detailed tasks, deadlines and resources assigned has been prepared by the Technical Accountant and Year-end Project Group and will be used to monitor progress during the closedown period. The latest position against this detailed timetable will be verbally reported at the Accounts, Audit & Risk Committee on 22 March.

The closedown timetable is designed to meet the target dates set-out in 1.5, and the target dates for submitting annual Government returns such as the Whole of Government Accounts.

The target completion date for the draft Statement of Accounts is 21st May 2010 which will ensure a longer period of final review and reconciliation to working papers than in the previous year. This is 5 days earlier in comparison to 2008/09 and 13 days earlier than 2007/08. These accounts will then be subject to initial scrutiny by this committee on 16 June 2010. We have already secured dates in late May with our internal auditors PWC to commence a high-level review.

- 1.5 The key stages of the process are:

No.	Deadline	Objectives and key tasks
1	22 March 2010	Planning stage <ul style="list-style-type: none"> ➤ Action to deal with “lessons learned” and to deal with 2008/09 external audit reports ➤ Obtain “buy-in” to timetable from Members and Officers ➤ Confirm proposed action with external auditors in respect of SORP and any technical issues relating to economic downturn
2	Early March to May 21 2010	Completeness and accuracy of the financial information system

		<ul style="list-style-type: none"> ➤ Financial information system contains all the transactions, which are necessary to enable the accounts to be produced
3	21 May to 23 June 2010	<p>Statement of Accounts prepared</p> <ul style="list-style-type: none"> ➤ Statement of Accounts is prepared and checked for numerical accuracy and adherence to SORP ➤ 151 Officer signs off the Statement of Accounts on the 15th June, which are submitted for scrutiny and adoption to the Accounts, Audit and Risk Committee on 16 & 23 June 2010 respectively
4	30 September 2010	<p>The accounts are audited</p> <ul style="list-style-type: none"> ➤ Accounts are audited from July to September 2010. ➤ Auditors give their opinion on the Statement of Accounts and advise of any material changes required. ➤ Accounts are published. ➤ Accounts, Audit and Risk Committee (22 September) consider and approve any amendments to the accounts.

- 1.6 In order to ensure that all departments of the Council are aware of their Closedown responsibilities we have held 5 workshops on various dates throughout March 2010 communicating the roles of the Closedown Team, timetable and deliverables required. There were specific drop-in workshops for creditor payments, accruals, capital, fixed assets, basic accounting and general year-end issues. A specific area of the intranet has been dedicated to the Closedown and a Financial Year-End Procedure 2009/10 has been sent to all Budget Holders/Responsible Officers. This procedure is attached in Annex 1.

From 8 April 2010 there will be a weekly review of closedown progress and any exceptions to timescales will be escalated appropriately. It is also planned to send a weekly bulletin to all staff involved in the closedown process to advise of progress so far, issues arising and key tasks for the coming week.

A regular update on Closedown preparation and progress will be given to Corporate Management Team during the period of April 2010 to June 2010.

- 1.7 The SoRP 2009 only contains mostly minor cosmetic changes on the presentation of Cherwell's 2009/10 Statement of Accounts.

The main changes are listed below:

- There has been some incidental updating of nearly all notes to reflect the change from 'presents fairly' to 'true and fair'
- The removal of the requirement to have notes to the accounts for the Building Control Account, Publicity, Section 137 Expenditure, and Local Authorities Goods & Services Act 1970
- Changes to the agency accounting for Council Tax and NNDR

1.8 To ensure SoRP compliance in 2009/10, officers from the Financial Information Team have analysed the changes required and updated the “draft” statements to ensure compliance and have attended:

- CIPFA Technical Update Day in November 2009
- Audit Commission Final Accounts Workshop in January 2010
- PWC Technical Update Meeting in February 2010

1.9 This will be the fourth year that the accounts have been closed using the Agresso financial information system. The development of the reporting system to automatically produce the Income and Expenditure Statement and Balance sheet with full audit trail will continue to ensure accuracy and is a more efficient use of resources

1.10 Following the completion of the 2008/09 accounts a review meeting was held on 21 January with the Audit Commission where issues arising from the audit were discussed, as well as planning for the 2009/10 closedown. The main issues raised were:

- Glitnir Bank, Iceland – capitalisation issues and return of the investment
- Car cash buyout – how we are planning on doing this and the implication on the year-end accounts
- IFRS Balance sheet – the work done so far
- TUPE – any implications arising from the transfer to Capita of our Revenues and Benefits service
- Bicester Town Centre – longer term issues around asset transfers and accounting treatment.
- KLOE 1 – discussion relating to our aspirations to move from a strong 3 to a 4 drawing on audit commission experience.
- Audit 09/10 – systems audit, analytical review deminimis level, audit plan, public inspection dates

The actions required to address these issues have been built into the timetable.

Early and regular communication with the Auditors will allow all closedown implications to be considered ahead of the year end which will ensure we have no impact on our timetable. The next meeting is planned on March 16 2010.

2.0 IFRS Preparation

2.1 Local authorities will move to accounting on an IFRS basis by 2010/11, a year after central government and the NHS.

International Financial Reporting Standards (IFRS) represents a significant change in financial reporting across government and the public sector and will

soon be the way in which government reports its financial results.

The move to IFRS in government is part of a process of aligning public sector financial reporting with what is seen to be the highest standards of financial reporting. To date, over 100 countries have adopted the rules or say that they intend to adopt them. The International Accounting Standards Board (IASB) expects that this figure will increase to 150 countries by 2011. IFRS have already been adopted by both the Australian and New Zealand public sectors.

- 2.2 Local Authority accounts are currently prepared in compliance with both UK Generally Accepted Accounting Principles (UK GAAP) and the Statements of Recommended Practice (SoRP). The Accounting Standard Board (ASB) is committed to the convergence of UK GAAP with IFRS.

The accounting impact of implementing IFRS will be made less onerous than it would have been due to the SoRP having gradually moved towards IFRS compliance in recent years in order to harmonise with UK GAAP.

- 2.3 Cherwell will move to accounting on an IFRS basis in 2010-11, with restated comparative figures for the previous year and a restated opening balance sheet. The move to IFRS is a challenge that will affect many areas of the organisation and will impact on budgeting, investment decisions, performance targets as well as financial reporting. A methodical approach to the IFRS conversion process is important in achieving success. The recommended best practice is to set up a project management process to enable good management of the transition period. One of the lessons learned from the private sector experience was that IFRS affects all parts of the organisation. It is not just a finance issue.
- 2.4 For these reasons, a project group and a steering group have been set up to develop and monitor an IFRS action plan with member participation. The steering group has agreed terms of reference and will meet quarterly to review progress against the action plan and agree resources. The project group have had several meetings since October 2009 and include representation from the Head of Finance, Technical Accountant, Asset Management, Human Resources, Legal, ICT, Internal Audit and Procurement. The Technical Accountant has been nominated as the Project Manager.
- 2.5 The council has sent a number of key officers on courses to gain a fuller understanding of IFRS to ensure that all accounting issues are fully considered. The Audit Commission plans to hold a training event in the near future for members of the Accounts, Audit And Risk Committee, as well as senior officers. An internal presentation on IFRS has also been held for EMT. Further to this, an Oxfordshire IFRS group has been set-up and have so far had one meeting at which the Technical Accountant from Cherwell attended.
- 2.6 The main areas affected by the introduction of IFRS are:

- Operating Segments

- Leases of land and buildings
- Valuation of fixed assets
- Private Finance Initiative
- Financial instruments
- Employee benefits – Untaken holiday accruals
- Impairment of assets
- More disclosures – It is expected that the financial statements will increase by 60% in size

2.7 Officers have carried out an initial review on the IFRS implications and there are a number of changes relating to disclosure and valuations. However the following key areas are the main items which will have the following significant impacts on the Council's Statement of Accounts.

Technical accounting changes / revaluations in the following areas:

- Employee Benefits accrual
- Leases
- Investment property
- Intangible assets – software costs
- Financial instruments (includes debtors / creditors / cash / leases / derivatives & contracts i.e. where inflation indexes / RPI etc used)

There will also be additional disclosure requirements for significant power / share holding (as related party transactions in the group accounts) as well as revaluations in the following areas:

- Investment properties
- Leases – land / buildings identified separately for leases
- Land being leased is now reclassified as operational leases
- New disclosure requirements (IFRIC 14)
- Finance leases – now depends solely on ownership at end of lease (no longer total paid versus asset value)
- All assets - now to be shown at fair value basis (not existing use value)
- Impairment values need to be fully disclosed
- Software - some will need to be reclassified as intangible assets
- Contracts – if payments based on derivatives (inflation indexes/RPI etc)
- Financial instruments – value now to be based on market value with notes explaining how increased or decreased risk will affect results and how we would mitigate various risks.
- Employee Benefits: Under IAS19 the Council will need to, from 2010/11, accrue for the value of staff annual leave not taken at the year-end. The likely impact is an additional liability charged to the general fund. Cherwell already has in place systems to capture the number of days of untaken leave at the end of the year.

2.8 A significant amount of work has been done in the last six months

addressing the issues raised above. The employee benefit accrual has been performed as at 31 March 2009 for the IFRS balance sheet restatement and the approximate value of this accrual stands at £198k. We are now awaiting further guidance from CIPFA on the accounting treatment of this. All leases in the Council have been entered onto a spreadsheet which has analysed whether they should be finance or operating leases. The good news for Cherwell is that the work undertaken has proved that we are dealing with all leases correctly under the new IFRS rules. Work is currently ongoing as to the classification of assets and this should be complete by the end of March. All other issues will be dealt with when the detailed guidance is issued from CIPFA. They are currently planning this for Nov/Dec this year.

3. Accounting Policies 2009/10 for inclusion in the Statement of Accounts

3.1 Background

The format, content and presentation of the annual Statement of Accounts is primarily laid down in the Accounts and Audit Regulations 2003 (Statutory Instrument 2003 No. 533) and the Statement of Recommended Practice (SoRP) 2009 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Behind these requirements are a large number of accounting standards which dictate the manner in which we account for and present certain transactions.

In line with the above requirements, the Statement of Accounts must be approved by 30 June. The role of the Accounts, Audit and Risk Committee in this process is to review the accounts to ensure that appropriate care and consideration have been given to meeting the requirements of the Regulations, the SoRP and accounting policies and that variations in our practices are known and approved. This report is presented so that consideration can be given to any variations from the regulatory and statutory requirements that are proposed prior to the drafting of the accounts.

3.2 Changes of the Regulatory Environment

Since last year 4 minor changes have been made in the SoRP regarding accounting policies.

- Accruals of interest payable and receivable
- clarification of when available for sale financial assets become impaired
- PFI
- Change in the accruals basis for Council Tax and Collection Fund which will require a prior-period adjustment to 2008/09.

The first three have no implications for Cherwell, but the last one will have a minor change. It will not change how we apply our accruals, or how we do our prior-year adjustments, it simply means a change to accounting entries for the surplus or deficit arising.

Therefore, the only change to note in our Statement of Accounting Policies 2009/10 that is attached to this report as Appendix 2 is the last paragraph in section 3.2 Accruals of Income and Expenditure.

Background Information

None

Implications

- Financial:** There are no additional financial effects of the year-end closedown as all work will be completed using staff already employed within the finance team or from within existing budgets.
Comments checked by Karen Muir, Corporate System Accountant 01295 221559.
- Legal:** The Council must ensure its financial statements are prepared in accordance with SoRP guidelines and available for audit by June 30th 2010.
- Risk Management:** Failure to meet the statutory deadline or to follow the guidance laid down in the SoRP may lead to adverse comment in the External Audit Report and have a negative effect on the Financial Reporting Use of Resources assessment
Comments checked by Phil O'Dell, Chief Financial Officer 01295 227098.

Wards Affected

All wards are affected.

Document Information

Appendix No	Title
Appendix 1	Financial Year-end Procedure
Appendix 2	Accounting Policies 2009/10
Background Papers	
None	
Report Author	Jessica Lacey, Technical Accountant
Contact Information	01295 221564 Jessica.lacey@Cherwell-dc.gov.uk

Financial Year-End Procedure 2009/10

Responsibility of Budget Holders/Responsible Officers

The 2009/10 financial year ends on Wednesday 31st March 2010. In order to prepare the Statement of Accounts for presentation to the Accounts, Audit and Risk Committee and subsequent publication, we require your assistance regarding the following.

1. Payment of Supplier Invoices

The final cheque and BACS payments for 2009/10 will take place on Wednesday 31st March 2010. All invoices which require payment and charging into 2009/10 must be with the Creditors team by 12pm on Monday 29th March 2010 and authorised for payment on Agresso by 5pm on Tuesday 30th March 2010. Agresso will be unavailable for authorisation all day on Wednesday 31st March 2010.

All creditor enquiries should be addressed to:

Ruth Hopkins Ext. 1986 (Mon – Fri)

Sue Hardy Ext. 1977 (Mon & Tues)

2. Goods and Services received prior to the 31st March 2010 where payment has not been made by 31st March 2010.

Agresso can create year-end accruals (accounting for payment within 2009/10 without the invoice being received or paid) based on orders raised. However, the system will only create an accrual where a goods received note (GRN) has been processed to recognise that goods or services have been received in the 2009/10 year. The GRN will need to be entered onto Agresso before the deadline of 5pm Tuesday 30th March 2010. Any order which has no GRN will be carried forward and paid from the 2010/11 budget.

