

URGENT BUSINESS AND SUPPLEMENTARY INFORMATION

Accounts, Audit and Risk Committee

23 June 2010

Agenda Item Number	Page	Title	Officer Responsible	Reason Not Included with Original Agenda
8.	(Pages 1 - 8)	Treasury Management 2009/10 Outturn Report	Head of Finance	Information not available at time of agenda dispatch
9.	(Pages 9 - 20)	Audit Commission Triennial Review of Internal Audit	Head of Finance	Information not available at time of agenda dispatch
10.	(Pages 21 - 34)	Audit Commission Opinion Plan	Head of Finance	Information not available at time of agenda dispatch
11.	(Pages 35 - 40)	Audit Commission Fee Letter 2010/11	Head of Finance	Information not available at time of agenda dispatch
15.	(Pages 41 - 42)	Treasury Management 2009/10 Outturn Report - Exempt Annex 2	Head of Finance	Information not available at time of agenda dispatch

If you need any further information about the meeting please contact Natasha Clark, Legal and Democratic Services natasha.clark@cherwell-dc.gov.uk (01295) 221589

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Accounts, Audit and Risk Committee

Overview of Treasury Management Performance Q4

23 June 2010

Report of Head of Finance

PURPOSE OF REPORT

This report details the actual return on investments for the period to March 2010, details the counterparties that have been used for investments and considers compliance with the investment strategy.

This report is public

Appendix 2 to this report is exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the report and performance to date.

Executive Summary

Introduction

- 1.1 As part of our investment strategy and governance arrangements this committee considers the investment performance to date and our compliance with counterparties being used.
- 1.2 The actual return on investments for the quarter to March 2010 was £2,031k compared with a budget of £2,825k a variance of £794k. The primary reason for the variance is the current base rate of 0.5%. At the time of setting the 2009/10 budget, the assumption was that a minimum level of 2% would be achieved for all new loans entered into during 2009/10.
- 1.3 The budget was split as follows:

2009/10 Budget by Fund Manager

Fund	Amount Managed	Average % rate	Interest Receivable	Monthly equivalent
TUK	29,000,000	4.93%	1,429,153	119,096
Investec	26,230,000	2.81%	736,038	61,336
In House (avg)	29,000,000	2.28%	660,388	55,032
Total	84,230,000	3.35%	2,825,579	235,464

1.4 The actual return for the 12 months ended March 2010 is:

Fund	Amount at 31 March 2010	Q4 Interest Budget	Q4 Actual Interest	Variance	Rate of return %
TUK	25,000,000	1,429,153	1,300,238	(128,915)	4.73
Investec	20,010,000	736,038	336,738	(399,300)	1.33
In House	22,320,000	660,388	394,302	(266,085)	1.87
Total	67,320,000	2,825,579	2,031,279	(794,300)	2.70

1.5 The actual variance at the end of this financial year is £794,300. This is higher than anticipated and projected at Q3. As can be seen in the table above the main variance from our budget for the year has arisen through lower than expected returns from the Investec portfolio and lack of investment opportunities to enable us to maximize returns on our In House portfolio.

1.6 The interest rate decline has been continually monitored and as a result an interest rate risk reserve was created as part of the review of reserves in conjunction with the preparation of the 2008/09 statutory accounts. The reserve balance of £600k has been utilised to offset a significant element the above Interest shortfall.

1.7 The following loans were negotiated during Q4

Loans Agreed

Fund	Lent To	Date	Amount £s	Interest £s
In House	Newcastle BS	02/03/10	1,000,000	£16,454
Investec	Com Bk Australia	06/01/10	2,000,000	
Investec	HSBC	14/01/10	500,000	
Investec	Barclays	15/02/10	1,400,000	
Investec	RBS	22/02/10	2,100,000	
Investec	Nationwide BS	30/03/10	2,000,000	

1.8 The following loans matured or were sold by Investec during Q4

Loans Maturing / Sold

Fund	Lent To	Date	Amount £s	Interest £s
In House	Skipton BS	18/02/10	1,000,000	23,600
In House	Clydesdale Bank	18/02/10	4,000,000	90,000
In House	Chelsea BS	02/03/10	1,500,000	36,750
In House	Cumberland BS	17/03/10	1,000,000	17,815
In House	Nottingham BS	17/03/10	1,000,000	17,815

