

Public Document Pack



Committee: Accounts, Audit and Risk Committee
Date: Wednesday 22 March 2017
Time: 6.30 pm
Venue: Bodicote House, Bodicote, Banbury, OX15 4AA

Membership

Councillor Hugo Brown	Councillor Ian Corkin (Vice-Chairman)
Councillor Mike Kerford-Byrnes	Councillor Sean Gaul
Councillor Barry Richards	Councillor Nicholas Mawer
Councillor Sean Woodcock	Councillor Tom Wallis

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. Appointment of Chairman for the Remainder of the Municipal Year 2016/17

Following the resignation of Councillor Kerford-Byrnes as Chairman of the Committee at the last meeting, it is necessary to appoint a Chairman for the remainder of the municipal year 2016/17.

In the event the current Vice-Chairman is appointed Chairman it will be necessary to appoint a new Vice-Chairman.

Please note the Democratic and Elections Officer will preside over this item.

4. **Petitions and Requests to Address the Meeting**

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

5. **Urgent Business**

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

6. **Minutes** (Pages 1 - 4)

To confirm as a correct record the Minutes of the meeting of the Committee held on 25 January 2017.

7. **Chairman's Announcements**

To receive communications from the Chairman.

8. **External Audit: Certification of Claims 2015/16 and Annual Audit Plan 2016/17**
(Pages 5 - 36)

Report of the Chief Finance Officer

Purpose of report

To receive Ernst & Young LLP's report setting out the External Audit Plan for the financial year 2016/17 and their report on the certification of grant claims for 2015/16.

Recommendation

The meeting is recommended to:

1.1 Note the External Audit Plan for 2016/17.

1.2 Note the Certification of Claims for 2015/16.

9. **Internal Audit - Progress Report 2016/17, Internal Audit Plan 2017/18 and Internal Audit Charter** (Pages 37 - 58)

** Please note Appendix 1 is to follow as it is currently being reviewed and finalised**

Report of the Chief Finance Officer

Purpose of report

To receive PwC's progress report summarising their internal audit work to date. To approve the Strategic Internal Audit Plan 2017/18 to 2019/20, the Operational Internal Audit Plan for 2017/18 and the Internal Audit Charter.

Recommendation

The meeting is recommended to:

- 1.1 Note the contents of the 2016/17 progress report from PwC.
- 1.2 Approve the Strategic Internal Audit Plan for 2017/18 to 2019/20.
- 1.3 Approve the 2017/18 Operational Internal Audit Plan.
- 1.4 Approve the Internal Audit Charter.

10. Quarter Three Risk Review 2016-17 (Pages 59 - 82)

Report of Director - Strategy and Commissioning

Purpose of report

To update the Committee on the management of Strategic, Corporate and Partnership risks during the third quarter of 2016/17.

Recommendation

The meeting is recommended to:

- 1.1 Review the full Strategic, Corporate and Partnership Risk Register for 2016/17 and identify any issues for further consideration or referral to Executive.
- 1.2 Note the risk exceptions highlighted and proposed actions.

11. Housing Benefit Subsidy (Pages 83 - 86)

** Please note Appendix A is to follow as it is currently being reviewed and finalised**

Report of Chief Finance Officer

Purpose of report

To provide members of Accounts, Audit and Risk Committee with an update on the recent Housing Benefit subsidy audit and the resulting actions that have been taken.

Recommendations

The meeting is recommended:

- 1.1 To note the contents of the report and Appendix A (to follow).

12. Q3 Treasury Management Report (Pages 87 - 92)

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2016/17 as required by the Treasury Management Code of Practice.

Recommendation

The meeting is recommended:

1.1 To note the contents of the third quarter (Q3) Treasury Management Report

13. Accounts Closedown Update

Verbal update by Chief Finance Officer

14. Work Programme (Pages 93 - 94)

To consider and review the Work Programme.

15. Exclusion of Press and Public

The following reports contain exempt information as defined in the following paragraph of Part 1, Schedule 12A of Local Government Act 1972.

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

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

Should Members decide not to make a decision in public, they are recommended to resolve as follows:

“That under Section 100A of the Local Government Act 1972, the public and press be excluded from the meeting for the following items of business on the grounds that, if the public and press were present, it would be likely that exempt information falling under the provisions of Schedule 12A, Part I, Paragraph 3 would be disclosed to them, and that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.”

16. Appendix 1 - Q3 Cherwell TM report December 31st 2016 (Pages 95 - 96)

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 227956 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.

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 Aaron Hetherington, Democratic and Elections
aaron.hetherington@cherwellandsouthnorthants.gov.uk, 01295 227956

Ian Davies
Interim Head of Paid Service

Published on Tuesday 14 March 2017

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Agenda Item 6

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 25 January 2017 at 6.30 pm

Present: Councillor Mike Kerford-Byrnes (Chairman)
Councillor Ian Corkin (Vice-Chairman)

Councillor Hugo Brown
Councillor Sean Gaul
Councillor Nicholas Mawer
Councillor Tom Wallis
Councillor Sean Woodcock

Substitute Members: Councillor Mark Cherry (In place of Councillor Barry Richards)

Also Present: Councillor Ken Atack

Apologies for absence: Councillor Barry Richards

Officers: Paul Sutton, Chief Finance Officer / Section 151 Officer
Ed Bailey, Corporate Performance Manager
Richard Bacon PwC - Internal Audit
Chris Dickens, Chief Internal Auditor, Internal Audit, PwC
Ian Robinson - Principal Accountant
Aaron Hetherington, Democratic and Elections Officer

50 **Declarations of Interest**

Members made the following general declarations of interest:

Councillor Ian Corkin, declaration, as a board member of Graven Hill Village Development Company.

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

There were no petitions or requests to address the meeting.

52 **Urgent Business**

There were no items of urgent business.

53 **Minutes**

The Minutes of the meeting of the Committee held on 6 December 2016 were agreed as a correct records and signed by the Chairman.

54 **Chairman's Announcements**

The Chairman advised the Committee that he had no announcements to make at this time but would make an announcement after the last agenda item.

55 **External Audit: Progress Report 2016/17**

The Chief Finance Officer submitted a report which provided members to receive Ernst Young's verbal progress report summarising their audit work to date.

Resolved

(1) That the contents of the 2016/17 progress report be noted.

56 **Internal Audit - Progress Report 2016/17**

The Chief Finance Officer submitted a report which presented to receive PWC's progress report summarising their internal audit work to date.

In response to Members' questions the Chief Finance Officer confirmed that the area of IT and Cyber security, would be discussed at the March meeting as part of the Risk Register report which was already on the work programme and that he would invite the IT Manager to the meeting.

Resolved

(1) That the contents of the 2016/17 progress report be noted.

57 **Draft Treasury Management Strategy 2017/18**

The Chief Finance Officer submitted a report to provide members information on the Treasury Management Strategy Statement for 2017/18.

Resolved

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

- (2) That, having given due consideration, that the draft Treasury Management Strategy 2017/18 be endorsed.

58 **Work Programme**

The Committee considered its work programme for 2016/17.

Resolved

- (1) That the work programme be noted.

59 **Chairman's Announcements**

Councillor Kerford-Byrnes advised the Committee that following his appointment to the Executive he was standing down as Chairman of the Accounts, Audit and Risk Committee with immediate effect. A new Chairman would therefore be appointed at the next meeting of the Committee.

The meeting ended at 8.00 pm

Chairman:

Date:

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Cherwell District Council

Accounts Audit and Risk Committee

22 March 2017

<p>External Audit: Certification of Claims 2015/16 and Annual Audit Plan 2016/17</p>

Report of the Chief Finance Officer

This report is public

Purpose of report

To receive Ernst & Young LLP's report setting out the External Audit Plan for the financial year 2016/17 and their report on the certification of grant claims for 2015/16.

1.0 Recommendations

The meeting is recommended to:

- 1.1 Note the External Audit Plan for 2016/17.
- 1.2 Note the Certification of Claims for 2015/16.

2.0 Introduction

- 2.1 Attached at Appendix 1 is the External Audit Plan outlining the external auditor's proposed audit work for 2016/17.
- 2.2 Ernst & Young LLP will provide a verbal update on progress at the meeting.
- 2.3 Attached at Appendix 2 is the Annual report on the Certification of Claims for 2015/16.

3.0 Report Details

- 3.1 External Audit undertakes its work in line with the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments Ltd and auditing standards. The Audit Plan sets out the work that will be delivered during the year.

- 3.2 The Annual Report on Grant Certification (appendix 2) summarises the work that external audit undertake on the Council's housing benefit subsidy claim which had a total value of £38.2m. Audit testing identified errors, which resulted in the subsidy paid to the Council being reduced by £189,743.

4.0 Conclusion and Reasons for Recommendations

- 4.1 The External Audit Plan sets out the proposed work that External Audit will undertake for 2016/17.

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: No options have been identified, however members may request further information from the External Auditor.

7.0 Implications

Financial and Resource Implications

- 7.1 There are no financial implications other than the reduction to the Council's Housing Benefits Subsidy Claim arising directly from any outcome of this report.

Comments checked by:

Sanjay Sharma, Corporate Finance Manager, 01295 221564

sanjay.sharma@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 0300 0030107

Kevin.Lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

- 7.3 There are no risk management issues arising directly from this report

Comments checked by:

Louise Tustian, Senior Performance and Improvement Officer, 01295 221786

louise.tustian2@cherwellandsouthnorthants.gov.uk

Equality and Diversity

7.4 There are no equality and diversity issues arising directly from this report

Comments checked by:

Caroline French, Corporate Policy Officer, 01295 221586

caroline.french@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 Plan 2016/17
Appendix 2	Grant Certification Report
Background Papers	
None	
Report Author	Paul Sutton, Chief Finance Officer
Contact Information	Paul.Sutton@Cherwellandsouthnorthants.gov.uk 0300 003 0106

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Cherwell District Council

Year ending 31 March 2017

Audit Plan

March 2017

Ernst & Young LLP



Building a better
working world

Members of the Accounts, Audit and
Risk Committee
Bodicote House
Bodicote
Banbury
Oxfordshire OX15 4AA

1 March 2017

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Accounts, Audit and Risk Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 1st March 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris
Executive Director
For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Accounts, Audit and Risk Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the group financial statements of Cherwell District Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended;
- ▶ Our conclusion on the Council arrangements to secure economy, efficiency and effectiveness;

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers. At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of fraud in revenue recognition.</p>	<p>We will</p> <ul style="list-style-type: none"> ▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. ▶ Reviewing accounting estimates for evidence of management bias. ▶ Evaluating the business rationale for significant unusual transactions.
Other financial statement risks	
Group Accounts	
<p>The Council will continue to prepare group accounts in 2016-17, consolidating the balances and transactions of its wholly owned subsidiary company, Graven Hill Village Holdings Limited, as required by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).</p> <p>There is a risk that the group financial statements do not meet the requirements as defined by the Code.</p>	<p>We will review and test whether the Council has:</p> <ul style="list-style-type: none"> ▶ Adopted and correctly applied accounting policies that comply with the requirements of the Code. ▶ Correctly consolidated the subsidiary accounts. ▶ Made all appropriate disclosures in accordance with adopted accounting policies and requirements of the Code. <p>We are responsible for the direction, supervision and performance of the group audit. We will therefore instruct the auditor of Graven Hill Village Holdings Limited as part of our audit procedures. Further details on the work we will carry out is set out in Appendix C.</p>
Silverstone Heritage Experience	
<p>The Council has approved the inclusion within its capital programme a loan facility of up to £1 million as provision to make a loan facility available to the Silverstone Heritage Limited, the company established to develop and manage the Silverstone Heritage Experience.</p>	<p>Our approach will focus on the adequacy of the Council's accounting arrangements in relation to the arrangement, including:</p> <ul style="list-style-type: none"> ▶ The adequacy of the disclosures made by the Council in relation to the loan facility in its narrative report. ▶ Whether the Council has correctly accounted for the loan facility, including the Council's assessment of whether disclosures are required under International Financial Reporting Standards 10 and 11, and International Accounting Standard 28.

CIPFA Code Changes

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with the CIPFA Service Reporting Code of Practice (SeRCOP). Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

Our Approach will focus on:

- ▶ Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code.
- ▶ Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.
- ▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. For 2016-17 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant risk which we view as relevant to our value for money conclusion. We will revisit the assessment throughout the audit process.

Significant value for money risks	Our audit approach
Graven Hill Village Holdings Limited	
The Council has established a wholly owned subsidiary to deliver a self-build housing project at Graven Hill in Bicester. We will assess the adequacy of the governance arrangements established by the Council in relation to this entity.	<p>Our approach will focus on the effectiveness of the Council’s arrangements to exercise oversight of its subsidiary, including</p> <ul style="list-style-type: none"> ▶ The progress made by the Council in establishing an effective shareholder agreement ▶ Processes established by the Council to review and monitor the work of the subsidiary entities ▶ The processes established by the Council to set the remuneration of councillor directors of its subsidiary entities ▶ The adequacy of the audit arrangements established in relation to the subsidiary entity.