The process for dealing with purchase order commitments is as follows:

- A list of outstanding Purchase Orders (commitments) will be produced mid March.
- Creditors will require instructions on the treatment of these outstanding items.
- Names of contact staff in each Service Unit will be required by Friday 26th March 2010 to Ruth Hopkins.
- A list of outstanding Purchase Orders will be circulated on Wednesday 31st March 2010, with a request to identify those where the goods or services have been received before Wednesday 31st March 2010.
- Commitments will be created from this list (which should be returned to Finance before 12pm Thursday 1st April) provided that a goods received note has been entered onto Agresso before 5pm Tuesday 30th March 2010.
- Purchase Orders for goods or services not received before Wednesday 31st March 2010 will be carried forward into 2010/11.

Please complete a Creditors Accrual form (to be distributed shortly) for all expenditure relating to 2009/10, including goods and services received prior to Wednesday 31st March 2010, where payment has not been authorised by 5pm Tuesday 30th March 2010. Please exclude all items already dealt with through Agresso (see above).

Due to automatic processing of creditors using the Purchase Order system and Goods Received Notes, the number of accruals required is anticipated to be minimal.

3. Income

Debtor accounts for income due to the authority in 2009/10 must be raised on Agresso by 12pm on Wednesday 31st March 2010 to ensure that they are credited to the 2009/10 financial year. Agresso will be locked for raising Debtor accounts at 12pm on Wednesday 31st March 2010.

All debtor enquiries should be addressed to:
Sue Brennan Ext. 7017

Please complete a Debtors Accrual form (to be issued shortly) if you are aware of any other income due to the authority in 2009/10 for which an invoice has not been raised by 12pm on 31st March 2010.

4. Sale of Land, Dwellings and Other Property

Please complete a Debtors Accrual form (to be issued shortly) for all disposals legally completed by Wednesday 31st March 2010 but where the full sales price had not yet been received, or where no invoice was raised before Wednesday 31st March 2010.

Please also complete a Debtors Accrual form for all disposals where contracts have been exchanged prior to Wednesday 31st March 2010 but no money changed hands or where no invoice was raised before Wednesday 31st March 2010.

5. Prepayments

Budget holders will need to keep a record of all invoices where a payment has been made before Wednesday 31st March 2010 for goods or services receivable in 2010/11.

Prepayments may occur where payments are made in 2009/10 to satisfy the 30 day payment rule, for goods/services to be received or provided in 2010/11.

6. Receipts in Advance

Budget holders will need to keep a record of all income where a payment has been received before Wednesday 31st March 2010 for services which are to be provided in 2010/11.

7. Guidance on All Forms

The Creditors, Debtors, Prepayments, and Receipts in Advance Accrual forms will all be available shortly to be filled in, authorised and submitted online using the Council online forms system 'Achieve'. All forms should be filled in by **9am Monday 12th April 2010**. These forms will automatically be sent to your Service Accountant by Achieve.

All entries over £10,000 on any of the accrual forms must have appropriate back-up sent to your Service Accountant. This can be in the form of an invoice, copy purchase order, letter or e-mail detailing estimate values, or any other document containing an authorised value.

Please note that:

- Accruals **MUST** be raised net of VAT.
- Accruals are to be raised for **EXTERNAL** transactions only – **NOT** internal invoices
- Accruals **CANNOT** be raised for less than £1,000 but it is permissible to aggregate several payments against the same Agresso Account code. Accruals raised for less than £1,000 will be rejected.
- All accruals will be checked in detail by the Audit Commission to ensure that goods or services are received or supplied before Wednesday 31st March 2010.

For assistance and advice regarding all accruals please contact your Service Accountant or Jessica Lacey, Technical Accountant.

8. Internal Invoices

The deadline for receipt of internal invoices to Finance is **9am Monday 12th April 2010.**

9. Budget Monitoring

Your assurance on the accuracy of the financial information relating to the services for which you are responsible will be sought prior to the completion of the financial statements.

The key dates in this process are:

9am Thursday 1st April 2010 – Accounting period 12 closed

Thursday 22nd April 2010 – Period 13 budget monitoring reports produced

Friday 23rd April 2010 – Heads of Service to carry out pre-provisional outturn review

Friday 7th May 2010 – Issue month 13 Budget Monitoring reports for sign off

Monday 17th May 2010 – Advise departments of actual (subject to audit) outturn figures

Monday 17th May 2010 – Prepare report on variances between budget and actual.

Monday 17th May 2010 – Variance analysis by Directorate (budget / actual, actual / previous year)

Monday 17th May 2010 – Revenue / capital outturn draft report to Exec

A summary Year-end Timetable for 2009/10 showing the key dates in the closedown process can be found below. You will have the opportunity to ask your Service Accountant for advice relating to all of the tasks highlighted above during your Directorate Team Meetings or Budget Monitoring Reviews.

The closedown process will deliver the desired outcomes **as long as the timetable is adhered to** – please ensure that all deadline dates are met. This will assist the Finance team in producing accurate financial statements and improving our Use of Resources rating for KLOE 1.1

If there are any questions, suggestions or issues regarding any aspect of the Councils financial year-end process, please do not hesitate to contact Jessica Lacey, Technical Accountant on ext. 1564.

2009/10 YEAR-END SUMMARY TIMETABLE

Activity	2009/10 Deadline
BVACOP structure in place and checked by Service Accountants	Fri 26 th Feb
Deadline for receiving invoices into Creditors	12pm Mon 29 th Mar
Deadline for authorising invoices for payment in 2009/10 on Agresso	5pm Tue 30 th Mar
Deadline for raising Debtor invoices	12pm Wed 31 st Mar
Final cheque and BACS payments run	Wed 31 st Mar
Accounting period 12 closed on Agresso	9am Thur 1 st Apr
Purchase Orders for goods not received by 31 st March to be rolled forward into the next financial year. Where the goods/services have been received and we do not have an invoice, a Goods Received Note needs to be produced on Agresso (by 31 st March) and an accrual will be automatically raised.	Thur 1 st Apr
Offices closed for Easter	Fri 2 nd – Mon 5 th Apr
Deadline for submission of Accruals forms to Finance	9am Mon 12 th Apr
Final deadline for receipt of Internal Invoices	9am Mon 12 th Apr
Petty Cash/Imprest accounts balanced and certificates returned to Finance	Mon 12 th Apr
Impairment review to be completed	Fri 16 th Apr
Period 13 Draft Budget Monitoring reports produced	Thur 22 nd Apr
Stock Certificates returned to Finance	Fri 30 th Apr
All Capital transactions finalised	Fri 30 th Apr
All final period 13 adjustments and Revenue Accounts closed	Fri 7 th May
Issue final period 13 Budget Monitoring Report for sign-off	Fri 7 th May
All Balance Sheet accounts closed and reconciled	Fri 7 th May
Analytical Review of Statement of Accounts to be finished	Thur 20 th May
“Draft” Statement of Accounts	Fri 21 st May
Informal review of Statement of Accounts at AARC	Wed 16 th June
Sign “subject to audit” Statement of Accounts at AARC	Wed 23 rd June
Revenue Out-turn forms completed and returned to CLG	Fri 16 th July
Accounts on deposit	July (TBC)
Public Inspection	Aug (TBC)
Sign-off final audited Statement of Accounts	Wed 22 nd Sept

3. STATEMENT OF ACCOUNTING POLICIES

3.1 General principles

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year end. The Accounts are prepared in accordance with the Statement of Recommended Practice (SoRP) and the Best Value Accounting Code of Practice (BVACoP), both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Accounting policies and estimation techniques have been selected and exercised having regard to the principles and concepts set out in Financial Reporting Statement 18 (FRS18), specifically:

The qualitative characteristics of financial information:

- Relevance
- Reliability
- Comparability
- Understandable
- Materiality

Pervasive Accounting Concepts:

- Accruals
- Going Concern
- Primacy of Legislative Requirements

The accounting convention adopted in these financial statements is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

3.2 Accruals of Income and Expenditure

Income and expenditure is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as stock in the Balance Sheet.
- Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- From 2009/10, if the net cash paid to a major preceptor in the year is more than its proportionate share of net cash collected from Council Tax debtors/creditors in the year, the billing authority shall recognise a debit adjustment for the amount overpaid to the major preceptor in the year and the major preceptor shall recognise a credit

adjustment for the same amount to the debtor/creditor position between them bought forward from the previous year.

3.3 Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires a settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Provisions are reviewed at the end of each financial year. Where the Council considers that a provision is no longer required, it is reversed and credited back to the relevant service revenue account.

3.4 Reserves

The Council sets aside specific amounts as reserves to meet potential future commitments for both capital and revenue purposes. These reserves have been established using revenue resources and are therefore available directly for revenue purposes or to finance capital expenditure. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance.

When revenue expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in the year to score against the Net Cost of Services in the Income and Expenditure Account. When capital expenditure to be met from a reserve is incurred, the expenditure is financed from revenue resources and recorded in the Statement on the Movement of the General Fund Balance. The reserve is then appropriated back into the General Fund Balance Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits, but do not represent usable capital resources for the Council – the Revaluation Reserve, Capital Adjustment Account and Pension Reserve are explained in the relevant policies below.

3.5 Government Grants and Contributions (Revenue)

Government grants and third party contributions (e.g. S106 agreements) are recognised as income at the date that the Authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in the service revenue accounts with service expenditure to which they relate. Grants received to cover general expenditure e.g. Revenue Support Grant and Non-domestic Rates redistribution are credited to the Income and Expenditure Account after Net Operating Expenditure.

3.6 Retirement Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Oxfordshire County Council. The Local Government scheme is accounted for as a defined benefit scheme.

- **The Local Government Pension Scheme** - The liabilities of the Oxfordshire County Council pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings of current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on a high quality corporate bond. The discount rates at 31st March 2010 are based on the annualised yield on the iBoxx over 15 year AA rated corporate bond index.

The assets of the Oxfordshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value, principally market value for investments.

The change in the net pension's liability is analysed into seven components:

- **Current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts for which the employees worked.
- **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Accounts as part of Non Distributed Costs.
- **Interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account.
- **Expected return on assets** – the annual investment return on the assets attributable to the Council, based on an average of the expected long term return – credited to Net Operating Expenditure in the Income and Expenditure Account.
- **Gains/losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
- **Actuarial gains and losses** – changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited/credited to the Statement of Total Recognised Gains and Losses.
- **Contributions paid to the Oxfordshire County Council pension fund** – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

3.7 VAT

All items of income and expenditure are shown in the accounts exclusive of Value Added Tax. VAT is normally fully reclaimed from HM Revenue and Customs. If in respect of any transaction, VAT is irrecoverable that sum has been included in the appropriate revenue or capital account.

3.8 Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of CIPFA Best Value Accounting Code of Practice (BVACoP) 2008. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the councils status as a multi-functional democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in BVACoP and accounted for as separate headings in the Income and Expenditure Account as part of Net Cost of Services.

3.9 Community Assets

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their use or disposal are classified as Community assets and valued at historic cost, which is usually nil. Examples of community assets are parks and historic buildings.

3.10 Intangible Assets

These are regarded as “non-financial fixed assets that do not have physical substance but are identifiable and controllable by the entity through custody or legal rights”. Purchased intangible assets, which represents IT software, are recorded at cost and are amortised to the revenue account over the estimated life of the assets as determined by the Head of Customer Services and Information systems.

3.11 Fixed Assets

- **Tangible Fixed Assets** - assets that have physical substance and are held for the provision of services or for administrative purposes on a continuing basis.

Expenditure that has been capitalised includes expenditure on the:

- acquisition, reclamation, enhancement or laying out of land;
- acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures; and
- acquisition, installation or replacement of moveable or immovable plant, machinery, apparatus and vehicles.

In this context, enhancement means the carrying out of works which are intended to:

- lengthen substantially the useful life of the asset; or
 - increase substantially the open market value of the asset; or
 - increase substantially the extent to which the asset can or will be used for the purpose of or in conjunction with the functions of the Local Authority concerned.
- **Recognition** - expenditure on the acquisition, creation or enhancement of tangible fixed assets has been capitalised on an accruals basis, provided that it yields benefits to the council and the service that it provides for more than one financial year. The de-minimis level for capital expenditure in 2009/10 is £10,000.
 - **Measurement** - assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:
 - Other land and buildings – lower of net current replacement cost or net realisable value in existing use.
 - Vehicles plant and equipment – depreciated historical cost.
 - Infrastructure assets and community assets – depreciated historical cost.
 - Investment properties and surplus assets, held for disposal – lower of net current replacement cost or net realisable value.

Net current replacement cost is assessed as:

- Non-specialised operational properties – existing use value.
- Specialised operational properties – depreciated replacement cost.
- Investment properties and surplus assets, held for disposal – market value.

Valuations for assets included in the Balance Sheet at current value are carried out on a five year rolling programme, or where there are material changes in the value. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

- **Impairment** - the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:
 - where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service account.
 - otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess being charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there are accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

- **Disposals** - In accordance with SoRP 2009, capital receipts not linked to asset disposals are recognised as income.

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Any amounts in excess of £10,000 are categorised as capital receipts. Capital receipts cannot be used to finance revenue expenditure they can only be used to finance capital expenditure.

Receipts from the disposal of fixed assets are accounted for on an accruals basis and the unapplied balance is included in the Balance Sheet as Usable Capital Receipts.

A proportion of receipts relating to housing disposals are payable to the Government with the balance being available to finance future capital expenditure. This does not apply to the authority's share of receipts from sales under the preserved right to buy arising as part of the stock transfer agreement, where 100% of the proceeds are available to finance future capital expenditure.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

- **Depreciation** - All fixed assets other than land and investment properties have been depreciated, except where the Council believe that the useful life of the asset is so long as to make depreciation immaterial.