In House	Kent Reliance BS	17/03/10	1,000,000	17,815
In House	Progressive BS	18/03/10	1,000,000	17,479
TUK	West Bromwich BS	29/03/10	2,500,000	153,329
TUK	Close Brothers	29/03/10	2,500,000	11,704
Investec	Credit Agricole	25/01/10	300,000	370
Investec	Nationwide BS	25/01/10	600,000	757
Investec	Banco Bilbao Viz.	25/01/10	2,700,000	3,195
Investec	Credit Agricole	15/02/10	1,500,000	5,473
Investec	RBS	15/02/10	500,000	1,676
Investec	Credit Agricole	15/02/10	500,000	1,006
Investec	Nationwide BS	22/02/10	200,000	309
Investec	Nordea Group	22/02/10	3,900,000	5,172
Investec	Nationwide BS	30/04/10	3,200,000	10,857
Investec	UK Comm. Paper	25/01/10	2,600,000	647

- 1.9 The 28 loans that the Council is engaged in at 31st March 2010 are listed in Appendix 2. This table reports on the duration of the loan, maturity date, amount, interest rate and interest value together with an indication as to whether it is in accordance with the investment strategy revised in March 2010.
- 1.10 Adopting this revised strategy has driven a change to the profile of our investment portfolio. The investments at the date of revision remain sound and as such there was no need for any of the changes to be retrospective. It was agreed a smooth transition over time will be achieved by applying the new criteria to investments entered into after the effective date of adoption.
- 1.11 We borrowed £2m from Edinburgh City Council for 12 days at an interest rate of 0.30% and £1.5m from Dacorum Borough Council also at 0.30% for 11 days. This was not due to a cash shortage, but rather timing of receipts and payments.
- 1.12 We have reduced Investec's fund to £20m by the council taking receipt of the accrued interest of £6.2m, which was being held by Investec. Our Investment managed by Tradition UK was reduced by £4m to £25m. This has helped to rebalance the three investment streams. Our in House fund was boosted by the receipt of £9.2m of Eco Town funding at the end of March 2010. Any interest associated with these funds will be held in Eco Town Interest Account.
- 1.13 After a joint procurement exercise with Oxford City Council our contract for Treasury Advisors was awarded to Sector with effect from 1 April 2010.

Conclusion

- 1.14 We have utilised our Interest risk reserve to significantly offset our interest shortfall and as such our performance for 2009/10 is within budget tolerances. This has been detailed within our Revenue Outturn report taken to Executive on 7th June 2010.

Background Information

Investments in Iceland

The Council is one of over 100 local authorities that were affected by the collapse of Icelandic banking institutions. The Council currently has a total of £6.5 million in 3 investments with Glitnir and is in the process of trying to recover these funds through the applicable legal process.

Decisions on the priority status of local authority deposits will be made by the Icelandic courts. Allowing for the court cases to be heard, and for the appeals process to run its course, it is considered unlikely that there will be a settled position on priority status before the second quarter of 2011.

The Local Authority Accounting Panel considers, on the basis of the legal advice obtained by local authorities and advice provided by the Local Government Association, that it remains the most likely outcome that the claims will enjoy priority status. Based on this assessment, the Local Authority Accounting Panel recommends that the estimated recoverable amount to be included in the balance sheet is based on the assumption that local authority deposits will enjoy priority status.

The value (recoverable amount) of these deposits at 31 March 2010 has been reassessed in line with FRS 2 which states that the recoverable amount of financial assets carried at amortised cost is the present value of the expected future cash flows discounted at the instrument's original effective interest rate.

In line with guidance provided and latest available information on the likelihood of recovery the Council has reassessed the future cash flows of the deposits with Glitnir on the assumption that we receive preferential creditor status and receive 100% of principle and interest by June 2011 and this results in an impairment charge.

Although the Council remains confident of getting all of its investment back as a priority creditor the Council has considered the possibility of an outcome where we only receive 29% of the principle. This strategy has been built into our Medium Term Financial Forecast.

This contingency fund does not prejudice the Council's claim against the administrators, which is being pursued on behalf of the Council and all affected councils by Bevan Brittan and the Local Government Association, with the objective of recovering as much money as possible.

The non-return of the deposit has not caused any immediate cash flow problems for the Council except for the loss of investment income due to its non-availability for reinvestment. At the current low base rate of 0.5% this equates annually to £32,500.

Key Issues for Consideration/Reasons for Decision and Options

- 3.1 Compliance with Policy and CIPFA published guidance.
- 3.2 The need to ensure governance arrangements adhered to.