Silverstone Heritage Experience

The Council has approved the inclusion within its capital programme a loan facility of up to £1 million as provision to make a loan facility available to the Silverstone Heritage Limited, the company established to develop and manage the Silverstone Heritage Experience

Our approach will focus on the adequacy of the Council's governance arrangements in relation to the arrangement, including:

- ▶ The adequacy of decision making process, including consideration of the legal advice received by the Council in relation to the arrangement.
- ▶ Its review of the assumptions underpinning the business plan provided to the Council by Silverstone Heritage Limited.
- ▶ The effectiveness of the Council's arrangements for ensuring appropriate and effective governance arrangements relating to its interests and risks associated with its relationship with the Silverstone Heritage Limited.

Other value for money risks

Local elector correspondence

We are currently responding to correspondence received from a local elector on the legality and appropriateness of the service charges paid by the Council to Sanctuary Housing Association.

In responding to the local elector we will

- ▶ Consider the evidence obtained by the Council to support the amount of service charges paid.
 - ▶ Consider the legality of the service charges paid by the Council.
 - ▶ Consider whether any action is required of us under the Local Audit and Accountability Act 2014.
-

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements.
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

- ▶ Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require; and
- ▶ Give a separate opinion on the part of the Council's financial statements that relates to the accounts of the pension fund;

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Processes

Our intention is to undertake a fully substantive audit. We believe this to be the most efficient approach to gaining assurance over the transactions and balances reported in the Council's financial statements. We will also review the overall control environment established by the Council, and the evidence we obtain from this review will form the basis of our review of the Council's Annual Governance Statement.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries. We have requested data at Month 9 to support our early testing and will do so again at year end. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests.

- ▶ Give greater likelihood of identifying errors than random sampling techniques.

Internal audit

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	Barnett Waddingham (the Council's Actuary) PwC review of the work of local government actuaries (including Barnett Waddingham), commissioned by the NAO EY pensions team review of the PwC report
Investments	King & Shaxson (valuation of Gilts held by the Council)
Property Valuation	Montagu Evans (the Council's property valuer)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;

- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement;
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £1.7 million. This is calculated on the basis of 2% of the Council's gross expenditure. We will communicate uncorrected audit misstatements greater than £85,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 How materiality is applied to the component locations

We determine component materiality as a percentage of Group materiality based on risk and relative size to the Group. We are currently assessing the risk and relative size of Graven Hill Village Holdings Limited to the Group. We will confirm component materiality in our report to those charged with governance scheduled for delivery in September 2017.

4.6 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Cherwell District Council is £52,127. Further information on our fees is given at Appendix A of this report.

4.7 Your audit team

The engagement team is led by Neil Harris. Neil has significant local government experience, and is the engagement lead for a number of EY's government and public sector audits across the east of England. Neil is supported by Stephen Bladen who is responsible

for the day-to-day direction of audit work and is the key point of contact for the Council's finance team.

4.8 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Accounts, Audit and Risk Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Accounts, Audit and Risk Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Accounts, Audit and Risk Committee timetable	Deliverables
High level planning	April 2016		Audit Fee Letter
Risk assessment, setting of scopes, and testing routine processes and controls	February - March 2017	March 2017	Audit Plan
Early substantive testing	March 2017	June 2017	Progress report (we will report by exception if there are any significant matters arising at this stage of our audit).
Year-end audit	July - August 2017		
Completion of audit	September 2017	September 2017	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2017	November 2017	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services on behalf of the Council and, where we do, we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

At the date of this report, we have not identified any self-interest threats.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

At the date of this report, we have not identified any self-review threats.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

At the date of this report, we have not identified any management threats.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

At the date of this report, we have not identified any other threats to our independence.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, the audit engagement Director and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £
Opinion Audit and VFM Conclusion	To be confirmed	52,127	60,275 ¹
Total Audit Fee – Code work	To be confirmed	52,127	60,275
Certification of claims and returns ²	8,844	8,844	16,660

All fees exclude VAT.

¹ Includes an approved variation to the scale fee of £8,148.

² Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

As noted elsewhere within our audit plan, the scope of our audit will include

- An opinion on the group accounts prepared by the Council; and
- Consideration of correspondence received from a member of the public

This work is not reflected in the scale fee set by PSAA and we will seek a variation to the scale fee to reflect the change in scope of our audit. We will discuss the likely size of any variation to the scale fee with the Chief Finance Officer, and report this in our report to those charged with governance, scheduled for delivery in September 2017.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Accounts, Audit and Risk Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	▶ Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	▶ Audit Results Report
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Audit Results Report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Accounts, Audit and Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Audit Results Report
Related parties <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Audit Results Report
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ Audit Results Report
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Accounts, Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Accounts, Audit and Risk Committee may be aware of 	▶ Audit Results Report

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report ▶ Annual Audit Letter if considered necessary
<p>Group audits</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Certification Report ▶ Annual Audit Letter if considered necessary

Appendix C Detailed scopes

Our objective is to form an opinion on the group's consolidated financial statements under International Standards on Auditing (UK and Ireland).

We set audit scopes for each reporting unit which together enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

- ▶ **Full scope:** locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the Group audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).
- ▶ **Specific scope:** locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the Group audit team.
- ▶ **Limited Scope:** limited scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.
- ▶ **Other procedures:** For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Our audit approach is risk-based, and we have assessed the risks presented by the component company included within the Cherwell District Council group. We have assessed Graven Hill Village Holdings Limited as a full scope component.

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the auditors of significant components. Our involvement can be summarised as follows:

- ▶ We will issue instructions to Clark Howse, as auditor to Graven Hill Village Holdings Limited; these instructions will include assigning a level of materiality that is appropriate to our audit of the Council's group financial statements.
- ▶ We will assess the competence and objectivity of the component auditors.
- ▶ We will review the work undertaken by the component auditors.
- ▶ Review the final audited financial statements and the auditor's report on the results of their audit when performing our tests of consolidation and analytical review of the amounts feeding into the group financial statements.

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Certification of claims and returns annual report 2015-16

Cherwell District Council

February 2017

Ernst & Young LLP



EY

Building a better
working world

Members of the Accounts, Audit and
Risk Committee
Cherwell District Council
Bodicote House
Bodicote
Banbury
Oxfordshire OX15 4AA

27 February 2017

Email: NHarris2@uk.ey.com

Dear Members

Certification of claims and returns annual report 2015-16 Cherwell District Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Cherwell District Council's 2015-16 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2015-16, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this claim we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2015-16 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £38,224,565. We met the extended submission deadline of 31 December. We reported details of the errors identified by our testing in a qualification letter to the Department for Work and Pensions. Further details on the nature of the errors identified are provided in Section 1 of our report. As a result of the errors we identified, DWP have reduced the amount of subsidy payable to the Council by £189,743.

Fees for the certification and other returns work are summarised in section 3. Fees for the certification of 2015-16 housing benefit subsidy claims were published by the PSAA in March 2015 and are available on the PSAA's website (www.psaa.co.uk).



We welcome the opportunity to discuss the contents of this report with you at the March meeting of the Accounts, Audit and Risk Committee.

Yours faithfully

Neil Harris
Executive Director
Ernst & Young LLP
Enc

Contents

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£38,224,565
Amended/Not amended	Amended, however there was no impact on the amount of subsidy due to the Council.
Qualification letter	Yes
Fee - 2015-16	£8,844
Fee - 2014-15	£16,660

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous year's claims.

Our testing of a sample of rent allowance claims identified six claims where the claimant's entitlement to benefit had been incorrectly calculated as a result of errors in the calculation of the claimant's income. Additional testing identified a further seven claims where benefit had been calculated incorrectly. The results of our testing were set out in a qualification letter to DWP. In our letter, we reported to DWP an extrapolated error of £75,712. Similar errors were identified in the previous year.

As a result of errors identified in the prior year, we undertook testing on the classification of overpayments made by the Authority in relation to rent allowances. This testing identified 2 cases where the overpayment had been classified incorrectly. Again, the results of our testing were set out in a qualification letter to DWP. In our letter, we reported to DWP an extrapolated error of £39,003.

2. 2015-16 certification fees

Public Sector Audit Appointments Ltd (PSAA) determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published by PSAA in March 2015 and are available on PSAA's website (www.psa.co.uk).

Claim or return	2015-16	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	8,844	8,844	16,660

3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016-17 is £12,495. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015-16. Indicative fees for 2016-17 housing benefit subsidy certification work are based on final 2014-15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:
<http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Chief Finance Officer before seeking any such variation.

PSAA is currently consulting on the 2017-18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018-19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

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Cherwell District Council

Accounts Audit and Risk Committee

22 March 2017

Internal Audit – Progress Report 2016/17, Internal Audit Plan 2017/18 and Internal Audit Charter

Report of the Chief Finance Officer

This report is public

Purpose of report

To receive PwC's progress report summarising their internal audit work to date. To approve the Strategic Internal Audit Plan 2017/18 to 2019/20, the Operational Internal Audit Plan for 2017/18 and the Internal Audit Charter.

1.0 Recommendations

The meeting is recommended to:

- 1.1 Note the contents of the 2016/17 progress report from PwC.
- 1.2 Approve the Strategic Internal Audit Plan for 2017/18 to 2019/20.
- 1.3 Approve the 2017/18 Operational Internal Audit Plan.
- 1.4 Approve the Internal Audit Charter.

2.0 Introduction

- 2.1 PwC provide the Council's Internal Audit Service for 2016/17 and undertake their work in line with their Audit Plan originally agreed in March 2016.
- 2.2 Following a review of the Council's procurement options for securing an Internal Audit Service for 2017/18 to 2019/20 a decision to collaborate with Kettering Borough Council and the Borough Council of Wellingborough was reached which has resulted in the direct award of the contract to CW Audit under the North of England Commercial Procurement Collaborative Framework (NoECPC). It is anticipated that this arrangement will result in an increase in the internal audit resource available to the Council together with a reduction in cost.

3.0 Report Details

- 3.1 The Internal Audit Service progress report for 2016/17 is presented at Appendix 1.
- 3.2 CW Audit have drafted the Internal Audit Strategic Plan for 2017/18 to 2019/20, the Operational Internal Audit Plan for 2017/18 and the Internal Audit Charter (all at Appendix 2). The Internal Audit Strategic and Operational Plans will be discussed and agreed with JMT.

4.0 Conclusion and Reasons for Recommendations

- 4.1 The progress report summarises the progress of internal audit's work for 2016/17.
- 4.2 The strategic Internal Audit Plan and the Operational Internal Audit plan are designed to ensure that the Council receives an independent and objective opinion on arrangements for risk management, internal control and governance.
- 4.3 The Internal Audit Charter is designed to ensure that the Council's Internal Audit Service complies with the Public Sector Internal Audit Standards.

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: No alternative options have been identified as the Council is required to have an internal audit service and an audit plan designed to provide an independent opinion on risk management, internal control and governance, however, members may wish to request further information from the Chief Internal Auditor.

7.0 Implications

Financial and Resource Implications

- 7.1 The cost of the Internal Audit Service is within the approved budget and there are no further financial implications arising directly from any outcome of this report.