Assets are depreciated on a straight-line basis, over the estimated life of the asset.

Newly acquired assets are depreciated from the year after acquisition, unless the variation in charge is considered material.

In this respect only, the council does not fully comply with the requirements of FRS15.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

- **Capital Grants and Contributions** - where grants and contributions are received they are initially credited into a Capital Grants or Capital Contributions Unapplied Account.

Where a capital grant has resulted in the creation of a capital asset, the grant is written down over the expected useful life of the asset, the grant is not written down in the year it is received. Revenue grants are matched to the expenditure to which they relate.

Whether paid on account, by instalments or in arrears, government grants and other contributions and donations are recognised in the accounts on the date that the grant conditions have been satisfied.

Service specific grants are matched in the revenue accounts against the service expenditure they relate to. Where capital expenditure does not result in an asset, this is now charged directly to Revenue (see below); where this expenditure is financed from capital grants or contributions, these are treated as revenue income.

When the grant or contribution is used to finance fixed assets with a finite useful life, the amounts are credited to a Government Grants Deferred Account or Capital Contributions Deferred Account. The balance on these accounts are then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to the assets.

3.12 Charges to Revenue for Fixed Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- amortisation of intangible fixed assets attributable to the service

The council is not required to raise council tax to cover depreciation, impairment losses or amortisation. These transactions are therefore reversed in the Statement of Movement on the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account.

3.13 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Previously known as deferred charges, Revenue Expenditure Funded from Capital under Statute represents expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Revenue expenditure funded from capital under statute incurred during the year is charged directly to the relevant service revenue account. Where the council has determined to meet the cost of the REFCUS from existing capital resources, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

3.14 Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

(Note not relevant for Cherwell District Council) – The Council is debt free

3.15 Financial Assets

Financial Assets are classified into two types;

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- available-for-sale assets – assets that have a quoted market price and/ or do not have fixed or determinable payments
- **Loans and Receivables** - Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the assets multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account which is the amount receivable for the year in accordance with the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Income and Expenditure Account.

- **Available for Sale Assets** - Available for sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Income and Expenditure Account when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gain/losses previously recognised in the STGRL.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses)

3.16 Exceptional Items

Exceptional items are ones that are material in terms of the Authority's overall expenditure and are not expected to recur frequently or regularly. Exceptional items are included in the cost of the service to which they relate (or on the face of the Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts). A full explanation of each exceptional item is given in the Notes to the Core Financial Statements.

3.17 Prior Period Adjustments

Prior period adjustments are material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

Material adjustments applicable to prior years are accounted for by restating the comparative figures for the preceding period in the Statement and notes and adjusting the opening balance of reserves for the cumulative effect. A full explanation of each prior adjustment is given in the notes to the Core Financial Statements.

3.18 Leases

- **Finance Leases** - The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council.

Rental payments under finance leases are apportioned between the finance charge and the reduction in the outstanding obligation, with the finance charge being allocated to revenue over the term of the lease.

Fixed assets recognised under finance leases are accounted for using the policies applied generally to tangible fixed assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated useful life.

- **Operating Lease Payments** - Leases that do not meet the definition of finance leases are accounted for as operating leases.

Rentals payable under operating leases have been charged to service revenue accounts on a straight-line basis over the term of the lease.

- **Operating Lease Income** - Where the Council operates as the Lessor, operating lease income is credited to the Income and Expenditure Account on a straight line basis over the term of the lease.

3.19 Stocks and Work in Progress

Stocks and stores are included in the Balance Sheet at the lower of cost or net realisable value.

3.20 Provision for Bad and Doubtful Debts

Provision has been made for bad and doubtful debts based on an age profile analysis of the outstanding debtor balances and the nature of the outstanding debt.

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Accounts Audit and Risk Committee

Internal Audit Progress Report

22 March 2010

Report of Chief Internal Auditor

PURPOSE OF REPORT

This report provides the Committee with an update of the work of Internal Audit since the last meeting and the revisions made to our 2009/10 audit plan.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) to consider and approve this report.

Executive Summary

1.1 Introduction

This report provides the Committee with an update of the work of Internal Audit since the last meeting. It includes a high level overview of final reports issued and issues raised.

1.2 Proposals

No specific proposals included

1.3 Conclusion

The Accounts, Audit and Risk Committee is recommended to consider and approve this report and the amendments made to the audit plan

Background Information

Internal Audit has undertaken work in accordance with the 2009/10 Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee at its meeting in June 2009. Progress reports are taken to this committee to outline the work performed and conclusions forged to date.

Implications

Financial:	n/a
Legal:	n/a
Risk Management:	<p>The progress of the Audit Plan approved by this Committee is monitored as part of the Council's Performance Monitoring Framework. Failure to achieve the audit plan could result in a risk that independent assurance will not be provided on the internal control environment as required, and could be seen to undermine the effectiveness of the Internal Audit team. Failure to achieve the audit plan could lead to adverse comment from the external auditors. This risk has been assessed on the Council's risk register, entry number 0264.</p> <p>Comments checked by Chris Dickens, Chief Internal Auditor, 07720 427215</p>

Wards Affected

All

Document Information

Appendix No	Title
Appendix 1	Internal Audit Progress Report
Background Papers	
n/a	
Report Author	Chris Dickens, Chief Internal Auditor
Contact Information	07720 427215 Chris.Dickens@cherwell-dc.gov.uk

Internal audit
summary report
for Accounts,
Audit and Risk
Committee

March 2010

Cherwell

DISTRICT COUNCIL
NORTH OXFORDSHIRE

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1. Plan outturn

2009/10 Audit Plan

We have undertaken work in accordance with the 2009/10 Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee at its meeting in June 2009.

An outturn statement detailing assignments undertaken and actual activity for the year is shown in Appendix One. This shows that we have now commenced the majority of reviews and reports are being issued either in draft or final format. At present we have completed **210 days out of a total planned 230 days (91%)**.

2. Reporting and activity progress

Final reports issued since last meeting

- **General Ledger** –An opinion of **MODERATE ASSURANCE** has been issued for the Council's General Ledger system. The General Ledger system provides an excellent control framework for the Council and is being utilised well by the finance team. Some issues were noted around the incorrect authorisation of journals and the removal of access rights when individuals leave the Council.
- **Housing Benefits** – The Housing Benefits function is operating to a high level and therefore **HIGH ASSURANCE** has been issued for this report. No issues were noted with the processing of Housing Benefit claims in any transactions tested by audit. The Council is however underperforming against their target to recover overpayments due to the economic climate. Action plans should be put in place to rectify this performance.
- **Treasury Management – HIGH ASSURANCE** has been given for the Treasury Management function. No issues were noted with the operation of controls around investing and borrowing and monitoring of this activity. An issue was however noted with the use of the Councils overdraft facility. This limit has been exceeded on 3 occasions in year and has incurred a cost to the Authority. In addition, the Council should review their counterparty listings to minimise the risk of overexposure.
- **VAT** – An opinion of **HIGH ASSURANCE** has been issued for the Council's VAT arrangements. The controls around charging and accounting for VAT appear to be in place Recommendations were however made around changes that should be made to VAT calculated on catering. The current coding arrangements have meant a potential VAT overpayment of £4,500.
- **Government Connect Secure Internet Review – HIGH ASSURANCE** has been given on the Councils arrangements for Government Connect. The Council's Code of Conduct is compliant with relevant guidance in the area and a formal project plan is in place to address changes. That said, the Council needs to perform mandatory Health Checks to ensure compliance.
- **Server Investigation Follow up – MODERATE ASSURANCE** was issued for the follow up of the failure of the Council's servers in prior year. Action plans have been put in place to follow up issues noted in our previous report; however additional work needs to be performed on widening the scope of disaster recovery plans and implementing a formal IT response process should future events occur.

Draft reports

The following reports are currently in draft format:-

- Fixed Assets
- Partnerships
- LAA Indicators
- Governance

Fieldwork commenced

Fieldwork has commenced in the following areas:-

- International Financial Reporting Standards (Ongoing work)
- Managing in a Downturn (Ongoing Work)
- Budgetary Control

Summary of key risks

Overview

Our final reports include a number of recommendations and a breakdown of these can be found in Appendix Two, which summarises the risk ratings associated with each finding and recommendation. Further information is provided in the individual reports which can be produced in full if required.

At the time of this report, we have identified no issues that should be considered as significant control weaknesses.

3. Other issues

Benefits Investigation Team – Summary of activity

In order to provide the AAR Committee with a more complete picture of the internal control activity within the Council, we have provided a summary of the activity of the Benefits Investigation Team since 1st April 2009.

Referrals received	Sanctions	Success rate for year	Total Overpayments identified for recovery for the year to date
261	Cautions = 34 Ad Pens = 9 Prosecutions = 12	60.27% against a target of 50%	£163,277

This information is prepared by Jeff Brawley, the Council's Benefits Investigation Manager.

Appendix One

Planned activity	Planned days	Actual days	Status
1. Fundamental assurance			
OP1.1 General Ledger/ Fin. accounting	5	5	Final Report
OP1.2 Debtors	5	5	Final Report
OP1.3 Creditor payments	10	10	Final Report
OP1.4 Payroll	10	10	Final Report
OP1.5 Budgetary Cont./ Fin. accounting	5	2	Fieldwork commenced
OP1.6 Council Tax	5	5	Final Report
OP1.7 National Non Domestic Rates	5	5	Final Report
OP1.8 Bank Reconciliations	5	5	Final Report
OP1.9 Cashiers	10	10	Final Report
OP1.10 Treasury Management	5	5	Final Report
OP1.11 Housing Benefits	10	10	Final Report
OP1.12 Fixed Assets	5	4	Draft Report
OP1.13 IFRS Health check	5	3	Fieldwork ongoing
OP1.14 VAT	5	5	Final Report
OP 1.15 Car Parking	10	10	Final Report
OP 1.16 Risk Management	5	5	Final Report
OP 1.17 Governance	5	5	Draft Report
OP 1.18 Establishment Visits	5	5	Final Report

Planned activity	Planned days	Actual days	Status
2. Operational system reviews			
– risk based assurance			
OP 2.1 Partnership working	5	4	Draft Report
OP 2.2 Managing in a Downturn	5	3	Fieldwork ongoing
OP 2.3 ICT audits	25	20	Fieldwork ongoing
OP 2.4 Job Evaluation	5	0	Removed from audit plan
OP 2.5 Corporate Planning	40	0	Removed from audit plan
OP 2.6 CAA	40	0	Removed from audit plan
OP 2.4 LAA Indicators	10	8	Draft Report
OP 2.5 Bicester Village	10	9	Final Report
OP 2.7 Data Quality	5	5	Final Report

Planned activity	Planned days	Actual days	Status
3. Strategic Reviews			
OP 3.1 Performance Management	5	5	Final Report
OP 3.2 Anti Fraud and Corruption	5	5	Final Report

Planned activity	Planned days	Actual days	Status
4. Other			
OP 4.1 General Follow Up	10	10	Ongoing
OP 4.3 Audit Management	30	29	Ongoing
OP 4.4 Contingency	5	3	Ongoing
TOTAL	230	210	

Appendix Two





Summary of recommendations (final reports only)

Assignment	High	Medium	Low	Total	Overall opinion
Car Parking	1	4	2	7	MODERATE
Council Tax	0	8	1	9	MODERATE
Creditors	1	2	1	4	MODERATE
Debtors	0	3	3	6	MODERATE
Data Quality	0	6	7	13	MODERATE
Payroll	0	0	1	1	HIGH
Cash Collection	0	5	2	7	MODERATE
Bank Reconciliations	0	2	2	4	HIGH
Cash Handling	0	2	1	3	HIGH
Performance Measurement	0	2	3	5	HIGH
Non Domestic Rates	0	7	1	8	MODERATE
General Ledger	0	5	7	12	MODERATE
Housing Benefits	0	2	3	5	HIGH
VAT	0	5	1	6	HIGH
Treasury Management	0	3	0	3	HIGH
Government Connect Secure Internet	0	0	2	2	HIGH
Server Failure Follow up	0	6	2	8	MODERATE
Anti Fraud and Corruption	0	6	4	10	MODERATE
Governance	n/a No opinion issued				
Bicester Village	n/a No opinion issued				
Risk Management	n/a No opinion issued				
Total	2	68	43	113	

Appendix Three

Our assessment criteria are shown below:

Each of the issues identified has been categorised according to risk as follows:

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the authority's objectives in relation to: <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall authority objectives.
 Medium	Control weakness that: <ul style="list-style-type: none"> • has a low impact on the achievement of the key system, function or process objectives; • has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
 Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Overall opinion rating:

Level of assurance	Description
High	<p>No control weaknesses were identified; or</p> <p>Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.</p>
Moderate	<p>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.</p>
Limited	<p>There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.</p>
No	<p>There are weaknesses in the design and/or operation of controls which [in aggregate] could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.</p>

In the event that, pursuant to a request which Cherwell District Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PricewaterhouseCoopers (PwC) promptly and consult with PwC prior to disclosing such report. Cherwell District Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Cherwell District Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Cherwell District Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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Accounts Audit and Risk Committee

Internal Audit Final Plan 2010/11

22 March 2010

Report of Chief Internal Auditor

PURPOSE OF REPORT

This report provides the Committee with a final version of the 2010/11 internal audit plan

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) to consider and approve this report.

Executive Summary

1.1 Introduction

This report provides the Committee with a final internal audit plan for 2010/11. This is based on our Strategic Plan for 2009-12 and has been updated following consultation with members and officers.