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

- Option One** Note the contents of the report
- Option Two** Ask officers to review loan arrangements in place.

Consultations

- Treasury Advisors** The performance of each fund had been reviewed and discussed with Butlers.

Implications

- Financial:** There are no financial implications arising out of this report. The shortfall in interest income has significantly been offset by our Interest Risk reserve and is therefore within budget tolerances.
Comments checked by Karen Muir, Corporate System Accountant 01295 221559
- Legal:** There are no legal implications arising from this report. The arrangements to report on compliance comply with the CIPFA Code of Practice
Comments checked by Liz Howlett,, Head of Legal and Democratic Services, 01295 221686
- Risk Management:** Risk of capital loss – the prime objective of treasury management activities is to ensure the security of the amounts invested. In the past this has primarily been managed by using a counterparty list which only includes organisations having a suitable credit rating and which has a maximum amount that can be invested with each organisation at any one time. This report considers compliance with strategy and performance monitoring.
Comments checked by Karen Muir, Corporate System Accountant 01295 221559

Wards Affected

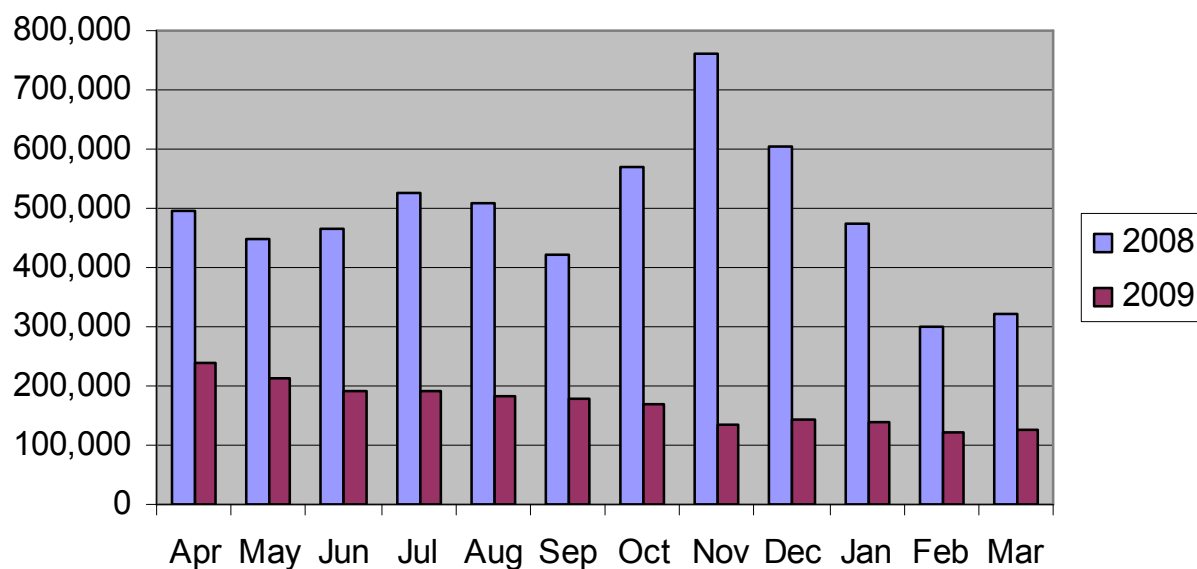
All

Document Information

Appendix No	Title
Appendix 1	Year To Date Performance and Comparison
Appendix 2 EXEMPT Para 3	Loans as at 31 March 2010 and compliance with strategy
Background Papers	
Report Author	Karen Curtin, Head of Finance
Contact Information	01295 221551 karen.curtin@Cherwell-dc.gov.uk Linda Burgess linda.burgess@Cherwell-dc.gov.uk

The drop in interest received by the Council in the financial year 2008/9 compared with this year can be better seen in the graph below.

