

Committee: Accounts, Audit and Risk Committee
Date: Wednesday 27 June 2012
Time: 6.30 pm
Venue: Bodicote House, Bodicote, Banbury, OX15 4AA

Membership

Councillor Trevor Stevens (Chairman)	Councillor Mike Kerford-Byrnes (Vice-Chairman)
Councillor Andrew Beere	Councillor Colin Clarke
Councillor Andrew Fulljames	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 - 8)

To confirm as a correct record the Minutes of the meetings of the Committee held on 19 March 2012 and 16 May 2012.

6. **Statement of Accounts Approval** (Pages 9 - 12)

** Appendix 1 and 2 to follow. The Accounts, Audit and Risk Committee will scrutinise the 2011/12 Financial Statements on 20 June 2012. Following this review, an update will be provided to Committee Members. **

Report of Head of Finance and Procurement.

Summary

The purpose of this report is for members to consider and endorse the Statement of Accounts for 2011/12 (subject to audit).

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To consider the Statement of Accounts set out in Appendix 1.
- (2) To note the outcomes from the informal review undertaken on 20 June 2012 as set out in Appendix 2.
- (3) To recommend that the "subject to audit" Statement of Accounts approval sign off be delegated to the Chief Financial Officer for signing on or before the statutory deadline of 30 June 2012.

7. **Annual Governance Statement 2011/12** (Pages 13 - 14)

** Appendix 1 to follow as it is currently being finalised **

Report of Head of Finance and Procurement.

Summary

The purpose of this report is to seek approval for the Annual Governance Statement 2011/12, subject to any amendments the Accounts, Audit and Risk Committee may wish to make.

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To resolve to consider and approve the Annual Governance Statement "Subject to Audit" 2011/12 (attached as Appendix 1).

8. Treasury Management Report (Pages 15 - 18)

Report of Head of Finance and Procurement.

Summary

To receive information on treasury management performance and compliance with treasury management policy for Quarter 1 2012/13 as required by the Treasury Management Code of Practice.

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the progress report.

9. External Audit Progress Report (Pages 19 - 22)

Report of Head of Finance and Procurement.

Summary

This report provides a progress report on the work of external audit.

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To note the contents of the progress report.

10. Internal Audit Annual Report (Pages 23 - 38)

Report of Head of Finance and Procurement.

Summary

This reports sets out the internal audit annual report.

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To consider and approve this report.

11. Internal Audit Progress Report (Pages 39 - 50)

Report of Chief Internal Auditor

Summary

This report provides the Committee with an update of the work of Internal Audit since the last meeting.

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To consider and approve this report.

12. Subsidy Update

The Head of Finance and Procurement will provide a verbal update to the Committee.

13. Risk Management

The Head of Finance and Procurement will provide a verbal update to the Committee.

14. Exclusion of the Press and Public

The following item contains exempt information as defined in the following paragraphs of Part 1, Schedule 12A of the Local Government Act 1972.

3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Members are reminded that whilst the following item has been marked as exempt, it is for the meeting to decide whether or not to consider each of them in private or in public. In making the decision, members should balance the interests of individuals or the Council itself in having access to the information. In considering their discretion members should also be mindful of the advice of Council Officers.

Should Members decide not to make a decision in public, they are recommended to pass the following recommendation:

“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.”

15. Treasury Management Report - Exempt Appendices 1a and 1b (Pages 51 - 66)

Councillors are requested to collect any post from their pigeon hole in the Members Room at the end of the meeting.

Information about this Meeting

Apologies for Absence

Apologies for absence should be notified to democracy@cherwellandsouthnorthants.gov.uk or 01327 322121 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 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.

Evacuation Procedure

When the continuous alarm sounds you must evacuate the building by the nearest available fire exit. Members and visitors should proceed to the car park as directed by Democratic Services staff and await further instructions.

Access to Meetings

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named below, giving as much notice as possible before the meeting.

Mobile Phones

Please ensure that any device is switched to silent operation or switched off.

Queries Regarding this Agenda

Please contact Gavin Lane, Democratic and Elections
gavin.lane@cherwellandsouthnorthants.gov.uk, 01327 322121

Sue Smith
Chief Executive

Published on Tuesday 19 June 2012

Public Document Pack 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 19 March 2012 at 6.30 pm

Present: Councillor Tony Ilott (Chairman)
Councillor Trevor Stevens (Vice-Chairman)

Councillor Andrew Beere
Councillor Mike Kerford-Byrnes
Councillor Lawrie Stratford
Councillor Rose Stratford
Councillor Barry Wood

Also Present: Councillor Ken Atack, Lead Member for Financial Management
Councillor Nigel Morris, Lead Member for Change
Maria Grindley, District Auditor, Audit Commission
Nicola Jackson, Audit Manager, Audit Commission
Richard Bacon, Internal Audit
Katherine Bennett, Audit Team Lead, Internal Audit

Apologies for absence: Councillor Colin Clarke

Officers: Karen Curtin, Head of Finance and Procurement
Claire Taylor, Corporate Performance Manager
Karen Muir, Corporate System Accountant
Edward Cooke, Interim Technical Accountant
Natasha Clark, Team Leader, Democratic and Elections

53 **Declarations of Interest**

There were no declarations of interest.

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

There were no petitions or requests to address the meeting.

55 **Urgent Business**

There was no urgent business, however the Chairman reported that, following discussion with officers, agenda item 14: "Certification of Claims and Returns

2010/11 – Audit Commission – Verbal Update”, would be taken in public session rather than in private session as set out on the published agenda.

56 **Minutes**

The minutes of the meeting of the Committee held on 12 January 2012 were agreed as a correct record and signed by the Chairman.

57 **Review of Draft Accounting Policies 2011/12 and 2011/12 Closedown Update**

The Committee considered a report of the Head of Finance and Procurement which informed members of the draft 2011/12 accounting policies, allowed members to consider and endorse the accounting policies under which the annual Statement of Accounts would be produced together with the summary timetable for production.

The Head of Finance and Procurement advised the Committee that the 2011/12 closing of accounts would be led by the Corporate System Accountant (Karen Muir) and the Interim Technical Accountant (Ed Cooke), who was seconded from PriceWaterhouseCoopers and would take the technical lead.