1.2 Proposals

No specific proposals included

1.3 Conclusion

The Accounts, Audit and Risk Committee is recommended to consider and approve this report

Background Information

Internal audit is required to produce a risk based plan on an annual basis. Our draft audit plan has been drafted order to ensure that that the risks facing Cherwell District Council are effectively addressed and internal audit resources are effectively utilised. This is in line with current Internal Audit Standards and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom

Implications

Financial:	n/a
Legal:	n/a
Risk Management:	<p>The Audit Plan approved by this Committee is monitored as part of the Council's Performance Monitoring Framework. Failure to achieve the audit plan could result in a risk that independent assurance will not be provided on the internal control environment as required, and could be seen to undermine the effectiveness of the Internal Audit team. Failure to achieve the audit plan could lead to adverse comment from the external auditors. This risk has been assessed on the Council's risk register, entry number 0264.</p> <p>Comments checked by Chris Dickens, Chief Internal Auditor, 07720 427215</p>

Wards Affected

All

Document Information

Appendix No	Title
Appendix 1	Internal Audit Final 2010/11 Internal Audit Plan
Background Papers	
n/a	
Report Author	Chris Dickens, Chief Internal Auditor
Contact Information	07720 427215 Chris.Dickens@cherwell-dc.gov.uk

Internal audit final plan 2010/11



Distribution List

Accounts Audit and Risk Committee
Chief Executive
Strategic Directors
Corporate Managers

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1 Introduction

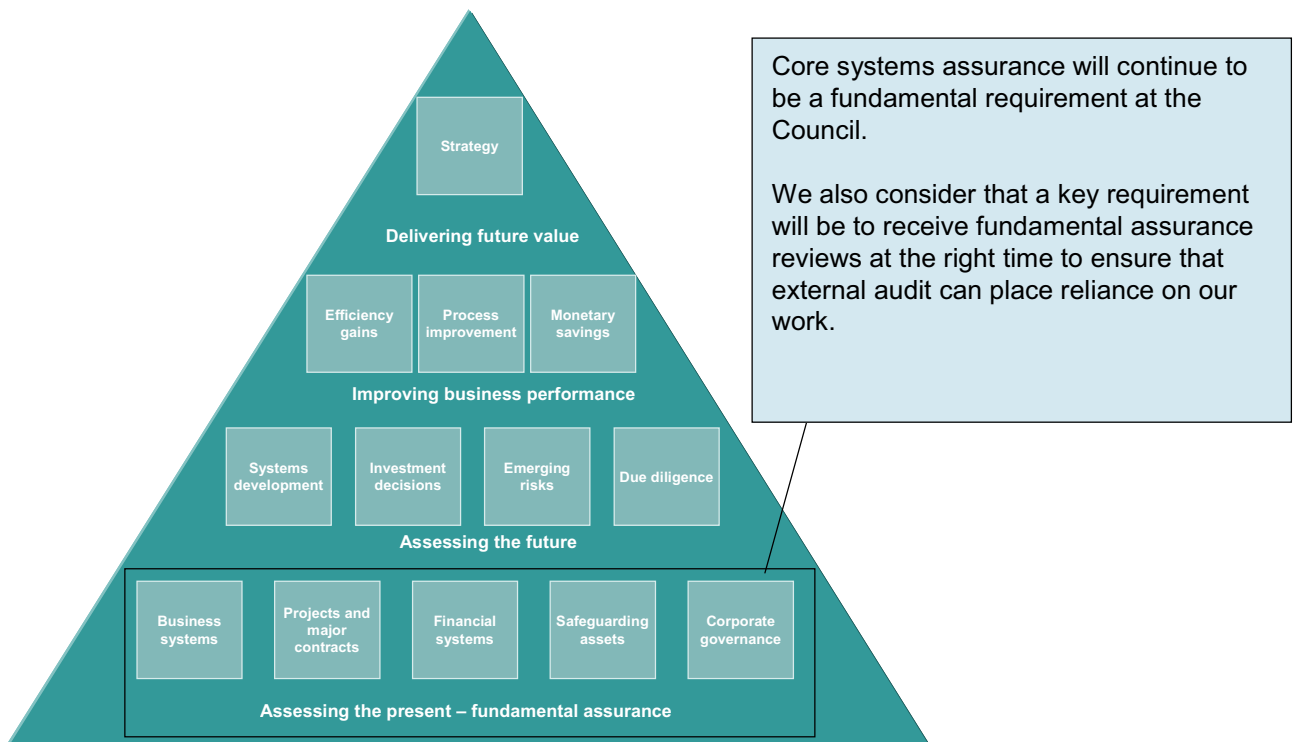
Our 2010/11 audit plan has been prepared in order to ensure that the risks facing Cherwell District Council (CDC) are effectively addressed and internal audit resources are appropriately utilised. This is in line with current Internal Audit Standards and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

We have drawn our risk assessment from a wide range of sources which have been outlined in Section 2. As we have been CDC's internal auditors for a period of 18 months, we are able to draw upon our knowledge of you and our findings during this period.

This Risk Assessment has been a key factor in deciding how to allocate internal audit resources available. It ensures that resources are focused on those areas where they can be of most benefit to CDC by providing assurance to the Accounts Audit and Risk Committee and management on controls over key risks. This document sets out our responses as internal auditors to those risks and to other factors that have been considered as part of our assessment of audit need.

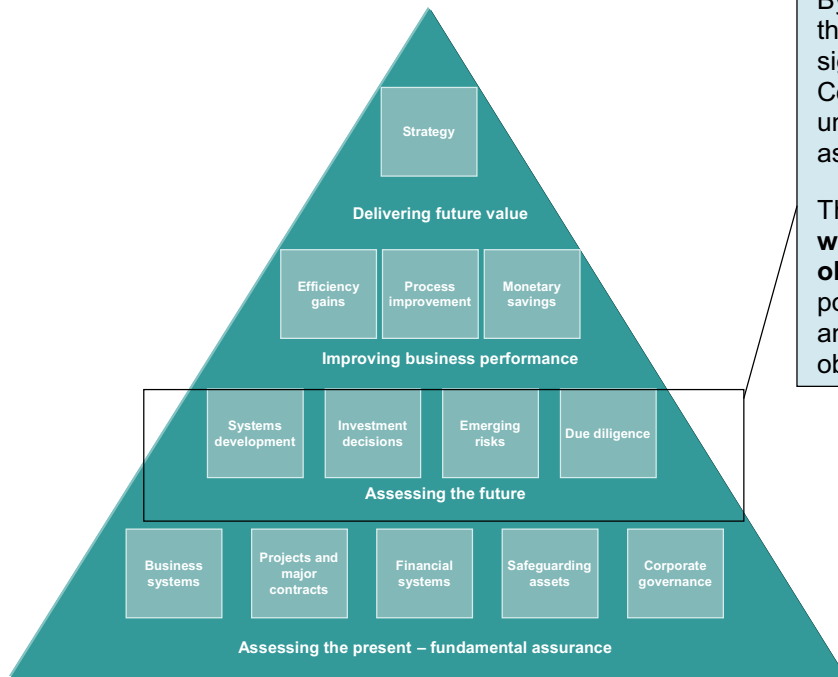
2 Providing assurance

Providing fundamental “core systems” assurance



We recognise the necessity to provide management with an on-going level of fundamental “core systems” assurance. We will also seek to maximise audit efficiency by working closely with the external auditors, the Audit Commission. This includes developing and enhancing existing working arrangements with the external auditors.

Moving towards a risk based audit approach



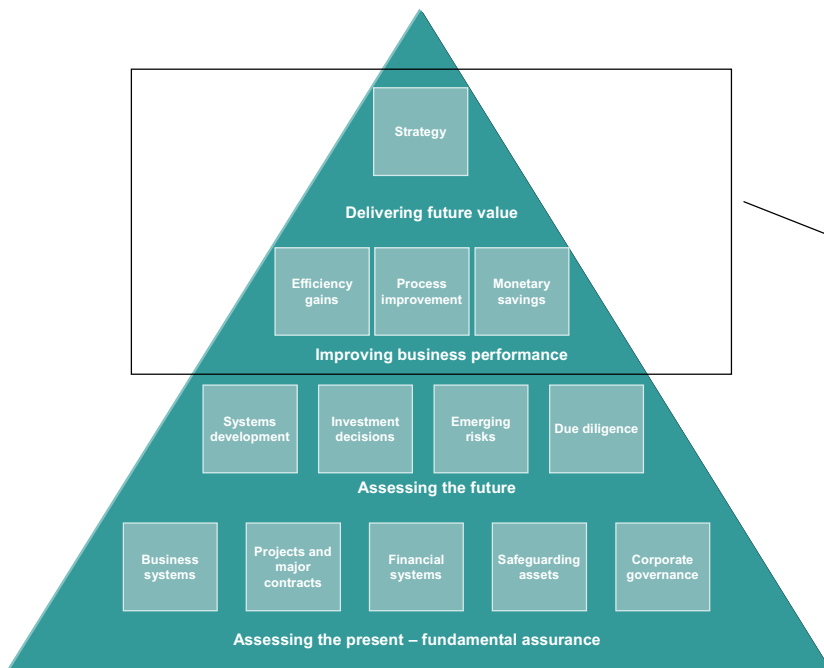
By adopting a risk based audit approach there will be clear linkage between the significant risks identified in the Council's Risk Registers and the work undertaken by internal audit in providing assurance against these.

The definition of risk is **“anything that will prevent you from achieving your objectives”**. As a result, the starting point for a risk based audit approach is an understanding of the Council's objectives.

Risk based work is also critical to the Council, as it seeks to improve the risk awareness of staff, and improve overall control. The internal audit work programme is designed to provide assurance that the significant risks identified within the Council's risk registers are being managed effectively. As part of this process we will also examine the risk management framework and governance procedures.

Delivering value through improved performance

Internal audit can also provide a valuable role in improving business performance and delivering future value. We can assist the Council through the deployment of specialist skills and experience,



A significant element of the internal audit plan will be focused on fundamental assurance. However, over time as risk management processes develop and the internal control environment strengthens, we would expect the proportion of the internal audit plan spent on this to reduce. This will enable us to concentrate more of our resources on assisting the Council in areas such as efficiency gains, process improvements and delivering savings.

3 The risk assessment process

The information which has been used to prepare our Risk Assessment and final Internal Audit plan has been collected and collated from a number of different sources, including:

- Prior year internal audit plans and reports
- A review of risk registers
- Consultation with key stakeholders during a Strategic Risk Workshop on 17th December 2009
- Ongoing discussions with members and officers
- Attendance of the Accounts, Audit and Risk Committee and Corporate Management Team meeting
- A review of relevant documentation and reports from external inspectorates (e.g. The Audit Commission)
- Review of technical and legislative updates

Completeness of assessments and future reviews

Our risk assessment is limited to matters emerging from the processes listed above. We will review and update this assessment and the resulting internal audit plan annually. If, however, additional risks arise, or change in priority, during the year the audit plan will be reconsidered with management and, with the approval of the Accounts Audit and Risk Committee, amended to ensure that audit resources are focused on the new risk areas.

4 Proposed internal audit plan

The proposed internal audit plan for 2010/11 is set out below (in summary and detail) for the approval of management and the Accounts Audit and Risk Committee. This was presented in draft to committee in January 2010. Our plan has been produced in line with modern internal auditing standards and the CIPFA Code of Practice for Internal Audit in Local Government in the UK.

Once the programme has been agreed in outline, we will refine the precise scope of each review and agree this, and the related days, with management.

Summary operational internal audit plan 2010/11

Area of coverage	Proposed Days (2010/11)
Fundamental assurance (core systems reviews)	115
Risk based assurance (operational systems reviews)	55
Performance assurance (strategic reviews)	15
Other	35
TOTAL	220

Detailed operational internal audit plan 20010/11

Review area	Days	Points of Focus
Core systems reviews		
General Ledger	5	Input controls. Accuracy of outputs. Security over access and data. System enhancements. Changes in key staff or operating procedures.
Debtors	10	All sources of income are identified. Invoices are raised in a timely, complete and accurate fashion. Adequacy of debt collection, recovery and write-off procedures. Security over access and data.
Creditors	5	Accuracy and review of output from the creditors system. Orders are raised in respect of all goods required. Payments are accurately made for goods received and appropriate authorisation has taken place. Security over access and data.
Payroll	5	Starters, leavers and amendments Calculation of deductions Temporary variations to pay Security of system and access controls Operation, recording and certification of flexi time scheme
Budgetary Control	10	Budgets setting. Budgetary responsibility is delegated to trained and clearly defined budget holders who receive sufficient management information. Monitoring data on overall budget performance Budget variations are analysed, investigated, explained and acted upon. Any savings and efficiencies highlighted are realistic and achieved.
Council Tax National Non Domestic Rates	15	Identification and valuation of properties Reliefs and exceptions are appropriately calculated and applied Billing & collection Recovery and enforcement

Review area	Days	Points of Focus
Bank Reconciliations	5	All bank accounts are subject to regular independently reviewed reconciliations.
Cashiers	5	All income collection points are known. Adequate controls are in place over post opening and processes in place for the secure receipt and recording of cash. Cash is adequately safeguarded. Banking takes place promptly. Accurate recording against debtor and income accounts. Minimal use of suspense accounts. Adequate segregation of duties are in place.
Treasury Management	10	Corporate treasury activities are monitored and controlled Reporting and monitoring of treasury management activities
Housing Benefits	10	Benefit assessment and payments
Fixed Assets	10	Acquisitions identified Treatment of surplus assets Disposals/transfer of assets Capital assets are completely and accurately recorded Capital asset verification Accounting for fixed assets and associated capital charges / revaluations Fixed assets are appropriately disclosed System is secure against unauthorised access and data loss
IFRS	5	Review of IFRS draft accounts and consideration of policies in place to ensure compliance
Car Parking	5	Management information Income collection and banking arrangements
Risk management	5	Risk management framework Fraud risk management Embedding risk management Link to service planning
Governance – survey	5	Governance framework
Procurement	5	Compliance with procurement strategies
Total core systems	115	

Review area	Days	Points of Focus
Operational reviews - risk based assurance		
Partnership working	5	Identification of key partners Risk assessment process Governance framework
Freedom of Information and Data Protection	5	Compliance with relevant legislation Policies and procedures
Health and Safety	5	Policies and procedures Reporting of incidents and management information Preventative controls
ICT Audits	20	IT risks – New systems Data security
Job Evaluation	5	Job Evaluation process and retention of audit trail
Sustainability	10	Controls and infrastructure in place to meet CAA standards
Strategic Planning	5	Forward planning and communication
Total operational systems reviews	55	
Strategic – performance assurance		
Anti Fraud and Whistleblowing	5	Policies and procedures Whistleblowing
Performance management	10	Effectiveness of data collection and collation arrangements
Total strategic – performance assurance	15	
Other		
Follow up –	5	
Audit Management	30	
Total Other	35	
Annual audit days	220	

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Accounts, Audit and Risk Committee

Corporate Risk Register and Risk Strategy 2010/11

22 March 2010

Report of Chief Executive

PURPOSE OF REPORT

To present the proposed Corporate Risk Register and the Risk Strategy for 2010/11 for consideration and comment by the Accounts, Audit and Risk Committee in advance of their consideration by the Council's Executive.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Agree the principles of risk management set out in this report.
- (2) Agree the Corporate Risk Register for 2010/11.
- (3) Agree the Risk Strategy 2010/11.
- (4) Agree the arrangements for reporting on risk management to the Executive and the Accounts, Audit and Risk Committee.
- (5) Agree the views of the Accounts, Audit and Risk Committee are reported to the Executive when they consider this item.

