

Committee: Accounts, Audit and Risk Committee
Date: Wednesday 22 June 2011
Time: 6.30 pm
Venue: Bodicote House, Bodicote, Banbury, OX15 4AA

Membership

Councillor Tony Ilott (Chairman)
Councillor Andrew Beere
Councillor Mike Kerford-Byrnes
Councillor Rose Stratford

Councillor Trevor Stevens (Vice-Chairman)
Councillor Colin Clarke
Councillor Lawrie Stratford
Councillor Barry Wood

AGENDA

- 1. Apologies for Absence and Notification of Substitute Members**
- 2. Declarations of Interest**

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

- 3. Petitions and Requests to Address the Meeting**

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

- 4. Urgent Business**

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

- 5. Minutes**

** To follow (agenda publication date before Accounts, Audit and Risk Committee meeting on 15 June 2011) **

To confirm as a correct record the Minutes of the meeting of the Committee held on 15 June 2011.

6. Financial Statements 2010/11

**** Report to follow.** The Accounts, Audit and Risk Committee will scrutinise the 2010/11 Financial Statements at their 15 June 2011 meeting. Following this review, an update will be provided to Committee Members. ******

Report of Head of Finance

Summary

The Accounts and Audit Regulations 2011 state that whilst the statement of accounts must be approved no later than 30 June immediately following the end of a year, the draft statement of accounts can now be approved by the responsible financial officer rather than Accounts, Audit and Risk Committee. The responsible financial officer at Cherwell District Council is the section 151 officer (Head of Finance) Karen Curtin.

The responsible financial officer will need to certify for audit that the draft statement of accounts present a true and fair view of the financial position of the council.

Regulation 8 does retain the requirement for a committee to consider and ultimately approve the statement of accounts post audit by 30 September in the year immediately following the end of the year which the statement of accounts relates.

Whilst there is no statutory requirement for the Accounts, Audit and Risk Committee to approve the draft statement of accounts by 30 June, the Head of Finance recognises that it would be good practice to provide the Committee with the opportunity to scrutinise the statements. This will take place on 15 June 2011 and a report that sets out the key financials from the statement of accounts. Details of the questions asked by members will be circulated on Friday 17 June 2011.

The transition to International Financial Reporting Standards (IFRS) has made the accounts more detailed and this has been recognised. This change will allow audit committee to fully understand the financial position of the council during June and approve the final audited statement of accounts in September.

Recommendation

The Accounts, Audit and Risk Committee is recommended to:

- (1) Note progress on the 2010/11 Financial statements.

7. Annual Governance Statement 2010/11 (Pages 1 - 24)

Report of Head of Finance

Summary

The purpose of this report is to seek approval for the Annual Governance Statement 2010/11 (latest draft attached), subject to any amendments the Accounts, Audit and Risk Committee may wish to make.

Recommendation

The Accounts, Audit and Risk Committee is recommended:

- (1) To resolve to consider and approve the Annual Governance Statement "Subject to Audit" 2010/11 (attached as Appendix 1).

8. Treasury Management Annual Report (Pages 25 - 42)

Report of Head of Finance

Summary

To receive information on treasury management performance and compliance with treasury management policy during 2010/11 as required by the Treasury Management Code of Practice.

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To consider, amend or endorse this report for consideration at the next appropriate full Council meeting.
- (2) To give delegated authority to the Head of Finance in consultation with the Chairman of Account, Audit and Risk Committee to make any amendments required as a result of finalising the 2010/11 financial statements.

9. Annual Audit Fee and External Audit Progress Report (Pages 43 - 54)

Report of Head of Finance

Summary

This reports sets out the audit and inspection work that the Audit Commission proposes to undertake for the 2011/12 financial year at Cherwell District Council and the fee associated with this work. The report also provides a progress report on the work of external audit.

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To note the contents of the annual audit fee letter (Appendix 1).
- (2) To approve the extension of the Engagement Lead – Maria Grindley for a period of 2 further years.
- (3) To note the contents of the progress report (Appendix 2).

10. Internal Audit Annual Report 2010/11 (Pages 55 - 70)

Report of Chief Internal Auditor

Summary

This report provides the Committee with the Internal Audit Annual Report for 2010/11.

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To consider and approve this report.

11. Internal Audit Progress Report (Pages 71 - 110)

Report of Chief Internal Auditor

Summary

This report provides the Committee with an update of the work of Internal Audit since the last meeting and presents the Internal Audit Report 2010/11 Firewall Review.

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To consider and approve this report.

12. Accounts, Audit and Risk Committee Annual Report 2010/11 (Pages 111 - 122)

Report of Head of Finance

Summary

The purpose of this report is to review and approve the annual report of the Accounts, Audit and Risk committee for 2010/11 and recommend that it be presented to full Council.

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To consider, amend or endorse this report for consideration at the next appropriate Full Council meeting.

13. Risk Management (Pages 123 - 154)

Report of Corporate Strategy and Performance Manager

Summary

To update the Committee on the management of Strategic, Corporate and Partnership Risks during the last quarter of 2010/11 and highlight any emerging issues for consideration.

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To review the quarter 4 Strategic, Corporate and Partnership Risk Register. (Appendix 1).
- (2) To review the proposed reporting timetable to the Executive and the Accounts Audit and Risk Committee 2011/2012 (paragraphs 1.8 and 1.9 of the report).
- (3) To note the outcomes of the risk management internal audit review (Appendix 2).

14. Exclusion of the Press and Public

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

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

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

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

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

15. Treasury Management Annual Report - Exempt Appendices 1a and 1b (Pages 155 - 170)

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@cherwell-dc.gov.uk or (01295) 221589 prior to the start of the meeting.

Declarations of Interest

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

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

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

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

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

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

Evacuation Procedure

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

Access to Meetings

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

Mobile Phones

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

Queries Regarding this Agenda

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

Sue Smith
Chief Executive

Published on Tuesday 14 June 2011

Accounts, Audit and Risk Committee

Annual Governance Statement 2010/11

22 June 2011

Report of Head of Finance

PURPOSE OF REPORT

The purpose of this report is to seek approval for the Annual Governance Statement 2010/11 (latest draft attached), subject to any amendments the Accounts, Audit and Risk Committee may wish to make.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) Resolve to consider and approve the Annual Governance Statement "Subject to Audit" 2010/11 (attached as Appendix 1).

Executive Summary

- 1.1 Included at Appendix1 is the Annual Governance Statement for 2010/11. This is a public document that sets out what the Council achieved during the year and how we managed our finances. The purpose of the document is to communicate information about performance and finance (often considered complex and unwieldy by the general public) in an informative, easily understood and accessible way.
- 1.2 The Annual Governance Statement is the part of the CIPFA/SOLACE governance framework. It is a wide ranging document that is governance focussed and must be considered and 'owned' corporately. The statement is separate to the Statement of Accounts.
- 1.3 The Statement will be available on-line, and in hard copy at all of our customer service facilities. In addition we will circulate copies to all our partners and community groups and make it available on request in a variety of formats to ensure it is accessible to as a wide an audience as possible.

Background

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

provided by service managers and a more corporate overview from each of the group Members.

1.5 The members of the Corporate Governance Group during the year were:-

- 2 members from Accounts, Audit and Risk Committee
- 1 member from Standard's Committee
- Chief Financial Officer (151 Officer)
- Head of Legal and Democratic Services (Monitoring Officer)
- Head of Human Resources
- Risk Management and Insurance Officer
- Chief Internal Auditor

1.6 During the process of preparing the Annual Governance Statement the Corporate Governance group has met on 3 occasions and 5 drafts have been prepared prior to this final version.

Implications

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

Wards Affected

All wards are affected.

Document Information

Appendix No	Title
Appendix 1	Annual Governance Statement 2010/11
Background Papers	
None	
Report Author	Karen Curtin, Head of Finance
Contact Information	01295 221551 Karen.Curtin@Cherwell-dc.gov.uk

ANNUAL GOVERNANCE STATEMENT

Executive Summary

Governance is about how local government bodies ensure that they are doing the right things in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

This document describes our governance arrangements and assesses how closely we align with good practice. In overall terms this is a positive statement for the financial year 2010/11. This document relies on several assurance mechanisms including the internal audit annual review, internal audit reports throughout the year, the work of the Accounts, Audit and Risk Committee, the overview and scrutiny process and external audit.

External audit is undertaken by the Audit Commission and provides assurance on the controls the Council has in place. Where the auditor identifies weaknesses in the Council's arrangements, these are highlighted in the Annual Audit and Inspection Letter. The Council received an unqualified audit opinion on its 2009-10 accounts, the latest published.

The statement reports positive progress on the significant issue that arose as part of last year's statement: the failed Icelandic Bank (Glitnir).

The Council faces an extremely challenging year in 2011/12 as it seeks to manage significant budget reductions, increasing demand for some key services and new ways of working, simultaneously.

There are two significant issue(s) raised for the financial year 2010/11. These relate to the implementation of joint working arrangements with South Northamptonshire Council and an isolated design issue in the Council's firewall systems.

The Council has a strong system of internal control and action plans are in place to address the above significant governance issues and progress against these will be monitored during the course of 2011/12.

1.1 Scope of Responsibility

Cherwell District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Cherwell District Council is responsible for implementing arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

Cherwell District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework for Delivering Good Governance in Local Government. A copy of the code is on our website at www.cherwell-dc.gov.uk.

For 2010-11 new Accounts and Audit regulations have been laid before parliament. The *Accounts and Audit (England) Regulations 2011* replace the Accounts and Audit regulations 2003 which were amended in 2006 and 2009.

These regulations now make it clear that the review of the effectiveness of the annual system of internal control must lead to the production of an Annual Governance Statement which must be approved separately to the Statement of Accounts.

The independence of the Annual Governance Statement for the formal Statement of Accounts is confirmed as the regulations require the statement to *accompany* the published accounts, to make clear that the statement is not part of the accounts.

Another important change to the regulations is the role of the internal audit process has been strengthened. The regulations now apply to all aspects of the internal audit function and not just the systems used by internal audit.