In introducing the report, the Interim Technical Accountant reminded the Committee that 2010/11 had been a significant year as local authorities had been required to report their Annual Statement of Accounts under International Financial Reporting Standards (IFRS) for the first time. By comparison, the changes in 2011/12 were minor and officers remained on track to have a first draft of the statements by 25 May 2012. A robust scrutiny of the financial statements would take place at an informal meeting of the Committee on 20 June 2012.

Resolved

- (1) That the accounting policies be approved.
- (2) That authority be delegated to the Head of Finance and Procurement to make any further changes to the Accounting Policies in preparation for the forthcoming accounts closure for 2011-12
- (3) That the closedown timetable summary be noted.

58 **Risk Management Update**

The Committee considered a report of the Corporate Performance Manager which updated the Committee on the management of Strategic, Corporate and Partnership Risks during the third quarter of 2011/12 and highlighted any emerging issues for consideration.

In introducing the report, the Corporate Performance Manager advised the Committee that following the implementation of the Cherwell and South

Northamptonshire Council's Joint Management Team (JMT) in October 2011, the existing strategic, corporate and partnership risks on the Council's register had been allocated to the new team. A session on performance and risk management was held as part of the induction process, which was supported during the last quarter through a JMT risk workshop.

In response to Members' comments, the Corporate Performance Manager confirmed that she would advise the relevant JMT members of the Committee's view that the predicted drought and Police and Crime Commissioners were potential risks and request that they be considered and appraised to determine if they were potential risks.

Resolved

- (1) That the quarter 3 Strategic, Corporate and Partnership Risk Register be noted.

59 **Risk Management: A Risk Management Strategy for Cherwell District and South Northamptonshire Councils**

The Committee considered a report of the Corporate Performance Manager which sought agreement of the joint approach to risk management across the Cherwell and South Northamptonshire Joint Management Team (JMT) and set the risk strategy for Cherwell District Council.

Resolved

- (1) That the proposed approach to risk management be noted.
- (2) That the risk strategy for Cherwell District Council 2012/13 be endorsed.

60 **Internal Audit Progress Report**

The Committee considered a report of the Chief Internal Auditor which summarised the progress made against the internal audit plan 2011/12 for the period from March to June 2012. The Committee was advised that 89% of the plan had been completed and that the final reports would be finalised ahead of issuing the Internal Audit Annual Report to the June meeting of the Committee.

The Audit Team Leader advised the Committee that since their January meeting, six final reports had been issued and draft reports and/or fieldwork commenced in three areas.

Members noted that within the final report on "Creditors", a high risk issue had been noted relating to a high percentage of invoices received having no purchase order in place and requested officers to address this matter. The Head of Finance and Procurement assured the Committee that the Finance Team was working hard to ensure that purchase orders were raised and officers were reminded of the importance of following correct processes.

Resolved

- (1) That the Internal Audit Progress report be noted.

61 **Internal Audit Draft Plan 2012/13**

The Committee considered a report of the Chief Internal Auditor which provided the Committee with a draft version of the 2012/13 internal audit plan.

The Internal Audit Team advised the Committee that they were delighted to have been reappointed as the Internal Auditors for Cherwell District Council

In introducing the report the Audit Team Leader explained that the draft internal audit plan 2012/13 was based on the Internal Audit Strategic Plan 2012-15 and had been updated following consultation with members, officers and the Audit Commission. The final version of the plan would be submitted to the June meeting of the Committee.

Resolved

- (1) That the Internal Audit Draft Plan 2012/13 be approved.

62 **External Audit Progress Report**

The Committee considered a report of the Head of Finance and Procurement which provided a progress report on the work of external audit.

The Audit Manager updated the Committee on the outsourcing of the Audit Commission. Ernst and Young had won the bid for the south east region, which incorporated Cherwell District Council. KPMG had won the bid for the East Midlands regions, which incorporated South Northamptonshire Council. At the end of April, the Audit Commission would write to local authorities seeking their views on the proposals. The Committee was advised that the Audit Commission would oversee the transfer process and the District Auditor was liaising with Ernst and Young.

In introducing the external audit progress report, the Audit Manager reported that that The Audit Commission's interim systems audit had been completed. The audit had identified three control weaknesses with officers and an action plan had been developed to address these areas.

Resolved

- (1) That the contents of the External Audit progress report be noted.

63 **2012/13 Treasury Management Strategy and Update on Performance**

The Committee considered a report of the Head of Finance and Procurement which provided a review of the 2012/13 strategy that was approved by Council

on 27 February 2012 and outlined the differences from the current 2011/12 strategy, and gave an update on current performance.

The Head of Finance and Procurement reported that all current investments were compliant with the Treasury Management Strategy. The 2011/12 Annual Report on Treasury Management would be presented to the June meetings of the Committee and the Executive. The Committee was advised that following advice from the Council's Treasury Advisors, the Council would select financial institutions with a minimum long-term rating of A and short-term rating of F1/P-1/A-1.

The Head of Finance and Procurement updated Members on the Iceland funds. The Council had been awarded priority creditor status for its Icelandic investments with Glitnir and expected to receive £7.1m which was made up of the money invested plus interest. The windfall interest would be considered as part of the review of reserves.

Resolved

- (1) That the contents of the report be noted.

64 **Certification of Claims and Returns 2010/11 - Audit Commission - Verbal Update**

The Head of Finance and Procurement gave a verbal update on the Audit Commission certification of claims and returns 2010/11 which had been presented to the January meeting of the Committee. At that meeting the Committee had been advised that three areas within the claim were being examined in detail and further work on the extended testing that the Audit Commission had reported to the Department for Work and Pensions (DWP) in November 2011.

The Committee was advised that the additional testing was underway and regular discussions were taking place with the DWP. A full report would be submitted to the June meeting of the Committee.

65 **Katherine Bennett**

The Chairman reported that this would be the last Audit Team Leader's last Accounts, Audit and Risk Committee meeting as she was leaving PriceWaterHouseCoopers to take up a new role as Head of Finance in a local authority. On behalf of Committee, the Chairman thanked the Audit Team Leader for her hard work and the advice she has given to Committee Members and wished her all the best for her new role.