Executive Summary

Introduction

- 1.1 Every year we update the Council's Risk Register and Risk Strategy in the light of changing circumstances and priorities. In advance of 2010/11 we have carried out a more thorough review than in previous years. The main driver of this has been the move to integrate risk management and performance management which has given us the opportunity to consider the underlying principles of our overall

approach to managing risk.

- 1.2 The proposals in this report build on the already strong performance of the Council on risk management. Under the national Use of Resources inspection the Audit Commission rates our performance as three out of four (and they have told us this is a strong three). We have established a comprehensive risk register through which performance is regularly monitored and there is effective oversight by members through the Executive and the Accounts, Audit and Risk Committee. We will build on this strong base by having a clearer focus on the risks to the Council achieving its strategic objectives and completing the integration of risk management and performance management (from 1/4/2010 our performance on managing risks will be reported through P+, the Council's corporate performance management).
- 1.3 The report sets out the following:
- The principles by which we will manage risk in the Council.
 - A revised Corporate Risk Register for 2010/11
 - An update of the Council's Risk Strategy.
 - The arrangements for reporting on risk management to the Executive and the Accounts, Audit and Risk Committee.

Proposals

- 1.4 **Underlying Principles.** It is proposed that the following principles are adopted for the management of risk:

Core Risks. There will be a core of risks that have organisation wide significance. These will comprise the Corporate Risk Register and will be monitored and reported through the corporate Performance Management Framework. The core risks will be the strategic and corporate risks (see definitions below). We have also included some partnership risks, although they are operational risks, in the Corporate Risk Register because of the high priority we give to improving partnership working.

Operational Risks. In addition to the core risks individual managers will have the discretion to manage locally any operational risks they believe could affect the delivery of services in their area. These may be stored on Performance Plus and monitored locally but will not be monitored corporately through the Performance Management Framework. As with local performance indicators any issues arising from these operational risks may be escalated up the Performance Management Framework to the Corporate Management Team and the Executive.

Net Risk. This is a measure of impact x likelihood after the proposed mitigating actions have been taken into account. This is given a score which can range from 1 to 25. In the proposed risk register the range is from 4 to 15. The entry point to a medium to high rated risk is 10. This level of risk involves having 'contingency plans' and 'active management'. Below the 10 threshold the action required is 'good housekeeping' and 'no mitigating actions but periodic review'. Risks below the 10 threshold would not generally be included in a corporate risk register. We propose to do so in 2010/11 because the risks reflect corporate priorities and concerns (and we may want to review these scores). After 2010/11 we propose only risks rated 10 and above should be included on the Corporate Risk Register.

- 1.5 **Types of Risk.** Questions have been raised about the difference between Strategic, Corporate, Operational and Partnership risks. In practice there will always be areas of overlap between them. Our definitions are as follows:

Strategic. These are risks that are significant in size and duration and will impact on the reputation and performance of the Council as a whole and in particular on its ability to deliver its four strategic priorities.

Corporate. These are risks to corporate systems or processes that underpin the organisation's overall operation and ability to deliver services.

Operational. These are risks to the delivery of individual services.

Partnership. These are the risks to a partnership delivering services or meeting other objectives.

- 1.6 **Risk Register 2009/10.** There are currently 171 risks on the corporate risk register, 6 strategic, 28 corporate and 137 operational, with 16 risks linked to partnership working included in the latter. In practice this number of risks has had the effect of diluting the focus on what are the most significant risks to the organisation and individual services and made the routine management of risk more onerous than it should be.
- 1.7 **Reviewing the Risks.** Every year we review the contents of the Risk Register to ensure its contents reflect current priorities and circumstances. The review this year involved extensive consultation with managers to review the strategic, corporate, operational, and partnership risks. This process included a workshop, facilitated by Price Waterhouse Cooper, for the Portfolio Holder for Performance Management and Improvement and the Extended Management Team to agree the Council's strategic risks.

An outcome of this is the reduction in the overall number of risks. As a result we have achieved a better focus on the most significant risks to the organisation delivering its strategic objectives in 2010/11 and on

the most significant external risks, particularly the consequences of the current economic recession on service delivery and the Council's finances. We also took the opportunity to remove risks that had a low risk rating from the Corporate Risk Register, although service managers may continue to use them locally.

- 1.8 **Risk Register 2010/11.** The proposed Risk register for 2010/11 is attached as Appendix One. The most immediate difference is that the number of risks on the Corporate Risk Register has been reduced to 19. The key changes are set out below:

Strategic Risks. The number of these risks will increase from 6 to 8. This includes a new risk related to delivering A Safe and Healthy Cherwell for which there are currently no risks identified. The content of the risks have changed to reflect the changes to our priorities and operational circumstances.

Corporate Risks. The proposal is to reduce the number of corporate risks from 28 to 7. This allows for a very clear focus on the risks that could affect the ability of the Council to function effectively as an organisation.

Partnership Risks. The risks associated with partnership working were included in the risk register for the first time in 2009/10. Although the risks are operational we are including 4 of them in the Corporate Risk Register to reflect the growing importance of this way of working to the Council. All other risks related to partnership working will be managed at the service level.

To allow comparison the strategic, corporate and partnership risks for 2009/10 are shown in Appendix Two.

- 1.9 **Risk Register 2010/11 – Mitigating Actions.** To arrive at the net scores for the risks in the proposed Corporate Risk Register officers have made an initial judgement about what mitigating actions they can task to reduce the impact of the risks. Work is currently underway to develop these in more detail so they can be used as a tool for monitoring performance. These will be circulated to the Accounts, Audit and Risk Committee as soon as they are available.
- 1.10 **Operational Risks.** The operational risks are not included on the corporate risk register; instead they will be managed locally. The number and type of risks and the monitoring and reporting arrangements will be decided by the service manager. These should be confirmed by the Directorate Management Team to ensure a consistent application of standards and procedures. The performance of the operational risks will not be reported through the corporate performance management system unless there are exceptional issues to report. This is the same practice we have adopted for managing and reporting the delivery of service plans and non-corporate performance

targets.

- 1.11 **Risk Strategy 2010/11.** The Risk Strategy sets out the overall approach to managing risk in the Council. This is reviewed at the end of each year and updated, if necessary, to reflect changing priorities and circumstances. We believe the current Risk Strategy is fit for purpose and propose it is retained for 2010/11. This is attached as Appendix Three.
- 1.12 **Reporting Arrangements.** For 2010/11 the reporting of the Corporate Risk Register will be integrated into the quarterly performance report to the Executive. The current performance report includes a section on the status of the strategic risks. Under the new arrangements this will be extended to all the items in the Corporate Risk Register. A key aspect of these new arrangements is to improve the accountability to members. It is proposed that the performance of all the risks on the Corporate Risk Register is reported to the Accounts, Audit and Risk Committee each quarter.

Conclusion

- 1.13 For 2010/11 we are introducing a number of significant changes to the way we manage risk in the Council. These changes build on an already strong performance that has been recognised by the Audit Commission. By integrating risk and performance management, by having a clearer understanding of the risks to the council achieving its strategic objectives and improving the accountability to members we are taking the management of risk to a next stage of development.

Background Information

- 2.1 From 1 April 2010 the Council will use PerformancePlus to monitor the Council's risks. This move will allow an integrated approach to managing risk and organisational performance and rationalise the administration involved.

In advance of that we have reviewed the Council's risks to ensure they reflect current circumstances. As part of this we have rationalised the overall number of risks so there is a clear focus on the most significant risks to the organisation and individual services and in turn this will reduce the administration involved in managing risks.

This process has involved extensive consultation with managers to review the corporate, operational, and partnership risks. This included a workshop, facilitated by Price Waterhouse Cooper, for the Extended Management Team to agree the Council's strategic risks.

Key Issues for Consideration/Reasons for Decision and Options

- 3.1 To agree an overall approach to risk management that builds on current practice to provide a clear focus on the risks to the Council delivering its strategic objectives.

The following options have been identified. The approach in the recommendations is believed to be the best way forward

- Option One** To accept the proposals in this report.
- Option Two** To propose amendments to the proposals in this report.
- Option Three** To propose an alternative approach to risk management.

Implications

Financial: The Council has identified the possible impact of the current economic climate on the Council's ability to deliver its corporate priorities as a Strategic Risk. There is also a Corporate Risk arising from the Council's ability to fund its activities because of a reduction in investment income or income from other capital assets such as buildings.

Comments checked by Karen Curtin, Senior Accountant, 01295 221551

Legal: There are no direct legal implications arising from this report but the Council has to ensure it is aware of any risks to its delivering what is required by law.

Comments checked by Liz Howlett, Head of Legal and Democratic Services, 01295 221686

Risk Management: The Risk and Insurance Manager is an author of this report.

Comments checked by Rosemary Watts, Risk Management & Insurance Officer , 01295 221566

Wards Affected

All

Document Information

Appendix No	Title
Appendix 1	Corporate Risk Register 2010/11
Appendix 2	Strategic, Corporate and Partnership Risks 2009/10

Appendix 3	Risk Strategy 2010/11
Background Papers	
None	
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CORPORATE RISK REGISTER 2010/11

Strategic Risks

Risk	New / Existing	Owner	Net Risk Severity x Likelihood
A District of Opportunity			
<p>1. Local Development Framework The risks are that the Local Development Framework is not prepared adequately, in time, or is found unsound at public examination. Such outcomes would result in further risks arising from speculative planning applications, undesirable major developments and / or expense for the Council in contesting planning appeals. An unsound plan would mean that the Council would have to repeat 2 to 3 years work at high cost.</p>	Existing	<p>Phillip Clarke Head of Planning & Affordable Housing</p>	<p>5 x 3 = 15 High Medium</p>
<p>2. Economic and Social Changes The risk is that the Council does not identify and respond to general economic and social changes and as a result would not fulfil its role as a community leader and a provider of top quality services driven by a clear understanding of community and individual needs.</p>	Existing	<p>John Hoad Strategic Director Planning Housing & Economy</p>	<p>3 x 4 = 12 High Medium</p>

<p>3. Deprivation and Inequalities The risk in not breaking the cycle of deprivation and addressing inequalities across the District is that the life opportunities of residents in the greatest need will not be improved and as a result the reputation of the Council will suffer. The risk is particularly acute in areas such as the Neithrop, Ruscote and Grimsbury wards in Banbury where there is a high level of deprivation as measured by the Government's indices of multiple deprivation.</p>	New	<p>Ian Davies Strategic Director Environment &Community</p>	<p>2 x 5 = 10 High Medium</p>
<p>4. Eco Town The risks are that national and local policy support and resources will be inadequate to support the development of the NW Bicester Eco-Town. As a result the Council may fail to fully exploit the Eco-Town as an opportunity to develop a centre of excellence in terms of sustainable living.</p>	New	<p>John Hoad Strategic Director Planning Housing & Economy</p>	<p>3 x 3 = 9 Medium</p>
<p>A Safe and Healthy Cherwell</p>			
<p>5. Horton Hospital The risks to maintaining the Horton Hospital as a facility that meets community aspirations for local health provision are the deliverability and affordability of a revised consultant delivered service model for paediatrics and obstetrics. Failure of either will jeopardise current service provision and could result in a service reduction from the Horton.</p>	New	<p>Ian Davies Strategic Director Environment &Community</p>	<p>4 x 3 = 12 High Medium</p>

