Public Document Pack

Committee: Accounts, Audit and Risk Committee

Date: Wednesday 26 March 2014

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 Ray Jelf**
Councillor Nicholas Mawer	**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 22 January 2014.

6. **Chairman's Announcements**

To receive communications from the Chairman.

7. **External Audit: Audit Commission Fraud Briefing** (Pages 7 - 22)

Report of Interim Head of Finance and Procurement.

Purpose of Report

To consider the Audit Commission's fraud briefing to members, which will be presented by the council's external auditor, Ernst & Young.

Recommendation

The meeting is recommended to:

1.1 Note the contents of the presentation.

8. **Anti-Fraud and Corruption Plus Whistleblowing Update**

Verbal update by the Interim Head of Finance and Procurement and Fraud Manager.

9. **Risk Strategy Update 2014-15** (Pages 23 - 56)

Report of the Director of Resources.

Purpose of Report

To review the Council's risk strategy updated for 2014/15.

Recommendation

The meeting is recommended:

1.1 To agree the 2014/15 risk strategy.

10. **Review of Draft Accounting Policies 2013-14 and Closedown Update** (Pages 57 - 78)

Report of the Interim Head of Finance and Procurement.

Purpose of Report

The purpose of this report is to inform members of the draft 2013-14 accounting policies to allow members to consider and endorse the accounting policies under which the Council prepares its annual Statement of Accounts together with the summary timetable for production

Recommendations

The meeting is recommended:

1.1 To approve the accounting policies as set out in Appendix 1.

1.2 To agree that delegated authority be granted to Head of Finance and Procurement to make any further changes to the Accounting Policies in preparation for the forthcoming accounts closure for 2013-14.

1.3 To note the closedown timetable summary as set out in Appendix 2.

11. External Audit Progress Update 2013-14 and Local Government Sector Briefing (Pages 79 - 88)

Report of the Interim Head of Finance and Procurement.

Purpose of Report

To receive an update of progress to date by the Council's external auditor, Ernst Young.

Recommendations

The meeting is recommended to:

1.1 Note the progress update from Ernst Young.

12. Internal Audit Progress Report 2013-14 and Internal Audit Plan 2014-15 (Pages 89 - 114)

Report of the Interim Head of Finance and Procurement.

Purpose of Report

To receive PwC's progress report summarising their internal audit work to date and to receive the Internal Audit Plan for next year.

Recommendations

The meeting is recommended to:

1.1 Note the contents of the 2013-14 progress report and the details of the 2014-15 Internal Audit Plan.

13. Use of Purchase Orders (Pages 115 - 118)

Report of the Interim Head of Finance and Procurement.

Purpose of Report

The purpose of this report is to provide information to the Accounts, Audit and Risk Committee on the Council's use of Purchase Orders.

Recommendation

The meeting is recommended to:

1.1 Note the contents of the report on the progress the Council is making to improve the use of purchase orders.

14. Review of Committee Work Programme (Pages 119 - 120)

To review and note the Committee Work Programme.

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 01295 221589 / 012595 221554 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 18 March 2014

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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 22 January 2014 at 6.30 pm

Present:	Councillor Trevor Stevens (Chairman) Councillor Mike Kerford-Byrnes (Vice-Chairman) Councillor Andrew Beere Councillor Ray Jelf Councillor Nicholas Mawer Councillor Lawrie Stratford Councillor Barry Wood
Also Present:	Councillor Ken Atack, Lead Member for Financial Management
Guests	Ed Cook, PriceWaterhouseCooper, Internal Audit Alastair Rankine, Audit Manager, Ernst & Young, External Audit Mick West, Audit Director, Ernst & Young, External Audit
Apologies for absence:	Councillor Rose Stratford
Officers:	Tim Madden, Interim Head of Finance and Procurement Nicola Jackson, Corporate Finance Manager Denise Taylor, Corporate Accountant Jeff Brawley, Investigations Manager Louise Tustian, Senior Performance & Improvement Officer Natasha Clark, Team Leader, Democratic and Elections Sharon Hickson, Assistant Democratic and Elections Officer

43 **Declarations of Interest**

There were no Declarations of Interest.

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

There were no Petitions or Requests to Address the Meeting.

45 **Urgent Business**

There was no Urgent Business

46 **Minutes**

The Minutes of the meeting of the Committee held on 4 December 2013 were agreed as a correct record and signed by the Chairman.

47 **Chairman's Announcements**

The Chairman advised the Committee that he had to leave the meeting at around 7.15pm and the Vice-Chairman would take the Chair.

48 **Third Quarter Risk Review**

The Committee considered a report of the Head of Transformation on the management of Strategic, Corporate and Partnership Risks during the third quarter of 2013/14 and highlight any emerging issues for consideration.

Resolved

(1) That the quarter 3 Strategic, Corporate and Partnership Risk Register be noted and no issues for further consideration have been identified.

49 **Anti Fraud and Corruption plus Whistle Blowing Update**

The Committee considered the verbal update from the Investigations Manager on Anti-Fraud and Corruption plus Whistle Blowing.

The Investigations Manager reported that there had been no new cases of Whistle Blowing since the start of the Financial Year and provided a detailed overview of work undertaken by the Fraud Investigation team.

In response to Members' questions, the Investigations Manager explained that if an individual suspected someone of fraud, they could report via telephone, the council's website or email.

In the course of the discussion Members queried if the council's systems were adequate and requested that a report on fraud control be submitted to a future meeting.

Resolved

(1) That the Verbal Update be noted.

(Councillor Stevens left the meeting at the conclusion of the item and Councillor Kerford-Byrnes took the Chair).

50 **Use of Purchase Orders**

The Committee considered a report of the Interim Head of Finance and Procurement on the use of purchase orders.

In introducing the report the Corporate Accountant advised the Committee that there had been improvement in the use of purchase orders. More staff had been trained to create Purchase Orders, service areas were instructed not to raise a purchase order before committing money and a “no purchase order no payment policy” had been implemented. There was nonetheless room for further improvement,

The Committee requested a further report be submitted providing a month’s analysis of purchase orders detailing department, supplier and amount.

Resolved

(1) That the contents of the report on the progress the Council is making to improve the use of purchase orders be noted.

51 **Design & Operation of the IT General Controls within Agresso**

The Committee considered a report of the Interim Head of Finance and Procurement on the Design and Operation of the IT General Controls within Agresso.

Resolved

(1) That the report be noted.

52 **External Audit: Annual Audit Plan 2013-14 and Grants Certification Annual Report 2012-13**

The Committee considered a report of the Interim Head of Finance and Procurement which sought consideration of the Ernst and Young LLP Report setting out the Annual Audit Plan 2013-14, and summarised external audit’s certification work on grants claims for 2012-13.

In introducing the Annual Audit Plan 2013-14, the Audit Director reported that as part of the planning work two risks to the audit of the financial statements. Work in this area would therefore focus on misstatement due to fraud or error and implementation of a new payroll system.

One significant risk and two other risks had been identified for the value for money conclusion on the Council’s use of resources. Work in this area would focus on management of capital projects, financial resilience and delivering services.

The Audit Manager confirmed that one claim, Housing and council tax benefits subsidy claim and National non-domestic rates return had been certified in 2012/13. In 2013/14 only benefits would be certified and consequently there would be a reduction in the certification fees going forward.

Resolved

(1) That the Ernst Young Fee Letter 2013-14, Annual Audit Plan 2013-14, Grants Certification Annual Report 2012-13 be noted.

53 **Internal Audit Progress Report**

The Committee considered a report of the Chief Internal Auditor which summarised their Internal Audit work since the Committee's meeting in December.

Resolved

(1) That the Internal Audit progress report be noted.

54 **Public Sector Internal Audit Standards**

The Committee considered a report of the Chief Internal Auditor which detailed the new Public Sector Internal Audit Standards (PSIAS). Since 1 April 2013, internal audit services in local government, central government and health were required to be delivered in accordance with PSIAS.

Resolved

(1) That the Public Sector Internal Audit Standards be noted.

55 **Q3 Treasury Management Report**

The Committee considered a report of the Interim which set out treasury management performance and compliance with treasury management policy for 2013-14 for Quarter 3 as required by the Treasury Management Code of Practice.

In introducing the report the Corporate Finance Manager reported that having taken advice form the Council's treasury advisors, monies held in the Investec funds would be brought in house upon maturity.

Resolved

(1) That the Quarter 3 (Q3) Treasury Management Report be noted.

56 Updated Treasury Management Strategy 2014-15

The Committee considered a report of the Interim Head of Finance and Procurement on the updated Treasury Management Strategy for 2014-2015 and actions and proposals in respect of the funds held by fund managers Investec.

In introducing the report, the Corporate Finance Manager explained that there were two significant changes to the Strategy since it had been presented to the Committee in December relating to the return of funds in-house and the method for reinvesting and the addition of the principle of borrowing.

Resolved

(1) That the updated Treasury Strategy for 2014-15 be noted.

(2) That the action and proposals in respect of funds held with Fund Managers Investec be noted.

57 Accounts, Audit and Risk Committee Work Programme

The Committee considered its work programme 2013/14.

Resolved

(1) That the Work Programme be noted subject to the following additions.
- Purchase Order Analysis
- Fraud Control

The meeting ended at 8.10 pm

Chairman:

Date:

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Cherwell District Council

Accounts, Audit and Risk Committee

26 March 2014

External Audit: Audit Commission Fraud Briefing

Report of the Head of Finance and Procurement

This report is public

Purpose of report

To consider the Audit Commission's fraud briefing to members, which will be presented by the council's external auditor, Ernst & Young.

1.0 Recommendations

The meeting is recommended to:

1.1 Note the contents of the presentation.

2.0 Introduction

2.1 Ernst Young will present the Audit Commission's fraud briefing to members. This is attached at Appendix 1.

3.0 Report Details

3.1 This presentation covers the Audit Commission's national report – Protecting the Public Purse 2013. The presentation also gives comparative information for Cherwell District Council.

4.0 Conclusion and Reasons for Recommendations

4.1 For the audit committee to note the presentation.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information from the External Auditor.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.
Comments checked by: Nicola Jackson, Corporate Finance Manager
Tel: 01295 221731, nicola.jackson@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.
Comments checked by: Kevin Lane, Head of Law & Governance,
Tel: 0300 0030107, kevin.lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

7.3 There are no risk implications arising directly from any outcome of this report.
Comments checked by: Nicola Jackson, Corporate Finance Manager
Tel: 01295 221731, nicola.jackson@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected - All wards are affected

Links to Corporate Plan and Policy Framework - All corporate plan themes.

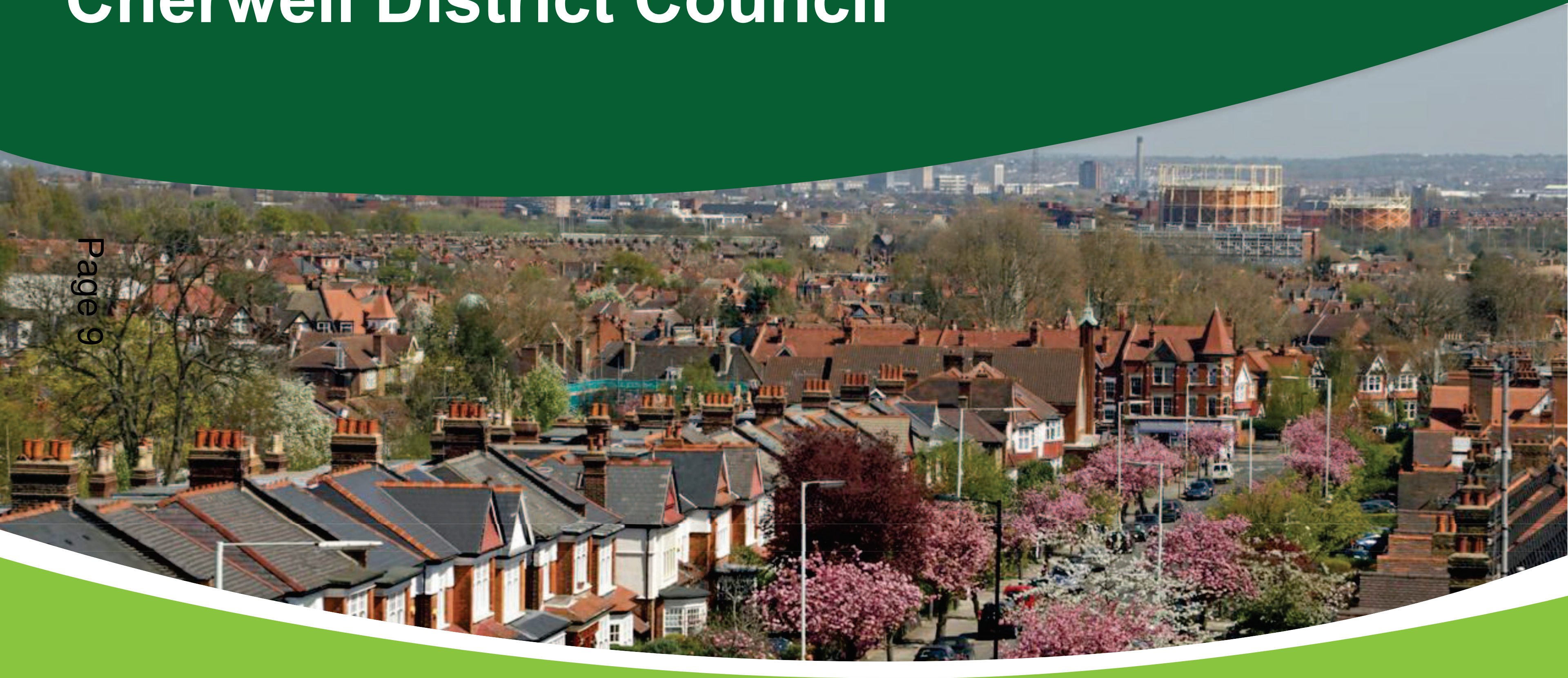
Lead Councillor - None

Document Information

Appendix No	Title
Appendix 1	Audit Commission Fraud Briefing
Background Papers	
None	
Report Author	Tim Madden, Interim Head of Finance and Procurement
Contact Information	0300 003 0106 Tim.madden@cherwellandsouthnorthants.gov.uk

Protecting the Public Purse Fraud Briefing 2013

Cherwell District Council



audit commission

Agenda

- Introduction and purpose of your Fraud Briefing
- *Protecting the Public Purse (PPP) 2013* report – national picture
- Interpreting fraud detection results
- The local picture
- Questions?