The meeting ended at 7.55 pm

Chairman:

Date:

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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 16 May 2012 at 7.40pm

Present: Councillor Trevor Stevens (Chairman)
Councillor Mike Kerford-Byrnes (Vice-Chairman)

Councillor Andrew Beere
Councillor Colin Clarke
Councillor Andrew Fulljames
Councillor Lawrie Stratford
Councillor Rose Stratford
Councillor Barry Wood

1 **Appointment of Chairman**

Resolved

That Councillor Trevor Stevens be appointed Chairman of the Audit Committee for the municipal year 2012/13.

2 **Appointment of Vice-Chairman**

Resolved

That Councillor Mike Kerford-Byrnes be appointed Vice-Chairman of the Audit Committee for the municipal year 2012/13.

The meeting ended at 7.45 pm

Chairman:

Date:

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Accounts, Audit and Risk Committee

Statement of Accounts Approval

27 June 2012

Report of the Head of Finance and Procurement

PURPOSE OF REPORT

The purpose of this report is for members to consider and endorse the Statement of Accounts for 2011/12 (subject to audit).

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- 1 To consider the Statement of Accounts set out in Appendix 1. **(TO FOLLOW)**
- 2 To note the outcomes from the informal review undertaken on 20th June 2012 as set out in Appendix 2 **(TO FOLLOW)**
- 3 To recommend that the “subject to audit” Statement of Accounts approval sign off be delegated to the Chief Financial Officer for signing on or before the statutory deadline of 30th June 2012.

Executive Summary / Background Information

1. The Statement of the Accounts has been delivered to Accounts Audit and Risk Committee Members and will be subject to a robust review in a meeting being held on 20th June 2012 prior to this formal Audit Committee meeting.
2. The outcome of the scrutiny meeting will be reported to the Committee on the 27th June 2012 along with the final draft of the financial statements.
3. The Chairman of the Audit Committee and the Head of Finance and Procurement are both required to sign the Statement of Accounts.

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** Agree and endorse the Statement of Accounts set out in Appendix 1.
- Option Two** To approve or reject the recommendations above or request that Officers provide additional information.

Consultations

None

Implications

Financial: The Statement Accounts for 2011/12 will be the formal record of the councils financial position as at 31st March 2012.

Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

Legal: There is a statutory deadline for the Statement of Accounts to be prepared by 30th June.

Comments checked by Kevin Lane, Head of Law and Governance, 0300 003 0107

Risk Management: Failure to complete the statement of accounts by the statutory deadline will result in a failure to have the accounts for 2011/12 approved by the Audit Commission.

Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

Wards Affected

All

Corporate Plan Themes

An Accessible and Value for Money Council

Executive Portfolio

Councillor Ken Attack
Lead Member Financial Management

Document Information

Appendix No	Title
Appendix 1	Statement of Accounts 2011/12 – subject to audit. TO FOLLOW
Appendix 2	Review Notes from informal review undertaken by the AARC on 20 th June 2012. TO FOLLOW
Background Papers	

- (1) The IFRS-Based Code of Practice on Local Authority Accounting in the United Kingdom
- (2) 2011/12 Code Update
- (3) The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom
 - Guidance Notes for Practitioners

Report Author	Karen Curtin, Head of Finance and Procurement Ed Cooke, Interim Technical Accountant Karen Muir, Corporate System Accountant
Contact Information	01295 221559 karen.muir@cherwell-dc.gov.uk edward.cooke@cherwell-dc.gov.uk

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Accounts, Audit and Risk Committee Annual Governance Statement 2011/12

27 June 2012

Report of Head of Finance and Procurement

PURPOSE OF REPORT

The purpose of this report is to seek approval for the Annual Governance Statement 2011/12, subject to any amendments the Accounts, Audit and Risk Committee may wish to make.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Resolve to consider and approve the Annual Governance Statement "Subject to Audit" 2011/12 (attached as Appendix 1).

Executive Summary

- 1.1 Included at Appendix 1 is the Annual Governance Statement for 2011/12. This is a public document that sets out what the Council achieved during the year and how we managed our finances. The purpose of the document is to communicate information about performance and finance (often considered complex and unwieldy by the general public) in an informative, easily understood and accessible way.
- 1.2 The Annual Governance Statement is the part of the CIPFA/SOLACE governance framework. It is a wide ranging document that is governance focussed and must be considered and 'owned' corporately. The statement is separate to the Statement of Accounts.
- 1.3 The Statement will be available on-line, and in hard copy at all of our customer service facilities. In addition we will circulate copies to all our partners and community groups and make it available on request in a variety of formats to ensure it is accessible to as wide an audience as possible.

Background

- 1.4 The review of the effectiveness of the system of internal control is underpinned by an Assurance Framework for internal control. The Framework is managed by the Corporate Governance Group, consisting of senior officers from a range of relevant disciplines, and seeks to provide assurance by adopting a dual approach, assessing information from a service perspective provided by service managers and a more corporate overview from each of the disciplines.

Implications

- Financial:** There are no financial issues arising from this report. Its publication is funded from within existing resources.
Comments checked by Karen Muir, Corporate System Accountant 01295 221559.
- Legal:** The Council must ensure its Annual Governance Statement is prepared in conjunction with the financial statements timetable.
- Risk Management:** The appropriate risk register entries were made for the period covered.
Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

Wards Affected

All wards are affected.

Document Information

Appendix No	Title
Appendix 1	Annual Governance Statement 2011/12 (TO FOLLOW AFTER REVIEW MEETING ON 20 JUNE 2012)
Background Papers	
Report Author	Karen Curtin, Head of Finance and Procurement
Contact Information	0300 0030106 karen.curtin@cherwellandsouthnorthants.gov.uk

Accounts, Audit and Risk Committee

Treasury Management Report

27 June 2012

Report of Head of Finance and Procurement

PURPOSE OF REPORT

To receive information on treasury management performance and compliance with treasury management policy for Quarter 1 2012/13 as required by the Treasury Management Code of Practice.

This report is public

Appendices 1a and 1b to this report are exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the report

Summary

- 1.1 As part of our investment strategy and governance arrangements this committee considers the investment performance to date and our compliance with counterparties being used.
- 1.2 The Code of Practice on Treasury Management approved by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted in full by the Council in 2004, requires that a Treasury Management Strategy is produced prior to the beginning of the financial year to which it relates. The Treasury Management Strategy is the cornerstone of proper treasury management, and is central to the operation, management reporting and performance assessment. The 2012/13 strategy for Cherwell District Council was approved at full Council on 19 March 2012.
- 1.3 The highest standard of stewardship of public funds remains of the utmost importance to the Council. This document details the Council's management of investments and treasury management activities during the first 2 months of 2012/3.