Comments checked by:

Sanjay Sharma, Corporate Finance Manager, 01295 221564
sanjay.sharma@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, 0300 0030107

Kevin.Lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

7.3 There are no risk management issues arising directly from this report.

Comments checked by:

Louise Tustian, Senior Performance and Improvement Officer, 01295 221786

louise.tustian2@cherwellandsouthnorthants.gov.uk

Equality and Diversity

7.4 There are no equality and diversity issues arising directly from this report.

Comments checked by:

Caroline French, Corporate Policy Officer, 01295 221586

caroline.french@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	PwC Progress Report 2016/17 (to follow).
Appendix 2	Draft Strategic Internal Audit Plan 2017/18, Draft Operational Internal Audit Plan 2017/18, Draft Internal audit Charter.
Background Papers	
None	
Report Author	Paul Sutton, Chief Finance Officer
Contact Information	Paul.Sutton@Cherwellandsouthnorthants.gov.uk 0300 003 0106

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Cherwell District Council South Northamptonshire Council

Internal Audit Strategic Plan 2017/18 – 2019/20

February 2017

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cw audit
audit and assurance services

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3. The Team
4. Price
5. Conclusion

Appendix 1: Strategic Internal Audit Plan 2017/18 to 2019/20

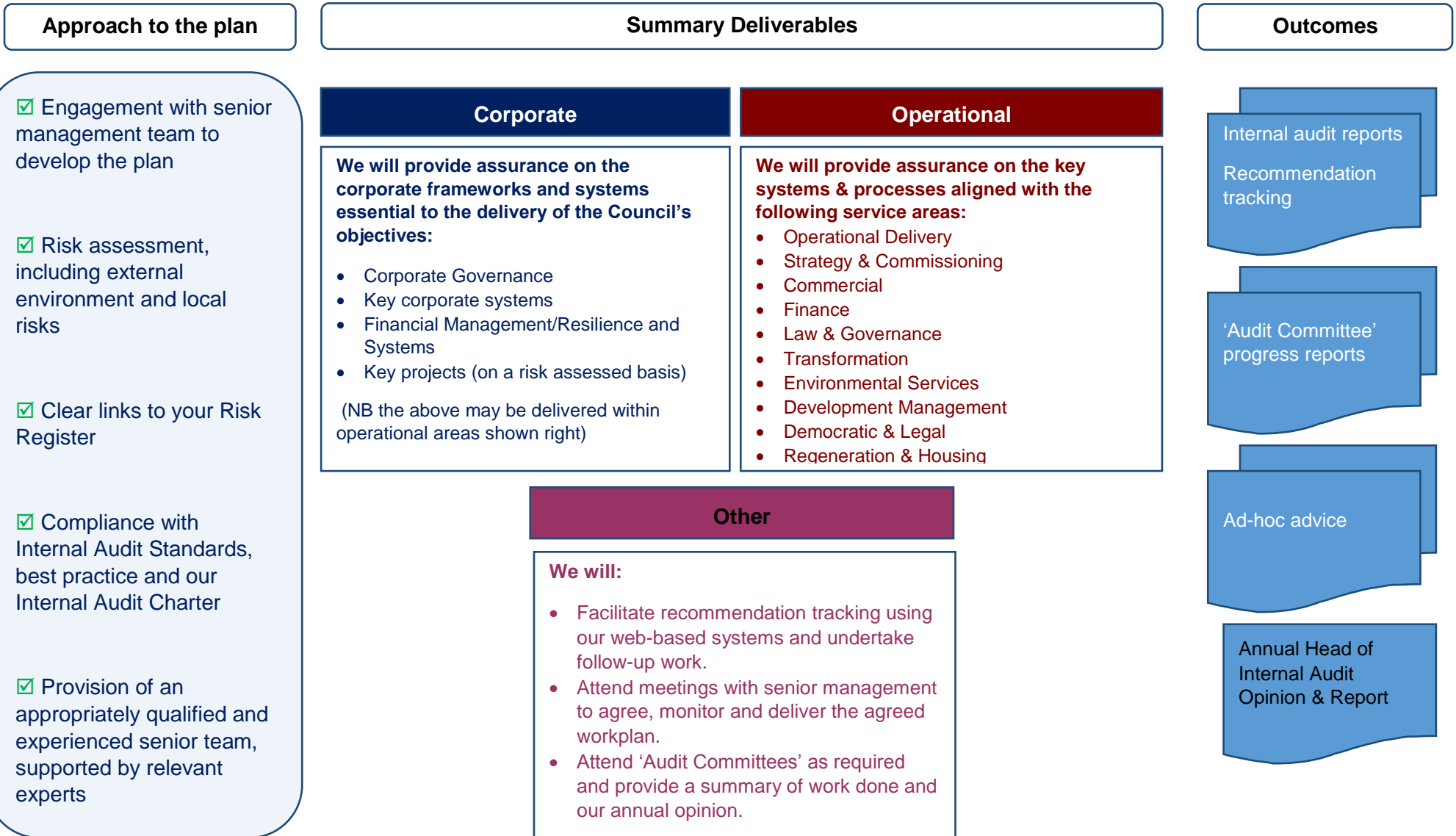
Appendix 2: Operational Internal Audit Plan 2017/18

Appendix 3: Internal Audit Charter

1. Your Plan on a Page

The diagram below summarises how the detailed plan will be developed and outlines the approach to be taken in 2017/18 to deliver the plan.

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2. Risk Assessment

The strategic plan for 2017/18 to 2019/20 has been prepared as follows:

- Review of risks recorded in the Strategic Risk Register reported to the December 2016 meeting of the Accounts, Audit and Risk Committee (CDC) and Audit Committee (SNC);
- Review of 2016/17 Business Plans and 5-year Business Strategies for each of the Councils.
- Assessment of any risk areas emanating from Internal Audit reviews conducted in the 2016/17 financial year reported to the relevant Committees.
- Assessment of external audit reports to the relevant Committees.
- Discussions with the Chief Finance Officer and Interim Group Accountant.

The strategic plan is attached at Appendix One. A more detailed operational plan for the 2017/18 year has also been developed following meetings with key officers of the two Councils to progress our risk assessment process, and is attached at Appendix Two.

We understand that the two Councils share a management structure and seek to operate shared systems/services in most areas. Accordingly we have prepared a plan across the two Councils based on an audit approach which can maximise efficiency where such shared structures/systems/services are largely in place. On this basis we have prepared a plan that provides for joint audits covering both Councils. The total number of days we have quoted is based on our experience of the coverage necessary for similar sized Councils in order to provide a balanced Head of Audit Opinion in accordance with Public Sector Internal Audit Standards (PSIAS) requirements. The synergy between the two Councils enables a significant saving in audit days compared to Councils without such shared systems/services.

The plan below sets out key areas of corporate governance/systems and financial assurance which we would expect to cover in the first year and indicatively in year two and three of a three-year strategic audit plan. It also refers to initial area(s) of operational assurance for the first year of the plan.

We expect our plans to be able to change given changing risks and assurance needs in any case and also to enable clearer reflection of the Councils' current and ongoing risks as our knowledge of the Councils develops.

3. The Team

Tim Ridout will act as your Chief Internal Auditor, reporting to Mark Watkins, Head of Internal Audit. Tim will lead the team, supported by a core team and relevant specialists as appropriate.

4. Price

The North of England Central Procurement Collaborative (NOECPC) Framework Agreement sets out a composite daily rate of £255 (+VAT), which remains fixed for the three year period of the contract. The agreement also allows for discounts for volume of business over certain pre-determined levels as follows:

No of Days	1-49	50-99	100-149	150-249	250-300
Discount%	0	0	0	1.5	2

Given the plan totals 272 days in year 1 (2017/18) for the two Councils together the cost of providing the Councils with a PSIAS compliant Internal Audit service will be £68860.20 plus VAT.

The cost for each Council will accordingly be £34430.10, plus VAT, per annum.

5. Conclusion

This internal audit plan has been designed to meet your requirements and fulfil the requirements of Internal Audit Standards. The draft plan for this Council is presented to the Committee for final consideration and approval.

Tim Ridout, Assistant Director of Internal Audit

Appendix One: Strategic Internal Audit Workplan 2017/18 - 2019/20

Area	Audit Assignment	2017/18	2018/19	2019/20
Corporate Governance & Systems	Information Governance/IT/Information Systems Risk Assessment	14		
	Information Governance/IT/Information Systems – audits arising from Risk Assessment (as required and agreed)		16	16
	Corporate Health & Safety		14	
	Business Continuity/Disaster Recovery (included in IT Transformation Programme)	12		
	Emergency Planning			12
	Programme/Project/Change Management (incl Transformation Programme)	14		
	Risk Management			12
	Procurement & Contract Management		14	
	Human Resources/Workforce Planning etc	14		
	Asset Management		12	
	Performance Management/Business Planning		12	
	Partnership working/shared services	14		
	Corporate Governance			16
	Project Assurance – provision to provide assurance and advice in relation to key projects (to be agreed on a risk assessed basis)	12	12	12

Area	Audit Assignment	2017/18	2018/19	2019/20
Financial Assurance	Medium Term Financial Planning/Financial Resilience/Savings & Income Maximisation	12		
	Budget management and reporting	12	12	12
	Capital Programme Management		14	
	Finance Systems* - High Level Controls	12		
	Payroll	12		
	New ledger system (Civica) – financial ledger, debtors, creditors	20		
	Finance Systems* – Rolling Audit Programme		30	30
	Income & Payment Systems** - High Level Controls	16		
	Income & Payment Systems** – Rolling Audit Programme		30	30
	Insurance			12
Anti-Fraud & Corruption			14	
Operational Assurance (reviews to provide topical assurance on key operational areas on a risk-assessed basis)	In Year 1 – Commercial Property management Future years – to be ascertained and presented in future years audit plans	16	14	14
Follow-Up	Follow-Up & Recommendation Tracking	12	12	12
Management & Advice	Contingency	24	24	24

Area	Audit Assignment	2017/18	2018/19	2019/20
	Audit Needs Assessment, Planning & Annual Report	10	10	10
	'Audit Committee'/External Audit/Senior Team meetings	16	16	16
	Contract Management & ad hoc advice	30	30	30
Total audit days for this Council		272	272	272

*, Treasury Management, Capital Accounting, IT Access Controls.

** Council Tax, Business Rates, Benefits, IT access controls.

Appendix Two: Operational Internal Audit Plan 2017/2018

Area	Rationale - Links to Strategic Risks	Work outline
CORPORATE GOVERNANCE & SYSTEMS		
Information Governance/IT/Information Systems Risk Assessment	Links to and will assure on risk C02 - ICT Loss of Systems, CO1 (Business Continuity) and CO5 (Managing Business Information)	A high level assessment of the risks in relation to the Council's Information Governance/IT/Information Systems, to highlight any areas for urgent action and to identify any areas requiring more detailed review.
Business Continuity/Disaster Recovery (included in IT Transformation Programme)	Links to and will assure on risk C02 - ICT Loss of Systems, CO1 (Business Continuity) and CO5 (Managing Data & Information), C15 (ICT Transformation & Transition)	Assessment and assurance on the Council's arrangements for business continuity and disaster recovery to support resilience of the Council's key services and functions.
Programme/Project/Change Management (incl Transformation Programme)	Relevant to a range of risks eg C15 (ICT Transformation & Transition)	Assessment and assurance on the arrangements for managing change programmes/projects, including the key Transformation Programme.
Human Resources/Workforce Planning etc	Relevant to a range of risks and will assure on matters key to the Council's strategic direction as set out right.	Assessment and assurance on the arrangements operated for identifying workforce needs and planning ahead to address these to support continuing organisational resilience and effectiveness.
Partnership working/shared services	Relevant to a range of risks and supports the strategic direction of the Council working through shared services.	Assessment and assurance on the arrangements for governing and performance managing partnership/shared services.
Project Assurance	Links to and will assure on various risks including Graven Hill (S14) and Build! (S17)	Provision to provide assurance and advice in relation to key projects (to be agreed on a risk assessed basis)
FINANCIAL ASSURANCE		

Area	Rationale - Links to Strategic Risks	Work outline
Medium Term Financial Planning/Financial Resilience/Savings & Income Maximisation	Links to and will assure on risk S02 Financial resilience. Arrangements underpin ongoing resilience of the Council.	Assessment and assurance on arrangements for medium term financial planning (including budget setting) to ensure ongoing financial resilience including planning for necessary savings and wherever possible maximising income.
Budget management and reporting	Links to and will assure on risk S02 Financial resilience. Arrangements underpin ongoing resilience of the Council.	Assessment and assurance on arrangements for managing and reporting on budgets (including identifying and addressing variances).
Finance Systems - High Level Controls	Links to and will assure on risk S02 Financial resilience. Arrangements underpin ongoing resilience of the Council.	Review of high level controls for key financial systems as defined by external audit (where not covered in other specific audits).
Payroll	Links to and will assure on risk S02 Financial resilience. Arrangements underpin ongoing resilience of the Council.	Review of arrangements for managing payroll to ensure these are suitably controlled, aiming to assure given planned/ongoing changes to the system.
New ledger system (Civica) – financial ledger, debtors, creditors	Links to and will assure on risk S02 Financial resilience. Arrangements underpin ongoing resilience of the Council.	Assessment and assurance on recently implemented Civica financials system
Income & Payment Systems - High Level Controls	Links to and will assure on risk S02 Financial resilience. Arrangements underpin ongoing resilience of the Council.	Review of high level controls for key income & payment systems as prescribed by external audit. (Council tax, business rates, and benefits payments.)

Area	Rationale - Links to Strategic Risks	Work outline
	Council and key to local populace.	
OPERATIONAL ASSURANCE		
Commercial Property management (Housing & Regeneration)	Links to and will assure on risk S02 Financial resilience and S19 (Asset Management)	Assessment and assurance of arrangements for management of commercial property eg Castle Quays and other income-generating assets, to assure on income collection, tenant management etc.

INTERNAL AUDIT CHARTER

The Internal Audit Charter set out below complies with the requirements of the Public Sector Internal Audit Standards:

1. DEFINITION

Internal Audit is an independent and objective appraisal service within the organisation:

- Internal Audit primarily provides an independent and objective opinion to the Accountable Officer (Chief Executive), the Board and the Audit Committee on the degree to which risk management, internal control and governance arrangements support the achievement of the organisation's agreed objectives. In addition, Internal Audit's findings and recommendations are beneficial to line management in the audited areas. Risk management, internal control and governance comprise the policies, procedures and operations established to ensure the achievement of objectives, the appropriate assessment of risk, the reliability of internal and external reporting and accountability processes, compliance with applicable laws and regulations, and compliance with the behavioural and ethical standards set for the organisation.
- Internal Audit also provides an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance arrangements. The service applies the professional skills of Internal Audit through a systematic and disciplined evaluation of the policies, procedures and operations that management have put in place to ensure the achievement of the organisation's objectives, and through recommendations for improvement. Such consultancy work contributes to the opinion, which Internal Audit provides on risk management, control and governance. Approval for any significant additional consulting services not already included in the audit plan will be sought from the Audit Committee prior to accepting the engagement.