1.2 The Purpose of the Governance Framework

The system of internal control is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

1.3 The Governance Framework

The sections below align to the 'Delivering Good Governance in Local Government: Framework' (CIPFA/SOLACE) and provide evidence against each of sections contained within that document.

1.3.1 Identifying and communicating the Authority's vision of its purpose and intended outcomes for citizens and service users

The Council's strategic objectives are set out in the Corporate Plan and Improvement Strategy. These objectives are derived directly from the Cherwell Sustainable Community Strategy 'Our

District, Our Future' and its supporting medium term strategies. Progress is monitored via the Council's Corporate Performance Framework which integrates financial and service planning. Our annual financial planning process is driven by the Council's Medium Term Financial Strategy to ensure our future priorities and ambitions are resourced.

The Council identifies and communicates the vision of its purpose and intended outcomes for citizens and service users through a variety of media including its website, the Cherwell Link magazine and consultation documents. The Council chairs the Cherwell Local Strategic Partnership (LSP) for Cherwell. Membership of the LSP includes members from the county, district, town and parish councils, the faith, business and voluntary communities. As part of the development of the Community Strategy, the LSP undertook a significant policy and evidence review and consultation with stakeholders to set a vision and objectives for the long term. The strategy sets out a vision for the district with four ambitions addressing community development, environment and infrastructure planning, economic development, community leadership and engagement.

This piece of work included a significant amount of consultation where partners, community groups and stakeholders are asked to help us develop the new strategy. The strategy was also subject to a formal consultative phase where the draft strategy was available for full consultation on our consultation portal <http://consult.cherwell.gov.uk/portal>.

The Council's service and financial planning process incorporates substantial consultation with all sections of the community. At the corporate level this includes an annual customer satisfaction survey which identifies areas of customer satisfaction and priorities for improvement and a budget consultation process that is focused on qualitative workshops with stakeholders. In addition we target harder to reach groups (older people, younger people, people with disabilities and people from minority ethnic communities) to ensure that all sections of the community are able to participate in the budget consultation. We also use booster samples to ensure our customer satisfaction survey responses include harder to reach groups.

At the service level individual service areas and teams undertake public consultation. The Council has a consultation and engagement strategy, toolkit and web based portal to support this. In 2010/11 the Council, working with its partners, also established a Disability Forum and a Faith Forum to further improve opportunities for public consultation feedback to help set and test strategic direction.

The corporate agenda is communicated to staff through regular briefings for all staff from the Chief Executive, a "cascade" system and the magazine "Inside Cherwell", as well as through staff engagement in the service planning process.

1.3.2 Reviewing the Authority's vision and its implications for the Authority's governance arrangements

The Council reviews its vision and the implications for its governance arrangements by regularly updating its Corporate Plan and major strategy documents. The Council has a Medium Term Financial Strategy in place to ensure future ambitions are resourced, and in November 2009 a new sustainable community strategy for the district was adopted by the Cherwell Local Strategic Partnership in which the Council plays a leading role. The governance of the local strategic partnership has been reviewed and strengthened to enhance its capacity to deliver the actions plans related to the new strategy.

The Medium Term Strategy (MTFS) is the Council's key financial planning document. It is driven by our Corporate Plan and the four strategic priorities which lie at the heart of it.

- Cleaner, Greener
- District of Opportunity
- Safe and Healthy

- Accessible Value for Money

This strategy sets clear targets to eliminate the Council's revenue dependency on investment income and focus resources on front line services in a time when government funding has been reduced.

The Council agreed on the 8th December 2010 to joint working arrangements with South Northamptonshire Council. These arrangements will commence in 2011-12 with a senior management team comprising joint/shared twelve posts: a Chief Executive, three Directors and eight Heads of Service. The final structure and responsibilities of the senior management team will be agreed between the shared Chief Executive and members of both councils before further appointments are made. The shared Chief Executive (Sue Smith) takes up her post on the 16th May 2011.

Cherwell District Council and South Northamptonshire Council will remain separate independent entities, retaining their sovereignty. Elected members of both councils will remain in charge of decision-making in line with their visions, strategic aims, objectives and priorities.

1.3.3 Measuring the quality of services for users, for ensuring they are delivered in accordance with the Authority's objectives and for ensuring that they represent the best use of resources

Mechanisms are in place to measure the quality of services for users, ensuring they are delivered in accordance with Cherwell District Council's objectives and that they represent the best use of resources. The Council continues to improve performance management within the organisation. Service quality and best use of resources is ensured via:

- Performance Plus (a performance management system for monitoring and recording performance indicator data and business plans) responsibility of managers to exception report.
- Quarterly Review of Financial Performance Reports
- VFM Review Programme

The Council recognises that to drive improvement it needs to closely monitor and review its performance. The Council routinely monitors its spend against budgets, and its performance against National and Local Performance Indicators and also against service plans and strategies. This is encapsulated in the Performance Management Framework.

Financial reports comparing budget to actual and projections to end of year are distributed to all key officers on the first working day of each month, with access/drilldown facilities appropriate to role and responsibilities. This reporting tool, known as the dashboard, includes the reasons/actions to be taken for all red flagged items. Within a further five working days, a projections module is available which includes a detailed analysis prepared by each Head of Service and Service Accountant relating to full year outturn projection.

Financial reporting is effectively delivered through the financial dashboard which is produced and distributed on a monthly basis. This provides a robust mechanism for closely monitoring budgets and effectively challenging / addressing the variances identified with the relevant Heads of Service.

The dashboard has made budget monitoring far more comprehensive and timely than in previous years, producing a year end outturn with no unexpected variances against budget. It has also enabled funds to be reallocated within year to alternative Council priorities.

The Council undertakes a continuous rolling programme of Value For Money (VFM) reviews which measure the quality of services for users, helps ensure they are delivered in accordance

with the Council's objectives and that they represent the best use of resources. In 2010/11 the VFM Review programme has identified and approved action plans to deliver efficiency savings totalling £1.9 million, including: £0.1 million from Housing, £0.1 million from ICT, £0.25 million from Customer Services, £0.2 million from Recreation and Sport, £0.7 million from Urban and Rural Services, £0.2 million from Culture and Heritage, £0.1 million from Democratic Services, the absorption of a £140,000 grant loss in Development Control, £50,000 from Planning Policy, £68,270 from Strategy and Performance.

The programme has improved the value for money of those services, released resources to support the delivery of the Council's objectives and supported the delivery of the Medium Term Financial Strategy. Annual customer surveys provide assurance and feedback to inform improvement through the Corporate Improvement Plans. The Council is constantly seeking to ensure that its resources are used economically, effectively and efficiently. An annual Corporate Improvement Plan provides a focus for improvement in those areas of activity that the Council has identified as priorities. The Council encourages staff involvement in the improvement process and actively uses the findings of external agencies and inspections and the national efficiency framework, to drive improvement. Every report to members carries a paragraph that assesses what efficiency savings the proposal might generate.

1.3.4 Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

A clear statement of the respective roles and responsibilities of the executive, the members and the senior officers are held within:

- The Constitution (available on the Council's website)
- Officer job descriptions

The Council's constitution was comprehensively reviewed and that review was approved and adopted on 20th April 2009. In 2010 further updates were made in relation to new Contract and Financial Rules of Procedure as well as amendments to the Scheme of Delegation and the Proper Officer provisions.

Public speaking was introduced at planning committee and further changes to public speaking, to simplify the process, took effect from May 2010. Work has been undertaken this year to enable the constitution to support the shared services project with South Northamptonshire. This has entailed setting up a Joint Arrangements Steering Group, a Joint Personnel Committee and agreeing delegated powers for the shared Chief Executive.

The budget and policy framework is determined by full Council. The Executive has delegated authority to take most decisions within that framework other than regulatory matters excluded by the Local Government Act 2000. Executive decisions are subject to scrutiny. All meetings are open to the public unless confidential items, as defined by the Local Government Act 1972 as amended, are discussed. All meetings are webcast and are available in archived format for six months from the date of the meeting.

The Overview and Scrutiny Committee has overall responsibility for the performance of all overview and scrutiny functions (under the Local Government Act 2000 and Local Government and Public Involvement in Health Act 2007) on behalf of the Council. In particular it is responsible for scrutinising decisions and decision making, developing and reviewing policy, exercising call-in procedures and investigating matters of local concern.

This work is delivered by the Overview and Scrutiny Committee and the Resources and Performance Scrutiny Board. Both of the Committees can establish 'Task and Finish' groups to

undertake particular reviews in accordance with the annual overview and scrutiny work programme.

The Standards Committee has responsibility for ensuring the highest standards of behaviour and has undertaken an assessment role for all complaints about breaches of the code of conduct since 8th May 2008 (when this responsibility was transferred from the Standards Board for England). The Standards Committee produces an Annual Report which goes to full Council. The Localism Bill going through Parliament proposes the abolition of the Standards regime. The Standards Committee have agreed that if the Bill becomes law as drafted it will suggest to Council that the Standards Committee is abolished and remaining standards functions go to the Accounts Audit and Risk Committee.

The Accounts, Audit and Risk Committee has responsibility for risk management and financial probity, and signs off the Council's annual Statement of Accounts. The Corporate Governance Panel is made up of two members of Accounts Audit and Risk Committee and one member of the Standards Committee.

The Corporate Governance Panel (see membership in 1.5) reviews the governance arrangements of the Council and provides member input into this Annual Governance Statement. The senior officer management team is the Corporate Management Team which meets formally once a fortnight.

1.3.5 Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

The key documents and techniques used to develop the code of conduct and high standards of behaviour that we achieve within Cherwell District Council comprise:

- The Constitution
- Codes of conduct and associated protocols
- Employee Handbook
- Internal / External Communications Policy
- Whistle blowing policy
- Recruitment policy and Appraisal processes
- Registers of member and staff interests
- Complaints policy and procedures
- Internal Audit work
- External Audit Reports
- Chief Executive briefings
- Cascade
- Staff Induction Programme
- Intranet and Website Messages

The Council has adopted codes of conduct for members and officers. The codes and protocols of the Council are in part three of the constitution. The Localism Bill proposes the abolition of the standards regime which means Standards for England will not exist, the code of conduct will be voluntary but registration and declaration of interests will remain with failure to register, or declare, becoming a criminal offence. The district will not longer have responsibility for conduct in the parish councils. The Standards Committee met on 21st March 2011 to consider their response to the proposals. Ultimately the decision whether to have a code of conduct will rest with Council. The Standards Committee voted seven to one in favour of having a voluntary code. The Standards regime continues until the Localism Bill becomes law.