Interest Received Apr-Dec 2008 and 2009



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Accounts, Audit and Risk Committee

Internal Audit Review

23 June 2010

Report of Head of Finance

PURPOSE OF REPORT

This document sets out the outcome of the Audit Commission triennial review of the work of our Internal Audit function that is provided by PricewaterhouseCoopers (PwC)

This report is public

Recommendations

The meeting is recommended:

- (1) To note the contents of the report

Executive Summary

Introduction

- 1.1 This report provides the Committee with a review of the work of internal review carried out by the Audit Commission.
- 1.2 The review of the work of IA is to ensure that it is working as intended and to see if the Audit Commission can place reliance on their work.
- 1.3 Internal Audit for both Cherwell District Council and Oxford City Council is provided by PricewaterhouseCoopers (PwC) and the Audit Commission has carried out a joint review.
- 1.4 The audit fee is set on the assumption that the Audit Commission can place reliance on the work of IA. If they are unable to place reliance on their work then the Council may incur further charges.
- 1.5 The aim of the review is to assess whether Internal Audit operates in accordance with the Local Government Internal Audit standards. These set out the minimum requirements for internal audit functions; they do not set out any qualitative measures but on whether they meet the requirements as set out in the Standards.

- 1.6 The outcome of the review can be seen in Appendix 1.

Conclusion

- 1.7 PwC comply with the Internal Audit Standards in all material respects and the Audit Commission has concluded that they can place reliance on Internal Audit's work.
- 1.8 There are a few areas that have been identified as scope for improvement and an action plan has been drawn to address these by September 2010

Key Issues for Consideration/Reasons for Decision and Options

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

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

Implications

- Financial:** There are no financial or risk implications.
Comments checked by Karen Muir, Corporate System Accountant 01295 22159
- Legal:** There are no implications arising from this report
Comments checked by Liz Howlett, Head of Legal and Democratic Services 01295 221686
- Risk Management:** The review of internal audit must take into consideration the requirements of the Local Government Auditing Standards.
Comments checked by Karen Muir, Corporate System Accountant 01295 22159

Wards Affected

All

Document Information

Appendix No	Title
Appendix 1	Triennial Review of Internal Audit
Background Papers	
None	

Report Author	Karen Curtin, Head of Finance
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Triennial Review of Internal Audit

Oxford City Council and Cherwell District Council

Audit 2009/10

May 2010



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Status of our reports

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

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

Introduction

- 1 The Audit Commission's Code of Audit Practice (the Code) was developed on the basis of the Commission's model of public audit, which defines auditors' responsibilities in relation to:
 - the accounts; and
 - value for money conclusion.
- 2 Central to our work is a risk-based approach to audit planning, which reflects our overall assessment of the relevant risks which apply to the audited body.
- 3 Internal Audit (IA) is a fundamental part of an audited body's corporate governance arrangements and is a key tool for providing audited bodies with assurance that financial systems are adequate, and are working satisfactorily. The work of IA should comply with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006.
- 4 We review the work of IA to ensure that it is working as intended and to see if we can place reliance on their work. Our audit fee is set on the assumption that we can place reliance on the work of IA. If we are unable to place reliance on their work then we may need to undertake additional work and re-charge the Council for it.
- 5 Internal Audit for both Oxford City Council and Cherwell District Council is provided by PricewaterhouseCoopers (PwC).

Audit approach

- 6 To assess Internal Audit, we reviewed their performance against the Local Government Internal Audit standards. These set out the minimum requirements for internal audit functions, they do not set out any qualitative measures but on whether they meet the requirements as set out in the Standards. This report does not assess the quality of internal audit as this will be done when we review individual pieces of work we wish to place reliance on. The review covered the following organisational and operational standards:
- Scope of Internal Audit;
 - Independence;
 - Ethics for Internal Auditors;
 - Audit Committee;
 - Relationships;
 - Staffing, Training and Continuing Professional Development;
 - Audit Strategy and Planning;
 - Undertaking Audit Work;
 - Due Professional Care;
 - Performance, Quality and Effectiveness; and
 - Reporting.
- 7 We interviewed members of the PwC team and reviewed their documentation (including the Internal Audit Charter for each organisation) and assessed two audit files selected for detailed examination. The findings from this review have been discussed and agreed with the Head of Internal Audit.

Main conclusions

- 8 PwC comply with the Internal Audit Standards in all material respects. We have concluded that we can place reliance on Internal Audit's work. However, we identified scope for improvement in a few areas which have been discussed and agreed and are included in the action plan.