Background Information

2012/13 Performance

2.1 The Council has £10.5m and £11.7m respectively invested with fund managers Tradition UK and Investec. In addition it has around £51m managed in-house (including Eco Town funds of £12m) which fluctuates during the year. The Council regularly reviews each of these funds in light of the current economic climate, reducing balances in investments planned to fund the Capital Programme and the need to contribute to efficiency savings.

Update on Cherwell's Treasury Performance

2.2 The Treasury Management Strategy for 2012/13, which includes the Annual Investment Strategy, was approved by the Council on 19th March 2012. It sets out the Council's investment priorities as being:

- Security of Capital; Liquidity; and Yield

2.3 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Sector: this applies in particular to nationalised and semi nationalised UK banks.

2.4 Given the turmoil in peripheral Europe, our investments list does not have direct exposure to any sovereign debt of Portugal, Ireland Greece, Spain or Italy and that includes their national banks,. However, indirectly the banks on our lending list, in all probability do have exposure in some shape or form to either or both. Our lending criterion is very stringent and only the very largest banks are considered through negotiable securities, providing us with the greatest liquidity and flexibility.

2.5 Investment rates available in the market have continued at historically low levels. The average level of funds available for investment purposes was £72.5m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and ECO Bicester.

2.6 Investment performance at 31st May 2012 was:

Fund	Amount at	Interest Budget	Actual Interest	Variance	Rate of return %
TUK	10,500,000	22,634	34,697	12,063	1.98%
Investec	11,742,224	14,375	22,813	8,438	1.17%
In House	51,849,369	108,583	122,767	14,184	1.47%
Total	74,091,594	145,593	180,278	34,685	1.49%

2.7 At the end of May 2012, interest received was 23% more than budgeted and shows a positive result across all three funds. This was mainly due to higher than planned balances when creating the budget as we had a higher level of

capital programme slippage from 2011/12, obtaining better than projected rates from our investments, and the change in allocation of funds between TUK, Investec and in-house.

- 2.8 A number of banks have been downgraded over the past 3 months which has seen our investment advisors recommend a shorter investment duration than previously recommended. All investments were placed in accordance with our strategy.
- 2.9 The Council will continue to closely monitor the impact of the uncertainty in the markets and ensure security of funds and compliance with strategy.
- 2.10 The Counterparties that we have invested with and compliance monitoring is included in Appendix 1.
- 2.11 The annual report for the year ended 31 March 2012 will be presented at the next meeting for onward reporting to Council in accordance with best practice.

Update on Iceland Funds

- 2.12 On 1 April 2011 the Council was successful in the Icelandic Court in securing preferential creditor status and in the subsequent appeal against this decision to the Icelandic Supreme Court.
- 2.13 The Council has received 81% of the principal in cash from Glitnir and the remaining 19% of the principal and accrued interest is currently in an Icelandic account in Icelandic kroner (ISK) The ISK is held in escrow but has not been "released" to creditors. Approval for that step is still awaited from the Central Bank of Iceland and we continue to work with LGA and Bevan Brittan on this issue.
- 2.14 Interest is accruing on the ISK monies in escrow at 3.4% and is shown in the Council's balance sheet. In preparing the financial statements for 2011/12 the write off taken in the 2010/11 accounts has been reversed.
- 2.15 Further updates on the Icelandic funds held in escrow will be reported to the Accounts, Audit and Risk Committee as part of the regular treasury updates.

Implications

Financial:	There are no financial implications arising directly from any outcome of this report. Comments checked by Karen Muir, Corporate System Accountant 01295 221559.
Legal:	Presentation of this report is in line with the CIPFA Code of Practice. Comments checked by Kevin Lane, Head of Law and Governance – Planning and Litigation, 01295 221687.
Risk Management:	It is essential that this report is considered by the

Executive as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided.

Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

Wards Affected

All wards are affected.

Document Information

Appendix No	Title
Appendix 1a and b	Deposits by Counterparty – RESTRICTED
Background Papers	
2012/13 Strategy Budget Monitoring Reports CIPFA Treasury Management Code of Practice Sector Templates	
Report Author	Karen Curtin, Head of Finance and Procurement
Contact Information	Karen.Curtin@Cherwellandsouthnorthants.gov.uk 0300 003 0106

Accounts, Audit and Risk Committee

External Audit Progress Report

27 June 2012

Report of Head of Finance and Procurement

PURPOSE OF REPORT

The report provides a progress report on the work of external audit.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the progress report (Appendix 1)

Summary

- 1.1 Appendix 1 contains the latest progress report and the Engagement Manager Nicola Jackson will be able to address any issues that the Committee would like to raise at the meeting.

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: | The audit fee can be contained within existing budgets.
Comments checked by Karen Muir, Corporate System Accountant 01295 221559. |
| Legal: | There are no implications arising from this report.
Comments checked by Karen Muir, Corporate System Accountant 01295 221559. |

Risk Management:

There are no implications arising from this report

Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

Wards Affected

All wards are affected.

Document Information

Appendix No	Title
Appendix 1	External Audit Progress Report
Background Papers	
None	
Report Author	Karen Curtin, Head of Finance and Procurement
Contact Information	Karen.Curtin@Cherwellandsouthnorthants.gov.uk 0300 003 0106

Progress Report

Cherwell District Council

June 2012

Area of work	Date	Comments
2011/12 audit		
Fees letter	April 2011	Scale fee set by the Audit Commission: fees letter to Chief Executive on 20 April 2011.
Opinion audit plan	Dec 2011	Presented to January Accounts, Audit and Risk Committee
Annual governance report	Sept 2012	
Opinion on accounts and VFM conclusion: <ul style="list-style-type: none"> ■ interim visit ■ final accounts ■ vfm conclusion 	Sept 2012	We reported the results of our systems work to the Committee in March. We will be on site in August to undertake our opinion work and we will present our Annual Governance Report in September.
Annual Audit Letter	Oct 2012	
Grant claims 2011/12: <ul style="list-style-type: none"> ■ NNDR ■ Housing benefit 	Sept 2012 Nov 2012	We are currently on site auditing the initial testing of housing benefits. The results of this work determine the amount of extended testing we are required to complete.
Annual grants report	Dec 2012	



Housing benefit & council tax benefit subsidy 2010-11

1 At the January Accounts, Audit and Risk Committee, we discussed the results of our benefits claim certification work. The level of errors that we identified from our sample testing took the Council over the Local Authority error threshold. This is the point at which the Council loses subsidy.