1.3.6 Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

Under the Local Government Act 1972, as amended, the Council is able to delegate decisions to committees or officers but is required to have a scheme of delegation setting this out. The scheme of delegation is part of the Council's constitution. There has been further work on the constitution this year by the Monitoring Officer. The scheme of delegation has required amendment to reflect changes to the management structure and changes to reflect the joint working with South Northamptonshire. An accurate up to date constitution reduces the risk of challenge to the Council's decisions.

One of the key aspects of the internal control environment is the management of risk. The Council has a risk management strategy and Heads of Service are responsible for maintaining the risk management system and ensuring risks are appropriately mitigated and managed. The Performance and Risk Officer administers the risk management system (Performance Plus). All Heads of Service review and update their strategic, corporate and partnership risks online monthly. For each risk noted on the register, responsible officers are required to identify controls that are in place to mitigate the risk.

A risk management workshop for the Extended Management Team is held on an annual basis, the most recent being in February 2011. The purpose of these workshops is to review and revise the strategic risk register and provide an update on the Council's risk management strategy. Risks are categorised as either strategic, corporate, partnership or operational. All strategic, corporate and partnership risks are reviewed on a monthly basis and integrated risk and performance reports are received by the Corporate Management Team (CMT). In addition the Executive and the Audit, Accounts and Risk Committee receive quarterly risk reports. The risk management handbook has also been updated.

Operational risks are also managed using the Performance Plus software and monitoring responsibility is at the departmental management team level. Where necessary, operational risks are escalated to CMT. Operational risks are reviewed on a quarterly basis.

Budget monitoring takes place monthly with all Heads of Service. Any variations to profile are reported on to CMT on a monthly basis with any required corrective action identified and agreed upon. Proposals to increase or reduce expenditure will have a risk assessment as to the consequences. There are specific earmarked reserves to deal with identified non-insurable risks.

The Council has staff with specific responsibility for health and safety and a comprehensive policy covering all aspects of the Council's work. Quarterly monitoring reports are produced for Council and Employee Joint Committee.

The Fraud Investigation team aim to prevent, detect, investigate and sanction cases of fraud under the Council's Prosecution Policy. Internally, the Benefit Investigations Manager provides corporate and benefit fraud awareness training to all new staff via induction training. More in-depth and frequent training is provided to front line staff and other staff where it is needed.

During 2010/11 189 benefit investigations were completed of which 58 offenders were sanctioned, with a third being prosecuted via the criminal courts. One hundred and seventy four thousand pounds of fraudulently obtained benefits were identified for recovery and the strategy of publishing our prosecutions in the local papers acts as a deterrent against this type of abuse and gives assurance to Cherwell Residents that the Council is discharging its responsibility to protect public funds.

Corporate Fraud investigations amounted to 4 cases involving electoral fraud, council tax fraud, theft of IT equipment and direct debit attacks against Cherwell District Council's main account. In all 4 cases, Investigations were able to report back that there was no further action to take and there were no weaknesses in our internal procedures that would leave the Council

open to fraudulent attack. The IT equipment was located, no direct debits were honoured and no electoral fraud was proven. The Council Tax and benefit offences were proven and taken down the appropriate route.

The Council participates in the National Fraud Initiative as well as the Housing Benefit Matching Service exercises. This process identifies potential cases of irregularities within Housing Benefits, Licensing and Payroll. The Council will share data with Credit Reference Agencies for the prevention and detection of fraud. This is a Department of Work and Pensions funded data matching tool which throws up irregularities for investigation (such as claims for single persons discount when it appears there is more than one person living in the property). This is under investigation currently and this will continue at least until December 2011. Single Person Discount matches are anticipated in January 2012, following publication of the electoral role, which is matched against.

An up to date Anti-Money Laundering Policy is on the intranet under Policies & Procedures. This has been modified to take into account the comments of Audit following their report in 2011. The same can be said of the Whistle-blowing policy, which is specific to internal Whistle-blowing and not benefit fraud referrals. A separate referral form for alleged Benefit fraud offences is available on the intranet too. To comply with the Bribery Act 2010, a new policy has been drafted and reviewed by Internal Audit who has agreed it is fit for purpose. It is due to be presented to the Accounts, Audit & Risk Committee for approval in June 2011 alongside training on the Bribery Act 2010.

1.3.7 Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

In June 2009, CIPFA launched its 'Statement on the Role of the Chief Financial Officer (CFO) in Public Service Organisations'.

The Statement supports CIPFA's work to strengthen governance and financial management across the public services. CIPFA's Statement sets out five principles that define the core activities and behaviours that belong to the role of the CFO and the governance requirements needed to support them.

The statement advocates that the CFO in a public services organisation:

- is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risk are fully considered, and alignment with the organisation's financial strategy
- must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the CFO:

- must lead and direct a finance function that is resourced to be fit for purpose
- must be professionally qualified and suitably experienced.

For each principle, the Statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the CFO role within the organisation.

Many day to day responsibilities may in practice be delegated or even outsourced, but the CFO should maintain oversight and control.

CIPFA has issued its 'Statement on the Role of the Chief Financial Officer in Local Government (2010)'. The statement draws heavily on the 'Statement of the Role of the Chief Financial Officer in Public Service Organisations' and applies the principles and roles set out in that document to local government.

For 11 months of 2010/11 (April to March), interim arrangements were in place for the discharge of the CFO role. This involved the provision of the statutory role by the S151 officer of neighbouring South Northamptonshire Council. This provision was for, on average, one day per week. Over this time the CFO, who was suitably qualified as outlined in the statement, worked closely with the Council's Head of Finance and reported directly to the Chief Executive. The CFO had access to the Corporate Management Team which is the Council's leadership team. As a result he was able to bring influence to bear, on all material business decisions. Therefore these key principles were met.

The interim arrangements did not involve him leading and directing the finance function but he worked very closely with the Head of Finance who did fulfil this requirement.

Part way through the year the Head of Finance successfully passed the required exams that enabled her to become the Council's CFO. This arrangement took place from 01 March 2011 as envisaged in the original proposal for CFO cover in the financial year. From this time the principles in the statement were fully met.

1.3.8 Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

The Council's Accounts, Audit and Risk Committee undertake the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities. In particular it has an ongoing role in ensuring a responsive and effective internal audit function and the effective management of the Council's risks and provides 'robust challenge' to the internal control and other governance arrangements of the Council. During 2010/11, the Committee has sought to increase its effectiveness through additional training and greater engagement with the internal audit function. These sessions include an overview of Local Government Finance, an overview of International Financial Reporting Standards and the impact on district councils and specific sessions with internal and external audit. The National Audit Office produces a checklist for audit committees which is based on 5 good practice principles relating to 1) the role of the committee, 2) membership, 3) skills, 4) scope of work and 5) communication. This checklist has been completed for 2010/11 and this indicates that the audit committee is working effectively. This checklist will be completed annually and will form the basis for areas of improvement or training needs for the committee's work programme.

1.3.9 Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

Chief Officers and Service Heads take responsibility for ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer and Chief Financial Officer provide advice and participate in the quarterly reviews described below.

Every report to Members requires completion of financial, legal, equality and risk implications, signed off by an appropriate officer. All reports are vetted by the Chief Executive, Finance and Legal Services, to ensure there are no areas of non-compliance or policy conflicts.

The Head of Legal and Democratic Services is designated as the Council's Monitoring Officer and it is her responsibility to ensure that the Council's business is conducted in a legal and proper fashion and in accordance with Council policies. She would have reported to the full Council if she believed, after appropriate consultation, that any proposal, decision or omission would give rise to unlawfulness, maladministration or breaches of the constitution.

During the 2010/11 financial year, the Chief Financial Officer (for the Period April to March) and the Head of Finance (for March) were designated as the people responsible for the administration of the Council's finances under section 151 of the Local Government Act 1972 and ensured the financial management of the Council was conducted in accordance with the Financial Regulations and Corporate Financial Procedures. Financial management facilitates service delivery through the five-year Medium Term Strategy and the annual budget process, underpinned by the Treasury Management Strategy.

1.3.10 Whistle-blowing and receiving and investigating complaints from the Public

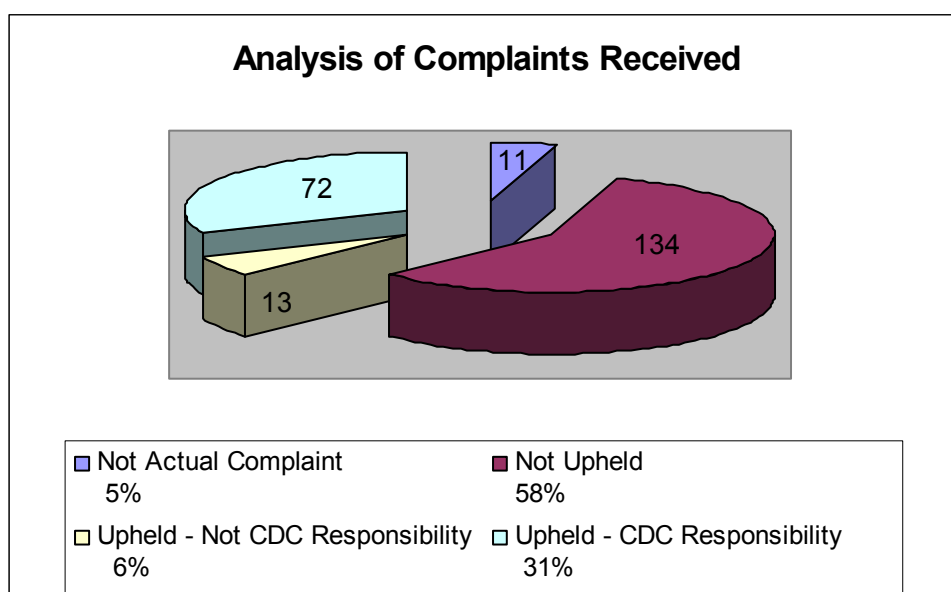
The Council has well-developed processes for whistle-blowing and for receiving and investigating complaints both internally and from the public. The whistle blowing policy is available on the intranet and the corporate complaints procedure is available on the internet. All new members of staff receive a copy of the whistle blowing policy and a leaflet entitled 'Don't Turn a Blind Eye' in their induction packs.