And do not forget

–*Checklist for those charged with governance (Appendix 2 of PPP 2013)*
–*Questions councillors may want to ask/consider (Appendix 3 of PPP 2013)*

Introduction

- Fraud costs local government in England over £2 billion per year (*source: National Fraud Authority*)

- Fraud is never a victimless crime

- Councillors have an important role in the fight against fraud

audit commission

Purpose of Fraud Briefing at your council

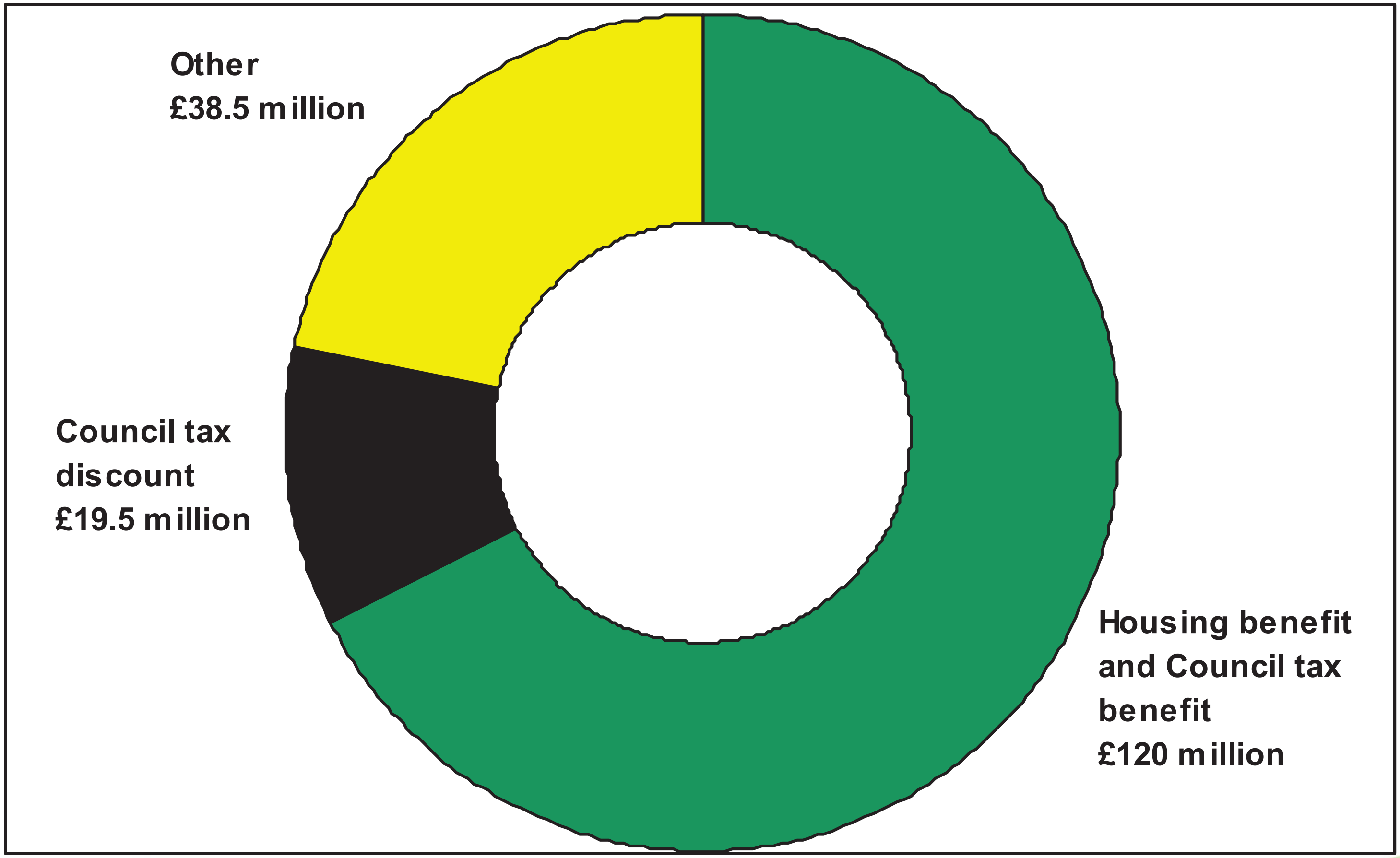
- Opportunity for councillors to consider fraud detection performance, compared to similar local authorities

- Reviews current counter fraud strategy and priorities

- Discuss local and national fraud risks

- Reflect local priorities in a proportionate response to those risks

National Picture 2012/13
Total cases detected107,000, with a value of £178 million (excluding social housing fraud)



Nationally, the number of detected frauds has fallen by 14% since 2011/12 and the value by less than 1%

audit commission

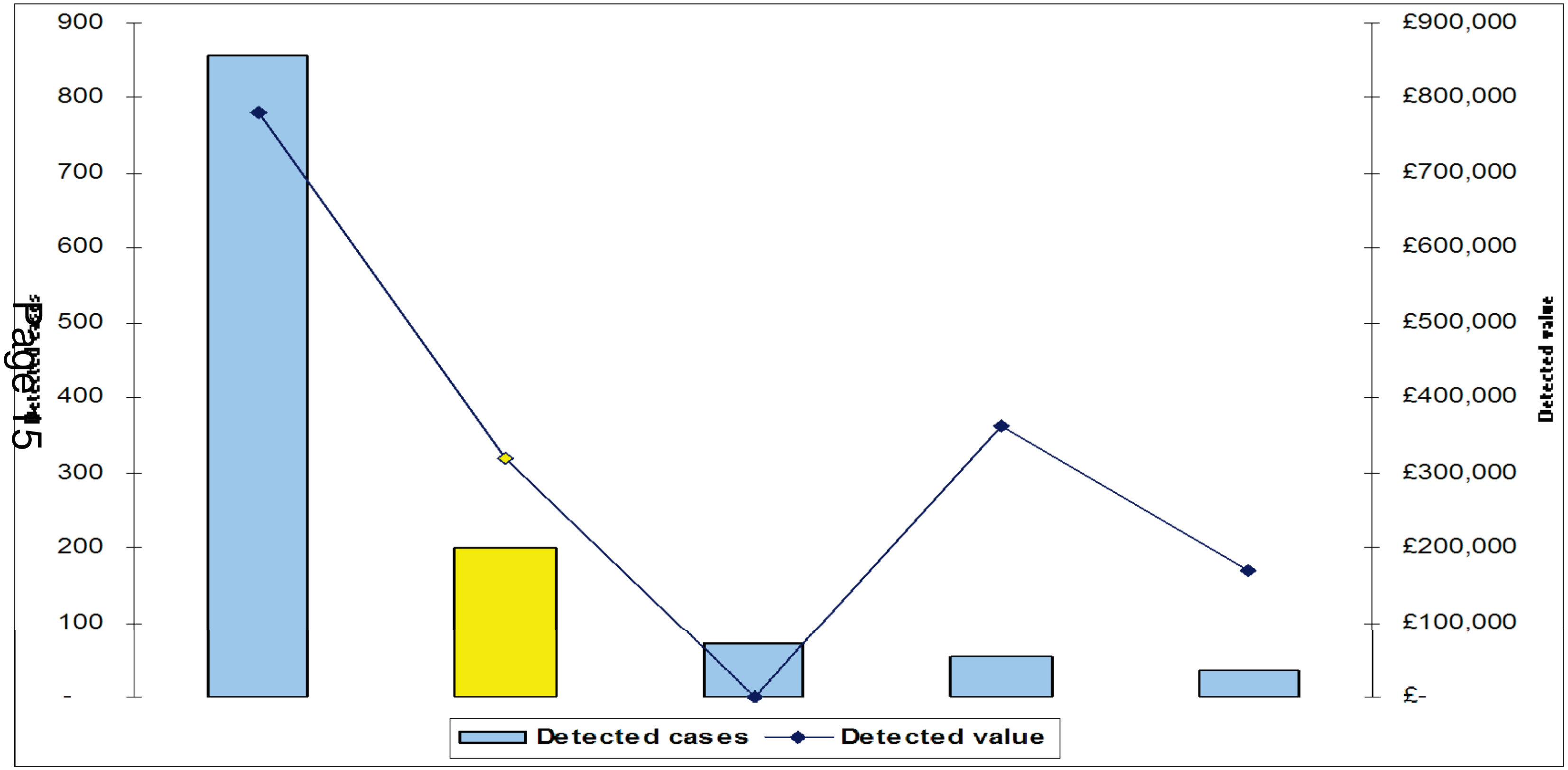
Interpreting fraud detection results

- Contextual and comparative information needed to interpret results
- Detected fraud is indicative, not definitive, of counter fraud performance (Prevention and deterrence should not be overlooked)
- No fraud detected does not mean no fraud committed (Fraud will always be attempted and even with the best prevention measures some will succeed)
- Councils who look for fraud, and look in the right way, will find fraud (There is no such thing as a small fraud, just a fraud that has been detected early)

Your council is highlighted in yellow in the graphs that follow

audit commission

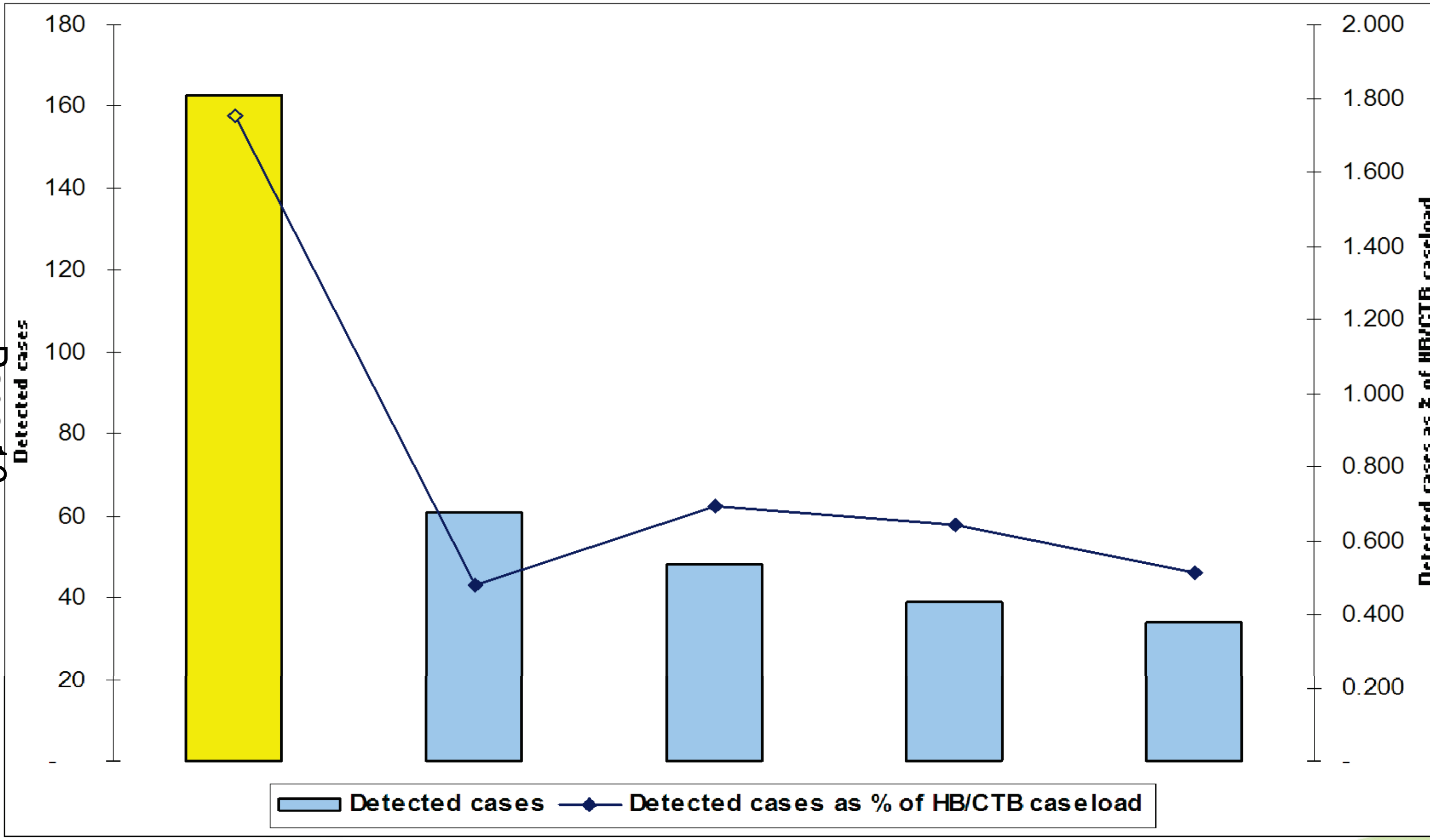
The local picture
How your council compares to other district councils in your county area
Total detected cases and value 2012/13



Cherwell detected: 200 cases, valued at £320,234

DC average for your county area: 243 cases, valued at £326,365

District councils in your county area 2012/13
Housing benefit (HB) and Council tax benefit (CTB) fraud
Detected cases and detected cases as a percentage of HB/CTB caseload



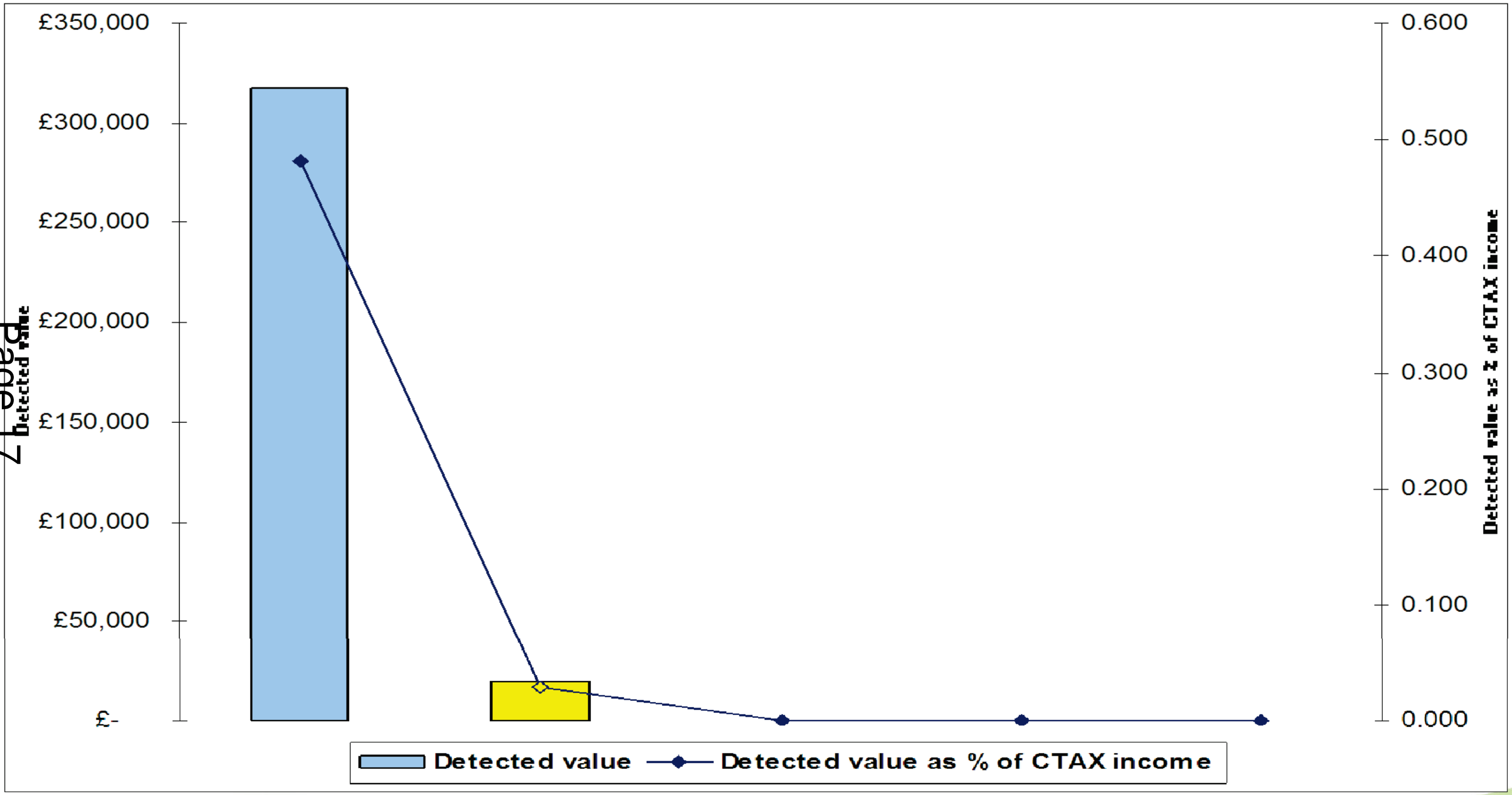
Page 16

Cherwell detected: 163 cases, valued at £279,709

DC average for your county area: 69 cases, valued at £239,633

audit commission

District councils in your county area 2012/13
Council tax (CTAX) discount fraud
Detected value and detected value as a percentage of council tax income



Cherwell detected: 30 cases, valued at £19,912

DC average for your county area: 172 cases, valued at £67,581

Cherwell District Council
Other frauds

- **Procurement**: no cases
  (*Ave per DC in your county area: no cases*
  Total for all local government bodies in your region: 16 cases, valued at £314,167)

- **Insurance**: 1 case, valued at £15,219
  (*Ave per DC in your county area: <1 cases, valued at £3,044*
  Total for all local government bodies in your region: 14 cases, valued at £1,048,852)