A Cleaner Greener Cherwell			
<p>6. The Natural Environment The risk is that the Council does not take the necessary actions to meet its obligation, as set by National Government, to ensure its own operations and that of its District's residents and businesses reduce their carbon footprints.</p>	New	<p>Ed Potter Head of Environmental Services</p>	<p>2 x 3 = 6 Low</p>
An Accessible Value for Money Council			
<p>7. Managing Change The risk is that the Council does not adequately manage the impact of major change programmes on organisational performance and individual morale.</p>	New	<p>Mary Harpley Chief Executive</p>	<p>3 x 3 = 9 Medium</p>
<p>8. Financial Resources The risk is that in an uncertain economic and financial climate the Council will not have the resources to deliver its corporate priorities. Poor economic conditions also tend to produce increased demand on services. As the Council's income from capital reduces our dependency on interest to support revenue expenditure must also reduce and capital assets will need to be rebuilt to fund future infrastructure investments. Failure to do either will result in budgetary shortfall, service reductions, above inflation increases to council tax and lack of capital to fund future community schemes.</p>	Existing	<p>Karen Curtin Head of Finance</p>	<p>3 x 3 = 9 Medium</p>

Corporate Risks

Risk	New / Existing	Owner	Net Risk Severity x Likelihood
<p>1. Health and Safety The risk is that a failure to comply with health and safety and welfare legislation and policies could lead to injuries and death, high sickness absence and claims and litigation against the Council.</p>	Existing	<p>Anne-Marie Scott Head of People & Improvement</p>	<p>5 x 3 = 15 High Medium</p>
<p>2. Capital Investments The risk is to the Council's ability to fund its activities because of a reduction in investment income or income from other capital assets such as buildings.</p>	Existing	<p>Karen Curtin Head of Finance</p>	<p>4 x 3 = 12 High Medium</p>
<p>3. ICT Systems The risk is that the loss of ICT disaster recovery capability; a back-up and recovery failure leading to loss or corruption of data; and system failure because of ageing infrastructure, will have a significant negative impact on service delivery and cause exceptional costs to the Council.</p>	Existing	<p>Pat Simpson Head of Customer Services & Information Systems</p>	<p>4 x 3 = 12 High Medium</p>
<p>4. Equalities Legislation The risk is the Council may be open to litigation and loss of reputation if it is not compliant with equalities legislation.</p>	Existing	<p>Anne-Marie Scott Head of People and Improvement</p>	<p>3 x 3 = 9 Medium</p>

<p>5. Job evaluation The risk is the impact of a significant number of appeals arising from the Job Evaluation scheme on the resources of the Council and Human Resources in particular. Also there is a risk that Job Evaluation may encourage staff to pursue equal pay claims due to greater awareness.</p>	Existing	<p>Anne-Marie Scott Head of People & Improvement</p>	<p>3 x 3 = 9 Medium</p>
<p>6. Civil Emergencies The risk is that Civil Emergency arrangements are not adequate, leading to loss of property, personal injury or death, civil unrest and loss of confidence in local authority leadership.</p>	Existing	<p>Paul Marston-Weston Head of Recreation & Health</p>	<p>5 x 1 = 5 Low</p>
<p>7. Data Quality The risk is that unreliable data sources are used to support decision and policy making putting the Council at risk of making poor decisions. Decisions are made on the basis of information about the population and the nature of the district. If data is out of date, incomplete or inaccurate, those decisions may turn out to be inappropriate.</p>	Existing	<p>Claire Taylor Corporate Strategy & Performance Manager</p>	<p>2 x 2 = 4 Low</p>

Partnership Risks

Risk	New / Existing	Owner	Net Risk Severity x Likelihood
<p>1. Local Area Agreement The risk is the failure to deliver the Council's elements of the Local Area Agreement having a negative impact on service delivery to the public, the Council's reputation with other local authorities and this being reflected in national inspection regimes.</p>	Existing	<p>Claire Taylor Corporate Strategy & Performance Manager</p>	<p>3 x 3 = 9 Medium</p>
<p>2. Local Strategic Partnership The risk is the failure of the Local Strategic Partnership to deliver its objectives having a negative impact on service delivery to the public, the Council's reputation with other local agencies and this being reflected in national inspection regimes.</p>	New	<p>Claire Taylor Corporate Strategy & Performance Manager</p>	<p>3 x 3 = 9 Medium</p>
<p>3. Community Safety Partnership The risk is the failure of the Community Safety Partnership to deliver a continuous reduction in crime and the fear of crime.</p>	Existing	<p>Chris Rothwell Head of Urban & Rural Services</p>	<p>3 x 3 = 9 Low Medium</p>
<p>4. Spatial Planning and Infrastructure Partnership The risk is the failure of the Spatial Planning and Infrastructure Partnership to establish itself as an effective body locally and in relations with National</p>	New	<p>John Hoad Strategic Director Planning Housing & Economy</p>	<p>3 x 3 = 9 Low Medium</p>

Government. The consequences are reduced funding for the local area and failure to fully exploit development and infrastructure provision opportunities.			
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STRATEGIC, CORPORATE AND PARTNERSHIP RISKS 2009/10

Risk	Net Risk Severity x Likelihood
STRATEGIC RISKS	
Failure to have robust resources in place to deliver the Council's Strategic Agenda	3 x 3 = 9 Medium
Failure to demonstrate continuous improvement / meet public expectations for a cleaner District	4 x 2 = 8 Medium
Failure to adapt to economic and social issues in the District	3 x 2 = 6 Medium
Failure to adapt to social issues and pressures in the District	3 x 2 = 6 Medium
Failure to deliver fair and equitable access to services to everyone	3 x 2 = 6 Medium
Failure to deliver the Council's community leadership role	3 x 2 = 6 Medium

CORPORATE RISKS	
Failure to comply with health and safety and welfare legislation.	5 x 3 = 15 High Medium
Loss of income from investments and property	4 x 3 = 12 High Medium
Impact of the influenza pandemic	4 x 3 = 12 High Medium
The credit crunch may affect delivery of affordable housing	4 x 3 = 12 High Medium
Inadequate project management	4 x 3 = 12 High Medium
Council is not payment card industry compliant to version 1.2	4 x 3 = 12 High Medium
Work Related Road Safety	4 x 3 = 12 High Medium
Inability to recruit and retain staff	4 x 3 = 12 High Medium
The Council does not maximise the provision of affordable housing through the planning process	5 x 2 = 10 High Medium
Failing to deliver the Council's elements of the Local Area Agreement	3 x 3 = 9 Medium

Non- compliance with equalities legislation	3 x 3 = 9 Medium
Poor relationship with some members of the media	3 x 3 = 9 Medium
Inadequate risk management arrangements	3 x 3 = 9 Medium
Failure to communicate effectively with stakeholders	3 x 3 = 9 Medium
Failure to manage brand and brand management	3 x 3 = 9 Medium
Failure to produce a balanced budget	4 x 2 = 8 Low Medium
Ultra Vires	4 x 2 = 8 Low Medium
Loss of data via portable storage devices	4 x 2 = 8 Medium
Key re-development in Bicester Town centre does not take place	3 x 2 = 6 Low
Non-compliance with Freedom of Information Act	3 X 2 = 6 Low Medium
Failure to demonstrate effective implementation of the VfM Improvement Plan	3 x 2 = 6 Low Medium

Chris 21 e-recruitment – failure of contractor to deliver contract	2 x 3 = 6 Low Medium
Failure to make temp / permanent appointment of S151 Officer	5 x 1 = 5 Low
Failure to arrange adequate insurance cover	5 x 1 = 5 Low
Civil Emergency arrangements are not adequate	5 x 1 = 5 Low
Unreliable data sources are used to support decision and policy making, putting the Council at risk of making poor decisions	2 x 2 = 4 Low
Failure to effectively undertake and deliver service & financial planning	4 x 1 = 4 Low
Partner & Voluntary organisation scandal implicates the Council	1 x 2 = 2 Low
PARTNERSHIP RISKS	
Oxfordshire Safer Communities Partnership. Failure to deliver objectives.	4 x 3 = 12 High Medium
Failure to adapt to the economic issues and pressures in the District	4 x 3 = 12 High Medium

Lack of Affordable Housing Provision. Insufficient bids for affordable housing being made by the Registered Social Landlords (RSL) partnership.	3 x 3 = 9 Low Medium
Failure of the Community Safety Partnership to deliver a continuous reduction in crime and the fear of crime.	3 x 3 = 9 Low Medium
Reduction or withdrawal of 'Supporting People' Funding.	3 x 3 = 9 Low Medium
Integrated transport and land use strategies are not implemented in the urban areas.	4 x 2 = 8 Low Medium
Failure to establish effective working relations with the Primary Care Trust.	3 x 2 =6 Low
Failure to establish effective working relationships with the Oxfordshire Children's and Young People's Partnership.	3 x 2 =6 Low
Failure to comply with the Oxfordshire Waste Strategy.	3 x 2 =6 Low
Failure of the Oxfordshire Housing Partnership.	3 x 2 =6 Low
Failure of 'Supporting People' Partnership.	3 x 2 =6 Low

<p>Bicester Vision. The risk for the Council if it fails to engage with Vision, or if Vision fails we would lose the opportunity to work with partners on this agenda.</p>	<p>3 x 2 =6 Low</p>
<p>Partnerships with other town centre stakeholders. A number of partnerships which are maintained by the ED&E service are identified as key partnerships for the Council. These comprise the Banbury Town Centre Partnership, the Kidlington Village Centre Management Board, and the Cherwell M40 Investment Partnership. These partnerships are liaison groups which enable dialogue between local authorities and other stakeholders. If the partnerships do not meet regularly, and if the Council is not represented on them, then they will not meet their objectives.</p>	<p>3 x 2 = 6 Low</p>
<p>Failure to deliver community strategy objectives and capitalise on the opportunities. Failure to consult, commission, agree and deliver shared objectives to address the vision for Cherwell. Failure to understand the relationships between community strategy and the LDF. Failure to build effective partnership relationship for Cherwell Cherwell Community Planning Partnership.</p>	<p>2 x 2 = 4 Low</p>
<p>Failure of Homelessness Strategy Partnership to deliver Cherwell's Homeless Strategy.</p>	<p>2 x 2 = 4 Low</p>
<p>Oxfordshire Economic Partnership. Failure to deliver objectives.</p>	<p>2 x 2 = 4 Low</p>

Risk Strategy 2010/11

1. Introduction

The purpose of this document is to outline an overall approach to risk management that addresses the risks facing the Council in achieving its objectives, and which will facilitate the effective recognition and management of such risks.

Risk management will be embedded within the daily operations of the Council, from strategy and policy formulation through to business planning and general management processes. It will also be applied where the Council works in partnership with other organisations, to ensure that partnership risks are identified and managed appropriately.

Through understanding risks, decision-makers will be better able to evaluate the impact of a particular decision or action on the achievement of the Council's objectives.

Risk management will not focus upon risk avoidance, but on the identification and management of an acceptable level of risk. It is the Council's aim to proactively identify, understand and manage the risks inherent in our services and associated with our plans, policies and strategies, so as to support responsible, informed risk taking and as a consequence, aim to improve value for money. The Council will not support reckless risk taking.

Risk management is increasingly recognised as being concerned with both the positive and negative aspects of risk; that is to say opportunities as well as threats.

This strategy therefore applies to risk from both perspectives.

2. Objectives of the Strategy

- To maintain a risk register that identifies and ranks all significant risks facing the Council, which will assist the Council achieve its objectives through pro-active risk management,
- To rank all risks in terms of likelihood of occurrence and potential impact upon the Council,
- To allocate clear roles, responsibilities and accountability for risk management,
- To facilitate compliance with best practice in corporate governance, which will support the Annual Governance Statement which will be issued with the annual statement of accounts,
- To raise awareness of the principles and benefits involved in the risk management process, and to obtain staff and Member commitment to the principles of risk management and control.

3. Assessment and Review

This will involve consideration of all potential risks facing the Council, with risks broken down into strategic risks which could impact on the achievement of the Council's objectives, corporate risks which could impact across more than one

service, and service risks which could impact upon the ability of service units to deliver their services or to achieve their service objectives.

All risks will be clearly defined together with the controls that currently exist to manage them. Consideration of the adequacy of the present control system will avoid duplication of resources as several of the identified risks may already prove to be effectively controlled.

It is important that the internal systems and procedures in place are adequate to manage the identified risk. Where control weaknesses are identified, these should be noted so that action can be taken to remedy such weaknesses.

The risk register will be reviewed and updated at least on a quarterly basis.

The Internal Audit section will focus audit work on significant risks, as identified by management, and will audit the risk management process across the whole Council to provide assurance on its effectiveness.

The Council will seek to learn from other organisations where appropriate, and to keep up to date with best practice in risk management.

4. Risk Ranking

All risks will be rated for the likelihood that they may occur and their potential impact. This will allow for risks to be ranked and prioritised, as not all risks represent equal significance to the Council.

5. Action Plan

Once risks have been identified and ranked, the next step is to control and manage them. This will involve the consideration of cost-effective action, which will be judged against risk rankings. The proposed action to be taken will then be mapped against the specified risk together with an implementation date, and a named person will be designated as responsible for 'owning' the risk.

6. Risk Appetite

The Council will use risk management to add value. It will aim to achieve a balance between under-managing risks (i.e. being unaware of risks and therefore having little or no control over them), and over-managing them (i.e. an obsessive level of management and control which could stifle innovation and creativity).

Appropriately managed and controlled risk-taking and innovation will be encouraged where it is in furtherance of the Council's objectives.

7. Managing Risk & Opportunity Handbook

The Council has established and will regularly update the Managing Risk & Opportunity handbook which sets out its detailed approach to risk management, and the processes and procedures to be followed.

8. Benefits of Risk Management

- Awareness of significant risks with priority ranking assisting in the efficient control of the risks,

- Recognition of responsibility and accountability for risks and associated existing controls and any actions required to improve controls,
- An aid to strategic and business planning,
- Identification of new opportunities,
- Action plan for the effective management of significant risks,
- An aid in effective partnership working.