The Council has a dedicated whistle blowing hotline which is publicised on the Council's website and intranet. There were no incidents reported in 2010/2011.

Complaints can be made by telephone, in writing or by visiting the Council. The Council aims to resolve all complaints at the point of contact wherever possible. Where this is not achievable, the Council's complaints procedure (available on the website) outlines a formal process for rectifying issues.

The definition of a complaint is

- a service being delivered at a lower standard than is set out in council policy or SLAs
- the attitude of staff
- neglect or delay in responding to customers
- failure to follow agreed procedures/policies
- evidence of bias or unfair discrimination



During 2010/11 the procedure for recording and responding to complaints was centralised and the role of Complaints Manager incorporated into the Customer Service Manager role. During the year the recording process, monitoring and reporting has been built into the corporate customer relationship management system. 230 complaints were recorded in 2010/11 of which 45% were either not a complaint or not upheld.

The analysis of complaints is monitored regularly to identify common themes / trends and development needs

The Local Government Ombudsman received twelve new enquiries and complaints in relation to Cherwell District Council during 2010/2011, all of which were investigated. Four of the new complaints investigated by the Local Government Ombudsman's investigative team related to Planning and Building Control, one to Housing, one to Local Taxation, one to Transport and Highways and three to other contacts, of which one was about taxi licensing.

The Local Government Ombudsman made ten decisions on complaints during 2010/2011. In seven cases the Council was found not guilty of maladministration, one complaint was resolved by way of a local settlement between the Council and the complainant, two complaints were not pursued at the Ombudsman's discretion and two complaints are still currently being investigated. The average number of days taken to respond to first enquiries from the investigative team was well within the required 28 days.

1.3.11 Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

All members are offered an annual support interview which identifies their support and development needs. Personal plans are produced following these interviews which inform the member development programme. The development programme for elected members offers a range of formal and informal learning events including conferences, briefings, seminars, workshops and forums.

In 2010/11 there were 33 training sessions arranged by Cherwell District Council. The total attendance at all events was 322 Cherwell District councillors, 6 Cherwell co-opted members and 90 external attendees (other district councillors, town councillors, officers, partners e.g. Fire service). The training sessions are categorised to help members choose the appropriate training to suit their individual requirements. There are six training categories: essential, which cover the broad skills for being a councillor, providing information on some of the basic principles of local government such as planning and finance; internal knowledge, which provides information specific to Cherwell District Council; Committee skills, which are targeted at specific committees and roles; Portfolio Holder, which focus on the knowledge and skills required in these roles; engagement, which relate to members' responsibilities as community leaders; and, information, which refer to briefings on specific subjects as required. In 2010/11 all of the categories were included in the Member Development programme. Sessions included licensing training, planning training, code of conduct and governance, meeting and chairing skills, speed reading and briefings on the planning elements of the Localism Bill and the Eco Bicester project.

The Member Development and Support Strategy was agreed by Executive in September 2009. The Strategy sets out the Council's commitment to member development and support. It explains the responsibilities of the Council in delivering effective support to members. All members have been notified of the strategy which is available on the Council's website. The strategy has raised the profile of member development within the organisation.

In 2010/11 the Council reaffirmed its commitment to member development through the reappointment of a Portfolio Holder with specific responsibility for this area. The Council has

also signed up to the Charter for Elected Member Development (through South East Employers) and will be establishing a Member Development Steering Group in 2011/12 to support the achievement of the Charter.

Training needs for all staff are discussed as part of the annual appraisal process and all requests for training go through the Council's Learning and Development manager to monitor both cost and link to the Council's strategic priorities.

The annual appraisal process is monitored for % completion and a dip sample quality review is conducted. The appraisal process also partly informs an annual learning needs analysis that directs development of a corporate training schedule which is delivered mainly through an in-house L&D team. In addition, the council has a continuing management development initiative to promote high quality performance and change management. The latest thread has been the development and delivery of a modular management skills programme combined with an internal (qualified) coaching resource to support the development of managers at all levels. The council has recently enabled several selected staff to attend an 'Aspiring to be Head of Service' workshop to promote career development with LG.

1.3.12 Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

There is a Corporate Consultation Framework with a toolkit for staff providing support, guidance and a statement of our standards. The Council has an online consultation portal which provides access to consultations that are underway and information about what consultations are planned. The Council undertakes a statistically representative annual satisfaction survey and has an annual budget consultation programme that underpins the service and financial planning process.

When procuring the corporate consultation programme an evaluation criterion was set to ensure that the research contractors took steps to ensure harder to reach groups are not excluded. Steps taken include actively recruiting and setting quotas for budget workshops to ensure participants are representative of the district, boosting samples for the postal survey in geographical areas with traditionally lower response rates, providing a shortened online version of the annual satisfaction survey, weighting data to ensure results reflect the make up of the local population and undertaking sub-group analysis of results to ensure different sections of the community are reflected in the research findings.

In addition to the corporate consultation programme the Council also holds a number of consultative forums including the Equality and Access Advisory Panel, the Cohesion group and, in partnership with other local public sector agencies, the Faith and Disability Forums.

The Council has worked with other public agencies to establish six Neighbourhood Action Groups (NAGs) across the district where members of local communities have the opportunity to address quality of life issues at a local level. Each NAG includes both officers and elected members.

The Council also undertakes communication, consultation and engagement through partnership bodies including the Local Strategic Partnership (which holds an annual consultative conference) the Voluntary Organisations Forum and the Older People's Forum. There is also a programme of consultation with older and younger people.

We also hold formal twice yearly parish liaison events which provide clear channels of communication and engagement with the parish councils.

Partnership links exist between the communications teams of the Council, neighbouring Councils and other public sector organisations such as the Police and NHS. Joint communications activity has taken place on shared issues such as the eco town, Horton Hospital and crime figures. Joint communications activity has also taken place with commercial partners such as Sainsbury's, to alert residents of our partnership approach to improving facilities across the district.

In the main accountability and consultation is achieved using the following methods:

- Website
- Committee Management Information System (CMIS) (where the public reports are available for inspection).
- Corporate Improvement Programme
- Medium Term Financial Strategy
- Annual Report and Summary of Accounts
- Statement of Accounts
- Budget Book
- Customer Satisfaction Surveys
- Press releases
- Cherwell Link (residents magazine – 4 editions in 2010/11)
- Intranet
- Corporate Briefings (Cascade)
- Corporate Communications Strategy

1.3.13 Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the Authority's overall governance arrangements

The Council's aim is to fully exploit the opportunities for partnership working and strengthen the governance and performance management arrangements. There is an established Partnerships Protocol and a Partnership Framework including a toolkit to ensure good governance arrangements in respect of partnerships and other groups. This incorporates the Audit Commission's report on the governance of partnership, and ensures their document is reflected in the Authority's overall governance arrangements. The Council includes county wide and district partnerships within its performance management framework and has a partnership risk register.

We undertake audits of partnership arrangements annually and prepare action plans to address weaknesses and ensure value for money. These form part of our annual audit programme.

In 2010/11 Internal Audit undertook a review of our significant Local Strategic Partnership.

They placed "high assurance" in the following areas:

- Arrangements for governance to ensure internal accountability between partners
- Arrangements for governing the partnership to ensure external accountability to the public
- Performance management arrangements and monitoring of progress against partnership objectives
- Financial performance is monitored and reflected upon on a regular basis;
- Identification and management of data sharing
- Data security management
- Clarity of roles and responsibilities.

The LSP is a key partnership for the Council, the role of Chair is held by the Leader of the Council and there are clear terms of reference in place to cover membership, roles and responsibilities and the objectives of the partnership. The LSP Board provides the leadership and decision making body for the partnership and is supported by a management group that plans the work programme of the board and coordinates performance management and action planning. The Management Group is chaired by the LSP Board member with the role of performance champion.

To ensure the partnership listens to the wider views of the local community, it holds an annual conference which is open to all stakeholders and provides an annual report of its activity. Where appropriate the LSP sets up sub-committees to co-ordinate work programmes, examples include the Climate Change Partnership and the Brighter Future in Banbury Steering Group. Sub-partnerships have their own terms of reference, agreed by the LSP Board, and report back to the Board with performance and progress updates on a regular basis.

Performance of the Council's key partnerships (that is those who directly contribute to the Council's strategic objectives) is reported to the Executive on a quarterly basis through the Council's Performance Management Framework (PMF). This includes partnerships at both the county wide and district level. It reports achievements, issues and risks.

There are clear arrangements for Member roles on partnerships and outside bodies and this has been supported by training in 2010/11 and a process of annual review.

The Council's track record of strong partnership working has been recognised as part of previous Comprehensive Performance and Area Assessments. The Council is well placed to exploit the opportunities that are presented by partnership working at both the county and district level, whether with the private sector, other authorities and agencies or with the voluntary and community sector. This is particularly important with the increasing pressure on resources and funding arising from the economic downturn. Examples in 2010/11 include the, partnership approaches in response to addressing the impact of the recession and the establishment of a multi-agency Local Strategic Partnership sub-group to lead the Banbury Brighter Futures Project (project to break the cycle of deprivation).

1.4 Review of Effectiveness of Governance

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Corporate Management Team which has responsibility for the development and maintenance of the governance environment, Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The Council uses the Corporate Governance Group to monitor the effectiveness of the Council's governance framework.