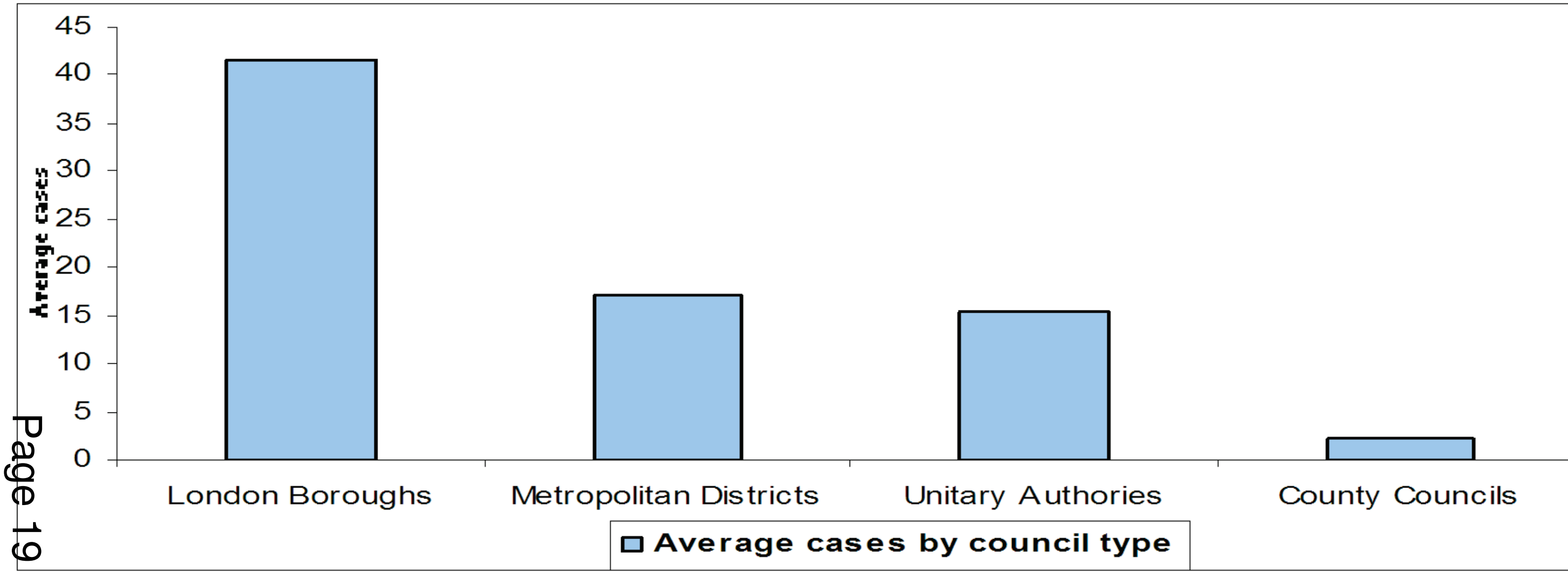
- **Economic & Third sector**: no cases
  (*Ave per DC in your county area: no cases*
  Total for all local government bodies in your region: 4 cases, valued at £6,000)

- **Internal fraud**: 3 cases, valued at £6,351
  (*Ave per DC in your county area: 1 case, valued at £1,270*
  Total for all local government bodies in your region: 140 cases, valued at £1,867,550)

Correctly recording fraud levels is a central element in assessing fraud risk
It is best practice to record the financial value of each detected case

audit commission

Disabled parking (Blue Badge) fraud
Detected cases by issuing council type



In two-tier areas:

- county councils have administrative responsibility for issuing blue badges
- district councils face reduced car parking income as a result of the fraudulent abuse of blue badges.

District councils without housing stock 2012/13 Social housing fraud

It is estimated that:

- 2 per cent of social housing stock outside London is subject to tenancy fraud;
- tenancy fraud represents the second largest financial loss to fraud in local government, costing £845 million in 2013; and
- when combined with the loss to tenancy fraud suffered by housing associations, the total value in England is £1.8 billion – making tenancy fraud five times greater than the annual loss due to housing benefit fraud.

The Prevention of Social Housing Fraud Act 2013 criminalises tenancy fraud

The legislation gives councils investigation powers and the ability to prosecute tenancy fraudsters on behalf of housing associations

Should you be using this legislation to work in partnership with local housing associations?

audit commission

Any questions?

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Cherwell District Council

Accounts, Audit and Risk Committee

26 March 2014

Risk Strategy Update 2014-15

Report of Director of Resources

This report is public

Purpose of report

To review the Council's risk strategy updated for 2014/15.

1.0 Recommendations

The meeting is recommended:

1.1 To agree the 2014/15 risk strategy.

2.0 Introduction

2.1 The Council sets out its approach to managing risk in its Risk and Opportunities Management Strategy. This document is reviewed and updated on an annual basis and sets out the framework for managing risks of all types.

2.2 Risks are reviewed on a quarterly basis, undertaken by the Accounts, Audit and Risk Committee and JMT. This takes the form of reviewing the strategic risk register. Operational risks are reviewed at the departmental level but can be escalated to the strategic risk register if required. Risks may be identified and added to the strategic risk register at any point during the year. However, a formal review is undertaken in the final quarter of the year to refresh the strategic risk register and identify any new or emerging risks or opportunities.

3.0 Report Details

3.1 The strategy has been reviewed and the following principles continue to be used for the management of risk:

Core Risk These are the core set of strategic and high level risks that are recorded in the Council's Risk Register and are managed by JMT. They are monitored by the Accounts, Audit and Risk Committee and JMT on a quarterly basis. These risks are defined as strategic, corporate and partnership risks (see 'types of risk' below).

Residual Risk This is a measure of impact and likelihood after the proposed mitigating actions or controls have been taken into account. This is given a score using a 5x5 matrix which can then range from 1 to 25, with 25 being the highest level a risk can score. Changes in residual risk are highlighted in the risk monitoring reports to draw attention to any increase or decrease in risk and any new controls required.

Types of Risk the Council distinguishes between types of risk and those defined as strategic, corporate or partnerships are held on the Council's core risk register. Operational risks are managed at the service and directorate level and not corporately through the strategic risk register. Our definitions are as follows:

- Strategic 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 risks to corporate systems or processes that underpin the organisation's overall governance, operation and ability to deliver services.

- Partnership risks to a partnership meeting its objectives or delivering agreed services/ projects.

- Operational risks specific to the delivery of individual services/service performance or specific projects.

3.2 The strategy has been reviewed as part of an annual process and minor adjustments have been made, particularly to ensure there is a clear relationship between project and programme risk management and the strategic risk framework.

4.0 Conclusion and Reasons for Recommendations

4.1 The risk strategy has been reviewed for 2014/15. Additional content regarding project management and risk has been added to the strategy which strengthens the relationship between strategic risk and project risk management; this reflects a recommendation from a project management audit undertaken during 2013.

5.0 Consultation

JMT

6.0 Alternative Options and Reasons for Rejection

5.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Reject the risk strategy and commission an alternative approach. This is not recommended as it would leave the council without a functioning risk strategy.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising from this report but the risk register contains risks relating to the organisation's finance and budgets.

Comments checked by: Interim Head of Finance and Procurement,
Tel: 0300 0030106, tim.madden@cherwellandsouthnorthants.gov.uk

Legal Implications

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

Comments checked by: Kevin Lane, Head of Law and Governance,
Tel: 0300 0030107, kevin.lane@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected

All

Links to Corporate Plan and Policy Framework

All

Document Information

Appendix No	Title
Appendix 1	Risk Strategy and Appendices
Background Papers	
None	
Report Author	Claire Taylor (Business Transformation Manager)
Contact Information	claire.taylor@cherwellandsouthnorthants.gov.uk

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South Northamptonshire Council Cherwell DISTRICT COUNCIL NORTH OXFORDSHIRE

Risk and Opportunities Management Strategy

2014/15

Cherwell District and South Northamptonshire Councils

Contents

Document Version Control

Author	Corporate Performance Manager
Type of document (strategy/policy/procedure)	Strategy (the risk handbook outlines risk management policy and procedure)
Version number	1.6
Document file name	CDC SNC Risk Management Strategy
Issue date	March 2014
Approval date and by who (JMT, Cabinet, Executive, R&D / AARC)	Audit Committee (SNC) Account, Audit and Risk Committee (CDC) JMT
Document held by (name/division)	Claire Taylor / Transformation / Performance Management
Document on available on Council website – Y/N, if Yes where	Yes
Review Date	January / February 2015

Change History

Issue	Date	Comments
1.0	December 2011	Consultation draft for JMT
1.1	January 2012	Consultation draft for members
1.2	February 2012	Draft reflecting feedback – additional comments on assurance, staff training and quarterly review
1.3	March 2012	Final draft
1.4	March 2013	Reviewed
1.5	28/03/13	Amendments resulting from SNC Audit Committee
1.6	12/02/14	Amendments to reflect closer tie in with project risk management resulting from project risk audit. See section 2.7 and appendix c. Section 6.1 (contacts amended)

Section 1: Introduction

1.1 An overview of Risk Management

The purpose of this strategy is to outline the overall approach to risk and opportunities management for Cherwell District and South Northamptonshire councils.

The fundamental aim of the risk management strategy is to help both councils identify and manage risk especially with regards to those risks (both financial and non-financial) that pose a threat in terms of the organisations meeting their objectives, but also in terms of risk that have an impact on the operation of the business or may impact on services, programmes or projects.

Risk, can therefore be defined as:

"The threat that an event or action will adversely affect the council's ability to achieve its objectives, perform its duties or meet the expectations of its stakeholders."

Both organisations are aware that risks will always arise and most risks can not be fully eliminated, only managed to an acceptable level. Within this context the councils' are committed to managing risk in order to reduce the impact on the organisations their priorities and on service provision.

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

Through understanding risks, decision-makers (councillors and managers) will be better able to evaluate the impact of a particular decision or action on the achievement of the councils' objectives.

Risk management is 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.

1.2 Benefits of Risk Management

Effective risk management is an important part of corporate governance and performance management. It adds value by:

- Raising awareness of significant risks with priority ranking assisting in the efficient control of the risks

- Allocation of responsibility and accountability for risks and associated controls and any actions required to improve controls

- Aiding the process of strategic and business planning

- Identification of new opportunities and supporting innovation

- Providing a framework for the for the effective management of significant risks

- An aid in effective partnership working, particularly in terms of identifying shared/joint risks

- An aid to identifying opportunities that may be open to the organisation.

1.3 Strategy Objectives

The objectives of the Risk and Opportunities Management Strategy are to:

- maintain a register that identifies, assesses and ranks all significant risks and opportunities facing both councils, which will assist the councils in achieving their objectives through pro-active risk management

- rate all significant risks in terms of likelihood of occurrence and potential impact upon the councils and ensure effective controls are in place to mitigate significant risks

- allocate clear roles, responsibilities and accountability for risk management

- facilitate compliance with best practice in corporate governance, which will support the Annual Governance Statements (issued with the annual statement of accounts)

- 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

- ensure that good quality risk information is provided to senior managers and Members (link to the data quality strategy)

- Provide a framework for assurance, that is that the controls identified to mitigate a risk are operating effectively

1.4 Risk Appetite

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

As such, both Cherwell District and South Northamptonshire Councils will use risk management to add value. They 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. a resource heavy and bureaucratic level of management and control which could stifle innovation and creativity).

Appropriately managed and controlled risk-taking and innovation will be encouraged where it supports the delivery of the councils' objectives and priorities.

1.5 Embedding Risk Management

The introduction of risk as a frequent item on the Joint Management Team agenda ensures that identification and consideration of risk corporately and across services is emphasised and highlighted regularly. The SNC Audit Committee and the CDC Accounts, Audit and Risk Committee receive regular risk management updates and review the strategic risk register. This oversight of risk ensures there is senior officer level and political commitment to effective risk management.

The inclusion of risk registers within service plans and risk logs in key programmes and projects seeks to reinforce the importance of assessing and being aware of the risks associated with each service and major projects. Key risk management activities should be included within service plans and progress monitored. As such the integration of risk into business planning, corporate objectives and performance management is an essential part of the drive to embed risk management.

The on-going challenge is to ensure that risk continues to be embedded within both organisations and adds value in terms of effective and value for money outcomes. Activities such as training, communication and clear risk management support arrangements can help to embed risk. The following list summarises the key activities undertaken to ensure risk management continues to be embedded across the councils.

1. A quarterly process of risk review covering both the strategic and operational risk registers.

2. Quarterly monitoring reports will be presented to relevant council committees to ensure Councillors have good access to risk information.

3. Risk management awareness training sessions will be facilitated for Councillors and employees. Members of the committees with specific responsibility for the management of risk will be offered dedicated training events. The potential of risk management awareness to be included on induction programmes will be explored.

4. An internal audit of risk management will take place annually.

5. The Joint Management Team takes responsibility for ensuring that management actions highlighted in the risk registers are implemented.

6. Support is available to risk owners when assessing new risks. The 'bow tie' risk analysis model is available to use as part of the process.

7. A process of annual review is undertaken by the Joint Management Team to ensure the risk register remains up to date and that obsolete risks are removed.

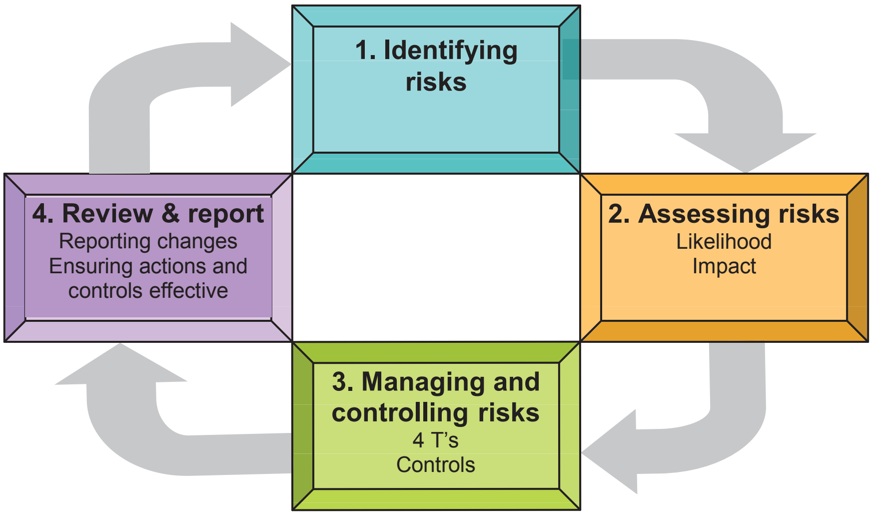
8. Officer working groups as required to embed, review or develop risk practices.

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

Section 2: Risk Management Processes

2.1 The Risk Management Process

Risk Management follows a four stage process. Identifying risks, assessing risks, managing and controlling risks and reviewing and reporting upon risks.



Each of these four stages is set out in more detail (paragraphs 2.2 - 2.5) and in the accompanying risk management handbook.

The most significant feature of this process is that risk management is seen as a comprehensive management process that helps both organisations meet their objectives and avoid issues, losses and situations that could result in failing to meet strategic priorities, failure of corporate systems or failure of significant partnerships, services, programmes and projects.

To ensure this process is effectively undertaken the councils maintain and review a register of their strategic, corporate and partnership risks and opportunities and where possible link them to strategic business objectives. Ownership is assigned for each risk. The Joint Management Team identifies risks and reviews the register and both councils have committees that also undertake a monitoring and oversight role.

2.2 Identifying Risk and Opportunity

The process of identifying risk is both formal (as part of business and project planning) and also informal, as part of everyday activity. This section sets out the organisational process for identifying risk, however it must also be recognised that Members and staff should be risk aware and as such may identify, assess and add a risk to the register at any time.

For each risk identified the following should be considered:

- An assessment of each risk for its likelihood and impact
- The identification of mitigating (key) controls currently in place
- The assurances on the key controls that have already been established
- Gaps in keys controls
- Gaps in assurance
- Appropriate management actions and allocation of responsibility for the implementation of further mitigating management action and (where possible) an implementation date

For each opportunity identified the following should be considered established:

- Details of the opportunity identified
- Allocation of responsibility for the opportunity
- Any additional risks that this opportunity raises
- Actions necessary to make use of the opportunity and mitigate risks, if appropriate.