9. Accountability

There will be clear accountability for risks. This will be achieved through an annual public statement on risk management, an Annual Governance Statement signed by the Chief Executive and the Leader of the Council, and by making the Council's risks and risk management process open to regular Internal Audit and external inspection (e.g. by the Audit Commission as the Council's external auditors).

The Accounts, Audit and Risk Committee will be responsible for monitoring the Council's risk management arrangements, for undertaking an annual review of this Strategy to ensure it remains current and up to date and reflects current best practice in risk management, and for making recommendations to the Executive if it is considered that any improvements or amendments are required.

Members of the Executive will be briefed regularly to ensure they are aware of significant risks affecting their portfolios and any improvements in controls which are proposed.

A Risk Management Improvement Group and Risk Management Working Group will meet regularly to ensure that risk management processes are being applied consistently, to promote risk management throughout all departments and to ensure continuous improvement in risk and opportunity management.

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Accounts, Audit and Risk Committee

Certification of Claims and Returns 2008/09 – Audit Commission

22 March 2010

Report of Head of Finance

PURPOSE OF REPORT

The purpose of this report is to allow consideration of the Certificate of Claims and Returns Report 2008/09 produced by the Audit Commission (see Annex). The report reviews the council's arrangements for the preparation and administration of grant claims within the council.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the Certification of claims and returns - annual report
- (2) Note the agreed Action Plan presented as Appendix 2 to the Audit Commission Report.

Executive Summary

Introduction

- 1.1 The report identifies that the Audit Commission was responsible for certifying claims and returns to the value of £94m in 2008/09, this certification work being charged on an hourly basis to the council.
- 1.2 A limited review of three claims and a full review of one claim was performed. (Paragraph 10 of the report explains the difference.) No amendments were required to the claims subject to limited review.
- 1.3 The Housing Benefit and Council Tax Benefit Claim requiring full certification, was subject to a number of adjustments and as a result the Audit Commission issued a qualification letter to the grant-paying

body. The reasons for this are detailed in paragraph 19 of the report.

- 1.4 As a result of the discussions resulting from this review, the Action Plan at Appendix 2 has been agreed with the Audit Commission. All of the actions relate to the housing benefit claim qualification and officers will be working to ensure that these recommendations are implemented.

Conclusion

- 1.5 The claims and returns associated with National Non Domestic Rates Return, Disabled Facilities Grant and Pooling of Housing Capital Receipts are being prepared in a strong control environment and supported by detailed working papers.
- 1.6 Improvements relating to the Housing Benefit and Council Tax Benefit Claim are required to ensure that 2009/10 claim is not qualified. The Service Assurance Manager has developed an action plan with the audit commission and together with our partner Capita will ensure that all recommendations are implemented. This committee will be informed of progress against the action plan.

Key Issues for Consideration/Reasons for Decision and Options

- 3.1 This report summarises the Audit Commissions findings from the review of our work on our 2008/09 grant claims and returns 2008/09 audit.

The following options have been identified. The approach in the recommendations is believed to be the best way forward

- | | |
|-------------------|--|
| Option One | To note the contents of the report |
| Option Two | To raise issues or questions relating to this report |

Implications

- | | |
|-------------------|--|
| Financial: | Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully.
Comments checked by Karen Muir, Corporate System Accountant 01295 22159 |
| Legal: | There are no implications arising from this report
Comments checked by Liz Howlett, Head of Legal |

Risk Management: and Democratic Services 01295 221686
Failure to provide adequate arrangements for the administration and preparation of grant claims result in both financial and reputation risks to the Council.
Comments checked by Karen Muir, Corporate System Accountant 01295 22159

Wards Affected

All

Document Information

Appendix No	Title
Appendix 1	Certification of claims and returns - annual report
Background Papers	
Various Claims, Returns and Working Papers	
Report Author	Karen Curtin, Head of Finance
Contact Information	01295 221551 karen.curtin@Cherwell-dc.gov.uk

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Certification of claims and returns - annual report

Cherwell District Council

Audit 2008/09

February 2010

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Key messages

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants.

This report summarises the findings from the certification of 2008/09 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims

- 1 Cherwell District Council receives £32m funding from various grant-paying departments. The grant-paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.
- 2 In addition, the Council collects business rates to pay into the national pool, from which the Council then receives grant funding. The amount payable to the pool of £62m is also subject to certification.
- 3 In 2008/09, my audit team certified three claims with a total value of £94 million. Of these, we carried out a limited review of three claims and a full review of one claim. (Paragraph 10 explains the difference.) No amendments were required to the claims subject to limited review. For the claim requiring full certification, the Council made a number of adjustments and we issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary.

Significant findings

- 4 As a result of our work we can require adjustments or if needed issue qualification letters. This year, three of the four claims were certified without amendment. We were unable to certify the Housing Benefit claim fully and therefore issued a qualification letter to the Department for Work and Pensions.
- 5 The Housing Benefits claim is subject to a full review due to its complexity and high value (see paragraph 11). A qualification letter was issued because we found errors in the classification of overpayments and inconsistencies within the claim form.

Certification fees

- 6 The fees we charged for grant certification work in 2008/09 were £33,300. The majority of this fee related to certification of the housing benefit claim.

Actions

- 7 Appendix 2 summarises my recommendations. The relevant officers of the Council have agreed these recommendations and completed our action plan.

Background

- 8 The Council claims £32m for specific activities from grant paying departments. It also collects business rates (NNDR) on behalf of the Government which it pays into the national pool of £62m. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:
 - an adequate control environment over each claim and return; and
 - ensuring that the Council can evidence that it has met the conditions attached to each claim.
- 9 We are required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Cherwell District Council. We charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.
- 10 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 11 The key features of the current arrangements are as follows.
 - For claims and returns below £100,000 the Commission does not make certification arrangements.
 - For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
 - For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
 - For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

Findings

Control environment

Disabled Facilities Grant

- 12 We were able to rely on the control environment for this claim as it is not a complex claim and is relatively low value. The claim is prepared by experienced staff and supported by good working papers. We have not found any errors in previous audits.

Pooling of Housing Capital Receipts

- 13 We were able to rely on the control environment for this claim as it is not a complex claim and is relatively low value. The claim is prepared by experienced staff and supported by good working papers. We have not found any errors in previous audits.

National Non Domestic Rates Return

- 14 We were able to rely on the control environment for this claim even though it is high value and there are a high number of transactions involved as the claim prepared by experienced staff and supported by good working papers. Prior year audits have not found any problems with this claim.

Housing Benefit and Council Tax Benefit Claim

- 15 We were not able to rely on the control environment for this claim as it is highly complex and very high value. External auditors follow the "Housing Benefit COUNT" methodology which has been agreed by the Audit Commission and Department of Work and Pensions (DWP). The issues with this claim were around the administration of the awarding of benefits during the year and the compilation of the claim at the end of the year.

Recommendation

- R1** The findings of the Housing Benefit and Council Tax Benefit Subsidy claim should be shared with relevant members of staff, and should inform ongoing training requirements.

Specific claims

16 National Non Domestic Rates Return

There were no adjustments made to the NNDR claim and the amount payable to the pool of £62m was certified without qualification

17 Disabled Facilities Grant

There were no adjustments to the claim for disabled facility grants (value £410,000) and the claim was certified without qualification.

18 Pooling of Housing Capital Receipts

There were no adjustments to the claim for the pooling of housing capital receipts (value £155,000) and the claim was certified without qualification.

19 Housing Benefit and Council Tax Benefit Claim

This claim was qualified and amended. The cumulated amendments to the claim reduced the subsidy by £23,814. A qualification letter was issued because we found errors in the classification of overpayments and inconsistencies within the claim form:

- testing of rent allowance cases identified five out of 41 cases where a local authority error overpayment was misclassified as an eligible error overpayment;
- we found differences between total expenditure on rent allowances and council tax benefit and their respective in-year reconciliations cells (the total expenditure cells on the claim should be supported by an analysis of this expenditure: rent allowances had a difference of £23,298 and council tax benefit had a difference of £2,065);
- 26 cells in the claim were amended when the Council re-ran the subsidy claim using updated software releases; and
- incorrect child tax credit figures were used in the calculation of 3 out of 23 claims tested (although these did not result in an overpayment on housing benefit subsidy).

Recommendation

R2 The Housing Benefit and Council Tax Subsidy claim form should be checked before being presented for audit to ensure that it is internally consistent. Any variances should be investigated, resolved and the claim amended accordingly.

R3 The Council should ensure that all software releases have been updated on the benefits system before the claim is prepared for submission to the DWP.

R4 The Council should refresh its training for benefits staff on the classification of overpayments and on how child tax credits should be used in benefit entitlement calculations to ensure benefit is being paid at the correct rate.

Appendix 1 – Summary of 2008/09 certified claims

Claims and returns above £500,000

Service	Claim	Value £	Adequate control environment	Amended	Qualification letter
Finance	Housing and council tax benefit	31,554,928	No	Yes	Yes
Finance	National non domestic rates return	61,732,650	Yes	No	No

Claims between £100,000 and £500,000

Service	Claim	Value £	Amended
Finance	Disabled facilities	410,000	No
Finance	Pooling of housing capital receipts	155,097	No

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Claims and Returns Report 2008/09 - Recommendations						
6	R1 The findings of the Housing Benefit and Council Tax Benefit Subsidy claim should be shared with relevant members of staff, and should inform ongoing training requirements.	3	Lauretta Vitalis, Head of Revenues and Benefits	Yes	The details have been shared with the Service Assurance Team and Capita's administration team who are now dealing with the processing of our benefit claims.	09 March 2010
7	R2 The Housing Benefit and Council Tax Subsidy claim form should be checked before being presented for audit to ensure that it is internally consistent. Any variances should be investigated, resolved and the claim amended accordingly.	3	Lauretta Vitalis, Head of Revenues and Benefits	Yes	Expertise/responsibility for this area previously sat with one individual who has now left the authority. Training is now being addressed within the Service Assurance and Finance Teams and future claim forms will be checked and agreed in advance of submission.	30 April 2010
7	R3 The Council should ensure that all software releases have been updated on the system before the claim is prepared for submission to the DWP.	3	Lauretta Vitalis, Head of Revenues and Benefits	Yes	Latest release went in on 20 February 2010 and future releases will be dealt with more timely and certainly before the claim is prepared.	20 February 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R4 The Council should refresh its training for benefits staff on the classification of overpayments and on how child tax credits should be used in benefit entitlement calculations to ensure benefit is being paid at the correct rate.	3	Lauretta Vitalis, Head of Revenues and Benefits	Yes	There has been a change in the benefit assessment staff and this work is now done through an outsourced contract with Capita. Capita rolled out refresher training on all aspects overpayments to its staff on 24 February 2010 and training on tax credits will take place by the end of 31 March 2010.	31 March 2010

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Accounts, Audit and Risk Committee

Audit Protocol

22 March 2010

Report of Head of Finance

PURPOSE OF REPORT

This document sets out the basis for the joint working arrangements between Cherwell District Council's Internal Audit Service (IA) and the Audit Commission (AC), as the Council's external auditors.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the Audit Protocol report

Executive Summary

Introduction

1.1 This document sets out the basis for the joint working arrangements between Cherwell District Council's Internal Audit Service (IA) and the Audit Commission (AC), as the Council's external auditors. This takes into account the requirements of the Code of Audit Practice 2005 (the Code) for external auditors and the Terms of Reference for Internal Audit (which reflects the Code of Practice for Internal Audit in Local Government)

1.2 The aims of the protocol are:

- to clarify respective responsibilities for work associated with the internal audit and external audit codes;
- to develop further a close and effective working relationship;
- to facilitate the effective co-ordination of our work without impairing the independence and integrity of either party;
- to formalise those specific areas where co-operation will minimise the overlap of effort and duplication of work and ensure cost effectiveness;
- to provide an understanding of the results of each others work to inform the scope of future work; and
- to assist the Accounts, Audit and Risk Committee to fulfil its

responsibility to ensure effective liaison between internal and external audit.

Conclusion

- 1.3 The outcome of the review between Internal and External Audit and agreed protocol can be seen in Appendix 1.