2. STANDARDS AND ETHICS

Internal Audit acknowledges the mandatory nature of the Definition of Internal Audit, the Code of Ethics and the Standards contained in the Public Sector Internal Audit Standards. Internal Audit shall also work in accordance with any performance measures agreed with the Audit Committee.

3. INDEPENDENCE, OBJECTIVITY AND CONFLICTS OF INTEREST

All internal audit activities shall remain free of influence by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports.

Internal Auditors shall have no executive or direct operational responsibility or authority over any of the activities they review. Individual auditors will have an impartial, unbiased attitude, characterised by integrity and an objective approach to work, and should avoid conflicts of interest. Individual auditors must declare any conflict of interest to the Head of Internal Audit. Any conflicts of interest encountered by the Head of Internal Audit must be declared to the Director of Finance. Internal Auditors will have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

4. AUTHORITY and ACCOUNTABILITY

Internal Audit derives its authority from the Board, the Accountable Officer and Audit Committee. The Head of Internal Audit reports on a functional basis to the Board via the Audit Committee. For administrative purposes, the Head of Internal Audit reports to the Director of Finance. The Head of Internal Audit has a direct right of access to the Chair of the Audit Committee and the Chair of the organisation if deemed necessary. The Audit Committee shall have regular private meetings with the Head of Internal Audit. The Audit Committee approves all Internal Audit plans and may review any aspect of its work.

5. INTERNAL AUDIT TEAM

The Head of Internal Audit is responsible for ensuring the team is adequately staffed and that there is access to the full range of knowledge, skills, qualifications and experience to deliver the Internal Audit Plan in line with the Public Sector Internal Audit Standards. The team will undertake regular assessments of professional competence through an on-going appraisal and development programme (i.e. Personal Development Plans and Continuing Professional Development) with training provided where necessary. Auditors also have responsibilities for applying due professional care when performing their duties. The Head of Internal Audit must hold a professional qualification.

If the Head of Internal Audit, Chief Executive, Director of Finance or the Audit Committee consider that the level of Internal Audit resources or the terms of reference in any way limit the scope of Internal Audit, or prejudice the ability of Internal Audit to deliver a service consistent with the definition of internal auditing, they should advise the Board accordingly.

6. SCOPE

The Head of Internal Audit is responsible for developing and maintaining an Internal Audit Strategy for providing the Chief Executive, economically and efficiently, with objective evaluation of, and opinions on, the effectiveness of the organisation's risk management, control and governance

arrangements. The Head of Internal Audit's opinion is a key element of the framework of assurance the Chief Executive needs to inform the completion of the Annual Governance Statement. This strategy will be realised through the delivery of considered and approved annual plans. These will systematically review and evaluate risk management, control and governance which comprises the policies, procedures and operations in place to:

- Establish, and monitor the achievement of, the organisations objectives.
- Identify, assess and manage the risks to achieving the organisations objectives.
- Ensure the economical, effective and efficient use of resources.
- Ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations.
- Safeguard the organisation's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

Internal Audit's planning will embrace risk management, control and governance processes of the organisation including all its operations, resources, services and responsibilities for other bodies.

7. APPROACH

To ensure delivery of its objectives, Internal Audit will develop and implement an Audit Strategy. This will be prepared each year and will describe arrangements for the delivery of the internal audit service based upon knowledge of the organisation's objectives, risk assessment, and appropriate management consultation.

The allocation of resources between assurance and consultative work will be set out. A detailed Annual Operational Plan will be prepared designed to implement the audit strategy. The audit strategy and annual plans shall be prepared to support the audit opinion to the Accountable Officer on the risk management, internal control and governance arrangements within the organisation. Both the strategy and annual plans will be approved by the Audit Committee and reported to the Board.

8. REPORTING

Internal Audit will report formally to the Audit Committee through the following:

An annual report will be presented to confirm completion of the audit plan and will include the Head of Internal Audit opinion provided for the Accountable Officer that will support the Annual Governance Statement. The Head of Internal Audit opinion will:

- a) State the overall adequacy and effectiveness of the Trust's risk management, control and governance processes;
- b) Disclose any qualification to that opinion, together with the reasons for the qualification;
- c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
- d) Draw attention to any issues internal audit judge as being particularly relevant to the preparation of the Annual Governance Statement;
- e) Compare work actually undertaken with the work which was planned and summarise performance of the internal audit function against its performance measures criteria; and
- f) Comment where necessary on compliance with the Public Sector Internal Audit Standards and internal quality assurance arrangements.

For each Audit Committee meeting a progress report will be presented to summarise progress against the plan. The findings arising from individual audit reviews will be reported in accordance with Audit Committee requirements. The Audit Committee members will be provided with copies of individual audit reports for each assignment undertaken unless the Head of Internal Audit is advised otherwise. The reports will include an action plan with target dates for completion.

Following the closure of fieldwork, Internal Audit will discuss findings with operational/local managers. Operational/Local management will receive draft reports which will include the action plans they have agreed following the discussion of findings. A copy of the draft report will also be provided to the relevant Executive Director. The draft report will give an "assurance" opinion on the area reviewed. The draft report will also indicate action ratings for individual report findings and recommendations.

Operational management will be required to respond to the draft report, stating their agreement or otherwise to the content of the report, identifying action, staff with responsibility for implementation and the dates by which action will be taken. Final reports inclusive of management comments will be issued by Internal Audit to the relevant Executive Director within 5 working days of management responses being received. The final report will be placed on the agenda for the next available Audit Committee. Internal Audit will make provision to review the implementation of agreed action within the agreed timescales. However, where there are issues of particular concern provision maybe made for follow up review within the same financial year. Issue and clearance of follow up reports shall be as for other assignments referred to above.

9. IRREGULARITIES, FRAUD AND CORRUPTION

It is the responsibility of management to maintain systems that ensure organisation's resources are utilised in the manner and on activities intended. This includes the responsibility for the prevention and detection of fraud and other illegal acts. Internal Audit shall not be relied upon to detect fraud or other irregularities. However, Internal Audit will give due regard to the possibility of fraud and other irregularities in work undertaken. Additionally, Internal Audit shall seek to identify weaknesses in control that could permit fraud or irregularity. If Internal Audit discovers suspicion or evidence of fraud or irregularity, this will immediately be reported to the organisation's Counter Fraud team in accordance with the organisation's Counter Fraud Policy & Fraud Response Plan.

10. RELATIONSHIPS

In order to maximise its contribution to the Board's overall framework of assurance, Internal Audit will work closely with the organisation's Director of Finance in planning its work programme. Co-operative relationships with line management enhance the ability of internal audit to achieve its objectives effectively. Audit work will be planned in conjunction with management as far as possible, particularly in respect of the timing of audit work.

Internal Audit will meet regularly with the external auditor to consult on audit plans, discuss matters of mutual interest, discuss common understanding of audit techniques, method and terminology, and to see opportunities for co-operation in the conduct of audit work. In particular, internal audit make available their working files to the external auditor for them to place reliance upon the work of Internal Audit where appropriate

The Head of Internal Audit will establish a means to gain an overview of other assurance providers' approaches and output as part of the establishment of an integrated assurance framework. In addition the Head of Internal Audit shall make provision to form an opinion where key systems are being operated by organisation's outside of the remit of the Accountable Officer, or through a shared or joint arrangement.

11. ACCESS

Internal Audit shall have the authority to access all the organisation's information, documents, records including patient records where appropriate, assets, personnel and premises that it considers necessary to fulfil its role. This shall extend to the resources of the third parties that provide services on behalf of the organisation. All information obtained during the course of a review will be regarded as strictly confidential to the organisation and shall not be divulged to any third party without the prior permission of the Accountable Officer. However, open access shall be granted to the organisation's external auditors. In any instances of conflict this will be referred for resolution to the Director of Finance, Chief Executive or Chair of Audit Committee as appropriate.

12. QUALITY ASSURANCE

The work of internal audit is controlled at each level of operation to ensure that a continuously effective level of performance, compliant with the Public Sector Internal Audit Standards is being achieved. The Head of Internal Audit will establish a quality assurance programme designed to give assurance through internal and external review that the work of internal audit is compliant with the Public Sector Internal Audit Standards and to achieve its objectives. A commentary on compliance against the Standards will be provided in the annual audit report to Audit Committee.

13. APPROVAL, REVIEW AND INTERPRETATION OF THE CHARTER

This Internal Audit Charter shall be reviewed annually and approved by the Audit Committee*.

* The Public Sector Internal Audit Standards require the Charter to be approved by the Board, however, for the Public Sector the following definition of Board is provided: *Audit Committee – the governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting*

For the purposes of this plan the Director of Finance is the Chief Finance and Strategy Officer.

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Cherwell District Council

Accounts, Audit and Risk Committee

22 March 2017

Quarter Three Risk Review 2016-17
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Report of Director - Strategy and Commissioning

This report is public

Purpose of report

To update the Committee on the management of Strategic, Corporate and Partnership risks during the third quarter of 2016/17.

1.0 Recommendations

The meeting is recommended to:

- 1.1 Review the full Strategic, Corporate and Partnership Risk Register for 2016/17 and identify any issues for further consideration or referral to Executive.
- 1.2 Note the risk exceptions highlighted and proposed actions.









2.0 Introduction

- 2.1 The Council details its approach to managing risk in its Risk and Opportunities Management Strategy 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 Joint Management Team (JMT). This takes the form of reviewing the strategic risk register. Operational risks are reviewed at departmental level but can be escalated to the strategic risk register if required.

Whilst a formal review is undertaken annually to refresh the strategic risk register and identify any new or emerging risks or opportunities, risks may still be added at any point during the year.

- 2.3 Appendix 1 sets out the underlying principles which continue to be used for the management of risk
- 2.4 This is the third quarterly performance report provided on the Strategic Risk Register for 2016/17. Risk exceptions have been highlighted to provide a focus on those risks rated 16 or above (red risks requiring active management) and any changes to risk ratings that have occurred.

- 2.5 **The Risk and Opportunities Management Strategy** (which is a joint document for both Cherwell DC and South Northamptonshire DC) was reviewed and updated for 2016/17 to better reflect the Councils' risk appetite, attitude to risk and changes to the information management and data collection system that underpins the process. The Strategy was reviewed and agreed at the meeting on the 21st September.
- 2.6 This report focusses on risks specific to Cherwell DC and those that are shared and jointly managed with South Northamptonshire Council.
- 2.7 The following key applies to the remainder of the report and associated appendices.










Colour	Symbol	Meaning
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.
Amber		Contingency Plans A robust contingency plan may suffice together with early warning mechanisms to detect any deviation from the profile. Escalate upwards.
Green		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.
Grey		Not updated
		Risk has reduced since previous review
		Risk has increased since previous review
		Risk has not changed since last review
		Direction of Travel is not applicable as risk is new

3 Report Details

3.1 Summary

- 3.1.1 As at the end of Quarter Three, there is one risk rated red (active management), 30 risks are rated amber (contingency plans) and three are rated green (good housekeeping).
- 3.1.2 One risk, S18 Banbury Development, has been downgraded from red (active management) to amber (contingency plan). Impact has reduced from 4 to 3 and Probability has reduced from 4 to 2).

3.1.3 The table below shows the overall breakdown of risks by ratings for Cherwell DC; split by CDC specific and shared as well as the three risk categories (definitions explained in detail in Appendix 1).

Council	Strategic Risks			Corporate Risks			Partnership Risks		
									
CDC	-	8	-	1	1	-	-	2	1
Shared	-	7	-	-	12	1	-	-	1
TOTAL	0	15	-	1	13	1	-	2	2

3.2 The full risk register has been reviewed by the risk owners and members of JMT and an exception report created; this report focusses on those risks with a residual score of 16 or higher ('Red' risks that require active management), or have had a change in risk scores since the previous quarter.

3.3 Red risks requiring active management

Risk C02 – ICT Loss of Systems remains red (16) this quarter. The IT strategy has been approved by JCC but will not complete the full democratic process until 12th March. A Transformation programme will then be initiated to deliver required changes.

Discussions have commenced with the Emergency Planning Officer to understand business continuity requirements.

Once requirements are established the IT service can then analyse, provide options and implement suitable solutions.

3.4 **Change in risk scores:** One risk has been downgraded from red to amber and two risks have been downgraded from amber to green. Two risks have been escalated: one from green to amber and one has remained amber but with a higher risk rating.