Identifying different types of risk

Strategic Risks
Strategic risks can be defined as those that are significant in size and duration and will impact on the reputation and performance of the councils' as a whole and in particular on its ability to deliver their strategic priorities.

Corporate Risks
Defined as those risks that apply to corporate systems or processes that underpin the organisations' overall governance, operation and ability to deliver services.

Partnership Risks
Partnership risks are those that apply to a significant partnership meeting its objectives or delivering agreed services/ projects.

Taken together strategic, corporate and partnership risks form the basis of both councils' strategic risk registers. Generally these risks are owned by a JMT member but on occasion may be devolved to a senior manager to oversee.

These core risks will be fully reviewed by JMT on an annual basis in the fourth quarter as part of the business planning process for the forthcoming year. The result of this discussion will also be considered by the relevant council committees. This provides a clear opportunity to identify new risks in association with the new business plans. At any point in the year JMT and council committees may identify new risks. If this is the case the risk assessment method is followed and the corporate performance team adds the risk to the register.

Operational / Service Risks

Operational risks should be identified and owned by the service management team, led by the head of service. The annual service planning process provides an opportunity to fully review all current operational risks and delete risks that are no longer relevant and identify any new risks.

However, the identification of risk is not limited to a single point in the year and new risks may be added at any time.

The corporate performance team is able to support services by running risk workshops as required. Performance and risk champions in service areas may also help to identify risks and directors should encourage heads of service to identify and manage operational risks by reviewing risks at departmental/directorate management team meetings (it is recommended that risk and performance are reviewed at the departmental level on at least a quarterly basis and that new risks are considered as part of this process).

Programme / Project Risks

Risk management should be incorporated into programme and project management right from the outset. The size and scope of the project will dictate the best way of managing the risks. However, all programmes/projects must undertake full risk assessments.

All significant programmes and projects should use a risk log which will be managed by the programme/project manager and reviewed by the relevant board.

For programme and projects which are likely to have an impact on the councils' ability to meet its strategic objectives or have a budgetary impact of over £100,000 the additional requirements are in place:

- The high level risk and its controls will be recorded and managed through the councils' strategic risk register. Detailed risks associated with the programme/project will be recorded in its risk log.

- Risk should be a frequent item on each programme/project board meeting to review existing risks and the effectiveness of their controls and to identify any new risks.

- Risk management in programmes and projects will be supported as necessary by the Programme Manager and the Corporate Performance manager.

For minor projects (low value or single service based) a risk log should still be maintained as part of good project management. However, it is unlikely that the project risks will appear on the councils' strategic risk register unless they have the potential to have significant reputational, health and safety or service provision risks, or the potential loss could exceed £100,000. If this is the case then the approach set out above with regards to significant programme / project risks should be followed.

Shared/Joint risks

A risk can be described as shared when it has an impact on both organisations' priorities/services (although it may not be an equal impact), when both organisations must work together to mitigate and control it or when it is elated to a joint service or programme / project. If a risk is identified as shared it will appear on both councils' risk registers and will be highlighted as a shared risk.

2.3 Assessing Risk

Once a risk has been identified (of any type, strategic, operational or project) it needs to be assessed. The assessment process considers the likelihood that the risk may occur and its potential impact. This allows for risks to be ranked and prioritised, as not all risks represent equal significance to the councils.

The councils' use a risk scoring matrix to work out the inherent risk score (likelihood' times the 'impact'). The inherent risk score helps to make decisions about the significance of risks to the organisations, how they will be managed, the controls required and the treatment of the risk.

The owner of the risk undertakes this assessment. For strategic risk this is checked by the corporate performance team, for programme/ project risks by the relevant board and for operational risk by the Head of Service.

		Likelihood				
		Remote 1	Unlikely 2	Possible 3	Probable 4	Highly Probable 5
Impact	5 Catastrophic	5 ↑	10 ↑↑	15 ↑↑	20 ↑↑↑	25 ↑↑↑
	4 Major	4 =	8 ↑	12 ↑↑	16 ↑↑↑	20 ↑↑↑
	3 Moderate	3 =	6 ↑	9 ↑	12 ↑↑	15 ↑↑
	2 Minor	2 =	4 =	6 ↑	8 ↑	10 ↑↑
	1 Insignificant	1 =	2 =	3 =	4 =	5 ↑

NB inherent risk is sometimes referred to as gross risk.

The risk management handbook and 'new risk template' explain in greater detail what makes up the likelihood and impact scores.

The inherent risk score will determine how the risk is controlled and managed with treatment, toleration, transfer and terminate the main options (see section 2.4).

Once controls and actions to mitigate the risk have been identified a net risk score should be assessed. The inherent and net risk scores, along with the controls and actions then form the basis of the quarterly review.

Organisational risk profile

Once strategic risks and mitigating controls/actions have been assessed the results are then plotted on a risk matrix which is included as part of the strategic risk register.

Service/projects risks may be plotted in a similar way if required.

Sources of additional information

To support the assessment of risk there is a simple risk management guide, a template to set up the risk, and a risk analysis tool (the risk bow tie) that an be used in groups on individually to help assess the nature and impact of the risk. The corporate performance team will also provide support as required.

2.4 Managing and Controlling Risk

Once risks have been identified and assessed, the next step is to control and manage them. This will involve the consideration of cost-effective action, which is aimed to reduce the inherent risk rating. These management actions should be focussed on gaps in terms of risk controls and assurance**.**

The proposed action(s) to control the risk 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. The ‘net’ risk rating is the assessment of the risk after these controls/actions have been put in place.

These actions/controls should be included in risk documentation and/or service plans. Where a risk is associated with a programme or project it should be entered into the relevant risk log.

Managing risk is an on-going process and the commentary provided as part of the quarterly risk review process should reflect the activity taken within the quarter to control the risk.

The Four T’s

The level of the inherent risk will help determine the best treatment for a risk, whether strategic or operational. The risk owner has a number of options:

1. TOLERATE: The councils’ may tolerate a risk where

    - The risk opens up greater benefits
    - These risks must be monitored and contingency plans should be put in place in case the risks occur.
    - The risk is effectively mitigated by controls, even if it’s high risk
    - The risk cannot be mitigated cost effectively

2. TREAT: This is the most widely used approach.

    The purpose of treating a risk is to continue with the activity which gives rise to the risk, but to bring the risk to an acceptable level by taking action to control it through either containment actions (these lessen the likelihood or consequences of a risk and are applied before the risk materialises) or contingency actions (these are put into action after the risk has happened, reducing the impact. These must be pre-planned)

3. TERMINATE: Doing things differently and therefore removing the risk.

This is particularly important in terms of project risk, but is often severely limited in terms of the strategic risks of an organisation.

4. TRANSFER: Transferring some aspects of the risk to a third party.

   For example via insurance, or by paying a third party to take the risk in another way. This option is particularly good for mitigating financial risks, or risks to assets. However it is a limited option – very few strategic risks are insurable and only around 15 -20% of operational risks can be insured against.

2.5 Reviewing and Reporting on Risk

As a minimum a quarterly process of reviewing and reporting on risk will be undertaken and where necessary the risk will be reviewed more frequently. This review involves consideration of all significant risks facing both councils, with risks broken down into strategic, which could impact on the achievement of council objectives, corporate risks which could impact across more than one service, and significant partnership risks.

The review should focus on four key factors:

1. Whether there are any changes to the inherent/residual risk scores
2. Whether new controls or actions are required
3. To what extent are there any gaps in the assurance of identified controls
4. Whether the risk is still relevant

Operational/service risks and programme/project risks will be monitored and reviewed locally, on a quarterly basis. Operational/service risks will be health checked by the corporate performance team at least twice a year. Programme and project risks will be owned and reviewed by the relevant board.

All risks will be clearly defined together with the controls that currently exist to manage them. Risk ratings will be reviewed and where relevant commentary to identify progress against planned action or any emerging issues.

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. Action to address these weaknesses should be included within the report.

2.6 Linking risk to business plans and performance

Linking Strategic Risk to Council Business Plans

The Strategic Risk and Opportunities Register is owned and monitored by the JMT and managed by the corporate performance team. Where appropriate risks will be associated with council priorities and objectives (n.b. the priorities or one or both councils). On occasion a risk may sit outside a council priority, for example where it affects all priorities or has whole organisation impact (e.g. the risk of systems failure).

Incorporating Operational Risk into Service Plans

Each service is required to produce a service plan on an annual basis. The format of the service plan is common across the two councils and ensures there are clear links between council priorities and objectives and service deliverables.

Each service plan is required to identify operational risks associated with service delivery and ideally they should be directly linked to service priorities. Likewise actions to control risks should be included within the service plan or the risk documentation itself.

Responsibility for monitoring operational risk lies with the Head of Service and service managers.

Integrating Risk and Performance Management

Performance and risk will follow the same quarterly monitoring regime and performance risks will be clearly highlighted in reports. Where possible risk monitoring information will be captured using the same process as performance information.

2.7 Linking risk to programmes and projects

Risk management is an essential element of effective programme and project management. Programme and projects adhere to the agreed corporate risk management strategy, using the same assessment and scoring matrix. However, it is recognised that the risk environment is different within programmes and projects and frequently risks are identified, actioned and closed on a faster basis than within the strategic risk environment where risks are linked into longer term strategic objectives rather than projects moving within shorter delivery timescales.

Programme or project risks may be escalated to the strategic risk register if they reach a point where they have a significant financial, reputational or strategic impact. Appendix C outlines the escalation process.

Risk Management responsibilities in project environments

Corporate Management (JMT)	Responsible for providing and ensuring adherence to the Corporate Risk and Opportunity Strategy
Programme Senior Responsible Owner	Accountable for risk management actions agreed at Programme Board level, following escalation from projects
Director	Accountable for risk management actions agreed at DMT following escalation from project within the Directorate

Project Sponsor	• Accountable for all risk management within the project, and for putting in place a risk management approach or strategy specific to the project • Ensures all risks associated with the project business case are identified, assessed and controlled • Triggers an escalation
Senior user/ customer/client board member	Responsible for ensuring all risks to users are identified, assessed and controlled
Senior supplier board member	Responsible for ensuring all risks to delivery are identified, assessed and controlled
Project Manager	• Creates the project-specific risk management approach as directed by the sponsor • Responsible for creating and maintaining the risk register in line with requirements of the Corporate Risk and Opportunity Strategy, ensuring risk identification, assessment and control measures are implemented.
Programme Office	Reviews risk management practices to ensure they are being followed and are appropriate

Section 3: Roles and Responsibilities

3.1 Accountability

There will be clear accountability for risks and risk management. This is supported through each councils' Annual Governance Statement signed by the Chief Executive and the Leader of the Council, and by making both councils' risks and risk management process open to regular Member overview, internal audit and external inspections.

The overall responsibility for the effective management of risks rests with full council (at CDC and SNC) and the SNC Cabinet/CDC Executive (lead member/portfolio holder) as advised by its senior management. The overall risk champions at each council are the Director of Resources (as the Joint Management Team lead) and the Chairman of the SNC Audit Committee and the CDC Accounts, Audit and Risk Committee.

The CDC Accounts, Audit and Risk Committee and the SNC Audit Committee have specific responsibility for monitoring the councils' 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 Cabinet/Executive if it is considered that any improvements or amendments are required.

CDC Executive Members and SNC Portfolio Holders will be briefed regularly by Heads of Service to ensure they are aware of significant risks affecting their service areas/portfolios and any improvements in controls which are proposed.

Sections 3.2 and 3.3 of this strategy outline specific Councillor and Officer accountabilities and responsibilities with regards to risk management.

3.2 Council Committees

Audit Committee (South Northamptonshire Council)

The committee will monitor the effective development and operation of the council's risk management, including consideration of the risk register. The committee provides independent assurance to the Council on the effectiveness of risk management and internal control arrangements and performance effectiveness to the extent it affects exposure to risk and to inform the Annual Governance Statement.

Accounts, Audit and Risk Committee (Cherwell District Council)

The committee will ensure that corporate governance arrangements (including risk) are in place, they consider the statement of assurance and monitor the effectiveness of risk management. The committee also commissions the risk management strategy and endorses it for Executive to adopt.

Cabinet (South Northamptonshire District Council)

The South Northamptonshire Cabinet will receive a quarterly update on risks in relation to performance as part of the performance exceptions report.

Executive (Cherwell District Council)

The Cherwell District Council Executive will receive a quarterly update on risk where it relates to performance matters as part of the performance report.

Reflecting the roles of these committees the relevant Chairmen, Lead Members (CDC) and Portfolio Holders (SNC) will be briefed on risk matters and act as risk champions where appropriate.

3.3 Section 151 Officer

The councils' Section 151 Officer is the lead officer for risk management and ensures that the councils' have robust risk management strategies in place that effectively support the system of internal control.

3.4 Joint Management Team

The Joint Management Team has a number of roles with regards to risk management. As the senior management team they are likely to own many of the strategic risks on the councils' risk registers. As such they are responsible for risk review and monitoring, and as part of the performance management framework they review the strategic risk register on a quarterly basis.

JMT also have a role in identifying and highlighting new risks and working with the Corporate Performance Team to ensure they are assessed, recorded and managed.

3.5 Corporate Performance Team

The Corporate Performance Team is responsible for preparing and updating the risk management strategy, for compiling and managing the strategic risk register (including preparing quarterly reports) and for ensuring operational risk management is undertaken by services and as part of programme and project management. The team researches risk best practice and helps the councils' set their risk appetites.

In addition the team provides risk related support to managers, officer and councillors (through officers groups and risk management training) and helps prepare the Annual Governance Statement.

3.6 Team Managers, Officers and Staff

Service managers and team leaders will often be responsible for operational and project risks. This includes risk identification, assessment and management. At this level risks should be included in service and project plans. For some projects a separate risk log will be required.

In some cases JMT members may devolve the day to day responsibility for managing a strategic, corporate or partnership risk to a service manager. If this is the case the manger will be expected to update the strategic risk register on a quarterly basis.

Staff without direct responsibility for owning and managing a risk still have an essential role to play in helping teams identify potential risks associated with service delivery and implementation of projects. As such staff should be involved in risk discussions within teams as they would be with regards to performance management.

3.7 The Risk Management Working Group

A Risk Management Working Group will be established to support risk management both strategically and operationally. This group will identify new risks, review existing risks and act as a champion for risk management a cross both Councils. The group will be Chaired by the Section 151 Officer and will have representation from each directorate.

Section 4: Monitoring and Review

4.1 Annual Review of the Risk Strategy

The Risk and Opportunities Management Strategy will be reviewed on an annual basis and this review will take into account any issues highlighted by the internal audit of risk management. In addition the strategic risk register will be fully reviewed by the Joint Management Team during the fourth quarter and as part of the annual service planning process managers will be asked to fully review their operational risks.

4.2 Quarterly Monitoring of the Strategy and Register

As part of the risk and opportunities management process it is expected that risks (whether strategic or operational) are reviewed on a quarterly basis.

A quarterly report will be taken to the Accounts, Audit and Risk Committee (Cherwell District Council) and the Audit Committee (South Northamptonshire Council) providing a summary of this quarterly review and in addition highlighting any issues arising with regards to the implementation of or compliance with the Risk Strategy. The review will include commentary regarding the current risk score, the controls in place and whether any gaps have been identified in terms of the assurance that the controls are effective.

4.3 Internal Audit

Internal Audit will be in a position to provide assurance on the internal control environment, in line with their planned programme of work. Internal Audit will plan the annual audit coverage based on a risk assessment, and on the levels of assurance that can be obtained from other assurance providers. The Code of Practice for Internal Audit in Local Government in the United Kingdom defines Internal Audit as;

‘An assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance by evaluating its effectiveness in achieving the organisations objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources’.

It is envisaged that Internal Audit and Risk Management will co-ordinate assurance by:

- Independently reviewing the risk management strategy and process.
- Completing risk based reviews of the key controls identified to mitigate the principal risk to the councils achievement of their strategic objectives.
- Referring to the councils’ risk registers when planning audit work.