1.5 The Authority's Assurance Framework

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

The members of the Corporate Governance Group during the year were:-

- 2 members from Accounts, Audit and Risk Committee
- 1 member from Standard's Committee

- Chief Financial Officer (151 Officer)
- Head of Legal and Democratic Services (Monitoring Officer)
- Head of Human Resources
- Risk Management and Insurance Officer
- Chief Internal Auditor

Within the Framework, individual service managers are required to complete a detailed assessment at the end of each quarter, in which they confirm the arrangements that they are operating to maintain internal control, and how effective they believe them to be. These assessments are then analysed centrally by the group to provide a picture of any local weaknesses and to help identify any corporate themes that may not be remarkable in one service, but may assume greater significance when exhibited across a range of services.

There is a process, whereby significant issues raised within the Framework can be escalated, through the Corporate Governance Group, to Corporate Management Team and/or the Executive. Minutes of the group and recommendations from it are taken to Corporate Management Team and, where deemed necessary, to the Accounts Audit and Risk Committee, and are integrated with the Performance Management Framework.

The Council has a matrix-based framework for documenting adherence to the principles of good governance set out in the SOLACE/CIPFA code. The Chief Executive and Directors completed the matrices with their Service Heads at the close of 2010/11. They clearly evidence the mechanisms established to support the principles.

1.6 The Constitutional Framework

1.6.1 The Executive

The Local Government Act 2000 sets out the functions which the Executive may perform. The Executive is not permitted to carry out any regulatory function. The Leader of the Council selects the Executive which is a maximum number of ten. 'Portfolios' are given by the Leader to the individual Members of the Executive.

1.6.2 Accounts, Audit and Risk Committee

To monitor the audit and risk management processes of the Council and ensure they comply with best practice and provide value for money. To approve the Council's statement of accounts and respond to any issues raised by internal audit or the external auditor.

1.6.3 Overview and Scrutiny

The Overview and Scrutiny Committee has overall responsibility for the performance of all overview and scrutiny functions (under the Local Government Act 2000 and Local Government and Public Involvement in Health Act 2007) on behalf of the Council. In particular it is responsible for scrutinising decisions and decision making, developing and reviewing policy, exercising call-in procedures and investigating matters of local concern. This work is delivered by the Overview and Scrutiny Committee and the Resources and Performance Scrutiny Board. Both of the Committees establish 'Task and Finish' groups to undertake particular reviews in accordance with the annual overview and scrutiny work programme. In 2010/11 the committees chose not to convene any task and finish groups preferring to adopt the select committee style for their reviews.

The role of scrutiny in following up recommendations: At every meeting of each scrutiny committee, there is a standard agenda item: 'Overview and Scrutiny Annual Work Programme'. This includes a follow up schedule for all previous scrutiny reviews. The committees normally review progress on the implementation of their recommendations at six month intervals, unless the nature of the review suggests a shorter or longer timescale is appropriate. The Portfolio Holder and Strategic Director and/or Service Head are asked to provide a written progress report and to attend the meeting to brief the committee.

There was one call-in during 2010/11. The subject matter was the Executive decisions of Monday 6 December 2010 regarding the proposals to increase Car Parking Fees, the extension of car parking hours, the introduction of parking fees for Blue Badge Holders and the decision to begin negotiations with regards to Watts Way, Kidlington. The meeting to hear the call-in was held on 5 January 2011. The Overview and Scrutiny Committee resolved that the proposals of the Executive to increase Car Parking Fees, the extension of car parking hours, the introduction of parking fees for Blue Badge Holders and the decision to begin negotiations with regards to Watts Way, Kidlington be referred back to the Executive and that in reconsidering the decision the Executive should take note of the concerns expressed at the Overview and Scrutiny Committee meeting and the following 5 points:

1. Ensure proper consultation on Watts Way, Kidlington
2. Request the Executive investigate alternative ways to find funds (e.g. £39k to offset the introduction of evening charges)
3. Investigate the feasibility of barrier parking/pay on exit
4. Study the economic impact of parking charges
5. Investigate the number of disabled bays across the district, the ratio of short to long stay spaces and motorcycle parking availability

1.6.4 Standards Committee

The Local Government Act 2000 required the creation of a Standards Committee to adopt and monitor compliance with the Councillors' Code of Conduct. Since 8th May 2008 the Standards Committee has been responsible for assessing all complaints about breaches of the code of conduct by any councillors, whether district, town or parish, within the administrative area of Cherwell. The Standards Committee has an Independent Chairman and Vice Chairman, and two other Independent members. There are two parish council representatives. All are fully trained and able to take part in Standards Committee meetings and to participate in assessments and reviews of assessments and hearings, when required. During 2010/2011 there has been one complaint heard by an Assessment subcommittee. All the complaints received by the Standards Committee since 2008 have been about parish or town councils.

The Council's major policy objectives flow principally from the Sustainable Community Strategy, which is subject both to mid-year monitoring and an annual progress review that is reported not only to the Cherwell Local Strategic Partnership, but also to the Council's Overview and Scrutiny committees and its Executive.

The range of priority projects and other initiatives in the Council's Corporate Improvement Plan has been monitored by the Corporate Management Team and by the Executive quarterly to ensure that improvement is being delivered.

The Head of Legal and Democratic Services, as Monitoring Officer, continues to review the relevance and effectiveness of the constitution. This was a major piece of work in 2008/2009 and updating continues to be done regularly. Amendments go to the relevant committee, for example Planning, Overview and Scrutiny or Standards then to the Executive. Any new legislation is identified, and implications, particularly financial, are reported to the Executive where relevant.

1.6.5 Chief Financial Officer

During the 2010/11 financial year, the Chief Financial Officer was designated as the person responsible for the administration of the Council's finances under section 151 of the Local

Government Act 1972 and ensured the financial management of the Council was conducted in accordance with the Financial Regulations and Corporate Financial Procedures.

The arrangement for 2010/11 was an arrangement whereby for the first 11 months of the financial year the S151 officer of neighbouring South Northamptonshire Council took on the role and for the final month of the year the Council's Head of Finance took over the role as originally planned.

The, now implemented, permanent arrangement is that the Head of Finance is the Council's Chief Financial Officer.

The permanent arrangements at the Council reflect the guidance contained in CIPFA's 'Statement on the Role of the Chief Financial Officer in Local Government (2010)'.

1.6.6 Internal Audit

Following an extensive tender and selection process, PricewaterhouseCoopers were appointed to provide the Council's internal audit service, on a fully outsourced basis, with effect from 1st April 2009.

Internal Auditing standards, including the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (The CIPFA Code) require the Head of Internal Audit to provide those charged with governance with an opinion on the overall adequacy and effectiveness of the Council's:

- Risk management
- Control
- Governance processes.

Collectively this is referred to as 'System of Internal Control'.

The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager and/or chief officer. The report includes recommendations for improvements that are included within an action plan (and graded as high, medium or low), and requires agreement or rejection by service manager and/or chief officers.

The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months. All Internal Audit reports include a report on the quality and effectiveness of internal control within the Council's systems, and an assessment in accordance with quantification and classification of internal control level definitions. These definitions are summarised below:

High Assurance – No control weaknesses were identified or there were some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore internal audit can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.

Moderate Assurance – There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than significant or they are unlikely to occur.

Limited Assurance – There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational

objectives. However, there are discrete elements of the key system, function or process where internal audit has not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. Internal audit is therefore able to give limited assurance over certain discrete aspects of the system, function or process.

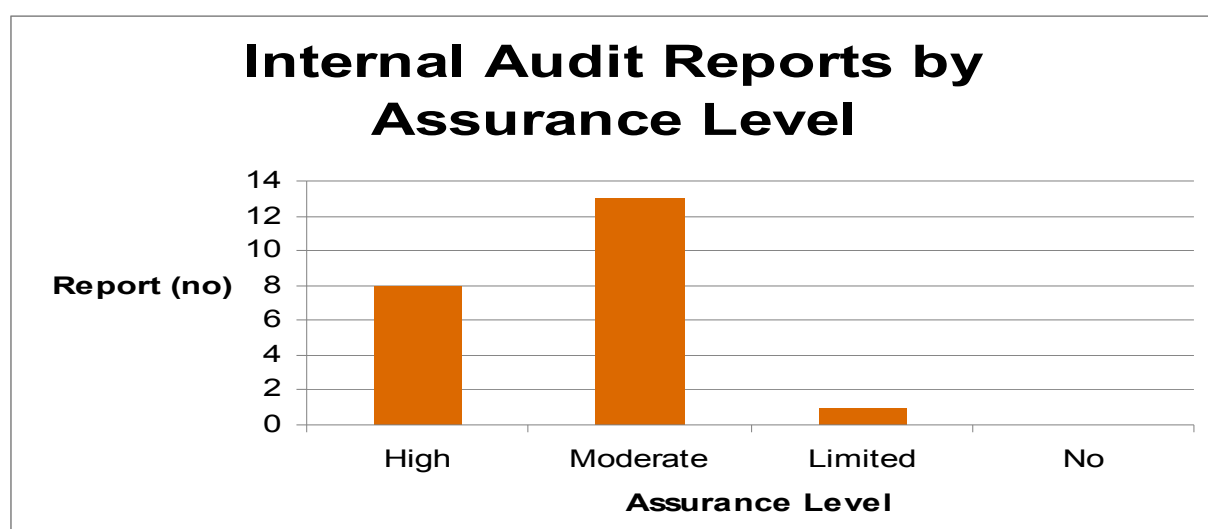
No Assurance – There are weaknesses in the design and/or operation of controls which (in aggregate) could have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of the Council's objectives.

The Internal Audit service is subject to a review by the Council's external auditors, the Audit Commission, who place reliance on the work carried out by the service. Internal Audit also carries out an annual self-assessment that is reviewed by the Head of Legal and Democratic Services and external audit.