2 After we reported the results of our testing to the DWP, officers undertook further work on "start dates" and "employment earnings". We reviewed this additional testing and issued an updated Qualification Letter to the DWP on 22 May 2012. The results are set out below. In summary, the Qualification Letter we issued in May shows that the Council is now below the Upper Threshold for local authority errors.

	Qualification Letter November 2011	Qualification Letter May 2012
Rent Allowance Employment earnings	£131,387	£6,846
Rent Allowance Overpayments	£18,342	£18,342
Rent Allowance Start dates	£55,817	£14,548
Council Tax Benefit Employment earnings	£39,205	£1,793
Council Tax Benefit Self employment earnings	£2,846	£2,846
Total extrapolated errors	£247,597	£44,735
Local Authority error (as per the Council's benefit claim form)	£165,223	£165,223
Total Local Authority error	£412,820	£209, 598

Upper Threshold £214,241 (as per the Council's benefit claim form)

Lower Threshold £190,437 (as per the Council's benefit claim form)

Accounts, Audit and Risk Committee

INTERNAL AUDIT ANNUAL REPORT

27 June 2012

Report of Head of Finance and Procurement

PURPOSE OF REPORT

This reports sets out the internal audit annual report.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Consider and approve the report

Summary

The Chief Internal Auditor submits the Internal Audit Annual Report 2011/12 for the Committee's consideration. The report presents the Chief Internal Auditor's annual opinion on the adequacy and effectiveness of the Council's system of internal control, as required by the Accounts and Audit Regulations.

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 implications arising from this report.
Comments checked by Karen Muir, Corporate System Accountant 01295 221559. |
| Legal: | There are no implications arising from this report.
Comments checked by Karen Muir, Corporate System Accountant 01295 221559. |
| Risk Management: | There are no implications arising from this report |

Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

Wards Affected

All wards are affected.

Document Information

Appendix No	Title
Appendix 1	Internal Audit Annual Report 2011/12
Background Papers	
Report Author	Karen Curtin, Head of Finance
Contact Information	01295 221551 Karen.Curtin@Cherwell-dc.gov.uk

Internal Audit Annual Report 2011/2012

Cherwell District
Council

May 2012

Contents

1. Executive summary	1
2. Summary of findings	3
3. Internal Audit work conducted	4
4. Follow up work conducted	7

Appendices	8
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Appendix 1: Limitations and responsibilities	9
Appendix 2: Basis of our classifications	10

Distribution List

Joint Management Team

Members of the Accounts, Audit and Risk Committee

This document has been prepared only for Cherwell District Council and solely for the purpose and on the terms agreed with Cherwell District Council.

1. *Executive summary*

Background

CIPFA's Audit Code of Practice requires that the Head of Internal Audit provides a written report to the management and the Accounts, Audit and Risk Committee timed to inform the organisation's Annual Governance Statement. As such, the purpose of this report is to present our view on the adequacy and effectiveness of Cherwell District Council's system of governance, risk management and control.

Whilst this report is a key element of the framework designed to inform the Annual Governance Statement, there are also a number of other important sources to which management and the Accounts, Audit and Risk Committee should look to gain assurance. This report does not supplant the Council's responsibility for forming their own view on governance, risk management and control.

This report covers the period to the year ended 31st March 2012.

Scope

Our findings are based on the results of the internal audit work performed as set out in the 2011/12 Internal Audit Plan approved by the Accounts, Audit and Risk Committee. All changes have been outlined in our update reports taking to this committee during the year

Our opinion is subject to the inherent limitations of internal audit (covering both the control environment and the assurance over controls) as set out in Appendix 1.

Our internal audit was performed in accordance with *CIPFA's Audit Code of Practice*. *CIPFA's Audit Code of Practice* is not designed or intended to conform to the International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board. As a consequence our work was not designed to comply with the International Standards on Assurance Engagements. Our work was designed to comply with CIPFA's Audit Code of Practice which must be followed for local government

Opinion

Our opinion is based solely on our assessment of whether the controls in place support the achievement of management's objectives as set out in our 2011/12 Internal Audit Plan.

We have completed the program of internal audit work for the year ended 31st March 2012 with the exception of the following reviews:

- Year end support (ongoing)
- Joint Management Group Systems workshop (deferred to 2012/13)

Our opinion is based on our assessment of whether the controls in place support the achievement of management's objectives as set out in our 2011/12 Internal Audit Plan.

We have completed the program of internal audit work for the year ended 31st March 2012 with the exception of the planned Joint Member workshop. Our work identified 22 low, 19 moderate and 1 high rated findings. Based on the work we have completed, we believe that there is some risk that management's objectives may not be fully achieved. Improvements are required in those areas to enhance the adequacy and / or effectiveness of governance, risk management and internal control.

The key factors that contributed to our opinion are summarised as follows:

Creditors

- One high risk issue was noted relating to non purchase orders. Our audit showed that no purchase order was in place for 84% of invoices received in year. In the majority of cases, these relate to purchases with small suppliers or invoices received for repairs works where it is felt that an initial cost cannot be estimated. Performance in this area is comparable to prior year (85%). If purchase orders are not raised, there is an increased risk that unauthorised purchases may not be identified until invoices are received. In addition, the Council is not able to monitor commitments unless a purchase order is posted to the system. This increases the risk that the budget position is not fully understood.

A summary of the key findings are described in further detail on page 3.

On pages 4 and 5 we show the direction of travel for both individual review areas and for the number of audit recommendations in each risk category (critical, high, medium and low). Both show very positive signs on the overall control environment at the Council.