4.4 External Audit and Review

External Audit

External Audit is a key source of assurance and both councils should take into account the external audit management letter and reports. However, it is worth noting that the work of external audit has to be independent and the councils should not rely on external audit for advice and guidance as that is not their role.

Review Agencies and Inspectorates

Aspects of the organisations' activities may be subject to independent inspection, assessment, quality or peer review (for example investors in people, charter mark etc.). These reports are likely to identify areas of strength and issues to address and may also provide some assurance. Reports from the Local Government Ombudsman may also provide a further source of assurance.

Section 5: Corporate Governance

5.1 Annual Governance Statement

Regulation 4 of the Account and Audit Regulations (2003) requires audited bodies to conduct a review, at least once a year, of the effectiveness of their systems of internal control. This review is incorporated within the Annual Governance Statement that is published alongside the statement of accounts for both councils.

The purpose of the Annual Governance Statement is to provide a continuous review of the effectiveness of an organisation's internal control and risk management systems, so as to give assurance on their effectiveness and/or to produce a management action plan to address identified weaknesses in either process. The process of preparing the Annual Governance Statement will add value to the corporate governance and internal control framework of an organisation.

The statement needs to be approved separately to the accounts and signed as a minimum by the Chief Executive and the Leader of the Council. At each council the production of the Annual Governance Statement will be reliant upon the contents of some or all of the following. These sources of assurance are:

- Internal audit annual report
- External audit management letter
- Review Agencies and Inspectorates (where appropriate)
- Other internal review mechanisms
- The Strategic Risk and Opportunities Register, including controls and actions
- Operational Risk Registers, including controls and actions
- Statements of Assurance
- Identification of risks highlighted by the Joint Management Team
- Audit Committees at both councils
- Performance Management Framework
- Health and Safety Adviser

5.2 Statements of Assurance

In order for the Chief Executive and the Leader of the Council to be able to sign off the Annual Governance Statement there is a requirement for each Head of Service to complete a statement of assurance taking responsibility for their individual service/operational risk registers and the implementation of the management actions contained within it. These statements of assurance will be completed on an annual basis to feed into the Annual Governance Statement.

The Chief Executive or, in the absence of the Chief Executive, a Director/Section 151 Officer, needs to sign a statement of assurance for the Strategic Risk and Opportunities Register.

Section 6: Contacts and Further Guidance

6.1 Contacts

- Martin Henry – Director of Resources and S151 Officer
  martin.henry@cherwellandsouthnorthants.gov.uk
  0300 003 0102

- Ros Holloway – Performance Information Officer
  ros.holloway@cherwell-dc.gov.uk
  01295 221737

6.2 Supporting Documents / Guidance

In addition to this strategy the following documents provide information and guidance with regards to risk management:

1. A quick guide to risk management – a three page summary of the councils' approach to risk

2. New risk assessment template – a single page template that takes you through the process of assessing a new risk or fully reviewing an existing risk

3. The risk management handbook – a comprehensive guide to risk management

4. The performance management framework – a comprehensive guide to performance management including how it should relate to risk

South Northamptonshire Council Cherwell DISTRICT COUNCIL NORTH OXFORDSHIRE

New Risk Template and Risk Assessment Model

All the information needed to enter risks onto the Strategic Risk Register is set out below. Operational risks can be entered directly on to the departmental operational risk register.

Strategic, Corporate and Partnership risks must be sent to the Performance and Insight Team in the first instance, to be approved before addition to the strategic risk register.

This template should be completed in conjunction with the quick risk guide or the risk management handbook which both provide an overview of how to assess and control risks. For a risk assessment tool use / refer to the 'risk bow tie'.

<table>
<tr><td>Risk Name:</td><td colspan="3"></td></tr>
<tr><td>Description of Risk:

Typical risk phrasing could be

loss of…
failure of…..
failure to… leads to…resulting in…
lack of…
partnership with…
development of…</td><td colspan="3"></td></tr>
<tr><td>Date Risk effective from:</td><td colspan="3"></td></tr>
<tr><td rowspan="2">Risk Owner:</td><td colspan="2">JMT member</td><td>Jo Pitman</td></tr>
<tr><td colspan="2">Lead manager responsible for risk review</td><td>Jo Pitman</td></tr>
<tr><td>Name of Service:</td><td colspan="3">Programme Office</td></tr>
<tr><td rowspan="8">Nature of Risk:

☒ Please cross relevant boxes</td><td></td><td colspan="2">Resource including financial / human etc.</td></tr>
<tr><td></td><td colspan="2">Legal and Professional</td></tr>
<tr><td></td><td colspan="2">Political / Social / Economic</td></tr>
<tr><td></td><td colspan="2">Customer citizen / service delivery / operational impact</td></tr>
<tr><td></td><td colspan="2">Reputational / Communication</td></tr>
<tr><td></td><td colspan="2">Environment</td></tr>
<tr><td></td><td colspan="2">Technical / Equipment</td></tr>
<tr><td></td><td colspan="2">Business Continuity</td></tr>
<tr><td>Priority / Objective / Target
To which this risk relates</td><td colspan="3"></td></tr>
<tr><td>Shared risk?</td><td colspan="3"></td></tr>
</table>

Risk Assessment: *Inherent/gross risk*	**Impact:**	
	Likelihood:	
	Score:	
Control Measures: *Give details of existing controls and list any relevant documents such as actions plans. Identify any gaps in your controls*		
Assurance: *Outline the arrangements in place to ensure that you controls are effective, e.g. audit, performance management*		
Actions: *Details of any action to be taken to mitigate the risk (with deadlines) including action to address gaps in controls*		
Risk Reassessment: *Net/residual risk*	**Impact:**	
	Likelihood:	
	Score:	
Net risk assessment comment:	.	

Treatment: ☒ *cross one box*	Tolerate	Treat	Transfer	Terminate

Strategic, Corporate & Partnerships Risks only:
for completion by the Corporate Performance Manager

JMT Response: *Cross one box*	Accepted	Rejected *(give reasons why and what action should be taken)*	Other *(give reasons why and what action should be taken)*
Risk Register: *Cross one box*	Strategic	Corporate	Partnership
Signed / Date:			

Risk Scoring Matrix:

To be used before (inherent/ gross risk) and after (net risk) controls have been put in place

Nb: Numbers in boxes = the risk score

		Likelihood				
		Remote 1	Unlikely 2	Possible 3	Probable 4	Highly Probable 5
Impact	5 Catastrophic	5 ↑	10 ↑↑	15 ↑↑	20 ↑↑↑	25 ↑↑↑
	4 Major	4 =	8 ↑	12 ↑↑	16 ↑↑↑	20 ↑↑↑
	3 Moderate	3 =	6 ↑	9 ↑	12 ↑↑	15 ↑↑
	2 Minor	2 =	4 =	6 ↑	8 ↑	10 ↑↑
	1 Insignificant	1 =	2 =	3 =	4 =	5 ↑

MANAGING RISK

Inherent Risk Score	Indicated by	How the risk should be managed
Very High Risk (16-25)	Red ↑↑↑	Requires active management High impact / High likelihood: risk requires active management to manage down and maintain the exposure at an acceptable level. Escalate upwards.
Medium to High Risk (10 - 15)	Amber ↑↑	Contingency Plans A robust contingency plan may suffice together with early warning mechanisms to detect any deviation from the profile.
Medium Risk (5 – 9)	Yellow ↑	Good Housekeeping May require some risk mitigation to reduce the likelihood if this can be done cost effectively, but good housekeeping to ensure that the impact remains low should be adequate. Re-assess frequently to ensure conditions remain the same.
Low Risk (1-4)	Green =	Review periodically Risks are unlikely to require mitigating actions but status should be reviewed quarterly to ensure that conditions have not changed.

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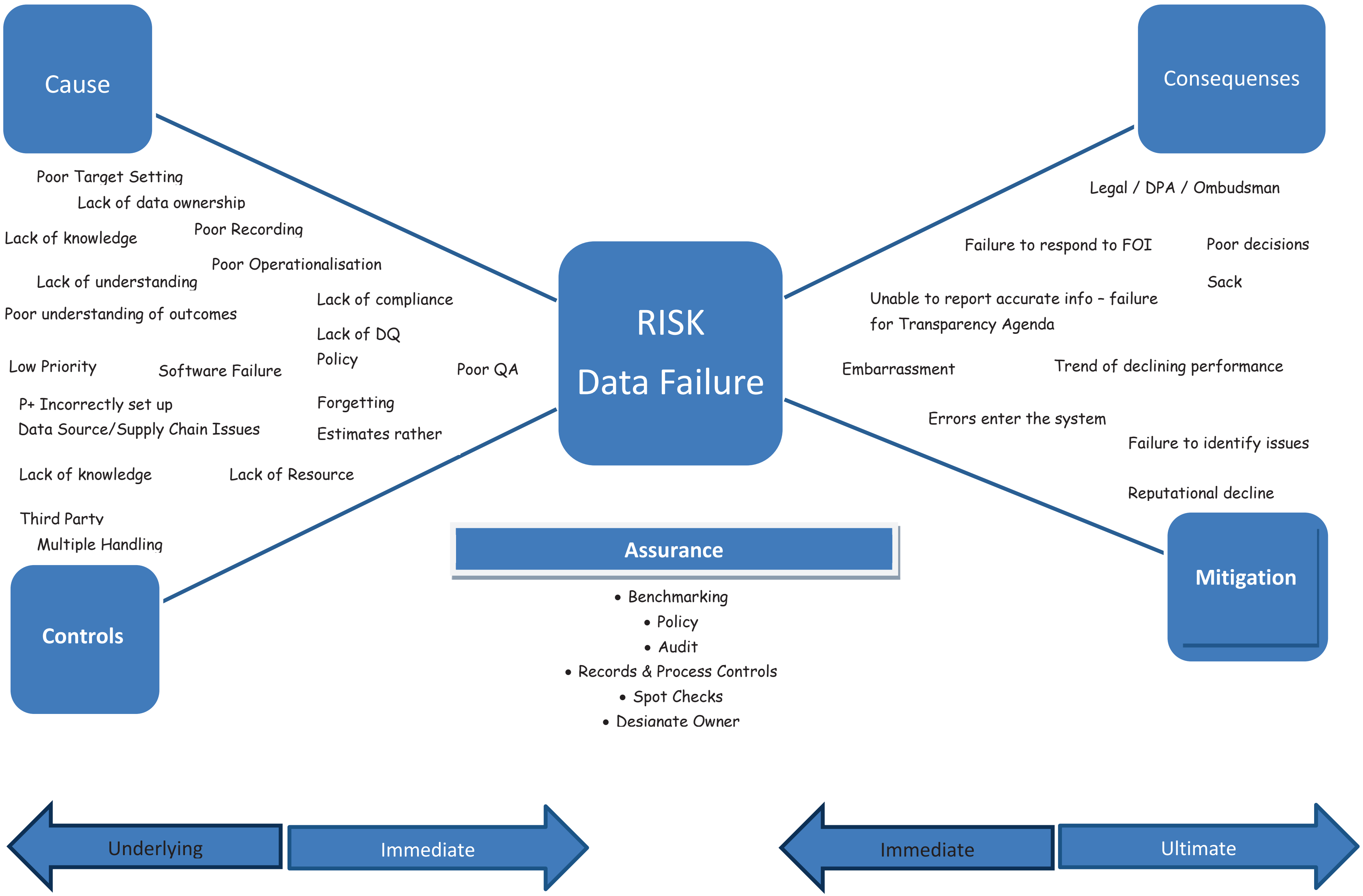
MANAGING RISK: BOW TIE DIAGRAM Example of 'bow tie' analysis



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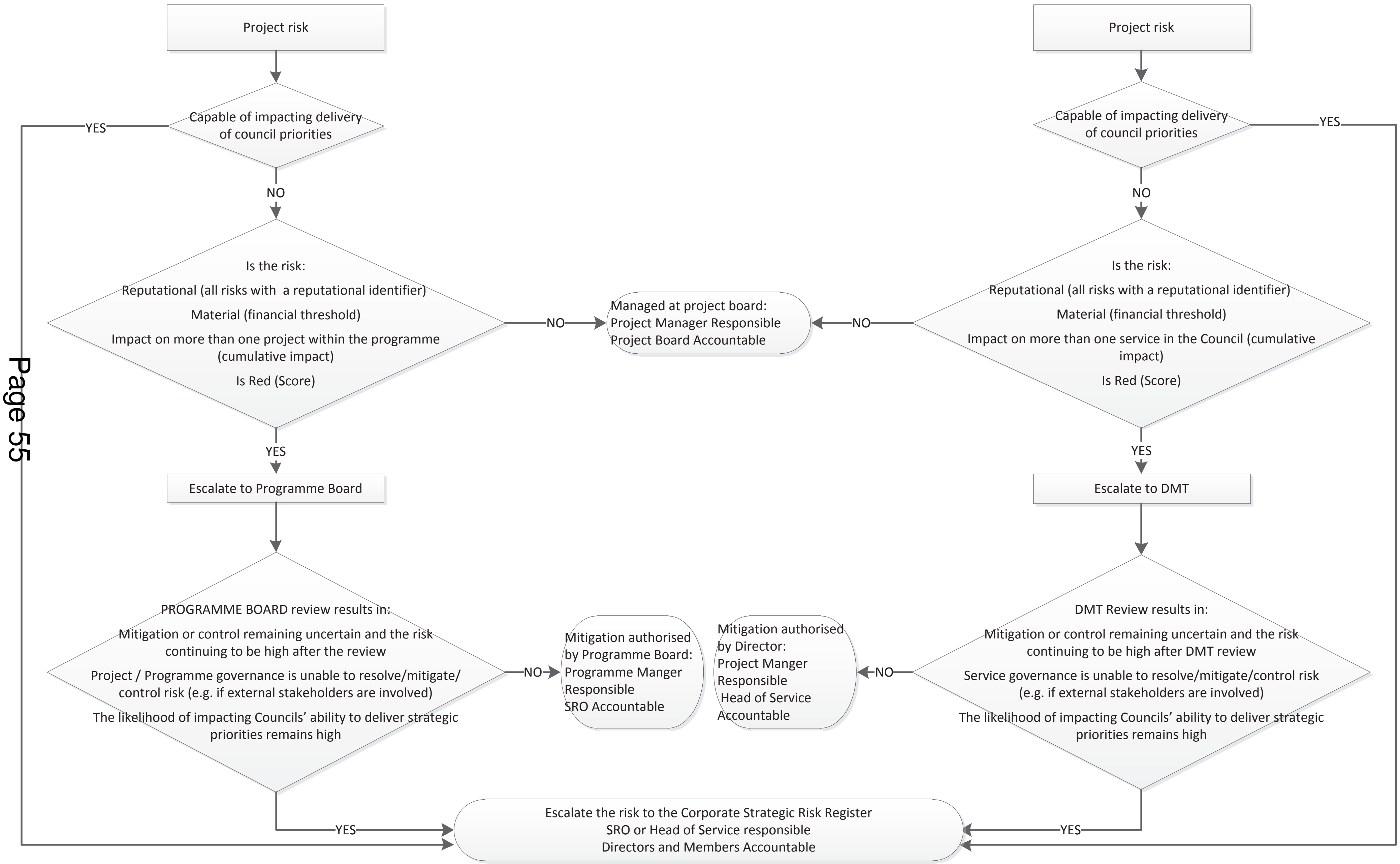
Risk escalation path and triggers

Projects in Major Programmes

Operational Projects in Services



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Cherwell District Council

Accounts, Audit and Risk Committee

26 March 2014

Review of Draft Accounting Policies 2013-14 and Closedown Update

Report of the Head of Finance and Procurement

This report is public

Purpose of report

The purpose of this report is to inform members of the draft 2013-14 accounting policies to allow members to consider and endorse the accounting policies under which the Council prepares its annual Statement of Accounts together with the summary timetable for production

1.0 Recommendations

The Accounts, Audit and Risk Committee is recommended:

1.1 To approve the accounting policies as set out in Appendix 1.

1.2 To agree that delegated authority be granted to Head of Finance and Procurement to make any further changes to the Accounting Policies in preparation for the forthcoming accounts closure for 2013-14.