The Internal Audit Annual Report presented to the Accounts, Audit and Risk Committee on 22nd June 2011 included the following opinion on internal control from PWC:

"We have completed the program of internal audit work for the year ended 31 March 2011 and have identified 1 significant control weakness to be considered for inclusion in the Council's Annual Governance Statement. Our work on the Council's Firewalls identified 2 high risk issues around their design and configuration. We note however, that no security breaches occurred during the year, and none have been identified in recent years. However, given the significance of computer systems to the Council, we consider this control design issue to have a significant effect on the system of internal control. We recognise, however, the prompt action taken in response to the audit recommendations including the review of contracts with the firewall providers, which will address these issues.

In addition to the work in the audit plan we have provided additional support to both officers and members in respect of key issues facing the Council and the Local Government Arena (most notably in the areas of International Financial Reporting Standards and Risk Management). We look forward to continuing to support you in these areas during 2011/12. It should be noted that we have identified areas of good practice in relation to the operation of internal control systems within Finance, HR and Legal Services and have issued High Assurance in 8 reports.



On the basis of our conclusions noted we can offer MODERATE assurance on the internal control framework of the Council. We provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit

work on business critical systems, but there have been some isolated high risk recommendations. The level of our assurance will therefore be moderated by these risks and we cannot provide a high level of assurance.”

1.6.7 Risk Management

The Risk Management Strategy was reviewed, updated and agreed by the Accounts, Audit and Risk Committee on 13 December 2010. The Strategy also formed part of the Executive report on the future of performance and risk management which was approved at the 7 March meeting.

The Strategic Risk Register was reviewed monthly by CMT and quarterly by Executive and any risks associated with the proposed action in committee reports were brought to the attention of Corporate Management Team. The Health and Safety Policy was kept under continuous review by the Health and Safety Officer, and safe working practice notes updated where appropriate.

The Accounts, Audit and Risk Committees received and considered reports on the management of strategic risks on a regular basis and agreed a new review programme. During 2010/11, all the Council's strategic, corporate, partnership and operational risks were redefined to ensure a greater focus on the most significant risks identified. During 2010/11 the Accounts, Audit and Risk Committee reviewed the CIPFA good practice guidance on risk management and received a briefing from the Council's internal auditors. This covered the auditor's approach to risk management and also the best practice on the 'top ten' governance risks identified by CIPFA for 2011.

All reports to the Executive and Committees include a section outlining any risk implications arising from the proposals, risk identification being approved by the Corporate Strategy and Performance Manager.

During 2010/11 two additional risks were identified and added to the register. These were the strategic risks associated with the programme of shared management with South Northamptonshire Council which has been assessed as a strategic risk and is owned by the Chief Executive. The rationale behind this is the impact failure of the programme will have on the delivery of the Council's Medium Term Financial Strategy and therefore the strategic objectives of the organisation. In addition Internal Audit reviewed the business plan for the new shared governance arrangements in year and found that effective procedures were in place to govern the transition and mitigate against the risk.

The second risk is corporate fraud, assessed as a corporate risk and owned by the Head of Finance/ Section 151 Officer. The rationale behind this is the impact failure to control this risk would have on the Council's reputation and possibly the delivery of key services or objectives.

Both of these risks were reviewed by the Council's Extended Management Team in February 2011 and they are monitored on a monthly basis. The Account, Audit and Risk Committee agree the additions of these risks to the register.

1.6.8 Performance and Value for Money

Progress in meeting targets for National and Local Performance Indicators is reviewed monthly by the Corporate Management Team, and quarterly by the Executive as part of the Performance Management Framework. This ensures that senior managers know which targets are being met and that action is being taken where performance is not meeting targets. Financial performance is measured across a range of indicators that are reported to the Finance Scrutiny Working Group at each of its meetings. Budget monitoring is regularly reported to the Executive, Finance Scrutiny Working Group, Resources and Performance Scrutiny Board and Corporate Management Team on a regular basis.

There is a yearly programme of VFM reviews, which target known areas of high comparative cost as a priority, but seek to include all areas of the council as part of a rolling programme. In 2010/11 the VFM Review Programme comprised 10 reviews which involved re-visits of previous high cost services as well as reviews of large areas of spend not previously subject to a review. The review areas included Housing, Recreation and Sport, Culture and Heritage, Planning Policy, Development Control, ICT, Urban and Rural Services, Democratic Services, Corporate Strategy and Performance and Customer Services.

The 2010/11 VFM Programme contributed to the corporate pledge of identifying efficiency savings of £0.8m for the 2011/12 budget. The Reviews identified action plans to deliver efficiency savings totalling £1.9million over the period of the Council's MTFS, including significant service improvements.

The 2011/12 Corporate Improvement Plan was agreed by Executive on 7 March 2011 comprising 14 projects and programmes, including;

- A VFM Review Programme of four reviews completing the coverage of all service areas
- The revision of the Medium Term Financial Strategy
- Joint work with South Northamptonshire District Council on sharing work and reducing costs
- the continuation of existing programmes of work such as Banbury Brighter Futures and Customer Service improvements.

The Corporate Improvement Plan will also address new areas that impact on value for money such as the Government's proposals on planning fees and charges and the New Homes Bonus.

The 2010/11 Annual Audit Letter due to be published after the audit of the financial statements will give an opinion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and financial resilience.

1.6.9 Independent Assessment

During 2010/11 the Council received independent assessments in relation to:

- Building Control – BS EN ISO 9001
- Legal Services - LEXCEL
- Information Technology
 - Information Security – ISO 27001 – assessed by LQRA
 - Compliance with the Government code of Connect assessed by the government's inspectors
 - PCI DSS compliance assessed by Arsenal Security Group, RBS UK Merchant Compliance partner

External audit is undertaken by the Audit Commission and provides assurance regarding the controls the Council has in place. Where the auditor identifies weaknesses in the Council's arrangements, these are highlighted in the Annual Audit and Inspection Letter. The 2009/10 letter was published in November 2010.

The key messages from the Audit Commission's report were:

- The Council faces some major challenges. These include responding to the government's Spending Review which requires every council across the country to make large financial savings. The Council has been anticipating the spending review for some time. It has made plans to make significant savings through its Medium Term

Plan and Financial Strategy. This includes a review of all services in conjunction with the Council's latest public consultation and residents priorities.

- The Council received an unqualified audit opinion on its 2009/10 accounts, the latest published.
- The Annual Audit Letter acknowledged that its review did not identify any significant weaknesses in the internal control arrangements.

1.7 Significant Governance Issues

1.7.1 Issues arising from the 2009/10 Annual Governance Statement

No.	Issue	Update
1	<p>Cherwell District Council has three deposits with the failed Icelandic bank Glitnir totalling £6.5 million. The bank was originally expected to confirm preferential creditor status to all UK local authorities meaning we would see the return of the full investment plus interest and costs during 2009/10.</p> <p>However the bank's winding-up board is treating all local authority demands as general unsecured claims which would mean a return of only 31 per cent of the original investment only. All local authorities that have invested with Glitnir have been working with the Local Government Association and law firm Bevan Brittan to resolve this issue over the last 18 months.</p>	<p>On 1 April 2011 the Council was successful in the Icelandic Court in securing preferential creditor status but there remains the possibility of an appeal against this decision to the Icelandic Supreme Court so the final position cannot yet be stated with certainty. The latest estimates provided by CIFPA in LAAP Bulletin 82 published in May 2011 indicate that total assets of the bank only equate to 29% of its liabilities. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 29p in the £ indicating a potential liability of £4.6 million. The Council has applied the capitalisation direction and written off £4.6million in the 2010/11 accounts – should the decision stand and 100% recovery is made then this will be treated as windfall income in 2011/12 accounts.</p> <p>We will continue to work with the Local Government Association and Bevan Brittan to achieve the best possible return from our investment within the shortest possible timescales. The risk will be retained as a significant issue and monitored in the 2010/11 action plan.</p>

1.7.2 Issues arising from the 2010/11 Annual Governance Statement

The Council faces an extremely challenging year in 2011/12 as it seeks to manage significant budget reductions, increasing demand for some key services and new ways of working, simultaneously. The following represent the key issues to be addressed in relation to significant governance issues;

No.	Issue	Action taken
1	<p>Joint working arrangements</p> <p>The Council agreed on the 8th December 2010 to joint working arrangements with South Northamptonshire Council. These arrangements will commence in 2011-12 with a senior management team comprising of twelve shared posts: a Chief Executive, three Directors and eight Heads of Service. The final structure and responsibilities of the senior management team will be agreed between the shared Chief Executive and members of both councils before further appointments are made. The shared Chief Executive (Sue Smith) took up her post on the 16th May 2011 and the plan is to implement the shared senior team by 30 September 2011.</p> <p>Cherwell District Council and South Northamptonshire Council will remain separate independent entities, retaining their sovereignty. Elected members of both councils will remain in charge of decision-making in line with their visions, strategic aims, objectives and priorities.</p>	<p>The business case was reviewed by Internal Audit at both Councils and each Council's risk register now includes the implementation of the shared senior management team and progress against the financial benefits as a risk which will be monitored regularly.</p> <p>The resulting new structure will reduce management capacity and both Council's will need to ensure that key controls and governance arrangements continue to work effectively as the new structure settles in.</p>
2	<p>Council's Firewall Design and Configuration</p> <p>The subsequent report identified that there are a number of insecure configurations within the Council's firewalls which may expose the Council to the risk of unauthorised access to systems and networks from inside the council; the auditors were satisfied that sufficient controls were in place to prevent unauthorised access from external parties.</p>	<p>We requested this audit as part of our pursuance of best practice. Remedial actions proposed by Internal Audit both to address this isolated technical design issue, and reduce the likelihood of the risk recurring in the future, were implemented by March 31 2011.</p>

This document has described our governance arrangements and assessed how closely we align with good practice. In overall terms this is a positive statement for the financial year 2010/11. The Council has a good system of internal control and action plans in place to address the above significant governance issues and we are satisfied that these are appropriate. We will monitor their implementation during the course of 2011/12.

Ian Davies
Interim Chief Executive (to 16 May 2011)
June 2011

Cllr Barry Wood BSc ACMA
Leader of the Council
June 2011

Accounts, Audit and Risk Committee

Treasury Management Annual report

22 June 2011

Report of Head of Finance

PURPOSE OF REPORT

To receive information on treasury management performance and compliance with treasury management policy during 2010/11 as required by the Treasury Management Code of Practice.