Key Issues for Consideration/Reasons for Decision and Options

The following options have been identified. The approach in the recommendations is believed to be the best way forward

Option One To note the contents of the report

Option Two To raise issues or questions relating to this report

Implications

Financial: There are no financial or risk implications.
Comments checked by Karen Muir, Corporate System Accountant 01295 22159

Legal: There are no implications arising from this report
Comments checked by Liz Howlett, Head of Legal and Democratic Services 01295 221686

Risk Management: The audit protocol must take into consideration the requirements of the Code of Audit Practice 2005 (the Code) for external auditors and the Terms of Reference for Internal Audit (which reflects the Code of Practice for Internal Audit in Local Government)
Comments checked by Karen Muir, Corporate System Accountant 01295 22159

Wards Affected

All

Document Information

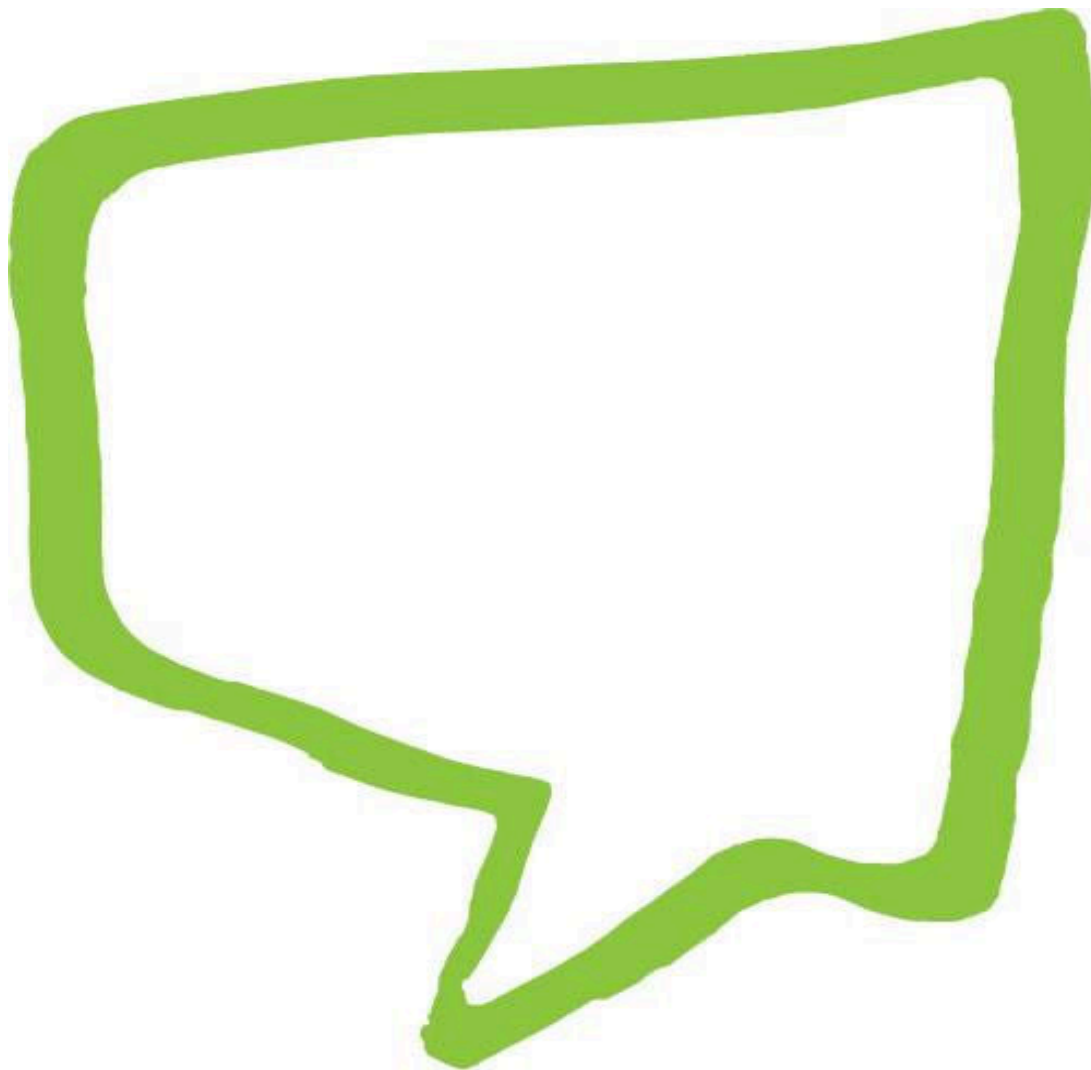
Appendix No	Title
Appendix 1	Audit Protocol
Background Papers	
None	
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Audit Protocol

Cherwell District Council

Audit 2009-2010

March 2010



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Status of our Reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Introduction

Aims

- 1 This document sets out the basis for the joint working arrangements between Cherwell District Council's Internal Audit Service (IA) and the Audit Commission (AC), as the Council's external auditors. This takes into account the requirements of the Code of Audit Practice 2005 (the Code) for external auditors and the Terms of Reference for Internal Audit (which reflects the Code of Practice for Internal Audit in Local Government).
- 2 The aims of the protocol are:
 - to clarify respective responsibilities for work associated with the internal audit and external audit codes;
 - to develop further a close and effective working relationship;
 - to facilitate the effective co-ordination of our work without impairing the independence and integrity of either party;
 - to formalise those specific areas where co-operation will minimise the overlap of effort and duplication of work and ensure cost effectiveness;
 - to provide an understanding of the results of each others work to inform the scope of future work; and
 - to assist the Accounts, Audit and Risk Committee to fulfil its responsibility to ensure effective liaison between internal and external audit.

Respective responsibilities

- 3 It is a fundamental principle of the Code that the Council is responsible for putting in place proper arrangements for governance and stewardship of resources. This includes systems of internal control and arrangements for monitoring their adequacy and effectiveness in practice.
- 4 Internal Audit provides an essential element of the Council's arrangements. Their principal responsibility is to meet the professional standards laid down in the Code of Practice for Internal Audit in Local Government, with a focus on identifying and addressing the control risks faced by the Council and providing assurance on the Council's corporate governance arrangements in accordance with the wishes of the Council and the Section 151 officer.
- 5 The primary objective of internal audit is to provide an independent and objective opinion to the Council on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the council's key priorities.

- 6 Under the Code, external auditors have a responsibility to give an independent assessment of:
 - the Council's Financial Statements, including the Annual Governance Statement; and
 - aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 The Code requires that external auditors should establish effective co-ordination arrangements with internal audit, and should seek to place the maximum amount of reliance on the work of internal audit whenever possible. There are two key factors that limit the extent of such co-operation:
 - the emphasis of the Audit Commission's audit approach is on ensuring that internal audit meet their own standards and objectives, and not on seeking to influence the internal audit programme for external audit objectives; and
 - external audit cannot delegate any of the Code responsibilities to internal audit.
- 8 Internal and external audit have different roles but many shared objectives. Effective co-operation is essential in order to minimise duplication of effort and maximise the benefits of audit. It should enable both parties to devote more time to the key audit issues and ensure that the Council gets best value from its total audit resource. Both teams are committed to an open and constructive relationship, based on an understanding of each other's roles and approaches to achieving their respective objectives.

Protocol

Planning

- 9 The Audit Commission plan and carry out the audit in compliance with International Standards for Audit (ISAs), relevant extracts of which are given in Appendix 1.
- 10 Both internal audit and external audit will produce annual audit plans based on risk assessment. The timing and scope of work will be discussed in advance in order to ensure the best deployment of respective resources and avoid duplication. Copies of approved audit plans will be exchanged as soon as practicable after approval.
- 11 Progress against the respective plans will be discussed during regular liaison meetings.
- 12 To achieve benefits from co-operation and co-ordination will require commitment and delivery from both parties. The Audit Commission bases its audit plans on the assumption that internal audit share this commitment. In particular, the assumption that internal audit will complete their planned work to an appropriate standard.

Audit areas

Opinion

- 13 The Audit Commission is required to audit each council's financial statements and to give their opinion, including:
 - whether they present fairly the financial position of the Council and its expenditure and income for the year in question; and
 - whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.
- 14 In order to comply with ISA315, the Audit Commission need to identify, evaluate, document and test those of the council's systems that have a material impact upon its financial statements. The Audit Commission will evaluate and seek to place reliance on the work of Internal Audit in order to optimise the use of audit resources.
- 15 The Audit Commission is required to review whether the Annual Governance Statement (AGS) has been presented in accordance with relevant requirements, and to report if it does not meet those requirements or if the statement is misleading or inconsistent with our knowledge of the Council.
- 16 Internal Audit's responsibilities require them to evaluate the effectiveness of the control environment in achieving the organisation's objectives. In part fulfilment of their responsibilities, Internal Audit carry out reviews of systems and key controls, including evaluating and testing those controls. This work is directly relevant to the Audit Commission's responsibilities.
- 17 The Audit Commission will seek to place reliance upon Internal Audit's systems work, provided there is assurance that:
 - adequate sample sizes are used in order to support conclusions and recommendations;
 - samples are selected appropriately to be representative of the population and the period covered; and
 - the work is evidenced and documented in accordance with professional standards.
- 18 Guidance on sample sizes to be used for initial testing is included in Appendix 2. If the auditor finds errors/weaknesses in the initial sampling, consideration then needs to be given to whether substantive testing is appropriate.
- 19 The Audit Commission will liaise with Internal Audit each year to identify the scope for drawing assurance from their systems work. To be successful this will involve synchronising work timetables. The Audit Commission will aim to carry out work during their interim visit. Any Internal Audit work that the Audit Commission plans to make use of will need to be completed before the interim visit. The Audit Commission will then need to consider whether any additional testing will be needed to cover the remaining part of the year.

Audit areas

- 20 The Audit Commission has developed a three year cyclical testing strategy which, when delivered with the co-operation of Internal Audit, will help to minimise the duplication of work. The Audit Commission will agree in advance the controls that have to be tested on each system identified. The key financial systems are:
- General ledger
 - Payroll
 - Accounts payable
 - Housing Benefit
 - Council Tax
 - NNDR
 - Car Park Income
 - Accounts Receivable & Income Receipting
 - Asset Register
 - Treasury Management

Fraud

- 21 The Council will notify Internal Audit and the Audit Commission promptly of all frauds and any cases of corruption and any fraud cases of particular interest or complexity. If appropriate, the Audit Commission will offer support and assistance to Internal Audit in investigating significant frauds.
- 22 In the event that the Audit Commission suspect a fraud, the case will be passed over to the control of Internal Audit who will then be expected to oversee the investigation of the case and keep the Audit Commission informed of progress. The Audit Commission reserve the right to retain control over a fraud investigation, although this is only likely in exceptional circumstances.

Use of Resources

- 23 The Audit Commission will keep Internal Audit informed of any forthcoming performance and inspection work and its scope, so that Internal Audit can plan their work appropriately. Internal Audit will highlight any value for money or use of resources considerations in their reports.
- 24 The Audit Commission has a responsibility in relation to the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. One source of assurance for this work is the Council's whole system of internal control as reported in the Annual Governance Statement. The Audit Commission will work with Internal Audit to support their role in contributing to this process, and will seek assurance about the overall control environment from their work, particularly as reported in their annual report to the Council.

Other work areas

- 25 The following additional areas of Internal Audit activity may also be relevant to the Audit Commission's work:
- ad hoc investigations into suspected fraud or corruption;
 - reviews of systems development and replacement; and
 - any work undertaken to inform the council's Annual Governance Statements.

Liaison arrangements

- 26 Liaison meetings will be held regularly. This is likely to be at least quarterly to fit in with key Accounts, Audit and Risk Committee meetings.
- 27 Standard agenda items for liaison meetings are likely to include:
- update of progress against Internal Audit and Audit Commission plans;
 - issues affecting delivery of plans;
 - reports finalised since last meeting;
 - key findings and emerging issues from current work;
 - IA involvement in systems development work etc; and
 - details of special investigations and sensitive issues.

Audit documents and reporting

- 28 The Audit Commission have to satisfy themselves that Internal Audit's work meets required standards and can be relied upon for assurance on the council's control arrangements. Reviewing relevant files is an essential step in this process. Internal Audit has agreed to provide the Audit Commission with access to their records and reports upon request. Internal Audit and the Audit Commission use the same electronic recording system which will facilitate the ready exchange of information.
- 29 The Audit Commission will evaluate and seek to place reliance on the work of Internal Audit in order to optimise the use of audit resources. Expectations in terms of documentation, testing requirements and timetables for work will be agreed in advance.

Review of Internal Audit

- 30** The Audit Commission will undertake a comprehensive review of Internal Audit at least every three years. This will assess Internal Audit against CIPFA's Code of Internal Audit Practice. In the intervening years, the Audit Commission will rely on the previous triennial review (assuming that it was satisfactory) and confirm that there have been no significant events to affect the validity of the previous assessment. The Audit Commission will also review the adequacy of Internal Audit as part of their annual Use of Resources assessment to establish whether the Council has a sound system of internal control.
- 31** In addition to the above, the Audit Commission will undertake detailed reviews of specific pieces of work upon which reliance will be placed. This will encompass a review of the audit file to assess the scope of the work and the adequacy of sample sizes, standards of evidence and documentation, quality assurance and reporting. This may involve re-performing some tests, or testing an additional sample, if deemed appropriate.
- 32** The Audit Commission's conclusions from this work will be discussed with officers and reported to the Council.

Appendix 1 – Extracts from relevant International Standards for Audit (ISAs)

- ISA 315: The external auditor should assess the risks of material misstatement in the council's financial statements through gaining an understanding of the council and its environment and of those controls and risk management arrangements that are relevant to ensuring the council's affairs are presented fairly in their accounts.
- ISA 330: When, in accordance with paragraph 108 of ISA (UK and Ireland) 315, the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk and the auditor plans to rely on the operating effectiveness of controls intended to mitigate that significant risk, the auditor should obtain the audit evidence about the operating effectiveness of those controls from tests of controls performed in the current period.
- ISA 610: The external auditor should consider the activities of internal auditing and their effect, if any, on external audit procedure. The external auditor should obtain a sufficient understanding of internal audit activities to identify and assess the risks of material misstatement of the financial statements and to design and perform further audit procedures. The external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment. When the external auditor intends to use specific work of internal auditing, the external auditor should evaluate and perform audit procedures on that work to confirm its adequacy for the external auditor's purposes.
- ISA 240: In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud. The auditor should make enquiries of management, internal audit, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. The auditor should obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.

Appendix 2 – Sample sizes which impact on opinion work

Control type	Frequency of control	Sample size
Manual or high risk automated	Quarterly	2
	Monthly	2
	Weekly	5
	More than weekly	20
Low risk automated		1

Fully automated controls need far less testing as IT is inherently consistent. Where controls are automated and operate within a low risk IT environment, only a sample of 1 is required. Where the IT environment is not low risk then the same sample sizes should be used as for manual controls.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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