1.3 To note the closedown timetable summary as set out in Appendix 2.

2.0 Introduction

This report is to inform members of the draft accounting policies for the 2013-14 Statement of Accounts and the planned timetable to complete them to ensure they are ready by the required date.

3.0 Report Details

3.1 In order for the Council to be able to produce its Statement of Accounts under International Financial Reporting Standards, all of its accounting policies have been reviewed and updated based on the 2013-14 Code of Practice. A draft of the Cherwell 2013-14 accounting policies is in Appendix 1.

3.2 There are no significant changes to the 2013-14 draft accounting policies compared to the 2012-13 approved accounting policies.

3.3 If, during the 2013-14 closure of accounts, it becomes apparent that further amendments, additions or deletions are required to the policies, they will be reported to members when the accounts are presented for review in June 2014.

Closedown Update

3.4 Work has already begun on preparing for the 2013-14 closing of accounts. The process is being led by the Corporate Accountant. The detailed closedown timetable has been prepared for all staff involved in the closedown process and a summary of the key dates is shown in Appendix 2.

3.6 Closedown workshops will be held on 25 March 2014 and budget holders will receive guidance on what is required from their services. Closedown News will be circulated fortnightly and this will provide an update on the preparation of the financial statements.

3.7 During the period the finance team will liaise with the external auditor, Ernst & Young and have regular closedown meetings with the Head of Finance and Procurement to monitor progress.

3.8 The finance team will produce a first draft of the statements by 30 May 2014. This allows a period of four weeks for critical review and updating.

3.9 Members of the Accounts, Audit and Risk Committee meet informally on 25 June to review the draft statement immediately prior to the formal committee meeting.

4.0 Conclusion and Reasons for Recommendations

4.1 The Accounts, Audit and Risk Committee is recommended to approve the accounting policies and agree delegated authority be granted to Head of Finance and Procurement to make any further changes to the Accounting Policies in preparation of the forthcoming accounts closure for 2013-14.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request that Officers provide additional information on the accounting policies. This had been rejected because the policies have been drafted based on current accounting guidance.

7.0 Implications

Financial and Resource Implications

7.1 It is envisaged that the accounting policies, noted within this report and shown in Appendix 1, will not have any direct financial implications. These accounting policies will assist the council in ensuring that the Statement of Accounts are more fully reflective of the current operational environment and up to date accounting practices.
Comments checked by: Nicola Jackson, Corporate Finance Manager
Tel: 01295 221731, nicola.jackson@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 Failure to produce accounts under compliant accounting policies will result in the 2013-14 Annual Statement of Accounts not being approved by the external auditor.

Comments checked by: Kevin Lane, Head of Law & Governance,
Tel: 0300 0030107, kevin.lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

7.3 Failure to fully assess appropriate accounting policies will result in the 2013-14 Annual Statement of Accounts not being compliant for external audit review.
Comments checked by: Nicola Jackson, Corporate Finance Manager
Tel: 01295 221731, nicola.jackson@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Key decision – n/a

Wards Affected – n/a

Links to Corporate Plan and Policy Framework – n/a

Lead Councillor – none

Document Information

Appendix No	Title
Appendix 1 Appendix 2	Draft Accounting Policies 2013-14 2013-14 Closedown Timetable Summary
Report Author	Tim Madden, Interim Head of Finance & Procurement Denise Taylor, Corporate Accountant
Contact Information	0300 003 0106 Tim.madden@cherwellandsouthnorthants.gov.uk 01295 221982 Denise.taylor@cherwellandsouthnorthants.gov.uk

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APPENDIX 1
DRAFT - Accounting Policies 2013-14

13. Accounting Policies

13.1 General principles

The Statement of Accounts summarises the Council's transactions for the financial year 2013-14 and its position at the year end. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2013-14, published by the Chartered Institute of Public Finance and Accountancy (CIPFA)* and the *Service Reporting Code of Practice 2013-14 also issued by CIPFA*.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

There are no amendments to accounting policies for 2013-14.

13.2 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:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;

- 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 inventories on the Balance Sheet;

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

- Interest receivable on investments is accounted for respectively as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and

- Where revenue 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

13.3 Acquisitions and Discontinued Operations

There have been no acquisitions or transfer of operations in CDC. Additional policy detail required where a Council has acquired operations (or transferred operations under machinery of government arrangements) during the financial year.

13.4 Cash and Cash Equivalents

Cash and Cash Equivalents comprises of cash on hand and demand deposits which are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. They must be held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

They must be repayable without penalty on notice of not more than 24 hours. Investments must mature in three months or less from the date of acquisition.

13.5 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

The Council has no Exceptional Items in 2013-14.

13.6 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Changes in accounting policy no longer need to be material to result in a Prior Period Adjustment.

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Accounting policies that relate to statutory accounting requirements are accounted for in the same manner as other accounting policies.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

No material errors have been made in prior year accounts that need to be amended in the 2013-14 accounts.

13.7 Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement but as CDC does not hold any debt this requirement is not applicable.

Depreciation, revaluation and impairment losses and amortisations are replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

13.8 Employee Benefits

13.8.1 Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu, flex-leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the service account, but then reversed out through the Movement in Reserves Statement so that holiday benefits accrual has no impact on Council Tax and holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

13.8.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

13.8.3 Post Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Oxfordshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government scheme is accounted for as a defined benefit 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 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 and include quoted securities at current bid price and property at market value.

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 Comprehensive Income and Expenditure Statement to the services 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 Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement 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 the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- **Expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- **Gains or 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 or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement 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; and

- **Contributions** paid to the Oxfordshire pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, 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 pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

13.8.4 Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

13.9 Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

13.10 Financial Instruments

13.10.1 Financial Liabilities
Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

13.10.2 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; and
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

The Council has financial assets comprising of long-term and short-term investments, long-term debtors, short-term debtors (excluding statutory debts such as Council Tax, Non-Domestic Rates, rent allowances, precepts, etc) and cash & cash equivalents. These are assets that have fixed or determinable payments but are not quoted in an active market**.** They are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset 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 (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in 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 relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

The Council has no available for sale financial assets.

13.11 Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

13.12 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Area Based Grant
Area Based Grant (ABG) is a general grant allocated by central government directly to local Council's as additional revenue funding. ABG is non-ring fenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Business Improvement Districts
CDC does not currently have any Business Improvement Districts.

Community Infrastructure Levy
The Authority does not currently charge a Community Infrastructure Levy (CIL).

13.13 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service area in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13.14 Interests in Companies and Other Entities

The Council has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and are not required to prepare group accounts.

13.15 Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

13.16 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13.17 Jointly Controlled Operations and Jointly Controlled Assets

The Council has carried out a comprehensive review and concludes that there are no jointly controlled operations of a material financial nature.

13.18 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

13.18.1 The Council as Lessee

Finance Leases
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

13.18.2 The Council as Lessor

Finance Leases
Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

13.19 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2013-14* (S*e*RCOP). 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.

The exceptions to the absorption costing principle are:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation; and
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in S*e*RCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

13.20 Property, Plant & Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

13.20.1 Recognition
Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred.

13.20.2 Measurement
Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located if the cost is above the £10,000 deminimis threshold.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e., it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- land and buildings – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- infrastructure, community assets and assets under construction – depreciated historical cost; and

- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. At Cherwell District Council this applies to our sports centres.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits taken to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

At Cherwell District Council, all property valuations are carried out by John Slack MRICS, Head of Regeneration and Estates. The bases of valuations are undertaken in accordance with the Statement of Asset Valuation Practice and Guidance Notes, published by the Royal Institute of Chartered Surveyors (RICS).

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

13.20.3 Impairment
Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

13.20.4 Depreciation
Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following basis:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset, as advised by a suitably qualified officer and/or Responsible Officer for that asset; and
- infrastructure – straight-line allocation over the useful life of the asset, as advised by a suitably qualified officer, and/or Responsible Officer and/or valuer for that asset.

Newly acquired assets and capital enhancements are depreciated from the year after acquisition, unless the variation in change is considered material. In this respect only, the Council does not fully comply with the requirements of IAS16 Property, Plant & Equipment but this is not a material consideration for the Council.

Useful life of an asset is shown below for the relevant categories

- Infrastructure — 10, 20 or 40 years
- Buildings — 10, 20 or 50 years
- Vehicles — 5, 6 or 7 years
- Computer Equipment / systems — 3, 5 or 10 years
- Other — 3, 5 or 7 years

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. All assets with a gross value over £50,000 are considered for componentisation. If on consideration a component is assessed to be greater than 20% of the total cost of the asset, it is componentised and the separate components depreciated using appropriate useful lives. Components that are individually less than 20% of the total cost of the asset are not treated as separate components for accounting purposes. They are valued and depreciated as part of the building structure.

The Council has a deminimis limit of £10,000 for capital expenditure purposes which results in the capitalisation of expenditure above that limit as an asset in the balance sheet. Items below this limit charged to revenue.

A materiality level of £50,000 for property assets has been determined by analysing the gross book values of building assets and assessing the impact of using different thresholds. Using a £50,000 limit means that 75% and £76.2m of the Councils £101.3m property portfolio will be assessed for componentisation (figures correct as at 31st March 2013).

The following five components have been identified:

1) Land;
2) Structure of Building;
3) Roof;
4) Electrical & Mechanical (inc. Plant & Equipment); and
5) Other / specialist.

Each component is considered to depreciate on a straight line basis. The useful life of a component will vary according to the type of property in which it is located and the amount of use to which it is put. The useful life of a component will be determined by the valuer when a component part is identified.

Where a component is replaced or restored, the carrying amount of the old component shall be derecognised to avoid double counting and the new component reflected at the cost or new carrying value.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets 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.

13.20.5 Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale and are kept under their original category.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings and 50% for land, net of statutory deductions and allowances) are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. 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 General Fund Balance in the Movement in Reserves Statement.

13.21 Heritage Assets

13.21.1 Tangible and Intangible Heritage Assets

The Council's Heritage Assets are held in the Council's Museum. The Museum has collections of heritage assets which are held in support of the primary objective of the Council's Museum (increasing the knowledge, understanding and appreciation of the Council's history and local area.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are updated on an annual basis.

There is an annual programme of valuations and items are valued by an external valuer. The assets within the art collection are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by the external valuers and with reference to appropriate insurance values and commercial markets using the most relevant and recent information from sales at auctions.

13.21.2 Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, for example, where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. The trustees of the Council's Museum will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

13.22 Private Finance Initiative (PFI) and Similar Contracts

The Council has no PFI or similar contracts.

13.23 Provisions, Contingent Liabilities and Contingent Assets

13.23.1Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim) this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

13.23.2 Provision for Back Pay Arising from Unequal Pay Claims

The Authority has no claims for back pay arising from discriminatory payments incurred before the Authority implemented its equal pay strategy.

13.23.3 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

13.23.4 Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

13.24 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

13.25 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

13.26 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income. The amount of VAT irrecoverable is negligible.

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Cherwell DISTRICT COUNCIL NORTH OXFORDSHIRE

Appendix 2

2013-14 YEAR-END SUMMARY TIMETABLE

Activity	2013-14 Deadline
Training CDC	10:30am Mon 25 Mar
Deadline for receiving invoices into Creditors	12pm Wed 26 Mar
Deadline for authorising invoices for payment in 2013-14 on Agresso	5pm Thurs 27 Mar
Deadline for raising Debtor invoices	12pm Mon 31 Mar
Final cheque and BACS payments run	Mon 31 Mar
Accounting period 12 closed on Agresso	5pm Mon 31 Mar
Purchase Orders for goods not received by 31st 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 27 March) and an accrual will be automatically raised.	Wed 2 Apr
Petty Cash / Imprest accounts balanced and certificates returned to Finance	Thurs 3 Apr
Inventory Certificates returned to Finance	Thurs 3 Apr
Deadline for submission of Accruals forms to Finance	5pmTue 8 Apr
Deadline for all accruals to be processed	Fri11 Apr
Final deadline for receipt of Internal Invoices	Fri11 Apr
All Capital projects finalised	Fri 11 Apr
Impairment review to be completed	Tue 15 Apr
Period 13 Draft Budget Monitoring reports produced	Fri 17 Apr
Issue final period 13 Budget Monitoring Report for sign-off	Wed 7 May
Revenue/Capital Outturn to JMT	Fri 9 May
Period 13 revenue accounts closed	Wed 14 May
All Balance Sheet accounts closed and reconciled	Tue 20 May
“Draft” Statement of Accounts CDC	Fri 30 May
Informal review of Statement of Accounts at AARC CDC	Wed 25 June
Sign “subject to audit” Statement of Accounts at AARC CDC	Wed 25 June
Revenue/Capital Out-turn forms completed and returned to CLG	Fri 11 July
Whole of Government Accounts forms completed and returned to CLG	Thurs 31 July
Accounts on deposit advertised	July (TBC)
Audit of the Statement of Accounts 2013-14	July (TBC)
Public Inspection	Aug (TBC)
Sign-off final audited Statement of Accounts at AARC CDC	Wed 24 Sept

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Cherwell District Council

Accounts, Audit and Risk Committee

26 March 2014

External Audit: Progress Update 2013-14 and Local Government Sector Briefing

Report of the Head of Finance and Procurement

This report is public

Purpose of report

To receive an update of progress to date by the Council's external auditor, Ernst Young.

1.0 Recommendations

The meeting is recommended to:

1.1 Note the progress update from Ernst Young.

2.0 Introduction

2.1 Ernst Young will provide a verbal update on progress against the Audit Plan. Attached at Appendix 1 is the local government audit committee briefing.

3.0 Report Details

3.1 External Audit undertakes its work in line with the Audit Commission's Code of Audit Practice. The Audit Plan sets out the work that will be delivered during the year. Ernst Young will provide a verbal update to the Committee on progress to date.

4.0 Conclusion and Reasons for Recommendations

4.1 For the audit committee to note progress against the Annual Audit Plan.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information from the External Auditor.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by: Nicola Jackson, Corporate Finance Manager
Tel: 01295 221731, nicola.jackson@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by: Kevin Lane, Head of Law & Governance,
Tel: 0300 0030107, kevin.lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

7.3 There are no risk implications arising directly from any outcome of this report.

Comments checked by: Nicola Jackson, Corporate Finance Manager
Tel: 01295 221731, nicola.jackson@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected - All wards are affected

Links to Corporate Plan and Policy Framework - All corporate plan themes.

Lead Councillor - None

Document Information

Appendix No	Title
Appendix 1	Local Government Audit Committee Briefing
Background Papers	
None	
Report Author	Tim Madden, Interim Head of Finance and Procurement
Contact Information	0300 003 0106 Tim.madden@cherwellandsouthnorthants.gov.uk

March 2014

Local Government Audit Committee briefing

Contents at a glance

Introduction

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.

EY

Building a better working world

Sector and economic news

Economic Outlook

The ITEM Club, one of the UK's foremost independent economic forecasting groups, sponsored by EY, published its Winter Forecast in January 2014. It recognises that the UK's economic rebound is continuing to exceed expectations with GDP now projected to grow by 2.7% in 2014 followed by 2.4% in 2015.

Although this headline news is positive, the reality is more complex. The current recovery is lopsided in two ways. The first is that it's being driven almost exclusively by consumer spending and housing. Until rising business confidence is matched by a revival in investment and exports, the upturn will be neither balanced nor sustainable.

The second imbalance is that, despite rising employment, real wages are continuing to fall. This gap reflects a number of structural shifts in the workforce, and should close by the start of 2015. But its effect is that consumer spending cannot continue to drive the recovery without triggering a new and unwelcome rebound in household debt.

EY ITEM Club notes: 'this situation poses a dilemma for the Bank of England's Monetary Policy Committee as it gauges when to raise interest rates.

With employment rising but real wages falling, the unemployment rate alone is too blunt a measure. Instead, the MPC must hold interest rates steady until real wages and business investment are rising. Otherwise it risks aborting the recovery before it reaches escape velocity.'

Enhancements to Bellwin Grant

The government is changing the terms of the Bellwin scheme to help local authorities meet costs associated with the recent severe weather. The changes will ensure the grant is paid at 100% above the threshold instead of 85%, extend the eligible spending period to the end of March 2014, reduce the thresholds for county councils and unitary authorities, and allow upper tier authorities with fire responsibilities to claim on the same basis as standalone fire authorities for fire related costs.