- S18 – Banbury Development: Rating reduced from 16 to 6 (Impact reduced from 3 to 2, Probability reduced from 4 to 2) changing it from red to amber.
- P04 – South Midlands LEP : Rating reduced from 9 to 4 (Impact reduced from 3 to 2, Probability reduced from 3 to 2)
- P05 – Oxfordshire LEP Rating reduced from 9 to 4 (Impact reduced from 3 to 2, Probability reduced from 3 to 2)
- P01 – Police and Crime Commissioner : Rating escalated from 4 to 9 Impact increased from 2 to 3, Probability increased from 2 to 3)
- S21 – Oxfordshire Devolution Deal and Unitary Authority: Rating escalated from 10 to 15 (Probability increased from 2 to 3)

3.5 Two new risks have been identified and rated as amber: C17 – Cyber Security and C18 – Lack of Capacity at Management Level. Details can be found in Appendix 3 – Full risk register

4.0 Conclusion and Reasons for Recommendations

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

Option 1 To support the current approach and having considered the Strategic, Corporate and Partnership risks, report any concerns arising to the Executive.

Option 2 To reject the current approach and proposals and report any concerns arising to the Executive.

5.0 Consultation

5.1 Both CDC Accounts, Audit and Risk Committee and SNC Audit Committee have been consulted on the development of the Risk Strategy

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 reject the current approach and proposals and recommend an alternative approach to risk management. This option is not recommended as it departs from the Council's stated approach to risk management as set out in its Risk and Opportunities Management Strategy.

7.0 Implications

Financial and Resource Implications

7.1 There are no specific financial implications arising from this report.

Comments checked by Paul Sutton, Chief Finance Officer
Tel: 0300 0030 106 E-mail: Paul.Sutton@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 There are no specific legal implications arising from this report,

Comments checked by Kevin Lane, Head of Law and Governance,
Tel: 0300 0030 107 Email: kevin.lane@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected

All

Links to Corporate Plan and Policy Framework

All strategic priorities

Lead Councillor

Councillor Barry Wood
Leader of the Council

Document Information

Appendix No	Title
1	Risk Management: Underlying Principles
2	Exceptions – Red Risks
3	Full Risk Register
4	High Level Risk Summary
Background Papers	
None	
Report Author	Ed Bailey, Corporate Performance Manager
Contact Information	Edward.Bailey@cherwellandsouthnorthants.gov.uk 01295 221605

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Appendix 1 – Risk Management: Underlying Principles

The following principles continue to be used for the management of risk

- 1) **Core Risks:** 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).
- 2) **Residual/Net 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. It also shows the progression from the inherent risk that was identified when the risk was first identified.
- 3) **Types of Risk:** the Council distinguishes between types of risk and those defined as strategic, corporate or partnership are held on the Council's core strategic risk register. Operational risks are managed at the service and directorate level. Risks can move between the Strategic and Operational risk registers if it is felt a risk needs to be escalated or down-graded.

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.

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Appendix 2 Risk Exceptions - Residual = 16 or higher OR Rating change

Council	Ref.	Name	Description	Gross Impact	Gross Probability	Gross Risk		Current Impact	Current Probability	Residual Risk	Last updated	Change	Since	Previous rating		
CDC	C02	CDC - ICT Loss of Systems	Failure of ICT services including telephones and remote access. Leading to a negative impact on customers, loss of business continuity and cost to the council (in terms of resources and reputation.)	4	4	16	▲	4	4	16	▲	Dec-16	➡	Sep 16	16	▲
<p>Current Controls : BCP Plan Disaster recovery (DR) arrangements (CDC) Recovery site (CDC) Back up of systems Process and standards (compliance regime) Assurances : Formal auditing, IT Health check and benchmarking with best in private and public sector.</p> <p>Risk - Update The IT strategy has been approved by JCC and will complete the full democratic process on 12th March. A Transformation programme will then be initiated to deliver required changes.</p> <p>We have also commenced discussions with the Emergency Planning Officer who is engaging with business areas to understand business continuity requirements.</p> <p>Once requirements are established the IT service can then analyse, provide options and implement suitable solutions.</p>																
Shared	S21	Oxfordshire Devolution Deal and Unitary Authority (ODD&UA) - Stage 1 Options Appraisal Oxfordshire Devolution Deal and Unitary Authority (ODD&UA)	The Council fails to: grasp the opportunity for transformation/reform across all agencies to benefit the local area and deliver further efficiencies • ensure all stakeholders (internal and external) are engaged and understand options as they emerge • obtain and provide all relevant data to support options appraisal resulting in long term negative impact upon better outcomes for our area including quality of life for local residents, economic growth, financial sustainability and on the council's reputation itself.	5	3	15	●	5	3	15	●	Dec-16	➡	Sep 16	10	●
<p>Current Controls : • PwC appointed as independent consultants on behalf of all Oxfordshire Districts, plus West Oxfordshire and South Northamptonshire Councils. Lead Officer /S151 sign off of data. • Member with lead responsibility = Leader • Officer with lead responsibility = Head of Transformation • Regular meeting of Oxfordshire District Leaders and Chief Executives • District Councils Communications Group established • Communications and Information Sharing Protocol in place between the partners and county council • SNC Leader engaged as a key stakeholder • SNC has created a new portfolio for a member of Cabinet to be responsible for Devolution, Transformation and Change. • Phase 2 of the management review has been put on hold to minimise organisational disruption through change Assurances : • Project timeline • Regular meetings of Leaders and Chief Executives • Regular liaison with PwC team and Oxfordshire District Councils</p>																
CDC	P01	Police and Crime Commissioner (PCC) - Thames Valley	The Council fails to engage/influence the PCC/ PCP Doesn't add value to partnership work of the council PCC commissions projects that don't align with strategic objectives of the council. Loss/reduction of funding to Community Safety. Becomes isolated from PCC	3	3	09	●	3	3	09	●	Dec-16	➡	Sep 16	04	★

Appendix 2 Risk Exceptions - Residual = 16 or higher OR Rating change

Council	Ref.	Name	Description	Gross Impact	Gross Probability	Gross Risk	Current Impact	Current Probability	Residual Risk	Last updated	Change	Since	Previous rating
			leading to failure to achieve corporate objectives and loss of reputation										
Current Controls : Effective local Community Safety Partnership meetings Elected member representation at Police and Crime Panels (PCP) Elected Member representation at Oxfordshire Board (OSCP) arrangements. Elected Member representation at CSP Alignment with PCC Policing Plan Elected membership in accordance with agreed PCP Steering Group Policy Assurances : PCC subject to scrutiny by PCP. CDC chair of CSP sits on PCP.													
CDC	S18	Banbury Development	The sites are complex and in multiple ownership. There are conflicting development pressures and challenges with site viability	4	4	16	3	2	06	Dec-16		Sep 16	16
Current Controls : Regular meetings of the Project Board Adopted Asset management Strategy and review of Council car park sites Interdependencies map produced showing progress on all major development sites in Banbury Adopted local Plan leading to Completion of Banbury Masterplan and Canalside Supplementary Planning Document (SPD) Soft Market testing of sites to be concluded in February 2016 Assurances : Regular risk monitoring and review discussions by the project board													
Shared	P04	South Midlands LEP (SEMLEP)	The partnership doesn't add value to the work of the councils, undertakes projects that don't align with strategic objectives or the council is unable to influence the partnership's agenda.	4	4	16	2	2	04	Jan-17		Sep 16	09
Current Controls : Partnership Work Programme / Forward Plan, Resource provision for Partnership work, Senior management and Cabinet Member /Leadership Involvement Assurances : Reporting to Planning Policy and Regeneration Strategy Committee.													
CDC	P05	Oxfordshire LEP	The partnership doesn't add value to the work of the council, undertakes projects that don't align with strategic objectives or the council is unable to influence the partnership's agenda.	4	4	16	2	2	04	Jan-17		Sep 16	09
Current Controls : Partnership Work Programme / Forward Plan, Resource provision for Partnership work, Senior management and Member Involvement Assurances : Portfolio briefing Growth Board Regular liaison meetings with OLEP Revised SEP agreed by Executive following substantive input from CDC.													

Strategic Risks

Council	Ref.	Name	Description	Gross Impact	Gross Probability	Gross Risk		Current Impact	Current Probability	Residual Risk		Last updated	Change	Since	Previous	rating
Shared	S01	Policy and legislative change	The councils fail to adequately respond to the implications of changing national policy resulting in loss of opportunity, reputational damage or legal challenge	5	4	20	▲	4	3	12	●	Dec-16	➡	Sep 16	12	●
<p>Current Controls : JMT forward plan, Executive and Cabinet Forward plans, Scrutiny Committees. Business and Service Planning. Business Planning meetings to brief Executive and Cabinet. Highly professional, competent, qualified staff Good networks established locally, regionally and nationally National guidance interpreting legislation available and used regularly Members aware and are briefed regularly including lead members/portfolio holders in one to one's with JMT members. JMT undertake policy oversight role. Quarterly Health & Safety reporting. Assurances : No legal challenge has been made to any decision by either Council alleging misapplication of the law</p>																
Shared	S02	Financial resilience	The impact of external financial shocks, new policy and increased service demand reduces the councils medium and long term financial viability	4	4	16	▲	3	4	12	●	Jan-17	➡	Sep 16	12	●
<p>Current Controls : Highly professional, competent, qualified staff Good networks established locally, regionally and nationally National guidance interpreting legislation available and used regularly Members aware and are briefed regularly Participate in Northamptonshire Finance Officers and Oxfordshire Treasurers' Association's work streams Programme management approach being taken Assurances : Budget and Financial Strategy Committee (SNC) Budget Planning Committee (CDC) Executive, Cabinet, Audit Committee and Accounts, Audit and Risk Committee, Scrutiny Committees</p>																
Shared	S03	Capital investment	Poor investment and asset management results in the councils not maximising financial return or losing income.	4	3	12	●	3	2	06	●	Jan-17	➡	Sep 16	06	●
<p>Current Controls : Treasury management policies in place Investment strategies in place Regular financial and performance monitoring in place Independent third party advisers in place and different ones used at each Council Regular bulletins and advice received from advisers Fund managers in place Property portfolio income monitored through financial management arrangements on a regular basis Experienced professionally qualified staff employed at both Councils. Asset Management review and conclusions expected to be reported at both Councils by the end of the year. Assurances : Budget and Financial Strategy Committee (SNC) Budget Planning Committee (CDC) Executive, Cabinet, Audit Committee and Accounts, Audit and Risk Committee, Scrutiny Committees</p>																
Shared	S07	Customer Service Improvement (including channel shift)	Failure to increase internet usage or self service and improve customer service processes results in higher costs and decreased customer satisfaction	3	4	12	●	3	3	09	●	Jan-17	➡	Sep 16	09	●
<p>Current Controls : CDC – customer service standards in place (e.g. voicemail) Web – both councils redesign undertaken and on-going development is undertaken – this includes online forms and payment Managers discuss service changes with customer services to mitigate any negative impact on customer service On-going review of the web (SNC you said we did page – noting actions taken from customer feedback) Customer communications in local / residents newsletters Customer complaints process JMT highlight service changes to customer service teams to ensure web/service team can deliver, project also part of the transformation programme with associated governance. Results of CDC Customer Satisfaction Survey presented to Executive October 2015 and was well received. The Key Services to be Maintained summary instrumental in Business and Service Planning processes. A similar Survey is being prepared for SNC and will go live June/July 2016. Assurances : Project governance, performance management reporting, customer insight reporting.</p>																

Strategic Risks

Council	Ref.	Name	Description	Gross Impact	Gross Probability	Gross Risk		Current Impact	Current Probability	Residual Risk	Last updated	Change	Since	Previous	rating	
CDC	S10	Deprivation and Health Inequalities (Brighter Futures in Banbury)	Failure to deliver the Brighter Futures in Banbury programme results in long term health and deprivation objectives not being met	4	3	12	●	3	2	06	●	Dec-16	➡	Sep 16	06	●
<p>Current Controls : Long term commitment to support local people and communities as many issues can only be addressed on this basis. Multi agency actions with clear and common objectives. Additional funding from Government grants to supplement current resources. Local Strategic Partnership focus on Brighter Futures in Banbury programme. Contingency fund made available in CDC budget. Programme co-ordination role in place. Quarterly performance management in place.</p> <p>Assurances : Project governance Local Strategic Partnership (LSP) oversight, Quarterly reporting Annual Report</p>																
CDC	S11	CDC Local Plan	Failure to ensure sound local plan is submitted results in inappropriate growth in inappropriate places. This leads to negative (or failure to optimise) economic, social, community and environmental gain. There is also potential negative impact on the council's ability to deliver its strategic objectives and manage its reputation.	5	4	20	▲	3	3	09	●	Jan-17	➡	Sep 16	09	●
<p>Current Controls : A Local Development Scheme is in place which details the timeframes and deliverables to underpin the work. Resources are in place to support delivery including QC support</p> <p>Assurances : Consideration by Portfolio Holder, Executive and Full Council. The regulated Stages for plan preparation are set out in the published Local Development Scheme.</p>																
CDC	S12	North West Bicester (Eco-town)	Failure to deliver the project results in loss of economic benefit, local dissatisfaction and reputational damage to the council	4	4	16	▲	3	3	09	●	Dec-16	➡	Sep 16	09	●
<p>Current Controls : Planning policy development through Local Plan Eco Town Project plan & related partnerships Working with private & public sector partners Programme Board in place Lead Member in place</p> <p>Assurances : Programme Governance Performance Management</p>																
CDC	S13	Bicester town centre development	Failure to deliver the project results in loss of economic benefit, local dissatisfaction and reputational damage to the council	4	3	12	●	3	3	09	●	Dec-16	➡	Sep 16	09	●
<p>Current Controls : Project manager in lead role Project Board Legal agreements in place Joint venture with the developer (underpinned by legal agreements) Monthly performance / projects reports Resources and technical advice provided as part of the developer agreement</p> <p>Assurances : Project Governance</p>																
			Failure to deliver the													