Appendix 1 – Action plan

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Standard 1 - Scope of Internal Audit					
The Charter should make the role of Internal Audit (IA) more explicit in any consultancy work. (1.1.1g)	1	Chris Dickens, Head of Internal Audit	Yes	The role of internal audit in consultancy work is clearly defined in the IA contract. However, reference in the Charter could be clearer and this will be picked up as part of the next Charter review.	Sept 2010
Cherwell District Council's Fraud and Corruption Policy should state that IA will be notified of all suspected or detected fraud, corruption or impropriety rather than may be informed of frauds. (1.4.2)	1	Jeff Brawley, and Chris Dickens, Head of IA	Yes	PwC have recommended this in their report to Cherwell District Council and this has been accepted by the Council.	Sept 2010
Standard 11 - Performance, Quality and Effectiveness					
IA should develop a comprehensive set of targets to measure performance: i. which are developed in consultation with each Council; ii. which are included in service level agreements, where appropriate; and iii. against which the Head of Internal Audit measures, monitors and reports appropriately on progress. A periodic review of the service against the strategy and the achievement of its aims and objectives should be introduced. (11.3.2)	1	Head of IA in conjunction with the relevant authorised officer.	Yes	Head of IA to formally agree performance measures with authorised officers at each authority and record these as part of the next Charter review (PwC provided examples of performance measures as part of the tender exercise). The Head of Internal Audit undertakes an annual assessment of internal audit against the Code. However, this review is not formally documented as part of the Charter and will be included in the next review.	Sept 2010

References refer to the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006.

The Audit Commission

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

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

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

Copies of this report

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Accounts, Audit and Risk Committee

External Audit Opinion Plan

23 June 2010

Report of Head of Finance

PURPOSE OF REPORT

This report sets out the work that the Audit Commission will undertake in order to form an opinion on the financial statements for 2009/10 taking into account risk which satisfies their responsibilities under the Audit Commission's Code of Audit Practice.

This report is public

Recommendations

The meeting is recommended:

- (1) To note the contents of the report

Executive Summary

Introduction

- 1.1 The 2010/11 financial statements that will be adopted by the committee on a separate agenda item will be subject to Audit by the Audit Commission.
- 1.2 As part of the audit process the Audit Commission will assess whether the statements are prepared without any material misstatements (whether due to fraud or error) and give an opinion on whether the statements are a true indication of the Council's financial affairs for the year 2009/10.
- 1.3 As part of this process the Audit Commission use a risk based approach to determine what work is required and this process is detailed in Appendix 1.

Conclusion

- 1.4 Our investments in Iceland are noted as a specific risk and we have sought guidance from CIPFA, PWC and Sector our treasury management advisors to prepare the appropriate disclosures in accordance with LAAP Bulletin 82.
- 1.5 We will provide detailed working papers and analysis to assist the Audit Commission in completing their work in accordance with the agreed timetable.
- 1.6 An audit opinion will be given to this committee in September 2010.

Key Issues for Consideration/Reasons for Decision and Options

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

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

Implications

- | | |
|-------------------------|---|
| Financial: | The financial statements have been prepared in accordance with SORP and in accordance with appropriate guidance received from CIPFA regarding Iceland and employee emoluments.
Comments checked by Karen Muir, Corporate System Accountant 01295 22159 |
| Legal: | There are no implications arising from this report

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

Comments checked by Karen Muir, Corporate System Accountant 01295 22159 |

Wards Affected

All

Document Information

Appendix No	Title
Appendix 1	Audit Opinion Plan 2010/11
Background Papers	
None	
Report Author	Karen Curtin, Head of Finance
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Audit Opinion Plan

Cherwell District Council

Audit 2009/10

June 2010

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Status of our reports

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

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

Introduction

- 1 We issued our initial audit fee plan for 2009/10 in April 2009 which set out the work that we proposed to undertake in order to satisfy our responsibilities under the Audit Commission's Code of Audit Practice. We are required by professional auditing standards to specify the detailed risks that we need to consider as part of our opinion planning work. As the initial audit plan was produced at the start of the financial year for fee purposes, it was not possible to specify these risks. We are now in a position to do this as the opinion work is about to commence. We are required to:
 - identify the risk of material misstatements in your accounts;
 - plan audit procedures to address these risks; and
 - ensure that the audit complies with all relevant auditing standards.
- 2 We have therefore set out below our approach to identifying opinion audit risks and have considered the additional risks that are appropriate to the current opinion audit.

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Auditor's report on the financial statements

- 3 We will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 4 We are required to issue an audit report giving our opinion on whether the accounts present fairly the financial position of the Council as at 31 March 2010.

Identifying opinion audit risks

- 5 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
 - identifying the business risks facing the Council, including assessing your own risk management arrangements;
 - considering the financial performance of the Council;
 - assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
 - assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

Identification of specific risks

- 6 We have not identified any significant risks which require additional audit processes. However, there are areas which we will give specific attention to during our normal audit review this year. We have set these out below.