The Bellwin scheme was activated in December 2013. Ministers have also committed to a longer term review of the Bellwin scheme to consider changes to its operation which may be required due to more frequent and challenging weather events.

Sector and economic news

Making best use of the Better Care Fund

Announced by the government in the June 2013 spending round, the £3.8bn Integration Transformation Fund now known as the Better Care Fund is described as 'a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and Local Authorities'. The Fund, available from April 2015, offers an opportunity to bring resources together to address immediate pressures on services and lay foundations for a much more integrated system of health and care. The intention is that social care and health care be fully integrated by 2018.

For Local Authorities, this will require the contribution of the Social Care Capital grant and Disabled Facilities Grant allocations for 2015/16 to the pooled budget.

Health and Wellbeing Board areas were required to submit a draft plan for their use of this fund by 14th February, and the revised plan by 4th April 2014. The King's Fund has published 'Making best use of the Better Care Fund – Spending to Save?' which 'offers an evidence-based guide to aid the discussions between clinical commissioning groups, Local Authorities and health and wellbeing boards' and presents evidence from The King's Fund and others in a number of different areas including primary prevention, selfcare, and case management.

Accounting, auditing and governance

Greater Business Challenges call for Stronger Audit Committees

Audit committees have traditionally comprised of people with deep finance and accounting expertise, a reflection of the committee's statutory financial control and reporting oversight duties. But, in recent years, the business environment has become more complex and its role has expanded, leading many boards and audit committees to rethink the skills they need.

The audit committee's remit now includes overseeing risk management, compliance and a series of emerging business risks in areas such as bribery, corruption and cybersecurity.

This increased responsibility includes a call by some regulators for 'stronger audit committees' to oversee the regulatory and business risks that organisations face.

Participants surveyed for the EY report, Greater business challenges call for stronger audit committees, identified diversity of culture, roles and experience as the most important elements of an effective audit committee.

Critical skills include:

- Financial expertise: the committee needs a keen understanding of internal controls and experience in disclosure to its key stakeholders.
- Accounting and auditing expertise: one of the most critical audit committee responsibilities is overseeing the internal and external auditors. The committee needs at least one member who has experience working with both functions, and someone who understands accounting rules and how to apply them.
- Leadership: the committee should include someone who has hands-on experience of leading in an operational role within an organisation. In particular, audit committees would benefit from people who have been CEOs and CFOs.
- Industry or sector knowledge: it's important to have members with sector-specific knowledge — including an understanding of the regulatory environment.

Regulation news

Business rates valuation: a consultation

Since 1 April 2013, local government has had a 50% share in business rates income, meaning that local authorities now carry a 50% share of the risk of reductions and refunds from challenges against rateable value. This means that local authorities have to forecast the impact of successful challenges on their future income, a task made difficult by the large number of speculative challenges. The government has launched a consultation, which lasted for 12 weeks until 3 March 2014, on proposals aimed at reforming the appeals process. The objectives of the proposals under consultation are to:

- Improve transparency of the valuation process
- Bring business rates into line with the way official decisions are normally challenged
- Enshrine in law a more formal separation between the Valuation Office Agency (a government taxation setting body) and the Valuation Tribunal for England (the judicial body which reviews decisions made by the VOA)

The government intends to implement these proposals from 1 October 2014.

Technical Reforms to Council Tax: national discount for annexes

Between August and October 2013, the government ran a consultation on the proposed introduction of a discount on the council tax for annexes, where such annexes are occupied by a member of the family of an occupier of the main dwelling. The responses to this consultation were published in December 2013, and the government is planning to implement its proposals. The majority of respondents supported the government's proposed discount of 50%. However, over half of respondents considered that the implementation of this policy would lead to extra costs, mainly in the areas of promotion, IT and administration. The government does not consider that the administration of the new discount will constitute a new burden, as under Regulation 14 of the Council Tax (Administration and Enforcement) Regulations 1992, billing authorities already have a statutory duty to ascertain whether a property is entitled to a discount. However, the overall cost of the discount will be reimbursed to billing authorities by DCLG.

Regulation news

Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014, which provides for the abolition of the Audit Commission and repeals the Audit Commission Act 1998, received Royal Assent on 30 January 2014. This Act makes provision for the Audit Commission to officially be wound down in 2015. The effective closure date will be 31 March 2015 and will bring to an end the Commission's 30 year involvement with public sector audit.

A transitional body will manage the current round of supplier contracts when they end in 2016/17 or, if extended, 2018/19. Subsequently, the new framework for public audit will replace the Audit Commission. When the existing contracts have run their course, local bodies will be able to appoint their own auditors, although local audit appointments will be overseen by an Independent Auditor Panel, and collective audit procurement will be enabled. Quality will be overseen by the Financial Reporting Council, as for Companies House audits.

The Audit Commission has identified where some of its key functions will be transferred to. These include:

- The National Fraud Initiative will transfer to the Cabinet Office on 1 April 2015.
- The National Audit Office will take on the statutory responsibility to produce and maintain the Code of Audit Practice and issue guidance to auditors.

The Commission is still in talks with several government departments to determine where other key areas which it is responsible for such as Value for Money and Counter Fraud will be transferred to.

Find out more

Economic Outlook

See the full analysis at:
http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections

Enhancements to Bellwin Grant

Read more at:
https://www.gov.uk/government/news/more-support-for-communities-affected-by-floods

Making best use of the Better Care Fund

Find out more at:
http://www.local.gov.uk/documents/10180/12193/Developing+plans+for+better+care+fund+guidance.pdf/734c155e-7820-4761-976a-6c56053c0e78

http://www.kingsfund.org.uk/publications/making-best-use-better-care-fund

Audit Committee Challenges

Read the latest briefing at:
http://www.ey.com/Publication/vwLUAssets/EY-Audit-Committee-Bulletin-Issue-5-October-2013/$FILE/EY-Audit-Committee-Bulletin-Issue-5-October-2013.pdf

Consultation on checking and challenging your rateable value

Find out more at:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263015/Checking_and_Challenging_your_Rateable_Value.pdf

Technical Reforms to Council Tax: national discount for annexes

Find out more at:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263411/131115-_Annex_A-_Draft_summary_of_responses_on_annexes_consultation-_pr.pdf

Local Audit and Accountability Act 2014

Find out more at:
http://www.audit-commission.gov.uk/2014/01/finish-line-in-sight-for-audit-commission/

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ED None

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Cherwell District Council

Accounts, Audit and Risk Committee

26 March 2014

Internal Audit Progress Report 2013-14 and Internal Audit Plan 2014-15

Report of the Head of Finance and Procurement

This report is public

Purpose of report

To receive PwC's progress report summarising their internal audit work to date and to receive the Internal Audit Plan for next year.

1.0 Recommendations

The meeting is recommended to:

1.1 Note the contents of the 2013-14 progress report and the details of the 2014-15 Internal Audit Plan.

2.0 Introduction

2.1 Internal Audit undertakes its work in line with their Audit Plan issued June 2013.

3.0 Report Details

3.1 Internal Audit is on track to deliver its planned programme of work for the year (attached in Appendix 1).

3.2 Internal Audit have discussed and agreed the 2014-15 plan with JMT. The detailed plan is attached at Appendix 2.

4.0 Conclusion and Reasons for Recommendations

4.1 The progress report summarises the progress of internal audit's work.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.
Option 1: Not applicable as this report is for information. However, members may wish to request further information from the Chief Internal Auditor.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.
Comments checked by: Nicola Jackson, Corporate Finance Manager
Tel: 01295 221731, nicola.jackson@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.
Comments checked by: Kevin Lane, Head of Law & Governance,
Tel: 0300 0030107, kevin.lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

7.3 There are no risk implications arising directly from any outcome of this report.
Comments checked by: Nicola Jackson, Corporate Finance Manager
Tel: 01295 221731, nicola.jackson@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected
All wards are affected

Links to Corporate Plan and Policy Framework
All corporate plan themes.

Lead Councillor
None

Document Information

Appendix No	Title
Appendix 1 Appendix 2	PwC Progress Report 2013-14 PwC Internal Audit Plan 2014-15
Background Papers	
None	
Report Author	Tim Madden
Contact Information	01295 221731 Tim.madden@cherwellandsouthnorthants.gov.uk

Internal Audit Progress Report

Update to the Accounts, Audit and Risk Committee on Internal Audit activity

Cherwell District Council

March 2014

pwc

Introduction

We are committed to keeping the Committee up to date with our progress throughout the year, and this summary updates you on our activity since your last meeting, along with matters that are relevant to your responsibilities.

2013/14 audit plan

You approved the plan in June 2013 and we remain on course to deliver it, with a number of reports being finalised now and a few to be completed during March. We will bring a full outturn report to the June committee meeting alongside our annual opinion.

2014/15 audit plan

We discussed future plans with key officers during February and we present our draft 2014/15 plan as a separate report to this meeting.

Progress with 2013/4 reports

Final / Draft Reports Issued

We have issued the follow reviews in final or draft status.

Treasury Management – Low Risk (Final)

We have issued a **low risk** report and found no issues to report. This was our first review of treasury management and focussed on strategy, budgeting and reporting.

Debtors – Low Risk (Final)

We have issued a **low risk** report and found 3 low risk issues.

- Monthly reconciliations between the debtors and general ledger: evidence of independent review;
- New debtor set up: evidence of segregation and review; and
- No/out-of-date authorised signatory listing within finance department.

General Ledger – Medium Risk (Draft)

General Ledger controls have improved since last year, but we note the following:

- The Fixed Asset Register is only reconciled to the General Ledger on an annual basis. Good practice suggests this should be performed at least two times per year.
- The Council have designed guidance notes to outline General Ledger policies and procedures. This process has no mechanism for review or evidencing review if no change required.
- 1/25 journals did not match the value in the General Ledger (typographical error and was subsequently corrected) and 4/16 manual journals did not have any supporting documentation.
- Audit adjustments have not been authorised by all the required staff (but had been uploaded correctly on the system).
- Monthly leavers' information has not been sent from HR to finance in order for finance to review system user access.

Collection Fund - Low Risk (Draft)

We have raised 4 medium risk issues and 1 low risk issue, covering the review of council tax and NNDR. The main issue is timeliness or evidence of review of key reconciliations and amendments processed by CAPITA and also the Council's internal team. There were also observations on void and empty properties and monitoring of credit balances.

Housing Benefits - Low Risk (Draft)

We have raised 3 low risks issues, but generally housing benefits processes appear strong. The issues noted relate to:

- Evidencing of review of daily bank reconciliations;
- Evidencing and completing daily checks on change of circumstances processed by CAPITA; and
- monthly reconciliations between the housing benefit and the council tax systems by CAPITA do not show evidence of when they were performed and reviewed by the Council.

Programme Management Support

We have delivered a number of days in support to several of the Council's ongoing significant programmes. We have completed and reported back on

- Project Risk Management
- Welfare Reform

Project Risk Management – Key Observations

Project and corporate risk management processes are aligned, using a common set of criteria as defined in the Risk and Opportunity Management Strategy. Risk management processes appear effective, but:

- further clarity on roles for risk management in projects would be beneficial;
- required reporting standards should be agreed; and
- there needs to be a clearer process for escalating significant risks to Audit Committee.

Welfare Reform - Introduction

The Welfare Reform Act provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. The Bill follows the November 2010White Paper, 'Universal Credit: welfare that works', which set out the Coalition Government's proposals for reforming welfare to improve work incentives, simplify the benefits system and tackle administrative complexity.

Key observations

This is a difficult process to manage as timescales and the scope of the Bill are not yet clear. Nevertheless, as long as government is committed to implementation, the Council needs to prepare effectively to the extent possible.

The Council has adopted a "wait and see" approach and as a result, project management controls and supporting documentation have not always been appropriately developed or maintained. We recommend that controls should be re-developed to mitigate risks and develop robust quality control measures and ensure the Councils work in a collaborative and supportive manner at the same pace.

Tightening Project controls will allow the Project Manager to monitor delivery across both Councils easier and more effective.

Other Programme Management Support

We also have reviewed the Bicester and Banbury redevelopment projects being delivered during late February and March.

We have reallocated some of the audit plan days, in discussion with management, to undertake a Post Implementation Review on the harmonising of the payroll and HR systems between South Northamptonshire and Cherwell and the new HR system being operated at Cherwell.

Reviews completed in review or in progress

We are in the process of reviewing and reporting on the following reviews where fieldwork has been completed or some follow up work is required:

- performance management;
- payroll;
- budgetary control; and
- creditors.

We have also started our risk management review during the last week in February. We are looking at a selection of risks that include joint risks with Cherwell and also specific South Northamptonshire risks.

We will report the outcome of these alongside our annual opinion to the June meeting.

Reviews being delivered in March

We are scheduled to complete the following reviews during March:

- Joint Working: covering current arrangements and the Transformation Group around 3 way working;
- Programme Management: Banbury and Bicester redevelopment projects;
- Environmental Services: review of contractual arrangements in 'Pest Control Services';
- Grant Allocation;
- IT: Risk and Controls Diagnostic; and
- IT: Business Continuity and Disaster Recovery.

We will report the outcome of these alongside our annual opinion to the June meeting.

Year End Support

We will also work with management to agree what form any year end support will take in relation to the statements of accounts production. This is usually timetabled for early June to feed into the annual accounts production timetable.

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Internal Audit Risk Assessment and Plan 2014/15

DRAFT

Cherwell District Council

March 2014

Contents

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. Introduction and approach

Introduction

This document sets out the risk assessment and our internal audit plan for Cherwell District Council.

Approach

The internal audit service will be delivered in accordance with the Internal Audit Charter. A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. The internal audit plan is driven by the Council's organisational objectives and priorities, and the risks that may prevent the Council from meeting those objectives. A more detailed description of our approach can be found in Appendix 1 and 2.

Step 1 *Understand corporate objectives and risks*	• Obtain information and utilise sector knowledge to identify corporate level objectives and risks.
Step 2 *Define the audit universe*	• Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.
Step 3 *Assess the inherent risk*	• Assess the inherent risk of each auditable unit based on impact and likelihood criteria.
Step 4 *Assess the strength of the control environment*	• Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.
Step 5 *Calculate the audit requirement rating*	• Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.
Step 6 *Determine the audit plan*	• Determine the timing and scope of audit work based on the organisation's risk appetite.
Step 7 *Other considerations*	• Consider additional audit requirements to those identified from the risk assessment process.

Basis of our plan

In order to carry out the level of work that our risk assessment indicates is appropriate; we estimate that the resource requirement for the Council's internal audit service is 123 days and £47,355. Based on our risk assessment, this is the level of resource that we believe would be necessary to evaluate the effectiveness of risk management, control and governance processes. The level of agreed resources for the internal audit service for the Council is 123 days and £47,355, and therefore the plan does not purport to address all key risks identified across the audit universe as part of the risk assessment process. Accordingly, the level of internal audit activity represents a deployment of limited internal audit resources and in approving the risk assessment and internal audit plan, the Accounts, Audit and Risk Committee recognises this limitation.

Basis of our annual internal audit conclusion

Internal audit work will be performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit. The agreed control objectives will be reported within our final individual internal audit reports.

In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks. We do not believe that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion*.

Other sources of assurance

In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources. Other sources of assurance for each auditable unit are noted in our Risk Assessment in section 3 of this document, and a summary is given below.

Some of the other sources of assurance for the Council are as follows:

- external inspections;
- external audit work; and
- ISO accreditations.

We do not intend to place reliance upon these other sources of assurance.

Key contacts

Meetings and/or conversations have been held with the following key personnel during the planning process:

Name, Job Title	***Name, Job Title***	***Name, Job Title***
Sue Smith, Chief Executive	Ian Davies, Director of Community and Environment	Calvin Bell, Director of Development
Karen Curtin, Director of Bicester	Martin Henry, Director of Resources (S151 Officer)	Tim Madden, Interim Head of Finance and Procurement
Jo Pitman, Head of Transformation		

2. Audit universe, corporate objectives and risks

Audit universe

We have identified the auditable units within the Council based on your structure and meetings with officers and members. Any processes running across a number of different elements in the Council and which can be audited once have been separately identified under cross-cutting reviews in the audit universe.