Strategic Risks

Council	Ref.	Name	Description	Gross Impact	Gross Probability	Gross Risk		Current Impact	Current Probability	Residual Risk		Last updated	Change	Since	Previous	rating
CDC	S14	Graven Hill	project results in severe loss of economic benefit, local dissatisfaction and damage to reputation	4	3	12	●	3	3	09	●	Dec-16	➡	Sep 16	09	●
Current Controls : Project Manager Project Board Companies set up Business Plan and Finance Plan being monitored Assurances : Project Governance																
Shared	S16	Transformation Programme	Failure to deliver the programme results in failure to: <ul style="list-style-type: none"> • deliver savings • deliver the councils' commercial objectives • reputation damage • improve services and deliver efficiencies 	4	4	16	▲	3	3	09	●	Dec-16	➡	Sep 16	09	●
Current Controls : Current: Programme plan in place Performance Management Member Governance CEO programme sponsor Dedicated programme team Future: All major proposals will be underpinned by business cases Assurances : Annual Audit Quarterly performance management Monthly member oversight																
CDC	S17	Build Development Programme	Failure to deliver the Build! Programme resulting in financial loss, loss of economic benefit, local dissatisfaction and damage to the Council's reputation.	5	3	15	●	4	3	12	●	Jan-17	➡	Jun 16	12	●
Current Controls : • Delivery Manager and Project Board • Legal Agreements in place for land acquisitions and contracts with consultants and contractors • Monthly project/performance reports • Business Plan and Financial Plan monitoring • Professional Construction Management • Effective Communications Management • Catastrophic would be a serious (fatal) health and safety incident which is always possible in a construction project but mitigated by sound Health & Safety procedures and Construction, Design & Management measures. • Financial risks are major given the level of investment but mitigated by budget management and professional construction management • Overall reputational risk is major given the profile of this project locally and nationally but managed by communications and strong project management. Assurances : • Programme Governance • Information Management System (IMS) with the HCA • HCA Programme Audit (annually) • HCA Design and Quality Audit • Considerate constructor scheme • Fortnightly Project Boards; weekly project reviews																
CDC	S18	Banbury Development	The sites are complex and in multiple ownership. There are conflicting development pressures and challenges with site viability	4	4	16	▲	3	2	06	●	Dec-16	➡	Sep 16	16	▲
Current Controls : Regular meetings of the Project Board Adopted Asset management Strategy and review of Council car park sites Interdependencies map produced showing progress on all major development sites in Banbury Adopted local Plan leading to Completion of Banbury Masterplan and Canalside Supplementary Planning Document (SPD) Soft Market testing of sites to be concluded in February 2016 Assurances : Regular risk monitoring and review discussions by the project board																
CDC	S19	Asset Management	Failure to maximise the value of council assets through inaction, or wrong action leading to devaluation or wasted value.	4	4	16	▲	4	2	08	●	Jan-17	➡	Sep 16	08	●

Strategic Risks

Council Ref. Name Description Gross Impact Gross Probability Gross Risk Current Impact Current Probability Residual Risk Last updated Change Since Previous rating

Current Controls : In 2015/16 to agree and implement 1) Asset Strategy Resource Plan 2) Operational Offices Plan 3) Car Parks Plan 4) Community Buildings Plan 5) Local Centres Plan
 Future Controls:- In 2016/17 to agree and implement 1) Data and Systems Plan 2) Operational Depot Plan 3) Leisure Buildings Plan 4) Commercial Investment Plan
 Assurances : At the current time an Accommodation Asset Strategy Board provides a forum for debate and discussion about property matters. The Board comprises the Lead Members for Finance and Estates/Economy. The officer support is made up of representatives of Estates, Regeneration, Housing, Finance, and Bicester. The role and responsibilities of the Board will be clarified having regard to the actions and priorities arising out of the Asset Strategy.

Shared	S20	Dry Recycling Contract	Failure to renegotiate/extend Dry Recycling Contract due February 2015. Current suppliers, UPM were asked to extend Contract for a further three years but are trying to get out of an extension due to financial losses.													
			Failure to legally enforce contract extension option or renegotiate contract could lead to the need for short term arrangements or re-tender of the contract. Commodity prices are falling - with reduced oil prices plastic recycling prices will fall. Paper prices already fallen due to falling newspaper. Financial risk of reduced income. Service risk if outlet for recycling not secured.	4	4	16		4	3	12		Jan-17		Jun 16	12	

Current Controls : Legal, Procurement & financial advice
 Assurances :

Shared	S21	Oxfordshire Devolution Deal and Unitary Authority (ODD&UA) - Stage 1 Options Appraisal Oxfordshire Devolution Deal and Unitary	The Council fails to: grasp the opportunity for transformation/reform across all agencies to benefit the local area and deliver further efficiencies													
			<ul style="list-style-type: none"> ensure all stakeholders (internal and external) are engaged and understand options as they emerge obtain and provide all relevant data to support options appraisal resulting in long term 	5	3	15		5	3	15		Dec-16		Sep 16	10	

Strategic Risks

Council	Ref.	Name	Description	Gross Impact	Gross Probability	Gross Risk		Current Impact	Current Probability	Residual Risk	Last updated	Change	Since	Previous	rating
		Authority (ODD&UA)	negative impact upon better outcomes for our area including quality of life for local residents, economic growth, financial sustainability and on the council's reputation itself.												

Current Controls : • PwC appointed as independent consultants on behalf of all Oxfordshire Districts, plus West Oxfordshire and South Northamptonshire Councils. Lead Officer /S151 sign off of data. • Member with lead responsibility = Leader • Officer with lead responsibility = Head of Transformation • Regular meeting of Oxfordshire District Leaders and Chief Executives • District Councils Communications Group established • Communications and Information Sharing Protocol in place between the partners and county council • SNC Leader engaged as a key stakeholder • SNC has created a new portfolio for a member of Cabinet to be responsible for Devolution, Transformation and Change. • Phase 2 of the management review has been put on hold to minimise organisational disruption through change

Assurances : • Project timeline • Regular meetings of Leaders and Chief Executives • Regular liaison with PwC team and Oxfordshire District Councils

Corporate Risks

Council	Ref.	Name	Description	Gross Impact	Gross Probability	Gross Risk		Current Impact	Current Probability	Residual Risk		Last updated	Change	Since	Previous	rating
Shared	C01	Business Continuity	Plans are not in place and assumptions are made about the Disaster Recovery (DR) arrangements in the event of a Business Critical (BC) incident, leading to failure to ensure services can be delivered in the event of a issue resulting is service failure and reputational damage	5	4	20	▲	3	4	12	●	Dec-16	➡	Sep 16	12	●
Current Controls : Business continuity strategy in place All services prioritised and recover plans reflect the requirements of critical services ICT disaster recovery arrangements in place Joint Management Team lead identified Incident management team identified All services undertake annual business impact assessments Assurances : There is a systematic project in place focusing on critical services to ensure that absolute requirements can be met; planned testing to be arranged. Audit and business continuity plan refresh Quarter 4																
CDC	Page 74 C02	CDC - ICT Loss of Systems	Failure of ICT services including telephones and remote access. Leading to a negative impact on customers, loss of business continuity and cost to the council (in terms of resources and reputation.)	4	4	16	▲	4	4	16	▲	Dec-16	➡	Sep 16	16	▲
Current Controls : BCP Plan Disaster recovery (DR) arrangements (CDC) Recovery site (CDC) Back up of systems Process and standards (compliance regime) Assurances : Formal auditing, IT Health check and benchmarking with best in private and public sector.																
Shared	C04	Corporate Fraud	Lack of corporate governance and control results in fraud from either within or outside the councils heightened by the transfer of staff to the Single Fraud Investigation Service (SFIS) from February 2015.	4	4	16	▲	3	2	06	●	Dec-16	➡	Sep 16	06	●
Current Controls : Professionally qualified finance staff. Communication of anti-fraud messages. Specific corporate fraud resource within the Councils. Fraud risk assessments carried out periodically. Audit Committee at SNC. Accounts, Audit and Risk Committee at CDC Benefit fraud campaigns advertised. Benefit fraud identification and convictions communicated to the local press. Internal controls processes and procedures (segregation of duties, checking of information etc.) Periodic checking of data (single person discounts, Audit Commission data matching etc.) Membership of National Anti Fraud Network. Role of S151 and monitoring officers. Fraud detection & prevention corporate policies in place such as Whistle Blowing and Anti-fraud & Corruption Policy. Standard agenda items on Accounts, Audit and Risk Committee and Audit Committee. Use of internal and external audit as part of planned programme and on an ad-hoc basis as required. Assurances :																
Shared	C05	Managing Data and Information	Poor data quality or lack of relevant information results in poor decision making	4	4	16	▲	2	3	06	●	Dec-16	➡	Sep 16	06	●
Current Controls : Audit and data quality health checks Annual target setting process Annual PMF review Data quality policies in place Quarterly performance reporting Monthly tracking of																










Corporate Risks

Council	Ref.	Name	Description	Gross Impact	Gross Probability	Gross Risk		Current Impact	Current Probability	Residual Risk	Last updated	Change	Since	Previous	rating	
key measures Assurances : Audit, data quality checks as part of performance management framework. More regular performance reporting with more time for Performance and Insight team to review data and act as a 'critical friend'																
Shared	C06	Member Decision Making	That members do not have access to information and support to make effective decisions	4	4	16	▲	4	3	12	●	Dec-16	➡	Sep 16	12	●
Current Controls : Attendance of professionally qualified and experienced officers at all Member decision taking meetings. Business Planning meetings at Executive and Cabinet. Council Constitutions. Member Development Programmes. Legislative requirements. Call in processes. Sign off of Council/Executive/Cabinet/Committee reports by JMT member Assurances : No decision has been made by either Council which is inconsistent with the policy framework or legal requirements																
Shared	C08	Safeguarding Children	Failure to follow our policies and procedures in relation to safeguarding children or raising concerns about children and young people welfare	5	4	20	▲	5	1	05	★	Dec-16	➡	Sep 16	05	★
Current Controls : Safeguarding lead in place and clear lines of responsibility established. Safeguarding Policy and procedures in place Information on the intranet on how to escalate a concern Staff training - at SNC this is being rolled out using new NCC e-training module. Safer recruitment practices and DBS checks for staff with direct contact Action plan developed by CSE Prevention group as part of the Community Safety Partnership Local Safeguarding Children's Board Northamptonshire (LSCBN) pathways and thresholds Data sharing agreement with other Partners Attendance at Children and Young People Partnership Board (CYPPB) Annual Section 11 return complied for each council Assurances : Safeguarding champions to promote the welfare of children and be a point of contact for cascading information. Annual Audit of activity JMT and LSP also have specific actions and/ meeting times JATAC (Joint Agency Tactical and Co-Ordination Meeting) at CDC where issues of CSE are currently discussed with partner agencies.																
Shared	C09	Safeguarding	Failure to:- identify safeguarding concerns and issues; use agreed protocols for escalating safeguarding concerns; use diverse community intelligence to best effect internally and externally.	4	4	16	▲	4	2	08	●	Dec-16	➡	Sep 16	08	●
Current Controls : Engagement with Joint Agency Tasking and Co-ordinating Group (JATAC) and relevant Oxfordshire County Council (OCC) safeguarding sub group. Engagement at an operational and tactical level with relevant external agencies and networks Assurances : The established "See It Report It" process has controls and monitoring arrangements for different levels in the organisation for assurance purposes																
Shared	C10	Communications	Failures to manage internal and external communications results in reputational damage to the council or reduced performance/staff morale	4	4	16	▲	3	3	09	●	Dec-16	➡	Sep 16	09	●
Current Controls : Centralised press office function Members attributed and sign of press releases Communications strategy in place Members media training Social Media Policy Specific communications plans in place for major projects Assurances : SNC Members communications panel SNC Portfolio Holder for communications CDC member lead for communications Quarterly performance reporting CDC annual satisfaction survey includes comprehensive communications section																
			Failure to comply with													