For almost all areas reviewed in the year, the rating this year was either better or the same as last year. The number of internal audit findings and recommendations has reduced considerably with a total number of 42 findings in 2011/12 compared to 98 in the previous year. Although the mix and focus of our internal audit work have differed between years and therefore results may not be directly comparable, the significant reduction in findings, particularly in the high and medium rated findings from 50 to 20, should be source of considerable comfort.

Acknowledgement

We would like to take this opportunity to thank all audit sponsors, the Joint Management Team and members of the Accounts, Audit and Risk Committee for their co-operation and assistance provided during the year.

2. Summary of findings

Our annual internal audit report is timed to inform the organisation's Annual Governance Statement.

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

<i>Description</i>	<i>Detail</i>
<p>Overview</p> <p>We completed 19 internal audit reviews. This resulted in the identification of 0 critical, 1 high, 19 medium and 22 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness.</p>	<ul style="list-style-type: none"> • Our audit plan was scoped to address the Council's key risks and strategic objectives. We mapped each review to these areas in our 2011/12 Internal Audit plan • We have completed our internal audit plan in line with the set timescales and have supported the Council with their year-end close down procedures and in their assessment of fraud. We have delivered training on fraud awareness, audit committee effectiveness and risk management in year. • Our plan included four "value enhancement" reviews and we have mobilised specialists in the areas of ICT and finance in year.
<p>Internal Control Issues</p> <p>During the course of our work we identified one high risk issue which has been outlined in the next cell. Given the materiality of this issue you should consider inclusion of this area in your Annual Governance Statement</p>	<p>Creditors</p> <p>The Council has issued a number of reminders on the importance of raising purchase orders in year. However, our audit showed that no purchase order was in place for 84% of invoices received in year. In the majority of cases, these related to purchases with small suppliers or invoices received for repairs works where it is felt that an initial cost cannot be estimated. This issue was also raised in 2010/11.</p>
<p>Good practice</p> <p>We also identified a number of areas where few weaknesses were identified and / or areas of good practice.</p>	<p>The following reviews were classified as low risk for 2011/12:</p> <ul style="list-style-type: none"> • Debtors • Payroll • Budgetary Control • Housing benefits • Cashiers • Risk Management • Legal and Democratic Services • Car Parking • Performance Management • Firewall

3. Internal Audit work conducted

Introduction

Our internal audit work was conducted in accordance with our letter of engagement, CIPFA's Audit Code of Practice and the 2011/12 Internal Audit Plan.

The table below sets out the results of our internal audit work and implications for next year's plan. The direction of travel is also analysed so management can consider whether they should take action to reverse a trend or address stagnation.

We also include a comparison between planned internal audit activity and actual activity, to assist with budgeting and forward planning.

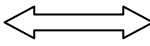




Results of individual assignments

Audit unit	Report status	Direction of Travel	Report classification	Number of findings			
				Critical	High	Medium	Low
General Ledger	Final	↓	Medium	0	0	4	3
Debtors	Final	↑	Low	0	0	2	0
Creditors	Final	↔	Medium	0	1	0	2
Payroll	Final	↑	Low	0	0	1	0
Budgetary Control	Final	↔	Low	0	0	0	3
Collection Fund	Final	↑	Medium	0	0	3	2
Cashiers	Final	↑	Low	0	0	1	2
Housing Benefits	Final		Low	0	0	1	3
Car Parking	Final	↑	Low	0	0	1	1
Risk Management	Final	↑	Low	0	0	1	1
Legal and Democratic Services	Final	↔	Low	0	0	1	1
Performance Management	Final	n/a	Low	0	0	1	1
Firewall Follow Up	Final	↑	Low	0	0	1	1
Trade Waste and Vehicles	Final	n/a	Medium	0	0	2	2
			Total	0	1	19	22

In addition we have carried out the following value enhancement reviews where no risk rating has been provided. No significant issues were noted in these reports for consideration in the Annual Governance Statement:

- Year end support (secondment)
- Shared ICT Provision – critical friend review
- Shared Management Milestone Validation
- Eco Town Governance and Spend
- Fraud Awareness Training

Direction of control travel

Finding rating	Trend between current and prior year	Number of findings		
		2011/12	2010/11	2009/10
Critical		0	0	0
High		1	4	6
Medium		19	46	76
Low		22	48	55
Total		42	98	137

It should be noted that the mix and focus of our internal audit plans have differed between years and therefore these results may not be directly comparable.

Management should look to concentrate on those areas of stagnant or deteriorating performance (e.g. General Ledger and Creditors) to ensure that controls in these areas are improved. Actions may include raising awareness, training, increasing compliance checks or improved escalation processes.

Comparison of planned and actual activity

We have provided a comparison of the planned and actual activity for the 2011/12 plan by review. One review (Group Systems workshop) has been deferred from the 2011/12 plan to 2012/13. This is a value enhancement piece of work and therefore does not impact on our ability to provide a year-end opinion on Internal Control.

Audit Unit	Audit Type	Budgeted days	Actual days	Reason for variance
General Ledger	Value Protection	5	5	-
Debtors		5	5	-
Creditors		5	5	-
Payroll		5	5	-
Budgetary Control		7	7	-
Collection Fund		10	10	-

Cashiers		5	5	-
Housing Benefits		8	8	-
Fixed Assets		5	0	Days utilised for year end secondment
Car Parking		5	5	-
Risk Management/Governance		5	5	-
Transparency Agenda		5	5	-
LDF Partnership Review		5	0	Days utilised for year end secondment
Performance Management		10	10	-
Finance – Year end	Specialist	5	15	Days increased to reflect year end requirements
Firewall and Disaster Recovery		10	10	-
Critical Friend support		10	10	-
Trade Waste and Vehicles	Value Protection	5	5	-
Validation of key milestones	Value Enhancement	10	10	-
Eco Town – Governance and Finance		5	5	-
Fraud Awareness Training		5	5	-
Shared Management – Group Systems Workshop		10	0	Deferred to 2012/13
Follow up	-	5	5	-
Audit Management	-	30	30	-
	-	180	170	

4. Follow up work conducted

Introduction

Within the Annual Audit Plan for 2011/12, 5 days were assigned for following up recommendations raised during previous years in order to assess whether agreed actions had been implemented by management. Recommendations raised in previous reports were followed up within the 2011/12 scope. The table below summarises the follow up work performed.