Corporate objectives and risks

Corporate level objectives and risks have been determined by Cherwell District Council. These are recorded in the table below and have been considered when preparing the internal audit plan.

We have also reviewed your corporate risks register and linked all high risks scoring net in excess of 10 points to our audit plan as follows:

<table>
<tr><th>Objective</th><th>Risk(s) to achievement of objective</th><th>Cross reference to Internal Audit Plan (see Section 4)</th></tr>
<tr><td>A District of opportunity</td><td rowspan="4">S14: CDC Local Plan: Failure to ensure sound local plan and priorities linked to objectives.

S15: CDC Local Plan, County SHMA: Risk of additional housing requirements from Oxford

C1 – Business Continuity: Plans not in place to deliver in event of incident: reputational and service failure

C7 – Joint Working: Reputational damage, service and financial performance decline.

C9 – Equalities: Failure to comply with legislation, reputational damage and legal risk.

C10 – Health and Safety: Failure to comply with legislation, reputational damage and legal risk.

C12 – CDC Planning (Major Applications): failure to meet planning inspectorate threshold and subject to special measures

P5 – Oxfordshire LEP and P8 – South Midlands LEP: Partnership doesn’t work and fails to add value and align with objectives.</td><td>B1, B4 and B5

VE1 and VE2</td></tr>
<tr><td>A Cleaner, Greener District</td><td>B1, B4 and B5

VE1 and VE2</td></tr>
<tr><td>A Safe, Healthy and Thriving District</td><td>B1, B4 and B5

VE1 and VE2</td></tr>
<tr><td>An accessible, Value for Money Council</td><td>A.1 to A.3 All Cross Cutting Sections

B1, B2, B5 and B6

VE1 and VE2</td></tr>
</table>

3. Risk assessment

Risk assessment results

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1 and 2. The results are summarised in the table below.

Ref	Auditable Unit	Corporate objectives and risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	[Intensity / Frequency]
A	**Corporate / Cross Cutting Reviews**						
A.1	General Ledger **	An accessible, Value for Money Council	6	4	4	●	Annual
A.2	Debtors **		5	4	4	●	Every two years
A.3	Creditors **		5	4	4	●	Every two years
A.4	Payroll		6	5	4	●	Annual
A.5	Budgetary Control		5	5	4	●	Every two years
A.6	Collection Fund		6	4	4	●	Annual
A.7	Cashiers		4	3	3	●	Every two years
A.8	Treasury Management **		4	3	3	●	Every two years
A.9	Housing Benefits		6	4	4	●	Annual
A.10	Fixed Assets **		4	3	3	●	Every two years
A.11	VAT **		3	3	2	●	Every two years
A.12	Car Parking		3	3	2	●	Every three years
A.13	Risk Management **		5	3	4	●	Annual
A.14	Information Technology **		6	4	4	●	Annual
B	**Department**						
B.1	Community Services	A District of opportunity	5	4	3	●	Every two years
B.2	Environmental	A cleaner,	5	3	4	●	Annual

	Services	greener District						
B.3	Finance and Procurement **	An accessible, value for money Council	5	3	4		Annual
B.4	Law and Governance	A safe, healthy and thriving district.	4	3	3		Every two years
B.5	Public Protection and Development Management	A cleaner, greener District	4	3	3		Every two years
B.6	Strategic Planning and the Economy	A cleaner, greener District A District of opportunity	5	3	4		Annual
B.7	Regeneration and Housing	A safe, healthy and thriving district; and A District of opportunity.	5	3	4		Annual
B.8	Communications	A District of Opportunity; and An accessible, value for money council.	3	2	2		Every two years
B.9	Performance Management	A District of opportunity	4	3	3		Every two years
B.10	Programme Management **	An accessible, value for money Council	6	3	5		Annual
B.11	Human Resources **	A District of opportunity	5	3	4		Annual

Key to intensity / frequency of audit work

Audit Requirement Rating	Frequency – PwC standard approach	Colour Code
6	Annual	●
5	Annual	●
4	Annual	●
3	Every two years	●
2	Every three years	●
1	No further work	●
	Key areas of focus	●

The audit requirement rating drives the frequency of internal audit work for each auditable unit. Our recommended planning approach involves scheduling an annual audit when the rating ranges from 6 to 4, an audit every two years when the rating is 3 and an audit every three years when the rating is 2.

The audit requirement rating drives the intensity of internal audit work for each auditable unit. Our recommended planning approach involves scheduling a full scope audit when the rating ranges from 6 to 4, a review of monitoring controls when the rating is 3 and a review of business monitoring controls when the rating is 2.

4. Annual plan and internal audit performance

Annual plan and indicative timeline

The following table sets out the internal audit work planned for 1 April 2014 to 31 March 2015, together with indicative start dates for each audit.

Ref	Auditable Unit Points of Focus	Indicative number of audit days	Q1	Q2	Q3	Q4
A	**Corporate systems / Cross Cutting Reviews**					
A.1	**Finance Systems** • General Ledger (4) • Payroll (4) • Collection Fund (Council Tax and NNDR) (6) • Housing Benefits (4) • Treasury (4)	22			✔	
A.2	**IT Systems (Finance Agresso Project)** ** Ongoing review and support in change management and finance system upgrades	7		✔	✔	
A.3	**Review of Corporate Costs** ** • Corporate Telephony Costs	3	✔			
B	**Department**					
B.1	**Programme Management** Ongoing support to consider programme management and key ways of working on major programmes across the council, to be agreed during the plan year. Key projects include: • Graven Hill • Bicester Town Centre Redevelopment • Build Programme	10	✔	✔	✔	✔
B.2	**Risk Management/Governance** ** Review the adequacy of risk management arrangements within the Council and we will provide you with a view on your Joint Risk Management arrangements.	3				✔
B.3	**IT – Access/Recovery** ** Review controls around access rights on selected systems to consider the following controls: • Adequate passwords are in place for each IT platform; • Authorisation controls over new starters access to the network and applications; • Controls over timely notification and removal of leavers, and removal of access to the network and applications; • Regular evidenced, independent review of user access; and • Appropriate controls over application administrators (including superusers).	6	✔			

B.4	**Housing – Planning Applications** Review the processes you have put in place to manage the changes and alter your systems to process applications effectively.	6		✔		
B.5	**Service Redesign – VfM assessments** To review current service plans and operational design and arrangements to benchmark performance on selected service. • Strategic Planning and the Economy • Regeneration and Housing • Environmental Services	6	✔			✔
B.6	**Finance Year End Support** To support you at year end. This support will include a critical review of your draft accounts, accountancy support and attendance at your close down group.	4				
VE	**Value Enhancement**					
VE.1	**Joint Working and Transformation Programme** Review of the governance and business cases for efficiencies and savings for three way working. • Future Service delivery and Governance Concept • Governance Models • New Ways of Working	15		✔		
VE.2	**Service Redesign – Income Optimisation / Commercialisation** To review current service plans and operational redesign and arrangements to maximise efficiencies and potential income streams and to consider the commercialisation of revenue schemes. Covering key areas including: • Contract assurance; and • Fees and Charges. On selected service from: • Strategic Planning and the Economy; • Regeneration and Housing; and • Environmental Services.	5				✔
PM	**Project management**					
PM.1	Project management	25	✔	✔	✔	✔
PM.2	Contingency	7				
	Total Days	**123**				

Where reviews have been annotated "**", these relate to processes we have assumed will be followed consistently across both Cherwell and South Northamptonshire Councils. We have therefore reduced days in this area to reflect a joint review. These areas have been indicated to us through discussions with management at both Councils.

In addition to these services, we will provide a range of benefits to the Council at no additional cost which include:

- Regular technical updates and alerts from PwC Assurance on topics including accounting changes and new legislation;
- Circulation of recent publications by PwC and PwC's Public Sector Research Institute plus ad hoc reports;
- Provision of thought leadership pieces;
- Ad hoc briefings for the Audit Committee (e.g. risk management and local government finance); and
- An invitation for the Chair of Audit Committee and officers to attend our local training days

Key performance indicators

Appendix 4 sets out the proposed Key Performance Indicators for internal audit. Performance against these indicators will be reported annually to the Audit Committee.

Appendix 1: Detailed methodology

Step 1 -Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your strategy, organisational structure and corporate risk register;
- Drawn on our knowledge of the local government sector; and
- Met with a number senior management and non-executive members.

Step 2 -Define the Audit Universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe for South Northamtpnshire Council made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

Step 3 -Assess the inherent risk

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and its sector; and
- Discussions with management.

Impact Rating	Likelihood Rating					
	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

Step 4 -Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:

- Our knowledge of your internal control environment;
- Information obtained from other assurance providers; and
- The outcomes of previous internal audits.

Step 5 -Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control design indicator					
	1	2	3	4	5	6
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

Step 6 -Determine the audit plan

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

In some cases it may be possible to isolate the sub-process (es) within an auditable unit which are driving the audit requirement. For example, an auditable unit has been given an audit requirement rating of 5 because of inherent risks with one particular sub-process, but the rest of the sub-processes are lower risk. In these cases it may be appropriate for the less risky sub-processes to have a lower audit requirement rating be subject to reduced frequency of audit work. These sub-processes driving the audit requirement areas are highlighted in the plan as key sub-process audits.

Step 7 -Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews. These have been identified separately in the annual plan.

Appendix 2: Risk assessment criteria

Determination of Inherent Risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

Impact rating	*Assessment rationale*
6	Critical impact on operational performance; or Critical monetary or financial statement impact; or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation or brand of the organisation which could threaten its future viability.
5	Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in large fines and consequences; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance; or Major monetary or financial statement impact; or Major breach in laws and regulations resulting in significant fines and consequences; or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the organisation.
2	Minor impact on the organisation's operational performance; or Minor monetary or financial statement impact; or Minor breach in laws and regulations with limited consequences; or Minor impact on the reputation of the organisation.
1	Insignificant impact on the organisation's operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the organisation.

Likelihood rating	*Assessment rationale*
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

Appendix 3: Key performance indicators

Key performance indicators

To ensure your internal audit service is accountable to the Audit Committee and management, we have proposed the following key performance indicators.

KPI		Target
A) Planning		
1	% of audits completed with Terms of Reference	100%
2	Terms of Reference agreed promptly	100% at least 2 weeks prior to the start of a review
B) Fieldwork		
3	% of audits with a closing meeting	100%
C) Reporting		
4	Draft reports issued promptly	100% within 2 weeks of a closing meeting
5	Critical and high risk rated reports issued to Audit Committee	100% within 1 week after the draft report has been issued to management
6	Attendance at Accounts, Audit and Risk Committee	100% meetings attended by HIA and / or Audit Manager

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Cherwell District Council

Accounts, Audit and Risk Committee

26 March 2014

Use of Purchase Orders

Report of the Head of Finance and Procurement

This report is public

Purpose of report

The purpose of this report is to provide information to the Accounts, Audit and Risk Committee on the Council's use of Purchase Orders.

1.0 Recommendations

The Accounts, Audit and Risk Committee is recommended to:

1.1 Note the contents of the report on the progress the Council is making to improve the use of purchase orders.

2.0 Introduction

The 2012-13 Annual Governance Statement included one high risk issue around the use of purchase orders (77% of invoices had no purchase order in place).Since then finance staff have been working to improve this performance.

3.0 Report Details

3.1 Purchase order statistics for this financial year are as follows:

Month	Order	Non Order	% Success
April	201	450	31%
May	153	561	21%
June	313	260	55%
July	339	261	57%
August	342	179	66%
September	314	258	55%
October	407	291	58%
November	460	199	70%
December	450	194	70%
January	458	153	75%
February	493	154	76%

Previously, we have reported that, finance staff have reviewed the performance for each Head of Service area to help target training. Environmental Services depot uses the Roadbase system to record all their orders/invoices. However, this is a separate system and the purchase order function is not compatible with the purchase order function of the financial information system (currently Agresso). The need for this interface will be pursued when the financial information system is replaced next year. Roadbase accounts for 12% of invoices and excluding these, gives the following statistics:

Month	Order	Non Order	% Success
April	201	401	33%
May	153	458	25%
June	313	161	66%
July	339	173	66%
August	342	94	78%
September	314	170	65%
October	407	197	67%
November	460	116	80%
December	450	97	82%
January	458	69	87%
February	493	77	86%

A review of the February invoices processed without a purchase order has identified a further 20 invoices that should have a purchase order attached in the future. This reduces the non-purchase order invoices to 57 and would increase the percentage success to 90% (excluding Roadbase).

Therefore officers are initially proposing to set a target of 85% of invoices to be paid with a purchase order (excluding Roadbase). We will monitor progress and provide updates to future meetings.

4.0 Conclusion and Reasons for Recommendations

4.1 The Accounts, Audit and Risk Committee is recommended to note the contents of the report on the progress the Council is making to improve the use of purchase orders.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Not applicable as this report is for information.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.
Comments checked by: Nicola Jackson, Corporate Finance Manager
Tel: 01295 221731, nicola.jackson@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.
Comments checked by: Kevin Lane, Head of Law & Governance,
Tel: 0300 0030107, kevin.lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

7.3 There are no risk implications arising directly from any outcome of this report.
Comments checked by: Nicola Jackson, Corporate Finance Manager
Tel: 01295 221731, nicola.jackson@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Key decision – Not applicable

Wards Affected – Not applicable

Links to Corporate Plan and Policy Framework – Not applicable

Lead Councillor - None

Document Information

Appendix No	Title
None	
Background papers	
None	
Report Author	Tim Madden, Interim Head of Finance & Procurement Denise Taylor, Corporate Accountant
Contact Information	01295 221982 denise.taylor@cherwellandsouthnorthants.gov.uk

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2013/14 Work Programme

Topic	Lead	26-3-14	25-6-13
1. Apologies for Absence and Notification of Substitute Members	Chairman of AARC	Standing Agenda Item	
2. Declarations of Interest	Chairman of AARC	Standing Agenda Item	
3. Petitions and Requests to Address the Meeting	Chairman of AARC	Standing Agenda Item	
4. Urgent Business	Chairman of AARC	Standing Agenda Item	
5. Minutes of the previous meeting	Chairman of AARC	Standing Agenda Item	
Training Session	Chairman of AARC and Head of Finance & Procurement		
Review of Work Programme	Chairman of AARC and Head of Finance & Procurement	Standing Agenda Item	
External Audit Annual Certification of Claims Report	Ernst Young		
External Audit Progress Update	Ernst Young	✓	✓
External Audit Fee Letter and Audit Plan	Ernst Young		
External Audit Annual Results Report	Ernst Young		
External Audit Annual Audit Letter	Ernst Young		
Audit Committee Annual Report	Chairman of AARC and Head of Finance & Procurement		✓
Internal Audit Progress Report	Chief Internal Auditor	✓	✓
Follow up on Internal Audit Report	Chief Internal Auditor	As required	
Internal Audit Annual Plan	Chief Internal Auditor	✓	
Internal Audit Annual Report	Chief Internal Auditor		✓
Risk Strategy Update	Corporate Performance Manger and Head of Finance & Procurement	✓	
Risk Management Update	Corporate Performance Manger and Head of Finance & Procurement		✓
Anti Fraud and Corruption plus Whistle blowing Update (verbal update at every meeting)	Head of Finance & Procurement and Fraud Manager	✓	✓
Review of the Anti Fraud and Corruption Strategy	Head of Finance & Procurement and Fraud Manager		
Accounting Policies	Head of Finance & Procurement	✓	
Annual Governance Statement Review	Head of Finance & Procurement		✓
Statement of Accounts Review	Head of Finance & Procurement		
Statement of Accounts Approval***	Head of Finance & Procurement		
Treasury Management Budget Monitoring & Compliance	Head of Finance & Procurement		✓
Treasury Management Strategy	Head of Finance & Procurement		
IT access - follow up to EY report	Head of Finance & Procurement		
Public Interest Report - Corby Borough Council	Director of Resources		✓
Purchase Orders - Update	Head of Finance & Procurement	✓	

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