Corporate Risks

Council	Ref.	Name	Description	Gross Impact	Gross Probability	Gross Risk		Current Impact	Current Probability	Residual Risk		Last updated	Change	Since	Previous	rating
Shared	C11	Equalities	equalities legislation results in legal challenge, costs and reputation damage	4	4	16	▲	4	3	12	●	Dec-16	➡	Sep 16	12	●
Current Controls : Rolling programme of equality assessments Equality policy and corporate plan in place Equalities requirements to be identified in service plans Equalities training available for staff and members Equalities awareness programme "Knowing our Communities" at both CDC and SNC Discrimination Complaints Monitoring. Assurances : Annual update to Cabinet and Executive. Quarterly performance reporting. EIA rolling programme and action plan. Virtual steering group to co-ordinate work.																
Shared	C12	Health and safety	Failure to comply with health and safety legislation leads to injury, sickness, absence and litigation against the council	5	4	20	▲	5	2	10	●	Dec-16	➡	Sep 16	10	●
Current Controls : Both Councils have shared policies, procedures, and arrangements in place to mitigate the risks of accidents to staff, members of the public and contractors that may be affected by the Councils actions Assurances : BS OHSAS 18001 Occupational Health and Safety Standard, and ISO 14001 Environmental Standard.																
CDC	C13	Emergency Planning (EP)	That plans are not in place to ensure the Council responds effectively in the event of a civil emergency and local residents are not supported. This could result in casualties, unnecessary hardship, impact on the local environment, costs and reputation.	4	3	12	●	4	2	08	●	Dec-16	➡	Sep 16	08	●
Current Controls : Emergency plan reviewed quarterly and on activation. Team established to monitor and ensure all elements are covered. Added resilience from cover between CDC and SNC Assurances : Oxfordshire County Council (OCC) EP Division have accepted our EP as being sufficient and suitable. OCC have also led on desk top studies of implementation.																
Shared	C15	ICT Transformation and Transition	Failure to deliver the IT transition project programme results in failure to: <ul style="list-style-type: none"> • deliver savings through IT harmonisation • deliver the councils' wider strategic and commercial objectives • reputation damage • improve services and deliver efficiencies • deliver the channel shift programme and enhance customer access • Manage business continuity 	4	4	16	▲	3	3	09	●	Dec-16	➡	Sep 16	09	●
Current Controls : Current: Project plan in place Performance Management Member Governance Director as sponsor Dedicated project team and additional resource Future: New IT strategy and work plan to be developed Assurances : Audit Quarterly performance management Monthly member oversight																

Corporate Risks

Council	Ref.	Name	Description	Gross Impact	Gross Probability	Gross Risk		Current Impact	Current Probability	Residual Risk	Last updated	Change	Since	Previous	rating
Shared	C16	Inability to download new voter registrations	Cabinet Office are moving their online system to a more powerful and robust server. When the initial setup of this system took place in June 2014, connectivity tests passed ok in the dry runs. However when went live connectivity was lost and took 5 days to re-instate.	4	3	12		3	3	09	Dec-16		Sep 16	09	
Current Controls : Testing of connectivity has taken place and been successful. Feedback to Cabinet Office has been given. Larger server at Cabinet Office so repeat of 2014 is unlikely. Assurances : Third party assurances from Cabinet Office															
Shared	C17	Cyber Security	If cyber security is not managed appropriately across both councils then there is a risk to data security and breaches can result in six-figure sum fines, considerable disruption and the obvious loss of reputation.	4	4	16		4	3	12	Dec-16		Sep 16	12	
Current Controls : Patching policy implemented Network security in place User education (planning stage) Assurances : The IT service will be reviewing processes and approach as part of the IT strategy and Transformation programme. Needs to be embedded at all levels in the Council.															
Shared	C18	Lack of Capacity at Management Level	Delays to completing the management restructure, including filling the role of Commercial Director, may lead to missed opportunities and delays in commercialising Council Services, could reduce income potential and reduce resilience, could create instability in transformational strategic leadership and could lead to the delay of delivery of other Council strategic priorities.	4	4	16		3	3	09	Dec-16		>>		
Current Controls : Interim and act up arrangements in place to cover the role of Commercial director to ensure the Council's commercial delivery programme continues according to schedule, with appropriate backfilling of roles to ensure no loss of essential service within council functions. All other management positions are currently filled and delivering towards strategic priorities. Scrutiny of performance remains in place and resilience of management team tested regularly Assurances :															

Partnership Risks

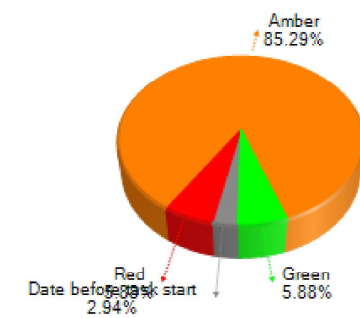
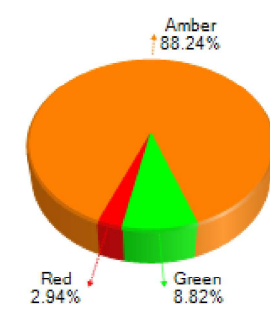
Council	Ref.	Name	Description	Gross Impact	Gross Probability	Gross Risk		Current Impact	Current Probability	Residual Risk		Last updated	Change	Since	Previous	rating
CDC	P01	Police and Crime Commissioner (PCC) - Thames Valley	The Council fails to engage/influence the PCC/PCP Doesn't add value to partnership work of the council PCC commissions projects that don't align with strategic objectives of the council. Loss/reduction of funding to Community Safety. Becomes isolated from PCC leading to failure to achieve corporate objectives and loss of reputation	3	3	09		3	3	09		Dec-16		Sep 16	04	
Current Controls : Effective local Community Safety Partnership meetings Elected member representation at Police and Crime Panels (PCP) Elected Member representation at Oxfordshire Board (OSCP) arrangements. Elected Member representation at CSP Alignment with PCC Policing Plan Elected membership in accordance with agreed PCP Steering Group Policy Assurances : PCC subject to scrutiny by PCP. CDC chair of CSP sits on PCP.																
Share	P04	South Midlands LEP (SEMLEP)	The partnership doesn't add value to the work of the councils, undertakes projects that don't align with strategic objectives or the council is unable to influence the partnership's agenda.	4	4	16		2	2	04		Jan-17		Sep 16	09	
Current Controls : Partnership Work Programme / Forward Plan, Resource provision for Partnership work, Senior management and Cabinet Member /Leadership Involvement Assurances : Reporting to Planning Policy and Regeneration Strategy Committee.																
CDC	P05	Oxfordshire LEP	The partnership doesn't add value to the work of the council, undertakes projects that don't align with strategic objectives or the council is unable to influence the partnership's agenda.	4	4	16		2	2	04		Jan-17		Sep 16	09	
Current Controls : Partnership Work Programme / Forward Plan, Resource provision for Partnership work, Senior management and Member Involvement Assurances : Portfolio briefing Growth Board Regular liaison meetings with OLEP Revised SEP agreed by Executive following substantive input from CDC.																
CDC	P07	Safeguarding in Partnership with OCC (CDC)	Failure of the new partnership arrangements results in Cherwell District Council not being able to meet its safe and healthy objectives.	3	4	12		3	3	09		Dec-16		Sep 16	09	

Current Controls : Engagement with County Council structures Oxfordshire has a clear structure and acknowledges the need for the District Council's direct contribution. Financial constraints

Partnership Risks

Council	Ref.	Name	Description	Gross Impact	Gross Probability	Gross Risk		Current Impact	Current Probability	Residual Risk	Last updated	Change	Since	Previous rating	
to the delivery of the Health & Wellbeing Board action plan															
Assurances : Spending in localities is determined by the Board. There is limited opportunity for Districts to directly influence.															

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Council	Click on risk to see controls and assurances to the left	Last Quarter Sep 16	Rating	Latest update	from	Rating	Change	Risk rating last changed	Count																																																		
CDC	C02 - CDC - ICT Loss of systems	16	▲	16	Dec 16	▲	➡	Sep 16	<table border="1"> <thead> <tr> <th colspan="5">Summaries</th> </tr> <tr> <th colspan="5">Last Quarter</th> </tr> <tr> <td>▲</td> <td>●</td> <td>★</td> <td>▶</td> <td>Total</td> </tr> </thead> <tbody> <tr> <td>2</td> <td>29</td> <td>2</td> <td>1</td> <td>34</td> </tr> </tbody> </table>  <table border="1"> <thead> <tr> <th colspan="5">Change</th> </tr> <tr> <td>▲</td> <td>➡</td> <td>▼</td> <td>▶</td> <td>Total</td> </tr> </thead> <tbody> <tr> <td>2</td> <td>30</td> <td>1</td> <td>1</td> <td>34</td> </tr> <tr> <th colspan="5">This Quarter</th> </tr> <tr> <td>▲</td> <td>●</td> <td>★</td> <td></td> <td>Total</td> </tr> <tr> <td>1</td> <td>30</td> <td>3</td> <td></td> <td>34</td> </tr> </tbody> </table> 	Summaries					Last Quarter					▲	●	★	▶	Total	2	29	2	1	34	Change					▲	➡	▼	▶	Total	2	30	1	1	34	This Quarter					▲	●	★		Total	1	30	3		34
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Shared	S21 - Oxfordshire Devolution Deal and Unitary Authority (ODD&UA)	10	●	15	Dec 16	●	➡	Dec 16																																																			
Shared	S01 - Common - Policy and legislative change	12	●	12	Dec 16	●	➡																																																				
Shared	C01 - Common - Business Continuity	12	●	12	Dec 16	●	➡																																																				
Shared	C17 - Cyber Security	12	●	12	Dec 16	●	➡																																																				
Shared	S20 - Common - Dry Recycling Contract	12	●	12	Jan 17	●	➡																																																				
CDC	S17 - CDC - Build! @ Development Programme	12	●	12	Jan 17	●	➡																																																				
Shared	S02 - Common - Financial resilience	12	●	12	Jan 17	●	➡																																																				
Shared	C11 - Common - Equalities	12	●	12	Dec 16	●	➡	Mar 16																																																			
Shared	C06 - Common - Member Decision Making	12	●	12	Dec 16	●	➡																																																				
Shared	C12 - Common - Health and Safety	10	●	10	Dec 16	●	➡																																																				
CDC	S11 - CDC - CDC Local Plan	09	●	09	Jan 17	●	➡	Jun 16																																																			
Shared	S07 - Common - Customer Service Improvement (including channel shift)	09	●	09	Jan 17	●	➡																																																				
CDC	P07 - CDC - Safeguarding in Partnership with OCC	09	●	09	Dec 16	●	➡	Dec 16																																																			
CDC	S14 - CDC - Graven Hill	09	●	09	Dec 16	●	➡																																																				
Shared	S16 - Transformation Programme	09	●	09	Dec 16	●	➡																																																				
CDC	S12 - CDC - North West Bicester (Eco-Town)	09	●	09	Dec 16	●	➡																																																				
CDC	S13 - CDC - Bicester Town Centre Development	09	●	09	Dec 16	●	➡																																																				
Shared	C15 - ICT Transformation and Transition	09	●	09	Dec 16	●	➡																																																				
Shared	C16 - Common - Inability to download new voter registrations	09	●	09	Dec 16	●	➡																																																				
Shared	C10 - Common - Communications	09	●	09	Dec 16	●	➡																																																				
Shared	C18 - Shared - Lack of Capacity at Management Level		▶	09	Dec 16	●	▶																																																				
CDC	P01 - CDC - Police and Crime Commissioner (PCC) (Thames Valley)	04	★	09	Dec 16	●	➡	Dec 16																																																			
CDC	C13 - Common - Emergency Planning (EP)	08	●	08	Dec 16	●	➡	Mar 16																																																			
CDC	S19 - CDC - Asset Management	08	●	08	Jan 17	●	➡																																																				
Shared	C09 - Common - Safeguarding	08	●	08	Dec 16	●	➡	Dec 16																																																			
Shared	C04 - Common - Corporate Fraud	06	●	06	Dec 16	●	➡	Jul 16																																																			
CDC	S18 - CDC - Banbury Development	16	▲	06	Dec 16	●	➡	Dec 16																																																			
Shared	C05 - Common - Managing Data and Information	06	●	06	Dec 16	●	➡	Jun 16																																																			
Shared	S03 - Common - Capital Investment	06	●	06	Jan 17	●	➡																																																				
CDC	S10 - CDC - Deprivation and Health Inequalities (Brighter Futures)	06	●	06	Dec 16	●	➡	Dec 16																																																			
Shared	C08 - Common - Safeguarding Children	05	★	05	Dec 16	★	➡	Dec 16																																																			
Shared	P04 - Common - South Midlands LEP (SEMLEP)	09	●	04	Jan 17	★	➡	Dec 16																																																			
CDC	P05 - CDC - Oxfordshire LEP (OLEP)	09	●	04	Jan 17	★	➡	Dec 16																																																			

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Cherwell District Council

Accounts, Audit and Risk Committee

22 March 2017

Housing Benefit Subsidy

Report of Chief Finance Officer

This report is public

Purpose of report

To provide members of Accounts, Audit and Risk Committee with an update on the recent Housing Benefit subsidy audit and the resulting actions that have been taken.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of the report and Appendix A (to follow).