Results of follow up work

Audit unit	Number of agreed actions	Status of agreed actions			
		Implemented	Partially Implemented	Outstanding	Not yet due
General Ledger	5	2	0	3	0
Debtors	6	4	1	1	0
Creditors	3	1	0	2	0
Payroll	2	2	0	0	0
Budgetary Control	3	1	0	2	0
Collection Fund	9	4	2	3	0
Cashiers	2	1	0	1	0
Housing Benefits	5	3	0	2	0
Car Parking	5	3	0	2	0
Risk Management	7	5	0	1	1
Firewall and Disaster Recovery	8	6	0	2	0
TOTAL	55	32	3	19	1

Please note follow up work was only undertaken for those areas reviewed in 2011/12 and 2010/11 where the scope was directly comparable.

We recommend that further work is conducted by the Council to ensure all previously agreed recommendations are implemented at the earliest opportunity.

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have prepared the Internal Audit Annual Report and undertaken the agreed programme of work as agreed with management and the Accounts, Audit and Risk Committee subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed plan which provided for 180 audit days. The work addressed the control objectives agreed for each individual internal audit assignments as set out in individual assignment reports.

There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Accounts, Audit and Risk Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

Internal control:

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods:

Our assessment of controls relating to Cherwell District Council is for the year ended 31st March 2012. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

The specific time period for each individual internal audit is recorded within section 3 of this report.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.





We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2: Basis of our classifications

Report classifications

The report classification is determined by allocating points to each of the findings included in the report

<i>Findings rating</i>	<i>Points</i>
<i>Critical</i>	40 points per finding
<i>High</i>	10 points per finding
<i>Medium</i>	3 points per finding
<i>Low</i>	1 point per finding

<i>Report classification</i>		<i>Points</i>
	Critical risk	40 points and over
	High risk	16– 39 points
	Medium risk	7– 15 points
	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance (quantify if possible); or • Critical monetary or financial statement impact (quantify if possible = materiality); or • Critical breach in laws and regulations that could result in material fines or consequences (quantify if possible); or • Critical impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance (quantify if possible); or • Significant monetary or financial statement impact (quantify if possible); or • Significant breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or • Significant impact on the reputation or brand of the organisation (quantify if possible).
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance (quantify if possible); or • Moderate monetary or financial statement impact (quantify if possible); or • Moderate breach in laws and regulations resulting in fines and consequences (quantify if possible); or • Moderate impact on the reputation or brand of the organisation (quantify if possible).
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance (quantify if possible); or • Minor monetary or financial statement impact (quantify if possible); or • Minor breach in laws and regulations with limited consequences (quantify if possible); or • Minor impact on the reputation of the organisation (quantify if possible).
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>



In the event that, pursuant to a request which Cherwell District Council has received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), it is required to disclose any information contained in this terms of reference, it will notify PwC promptly and consult with PwC prior to disclosing such information. Cherwell District Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Act to such information. If, following consultation with PwC, Cherwell District Council discloses any such information, 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 Progress Report

27 June 2012

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.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) 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 Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee. 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.</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

June 2012



Table of Contents

Plan outturn	3
Reporting Activity and Progress	4
Appendix 1 – Plan Progress	5
Appendix 2 – Recent PwC Publications	7

Plan outturn

2011/12 Audit Plan

We have undertaken work in accordance with the 2011/12 Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee at its meeting in March 2011. We have completed the program of internal audit work for the year ended 31 March 2012 with the exception of the following reviews:

- **Year end support (ongoing)** - We agreed the secondment of a specialist technical accountant to cover the technical accountant vacancy within the finance team for the period of March – June 2012 and to assist with the preparation of Cherwell District Council's (the 'Council') Statement of Accounts. It was agreed that the days in the internal audit plan allocated for Fixed Assets, Close Down and Local Strategic Partnership reviews would be utilised for this secondment to reflect the importance of timely and accurate preparation of accounts. The member of staff seconded from PwC has not been previously involved with the delivery of Internal Audit at the Council and is therefore sufficiently independent to perform this role.
- **Joint Management Group Systems Workshop (Deferred to 2012/13)** - Performance of our 'Group Systems' workshop for Joint Members has been delayed until a date for the next meeting of this forum is agreed. This review is deemed to be 'value enhancing' and therefore does not impact on our ability to form a year end opinion.

2012/13 Audit Plan

We are delighted that we have been reappointed as the Internal Auditors for the Council. As a result of our reappointment we have held meetings with all Directors, Heads of Service and the Chair of this Committee during March to conclude our planning for 2012/13 on a timely basis.

Reporting Activity and Progress

Final reports issued since the previous meeting

Budgetary Control

We have classified our findings in this area as **Low Risk**, which is comparable to our risk rating in 2010/11. The Council has a well established method of zero based budgeting and monitors performance against budget using a comprehensive dashboard. Three low risk issues were noted:

- Two issues related to prior year open findings and the need to update forms and procedures for virements and budget monitoring;
- One additional issue was noted in 2011/12 regarding the authorisation and timely submission of supplementary estimates. The Council should ensure supplementary estimates are processed on a timely basis and authorised appropriately to ensure that performance against budget can be monitored effectively.

Housing Benefits

We have classified our findings in this area as **Low Risk**, which is an improvement from last year.

We were asked to test in detail the Audit Commission's concerns about the 2010/11 subsidy claim. Two low risk issues were noted around incorrect claim start dates and incorrect overpayments classification. However, one medium risk issue was noted as 25% of claims tested had inaccurate earned income calculations.

The Council has communicated all errors we found to Capita for rectification for the 2011/12 claim. The Council should consider further review of the contract with Capita to ensure that suitable performance information is provided so that adverse performance is identified and rectified promptly. This area of focus will be considered in our 2012/13 audit plan.

IT Firewall Review

We performed a follow up review of issues identified in our previous review (June 2011) to determine if appropriate follow up actions have been taken by the Council to rectify issues previously identified. We have issued a **Low Risk** rating in this area. Significant improvements have been made to the control issues identified in the prior year as well as implementing a series of new controls to enhance effectiveness.

The majority of prior year recommendations have been addressed, most notably around third party firewall support, firewall configuration and management practices and staff firewall training. The Council has also implemented appropriate project management arrangements over the planned firewall migration. Our audit of the firewall configuration identified that only one redundant configuration identified in the previous audit report was still operational on the Council's internet firewall.