Table 1 Specific risks

Specific opinion risks identified

Risk area	Audit response
Icelandic Banks The Council invested £6.5m with Glitnir Bank whose winding up board has rejected the argument that local authority claims have priority status under depositor preference, accepting them instead as general unsecured claims. The risk remains that disclosures and accounting entries may not be presented in line with the most recent guidance and therefore not in line with the accounting standards for provisions (FRS12).	CIPFA updated LAAP 82 - Guidance on the impairment of deposits with Icelandic Banks, in May 2010. We will review the accounting entries and disclosures to ensure that the accounts are presented fairly.
Service Concessions The requirements for the introduction of 'IFRIC 12' are not addressed. This relates mainly to PFI schemes but also applies where the Council has a legal interest in assets not currently on the balance sheet.	We will review your arrangements to identify such items and if any have been identified review their accounting treatment.

Testing strategy

- 7 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 8 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities.

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Key milestones and deadlines

- 9 The Council is required to prepare the financial statements by **30 June** 2010. We are required to complete our audit and issue our opinion by **30 September** 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 10 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 11 We will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

Table 2 Proposed timetable

Task	Deadline
Receipt of accounts	23 June 2010
Forwarding of audit working papers to the auditor	end of June 2010
Start of detailed testing	5 July 2010
Progress meetings	Weekly
Present report to those charged with governance at the Audit committee	22 September 2010
Issue of opinion	by 30 September 2010

Audit fees

- 12** In my original audit plan, the fee for the opinion audit was based on my best estimate at the time and agreed at £110,000. Having considered the above risks, I remain satisfied that the original estimate was appropriate and no adjustment is therefore required to the fee at this stage.

DRAFT

The audit team

13 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 3 Audit team

Name	Contact details	Responsibilities
Maria Grindley Engagement Lead	m-grindley@audit-commission.gov.uk 0844 798 8952	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Nicola Jackson Audit Manager	n-jackson@audit-commission.gov.uk 0844 798 8962	Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance.

Independence and objectivity

- 14** We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 15** We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity.

Quality of service

- 16** We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Maria Grindley in the first instance. Alternatively, you may wish to contact Neil Childs, the South East Sub-Region Head of Operations.

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Accounts, Audit and Risk Committee

Annual Audit and Inspection Fee

23 June 2010

Report of Head of Finance

PURPOSE OF REPORT

This document sets out the audit and inspection work that the Audit Commission proposes to undertake for the 2010/11 financial year at Cherwell District Council and the fee associated with this work.

This report is public

Recommendations

The meeting is recommended:

- (1) To note the contents of the report

Executive Summary

Introduction

- 1.1 The audit and inspection letter was received on April 28 2010 and discussed with the Chief Executive, Head of Finance and the Chief Financial Officer (151 Officer)
- 1.2 The letter is attached in Appendix 1 – the proposed fee is £120,000 which is an increase on 2009/10 of £10,000 but with the associated refund in relation to the work on introducing International Financial reporting Standards of approx £6,000 it is expected that the fee will be £114,000 compared to the 2010/11 budget of £112,000.

Conclusion

- 1.3 As a result of the new coalition government we have seen a number of changes coming through on Comprehensive Area Assessment and Use of Resources. The District Auditor will verbally update the Committee on the latest information at the meeting and the impact on the work and fee.

Key Issues for Consideration/Reasons for Decision and Options

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

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

Implications

- Financial:** Depending on the outcome of the update that the District Auditor will give in relation to the fee – there is a budget pressure of £2,000 that will need to be funded.
Comments checked by Karen Muir, Corporate System Accountant 01295 22159
- Legal:** There are no implications arising from this report
Comments checked by Liz Howlett, Head of Legal and Democratic Services 01295 221686
- Risk Management:** The Council has a budget risk approach and a risk budget, the Council will need to review this additional cost against this provision.

Comments checked by Karen Muir, Corporate System Accountant 01295 22159

Wards Affected

All

Document Information

Appendix No	Title
Appendix 1	Annual Audit and Inspection Fee 2010/11
Background Papers	
None	
Report Author	Karen Curtin, Head of Finance
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28 April 2010

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Cherwell District Council
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Dear Mary

Annual Audit and Inspection Fee 2010/11

Following our meeting today, I am writing to confirm the audit and inspection work that we propose to undertake for the 2010/11 financial year at Cherwell District Council. This year we are setting out audit and inspection fees for you in one letter. Therefore this letter covers my audit responsibilities and those of Robert Hathaway as the CAA Lead (Oxfordshire).