2.0 Introduction

- 2.1 Housing Benefit (HB) is a means tested benefit, administered by local authorities on behalf of the Department for Work and Pensions (DWP). HB is intended to help claimants meet housing costs for rented accommodation both in the private and social rented sector. The administration of Housing Benefit is now very complex due to the ever changing Housing Benefit regulations. During the last five years there have been a total of 90 changes to the scheme making it increasingly difficult to make accurate assessments.
- 2.2 Local authorities reclaim HB that they pay to claimants by submitting annual subsidy claims to the DWP. The subsidy claim form details the HB expenditure which is recorded in various cells on the form.
- 2.3 Each local authority's appointed external auditor is required to certify that the annual claim is fairly stated and to report any error to the DWP in a covering letter that accompanies the claim. Where there are errors the claim is qualified and the DWP will seek to reduce subsidy payments to the Council. 80% of councils have been qualified on their subsidy claim.
- 2.4 There are complex subsidy rules that determine how much of the Housing Benefit spend by the Council is recouped from Government. Where HB has been properly

paid, DWP will normally provide 100% subsidy to the Council. However where HB has been overpaid, DWP provides different rates of subsidy. Claimant error overpayments attract 40% subsidy. Local authority error overpayments are more complex and the DWP offers an incentive to encourage local authorities to be proactive in reducing the level of local authority errors.

3.0 Report Details

Background

- 3.1 Cherwell District Council (CDC) outsourced the transactional back office functions of its Revenues and Benefits service in February 2010 to Capita for an initial period of 5 years and later took advantage of a 2 year extension built into the contract to make it 7 years in total. This decision meant that the assessment of HB claims is carried out by an off-site team managed by Capita.
- 3.2 In September 2015 CDC Executive approved insourcing as the Council's preferred option for the Revenues and Benefits service. A business case was then approved and the new joint Revenues and Benefits team was created. The new team will be fully resourced in time for the insourcing of the CDC Capita contract in June 2017.

Housing Benefit Subsidy

- 3.2 In 2015-2016 CDC submitted a Housing Benefit subsidy claim with a total value of £38,224,565. The audit of the subsidy claim was undertaken by Ernst and Young using a methodology determined by the Department for Work and Pensions.
- 3.3 Initial testing is undertaken and if this testing identifies any error and the auditor is unable to conclude that the errors are isolated the DWP methodology requires that an additional sample of 40 cases is tested which is focused on the particular error.
- 3.4 The DWP methodology also requires auditors to extrapolate the results of the initial and additional testing by multiplying the subsidy cell total by the proportion of the sample value that is found to be in error. For example: a cell has a total value of £642,134. The cases selected for checking from the cell have a total value of £9,450. Errors are found totalling £574 (6.1% of the sample selected). The adjustment to the claim would be 6.1% of the total cell value of £642,134 (£39,003)
- 3.5 Testing of the initial claim sample for CDC identified some problems which resulted in additional testing. The additional testing also highlighted some errors.
- 3.6 The values of the original errors found were relatively low but the extrapolation process means that the values are much increased. The Secretary of State has subsequently made the decision to recover in full the overpaid subsidy of £91,313.
- 3.7 When the original subsidy claim was submitted in April 2015 the value of local authority error overpayments was below the lower threshold and therefore the 'additional' subsidy incentive of £98,430 was claimed. As a result of the additional testing and the resulting cell adjustments the value of local authority error overpayments increased and the incentive payment of £98,430 is no longer payable.

3.8 Further details of the subsidy issues and contractual obligations of Capita are contained in a summary report shown at Appendix A of this report. As at the date of publication of the meeting agenda this appendix is still being prepared and it will be circulated to members when it is complete.

4.0 Conclusion and Reasons for Recommendations

4.1 Members are asked to note the contents of this report.

5.0 Consultation

5.1 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.

There are no alternative options as the Committee is being asked to note this information report.

7.0 Implications

Financial and Resource Implications

The financial implications directly arising from this report are covered in Appendix A

Comments checked by:

Paul Sutton, Chief Finance Officer

paul.sutton@cherwellandsouthnorthants.gov.uk

Legal Implications

7.2 There are no legal implications directly arising from this report. The legal team has had no involvement in matters relating to the subsidy claim and has no expertise in this specialist area. The Council's contract with Capita provides various potential remedies in the event that the Council suffers a loss as a result of poor performance by Capita and these are currently being explored by officers.

Comments checked by:

Kevin Lane, Head of Law and Governance

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8.0 Decision Information

Wards Affected

All

Links to Corporate Plan and Policy Framework

This links to the Council's priority of an accessible value for money council.

Lead Councillor

Councillor Ken Atack, Lead Member for Financial Management

Document Information

Appendix No	Title
A	Report on Housing Benefit subsidy
Background Papers	
None	
Report Author	Belinda Green (Joint Revenues and Benefits Manager)
Contact Information	Belinda Green 01327 322182 belinda.green@cherwellandsouthnorthants.gov.uk

Cherwell District Council

Accounts, Audit and Risk Committee

22 March 2017

Q3 Treasury Management Report

Report of the Chief Finance Officer

This report is public
Appendix 1 is exempt from publication by virtue of paragraph 3 of Schedule 12A of
Local Government Act 1972

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2016/17 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of the third quarter (Q3) Treasury Management Report

2.0 Introduction

- 2.1 As part of the Council's investment strategy and governance arrangements this committee considers the investment performance to date and compliance with the Council's Treasury Management Strategy with regard to counterparties being used.
- 2.2 The Code of Practice on Treasury Management approved by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted in full by the Council in 2004, requires that a Treasury Management Strategy is produced prior to the beginning of the financial year to which it relates.
- 2.3 The Treasury Management Strategy is the cornerstone of proper treasury management, and is central to the operation, management reporting and performance assessment. The new annual strategy for Cherwell District Council was approved at full Council on 22nd February 2016. The Council re-appointed Capita Asset Services (formerly Sector) as its Treasury Management advisor in January 2013.
- 2.4 The highest standard of stewardship of public funds remains of the utmost importance to the Council. This document details the Council's management of investments and treasury management activities during the first 9 months of 2016/17.

3.0 Report Details

2016/17 Performance

- 3.1 At the end of December 2016 the Council had £44.2m managed in-house (including Eco Town funds of £11.5m) which fluctuates during the year. The Council regularly reviews each of these funds in light of the current economic climate, reducing balances in investments planned to fund the Capital Programme and the need to contribute to efficiency savings.

Appendix 1 details the split of in-house funds per category and banking group.

Update on Cherwell's Treasury Performance

- 3.2 The new Treasury Management Strategy for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 22nd February 2016 and sets out the Council's investment priorities as being:

- Security of Capital; Liquidity; and Yield

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

Investment performance for 9 months ended 31 December 2016:

- 3.4 Investment rates available in the market have continued at historically low levels. The **average** level of funds available for investment purposes up to December 2016 was £45.9m. Funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants, funding of Graven Hill and progress on the Capital Programme and ECO Bicester.

- 3.5 The position as at 31 December 2016 shows:-

Investment Amount £	Interest Budget £	Interest Actual £	Variance £	Annualised rate of return £
44,230,021	131,250	185,230	53,980	0.54%

- 3.6 Interest for the full year is forecast to be approximately £51k greater than budget, despite the reduction in base rates in August 2016. A major factor for this is the delayed payment of £12million to Graven Hill for the purchase of land from the MOD, which will be paid in March 2017.

- 3.7 The value of interest includes accrued interest on Gilts (only payable twice a year) and investments maturing after date.

Icelandic Investments

- 3.8 As covered in previous reports, the remaining Icelandic funds have now been repaid in full, with associated interest (not included in the above figures).

- 3.9 **Capita Asset Services provided the following reports for the quarter ended 31 December 2016:**

Economic Background

UK GDP growth rate in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth has been fairly robust at +0.6% q/q, +2.2% y/y in quarter 3 of 2016 to confound the pessimistic forecasts by the Bank of England in August and by other forecasters, which expected to see near zero growth during 2016 after the referendum. Prior to the referendum, the UK economy had been facing headwinds for exporters from the appreciation of sterling against the Euro plus weak growth in the EU, China and emerging markets, and the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, there was then a sharp recovery in confidence and business surveys and the fall in the value of sterling has had a positive effect in boosting manufacturing in the UK due to improved competitiveness in world markets.

The Bank of England meeting on 4th August addressed its forecast of a slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report cut the forecast for growth in 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. While the MPC was prepared to cut Bank Rate again by the end of 2016, Carney also warned that the Bank could not do all the heavy lifting and suggested that the Government would need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on November 23 and which he duly delivered.

The robust growth in quarter 3 of +0.6%, plus forward indicating business surveys also being very positive on growth, caused the MPC in November to pull back from another cut in Bank Rate. The November Inflation Report also included a forecast for inflation to rise to around 2.7% in 2018 and 2019, well above its 2% target, due to a sharp rise in the cost of imports as a result of the sharp fall in the value of sterling after the referendum. However, the MPC is expected to look through a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Growth in quarter 1 of 2016 of +0.8% on an annualised basis, and quarter 2 at +1.4%, was disappointing.

However, quarter 3 came in very strongly at +3.5% and forward indicators are pointing towards robust growth in 2017, especially if Trump's expansionary plans are put into effect.

The Fed embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, caused a delay in the timing of the second increase of +0.25% until this December's meeting. Three or four further increases are now expected in both 2017 and 2018.

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December 2015 and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March 2016 meeting, it also increased its monthly asset purchases to €80bn. In December 2016, it extended its QE programme; monthly purchases at €80bn will continue to March 2017 and then continue at €60bn until December 2017. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 3 2016 (1.7% y/y) but forward surveys are, at last, positive about a modest upturn to growth while inflation has also started to increase significantly. There have been many comments from forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in their economies and economic growth.

Japan has struggled for many years to boost anaemic growth despite massive fiscal and monetary stimulus, but quarter 3 came in at +2.7% y/y. Chinese economic growth has been weakening and medium term risks have been increasing.

Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August

has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling after early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

4.0 Conclusion and Reasons for Recommendations

- 4.1 This report details the Treasury Performance for the Council for the quarter ended 31 December 2016.

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 on the performance reported.

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:

Sanjay Sharma, Corporate Finance Manager 01295 221564

sanjay.sharma@cherwellandsouthnorthants.gov.uk

Legal Implications

- 7.2 Presentation of this report is in line with the CIPFA Code of Practice.

Comments checked by:

Kevin Lane, Head of Law & Governance 0300 0030107

kevin.lane@cherwellandsouthnorthants.gov.uk

Risk Management Implications

- 7.3 It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by:

Ed Bailey, Corporate Performance Manager, 01295 221605

edward.bailey@cherwellandsouthnorthants.gov.uk

Equality and Diversity

- 7.4 There are no equality and diversity implications from this report.

Comments checked by:

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8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

Links to all elements of Corporate Plan

Lead Councillor

None

Document Information

Appendix No	Title
Appendix 1	Schedule of in-house investments per category and banking group.
Background Papers	
None	
Report Author	Paul Sutton, Chief Finance Officer
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Agenda Item 14

Accounts, Audit and Risk Committee Work Programme 2017/18

Date	Agenda Items
22 March (2016/17)	External Audit Annual Plan and Grant Certification Internal Audit Progress Report 2016/17, Annual Plan 2017/18 and Internal Audit Charter Corporate Risk Q3 Housing Benefit Subsidy Treasury Management Q3 Accounts Closedown Update (verbal)
28 June	External Audit Progress Report External Audit Letter Internal Audit - Annual Report 2016/17 and Update 2017/18 Corporate Fraud - Update and Annual Report Corporate Risk - Annual Report Treasury Management - Annual Report Annual Governance Statement Approval Risk Based Verification Report Closedown Update (verbal)
27 September	External Audit Annual Results Report Statement of Accounts Approval 2016/17 Internal Audit Progress Report Corporate Fraud Q1 Corporate Risk Q1 Treasury Management Q1
22 November	External Audit Annual Audit Letter Internal Audit Progress Report Corporate Fraud Q2 Corporate Risk Q2 Treasury Management Q2
24 January	External Audit Progress Report and Annual Certification of Grants Claims Internal Audit Progress Report Treasury Management Strategy 2018/19
14 March	External Audit Annual Plan Internal Audit Progress Report and Audit Plan Corporate Fraud Q3 Corporate Risk Q3 Treasury Management Q3

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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