One medium risk was identified surrounding the shared management arrangements with South Northamptonshire Council. The Information Services team is taking on management responsibility for the South Northamptonshire Council's firewalls and associated infrastructure as part of these arrangements. As a result of this, increased capabilities and capacity will be required to meet the requirements of managing a larger more complex firewall infrastructure. We will be performing a review of IT Transition Arrangements as part of our 12/13 Internal Audit Plan.

Appendix 1 – Plan Progress

Ref	Auditable Unit	Indicative number of audit days	Status/Revisions to the plan
A	Cross-cutting Processes		
A.1	General Ledger	5	Fieldwork completed. Final report issued.
A.2	Debtors	5	Fieldwork completed. Final report issued.
A.3	Creditors	5	Fieldwork completed. Final report issued.
A.4	Payroll	5	Fieldwork completed. Final report issued.
A.5	Budgetary Control	7	Fieldwork completed. Final report issued.
A.6	Collection Fund	10	Fieldwork completed. Final report issued.
A.7	Cashiers	5	Fieldwork completed. Final report issued.
A.9	Housing Benefits	8	Fieldwork completed. Final report issued.
A.10	Fixed Assets	5	Days utilised for financial accountant secondment.
A.12	Car Parking	5	Fieldwork completed. Final report issued.
A.14	Risk Management/Governance (in conjunction with B.6)	5	Fieldwork completed. Final report issued.
	TOTAL	65	
B	Department Level		
B.5	Legal and Democratic Services - Transparency Agenda	5	Fieldwork completed. Final report issued.
B.6	Strategy and Performance LDF Partnership Review	5	Days utilised for financial accountant secondment.
B.7	Strategy and Performance -Performance Management (in conjunction with A.14)	10	Fieldwork completed. Final report issued.
B.7	Finance – Year end	5	Days utilised for financial accountant secondment.
B.8	Information Technology – Firewall and Disaster Recovery	10	Fieldwork completed. Final report issued.
B.9	Information Technology- Critical Friend support	10	Fieldwork completed. Final report issued.
B.10	Environmental Services – Trade Waste and Vehicles	5	Fieldwork completed. Final report issued.
	TOTAL	50	
VE	Value Enhancement		
VE.1	Shared Management – Validation of key milestones	10	Fieldwork completed. Final report issued.
VE.2	Eco Town – Governance and Finance	5	Fieldwork completed. Final report issued.
VE.3	Fraud Awareness Training	5	Training delivered.

VE.4	Shared Management – Group Systems Workshop	10 days equivalent	To commence in 2012/13.
	TOTAL	30	
PM	Project Management		
PM1	Follow up	5	Completed
PM 2	Audit Management	30	Completed.
	TOTAL	35	
	TOTAL PROPOSED DAYS	180	

Summary of recommendations (cross cutting and departmental only)

Assignment	High (10 points)	Medium (3 points)	Low (1 point)	TOTAL POINTS	Overall Risk Rating
Cash Collection	0	1	2	5	LOW
Car Parking	0	1	1	4	LOW
Transparency Agenda	0	1	1	4	LOW
General Ledger	0	4	3	15	MEDIUM
Collection Fund	0	3	2	11	MEDIUM
Payroll	0	1	0	3	LOW
Performance Management	0	1	1	4	LOW
Debtors	0	2	0	6	LOW
Creditors	1	0	2	12	MEDIUM
Risk Management	0	1	1	4	LOW
Trade Waste	0	2	2	8	MEDIUM
Housing Benefits	0	1	3	6	LOW
Firewall and Disaster Recovery	0	1	1	4	LOW
Budgetary Control	0	0	3	3	LOW
Total	1	19	22	-	-

Appendix 2 – Recent PwC Publications

As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. The PricewaterhouseCoopers Public Sector Research Centre (PSRC) produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector.

The (Local) State we're in

Our second annual survey finds that local authorities have successfully delivered against an ambitious programme of financial savings over the last year, without any marked reduction in the quality of frontline services. It further highlights a strong level of confidence within councils about being able to repeat that performance in the year ahead. There is notable nervousness however of further financial pressures beyond the current spending review period.

There also appears to be a hardening of public attitudes towards those cuts impacting local public services. There also seems to be much more councils can and should be doing to engage local communities and individuals about the difficult choices they are facing.

Achieving savings targets

Following on from our previous survey, respondents were generally optimistic about achieving their financial savings targets for the last financial year. Over 90% of respondents expected that they would deliver at least their targeted level of savings in 2011/12; indeed just over one third were expecting to exceed their target for the year.

Managing increasing demand

By far the biggest concern for both leaders and chief executives in terms of achieving their savings targets over the next few years is the challenge of increasing demand for services. Our survey in the summer of 2011 identified a similar concern and this is potentially a major area of focus now for local councils. The fear for many is that, no matter the level of focus on transforming internal processes and operations, the sheer level of demand within the system (particularly in people-related services) will outweigh the savings that councils can secure in practice.

The future council

Both chief executives and leaders indicate a significant fear of potential future council failure – both financial and service failure. Almost 90% of chief executives and 80% of leaders believe that in the next three years one or more councils will get into serious financial difficulties, while 70% of chief executives and 80% of leaders believe that one or more councils will fail to deliver essential services.

Over recent years there has been much discussion about what the council of the future will look like - 'commissioning council', 'mutuals', 'social enterprises' and 'big society' have all entered the lexicon of local government language. While councils appear to be adopting different models, one common theme for the council of the future is that will be smaller and employ fewer staff.

Public acceptance of cuts

Leaders were more inclined than chief executives to believe that the public had accepted the savings that had been implemented, and that there had been less adverse public reaction to them. However, this view was not shared by the public, just over 40% of whom said that they fully or tend to oppose the need for savings in local public services. While almost as many said they somewhat or fully accepted the need to make savings, one in five were unsure.

Communicating with residents

Our surveys also uncovered a mismatch between the perceptions of both leaders and chief executives on the one hand, and the public themselves on the other, about how well informed the public are on the reasons councils are making savings. Over half of chief executives and three quarters of leaders said that they thought the public very or fairly well informed about the reasons that the council was planning to make savings. By contrast, only one quarter of the public thought that they were very or well informed.

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