The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11; and for assessment and inspection, the Comprehensive Area Assessment (CAA) framework and associated guidance.

As I have not yet completed my audit for 2009/10, the audit planning process for 2010/11, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary. The inspection plan will also be reviewed and updated as necessary by Robert in discussion with you.

A summary of the indicative fee is shown in the table below.

Audit area	Planned fee 2010/11 £	Planned fee 2009/10 £
Financial statements	72,250	65,250
Use of Resources/VFM Conclusion Including data quality.	45,250	42,500
Whole of Government Accounts	2,250	2,250
Total audit fee	120,000	110,000
Managing Performance element of the organisational assessment	9,152	9,152
Certification of claims and returns	25,000	25,000

The Audit Commission has published its work programme and scales of fees 2010/11. The planned audit fee for 2010/11 is set at the Audit Commission scale fee for the year. The fee for 2009/10 was 4.5% below scale. However in line with the fee letter we need to ensure we have an adequate level of fee for us to perform our duties appropriately. Therefore I need to raise your fee to scale this year to ensure that my team can continue to complete and deliver the audit work for you to the required standards and deadlines. I assure you we will continue to look at efficiencies in our approach and will also strive to add value in all the work that we do.

The work programme published by the Commission signalled a 6% increase from the previous year to take account of additional audit work arising from the introduction of International Financial Reporting Standards and this is reflected in my proposal. The Audit Commission's Chief Executive set out the background to this in his letter of 5 February 2009. He has also confirmed that the Audit Commission will make a direct refund to you of part of this fee in December 2010. This represents our best estimate of the additional costs association with IFRS transition in 2010/11.

In terms of this significant change to your accounting framework, I would like to take this opportunity to remind you that those charged with governance within the Council are responsible for ensuring you are prepared for the introduction of IFRSs. Although I do not have direct audit responsibilities in respect of balances at the transition date these do form the opening balances for the comparative period, I will therefore consider your risk assessment process and gap analysis to inform my ongoing risk assessment.

Changes in International Auditing Standards will also increase the audit procedures I need to carry out. In line with the fee proposals for 2010/11 the Audit Commission will absorb the cost of these additional requirements within the above fee.

In setting the fee, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified in 2009/10. A separate opinion plan for the audit of the financial statements will be issued by March 2011. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Head of Finance and then prepare a report outlining the reasons why the fee needs to change for discussion with the Accounts, Audit and Risk Committee.

The quoted fee for grant certification work is an estimate only and will be charged at published daily rates.

The assessment and inspection fee set out is the fee for the managing performance element of the organisational assessment. This is the same for all District Councils and has been published in the Commission's work programme 2010/11. Area assessment is grant funded and does not attract a fee. We are currently planning our benefits work regionally and Robert will continue to monitor progress on benefits performance. Robert will write to you if any significant amendments are needed to the inspection plan and fee during the course of the year. He will first discuss this with you.

For the purposes of setting this fee, I have assumed that my use of resources assessments will continue to be based on the key lines of enquiry as set out in the Audit Commission's work programme and scales of fees 2010/11. These are:

- Managing Finances;
- Governing the business; and,
- Managing Resources.

You will be aware that the Audit Commission is currently undertaking a review of the Use of Resources framework and my work and associated fee may need to be reassessed when the outcomes of this review are published.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1. The organisational assessment for the council incorporating use of resources and managing performance will be published on the Oneplace website and Robert will confirm the timetable for this once it has been confirmed nationally.

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2010/11 are:

Audit Manager – Nicola Jackson 0844 798 8962

Performance Specialist – Lorraine McMullen 0844 798 8979

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the South East Head of Operations, Neil Childs (n-childs@audit-commission.gov.uk).

Yours sincerely

Maria Grindley
District Auditor

cc Karen Curtin, Head of Finance
Councillor John Donaldson, Chair of the Accounts, Audit and Risk Committee
Nicola Jackson, Audit Manager

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Accounts, Audit and Risk Committee.

Table 1

Planned output	Indicative date
Opinion Audit plan	by March 2011
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Annual audit letter	November 2011
Organisational assessment (incorporating the managing performance assessment and the use of resources assessment)	TBC

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

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