This report is public

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

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To consider, amend or endorse this report for consideration at the next appropriate full Council meeting.
- (2) To give delegated authority to the Head of Finance in consultation with the Chairman of Account, Audit and Risk Committee to make any amendments required as a result of finalising the 2010/11 financial statements.

Summary

- 1.1 As part of our investment strategy and governance arrangements this committee considers the investment performance to date and our compliance with counterparties being used.
- 1.2 The Code of Practice on Treasury Management approved by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted in full by the Council in 2004, requires that a Treasury Management Strategy is produced prior to the beginning of the financial year to which it relates. The Treasury Management Strategy is the cornerstone of proper treasury management, and is central to the operation, management reporting and performance assessment. The 2010/11 strategy for Cherwell District Council was approved at full Council in February 2010. The 2011/12 strategy for Cherwell District Council was approved at full Council on 18th May 2011.
- 1.3 The highest standard of stewardship of public funds remains of the utmost importance to the Council. This document sets out the Council's priorities

and policies for making, and managing investments made by the Council in the course of undertaking treasury management activities during the 2011/12 financial year.

Background Information

2010/11 Performance

- 2.1 The Council has £22.5m and £20m respectively invested with fund managers Tradition UK and Investec. In addition it has around £25m managed in-house (including Eco Town funds of £9.2m) which fluctuates during the year. The Council regularly reviews of 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. This review is ongoing and the outcome will be presented in the 2010/11 annual report but is expected to deliver further efficiency savings.
- 2.2 The Council's investments and counterparties are listed in Appendix 1a and 1b.
- 2.3 Further details of the Councils Treasury Management Performance in 2010/11 can be seen in the Annual Report (Appendix 2)

Implications

Financial:	All financial issues are detailed in the report. Comments checked by Karen Muir, Corporate System Accountant 01295 221559.
Legal:	Presentation of this report is in line with the CIPFA Code of Practice. Comments checked by Nigel Bell, Interim Monitoring Officer, 01295 221687.
Risk Management:	It is essential that this report is considered by the Executive as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided. Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

Wards Affected

All wards are affected.

Document Information

Appendix No	Title
Appendix 1a & b Appendix 2	Deposits by Counterparty – RESTRICTED Annual Report

Background Papers	
2010/11 Strategy Budget Monitoring Reports CIPFA Treasury Management Code of Practice Sector Templates	
Report Author	Karen Curtin, Head of Finance Jessica Lacey, Technical Accountant
Contact Information	01295 221551 Karen.Curtin@Cherwell-dc.gov.uk 01295 221564 Jessica.lacey@Cherwell-dc.gov.uk

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Annual Treasury Management Report 2010/11

Annual Treasury Management Report 2010/11

Purpose

This Council is required through regulations issued under the Local Government Act 2003 to produce an annual report reviewing treasury management activities and the actual prudential and treasury indicators for 2010/11. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2010/11 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 18/05/2011)
- a mid year (minimum) treasury update report (Executive 01/11/2010)
- an annual report following the year describing the activity compared to the strategy (this report)

In addition, this Council has received quarterly treasury management update reports by the Executive and Accounts & Risk Committees.

Recent changes in the regulatory environment place a much greater onus on members for the review and approval of treasury management policy and activities. This report is important in that respect, as it provides details of the current position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all treasury management reports by the Accounts, Audit & Risk Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during the year on 02/06/2011 to support Members' scrutiny role.

Executive summary

During 2010/11, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparative figures for 2009/10, are as follows:

Actual prudential and treasury indicators	2009/10 Actual £000s	2010/11 Actual £000s
Actual capital expenditure	17,676	5,816
Capital Financing Requirement	(17,676)	(5,816)
Net borrowing	0	0
External debt	0	0
Investments		
• Longer than 1 year	17,000	5,500
• Under 1 year	50,664	61,045
• Total	67,664	66,545

Other prudential and treasury indicators are to be found in the main body of this report.

The financial year 2010/11 continued the challenging environment of previous years; low investment returns and continuing counterparty risk continued.

Introduction and background

This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position identifying the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed investment activity.

1. The Council's Capital Expenditure and Financing 2010/11

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£000s	2009/10 Actual	2010/11 Actual
Capital expenditure	17,676	5,816
Total capital expenditure	17,676	5,816
Resourced by:		
• Capital receipts	16,897	4,509
• Government Grants & Other Contributions	455	383
• Use of Reserves	60	607
• Direct Revenue Financing	264	317
Total resources used	17,676	5,816

2. The Council's overall borrowing need

The Council's is debt free and does not currently have a borrowing requirement.

3. Treasury Position as at 31 March 2011

The Council's investment position is organised by the treasury management team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2010/11 the Council's treasury position was as follows:

The maturity structure of the investment portfolio was as follows:

	2009/10 Actual £000	2010/11 Actual £000
Investments		
• Longer than 1 year	17,000	5,500
• Under 1 year	50,664	61,045
• Total	67,664	66,545

4. The Strategy for 2010/11

The expectation for interest rates within the strategy for 2010/11 anticipated low but rising Bank Rate (starting in quarter 4 of 2011) with similar gradual rises in medium and longer term fixed interest rates over 2010/11. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

The actual movement in interest rates broadly followed the expectations in the strategy, as detailed in the following section.

5. The Economy and Interest Rates

2010/11 proved to be another watershed year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on Public Works Loan Board (PWLB) lending arrangements in October 2010. This resulted in an increase in new borrowing rates of 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.

UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although the economy slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being decidedly downbeat over the short to medium term while the Japanese disasters in March, and the Arab Spring, especially the crisis in Libya, caused an increase in world oil prices, which all combined to dampen international economic growth prospects.

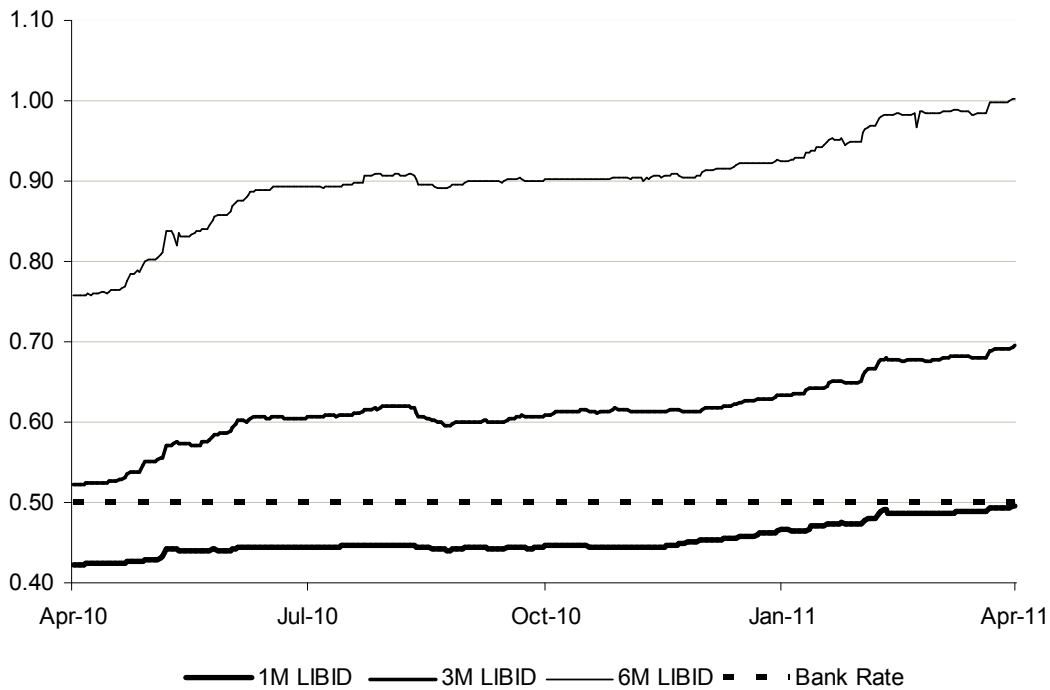
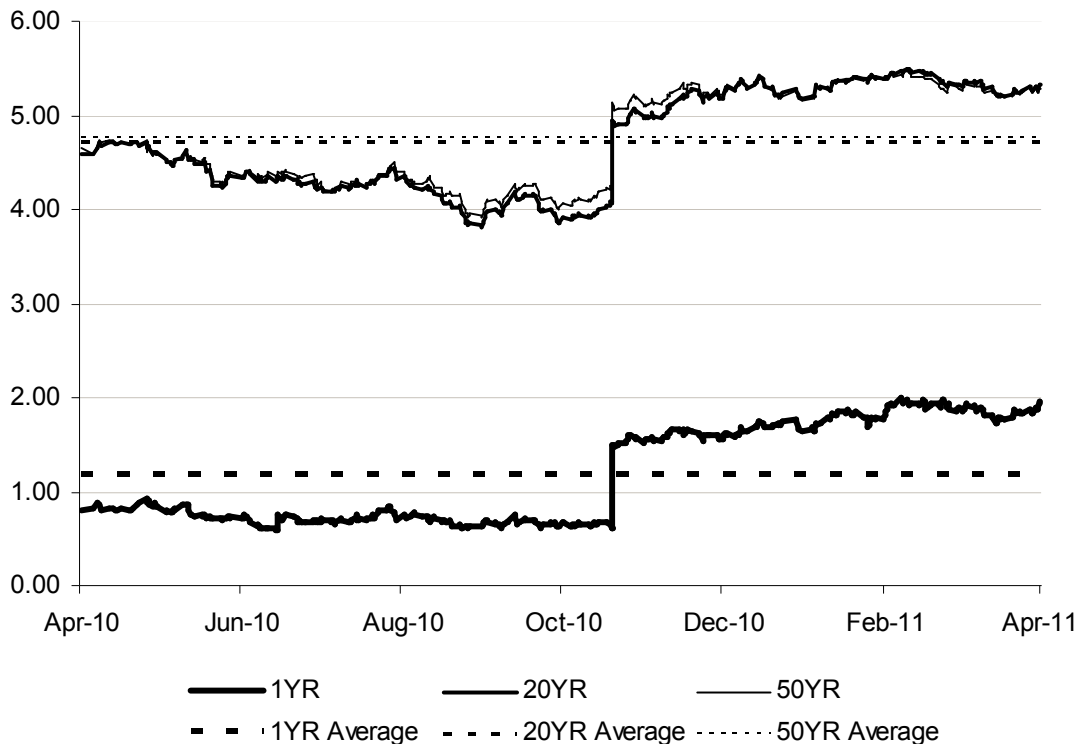
The change in the UK political background was a major factor behind weaker domestic growth expectations. The new coalition Government struck an aggressive fiscal policy stance, evidenced through heavy spending cuts announced in the October Comprehensive Spending Review, and the lack of any “giveaway” in the March 2011 Budget. Although the main aim was to reduce the national debt burden to a sustainable level, the measures are also expected to act as a significant drag on growth.

Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government’s debt reduction plans, especially in the light of Euro zone sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures. These were also expected (during February / March 2011) to cause the Monetary Policy Committee to start raising Bank Rate earlier than previously expected.

The developing Euro zone peripheral sovereign debt crisis caused considerable concerns in financial markets. First Greece (May), then Ireland (December), were forced to accept assistance from a combined EU / IMF rescue package. Subsequently, fears steadily grew about Portugal, although it managed to put off accepting assistance till after the year end. These worries caused international investors to seek safe havens in investing in non-Euro zone government bonds.

Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to prospects of an earlier start to increases in Bank Rate. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation. However, the disparity of expectations on domestic economic growth and inflation encouraged a wide range of views on the timing of the start of increases in Bank Rate in a band from May 2011 through to early 2013. This sharp disparity was also seen in MPC voting which, by year-end, had three members voting for a rise while others preferred to continue maintaining rates at ultra low levels.

Risk premiums were also a constant factor in raising money market deposit rates beyond 3 months. Although market sentiment has improved, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, mean that investors remain cautious of longer-term commitment. The European Commission did try to address market concerns through a stress test of major financial institutions in July 2010. Although only a small minority of banks “failed” the test, investors were highly sceptical as to the robustness of the tests, as they also are over further tests now taking place with results due in mid-2011.

Chart 1: Bank Rate v LIBID investment rates**Chart 2: Average v new borrowing rates**

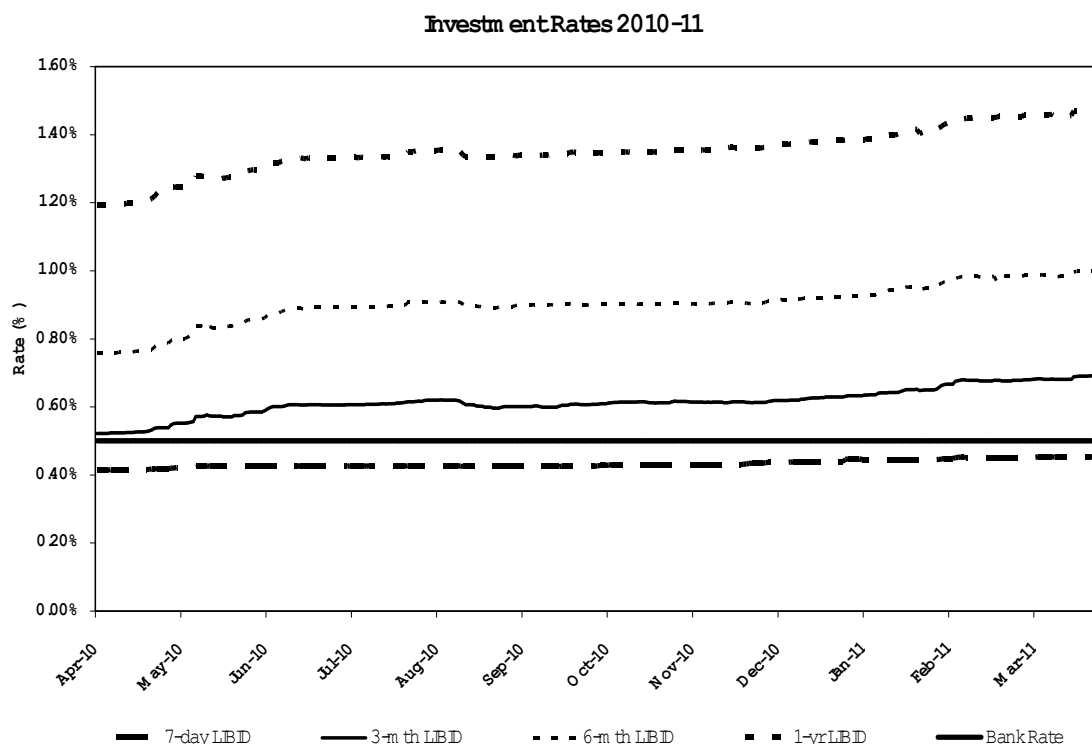
6. Investment Rates in 2010/11

The tight monetary conditions following the 2008 financial crisis continued through 2010/11 with little material movement in the shorter term deposit rates. Bank Rate remained at its historical low of 0.5% throughout the year,

although growing market expectations of the imminence of the start of monetary tightening saw 6 and 12 month rates picking up.

Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in rescue packages for Greece, Ireland and latterly Portugal. Concerns extended to the European banking industry with an initial stress testing of banks failing to calm counterparty fears, resulting in a second round of testing currently in train. This highlighted the ongoing need for caution in treasury investment activity.

	Overnight	7 Day	1 Month	3 Month	6 Month	1 Year
01/04/2010	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
31/03/2011	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
High	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
Low	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
Average	0.43%	0.43%	0.45%	0.61%	0.90%	1.35%
Spread	0.03%	0.04%	0.07%	0.17%	0.24%	0.28%
High date	31/12/2010	30/03/2011	31/03/2011	31/03/2011	31/03/2011	31/03/2011
Low date	01/04/2010	01/04/2010	01/04/2010	01/04/2010	01/04/2010	01/04/2010



7. Investment Outturn for 2010/11

Investment Policy – the Council's investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Council on 18th May 2011. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating

agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Investments held by fund managers – the Council uses 2 external fund managers to invest part of its cash balances. The performance of the managers against the benchmark return was:

Fund Manager	Balance 01/04/10 £000s	Balance 31/03/11 £000s	Return £000s	Return %	Benchmark*
In House	22,320	23,520	313	1.14	0.433%
Tradition Uk	25,000	22,500	809	3.60	0.435%
Investec	20,344	20,525	240	1.18	0.435%
Total	67,664	66,545	1,362	2.22	

This compares with a budget assumption of average investment balances of £60,344m 2.24% investment return. Performance during the year has been {insert summary on performance}.

8. Icelandic Bank Defaults

Cherwell District Council is one of at least 123 local authorities that have been affected by the collapse of Icelandic banking institutions. The Council has three deposits with the failed Icelandic bank Glitnir totalling £6.5 million. The bank was originally expected to confirm preferential creditor status to all UK local authorities meaning we would see the return of the full investment plus interest and costs during 2009/10.

However the bank's winding-up board is treating all local authority demands as general unsecured claims which would mean a return of only 29 per cent of the original investment only. All local authorities that have invested with Glitnir have been working with the Local Government Association and law firm Bevan Brittan to resolve this issue over the last 18 months.

On 1 April 2011 the Council was successful in the Icelandic Court in securing preferential creditor status but there remains the possibility of an appeal against this decision to the Icelandic Supreme Court so the final position cannot yet be stated with certainty.

The latest estimates provided by CIFPA in LAAP Bulletin 82 published in May 2011 indicate that total assets of the bank only equate to 29% of its liabilities. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 29p in the £ indicating a potential liability of £4.6 million.

Although the Council remains confident of getting 100% of its investment back a plan was drawn up to deal with any loss via a capitalisation request and use of the Council's reserves. This strategy was been built into the MTFS.

On the advice of the Council's treasury advisors the Council has written off £4.6million in the 2010/11 accounts utilising the capitalisation direction and earmarked reserve. Should the current legal decision stand after the appeal process and 100% recovery is made then this will be treated as windfall income in 2011/12 accounts. **(this is subject to change as Accounts not finalised until June 30th 2011)**

We will continue to work with the Local Government Association and Bevan Brittan to achieve the best possible return from our investment within the shortest possible timescales.

Appendix 1: Prudential and treasury indicators (subject to updates once Financial Statements approved)

The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. This total expenditure can be paid for immediately by resources such as capital receipts, capital grants etc. However, where these resources are insufficient any residual expenditure will form a borrowing need.

The summary capital expenditure projections are shown below and this forms the first prudential indicator:

	2009/10 Actual £000s	2010/11 Estimated £000s	2011/12 Estimated £000s	2012/13 Estimated £000s	2013/14 Estimated £000s
Capital Expenditure 2011/12 approved	17,676	5,582	13,923	5,704	599
Financed by:					
Capital receipts	(16,897)	(4,907)	(11,926)	(5,306)	(599)
Capital grants	(455)	(375)	(375)	-	-
Revenue funded reserves	(60)	(300)	(1,622)	(398)	-
Direct Revenue Financing	(264)	-	-	-	-
Net financing need for the year	-	-	-	-	-

The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments.

The Council is debt free and has no plans to enter into any long term debt arrangements. As such this section is largely irrelevant but is included for completeness if there was a decision to go back into debt. Therefore, the Council has a nil Minimum Revenue Provision for 2011/12.

The Council is asked to approve a NIL CFR projection as in the following table:

Capital Financing Requirement	2009/10 Actual £000s	2010/11 Estimated £000s	2011/12 Estimated £000s	2012/13 Estimated £000s	2013/14 Estimated £000s
Capital Financing Requirement:					
Total CFR	-	-	-	-	
Movement in CFR	-	-	-	-	
Movement in CFR represented by:					
Net financing need for the year (above)	-	-	-	-	
MRP/VRP and other financing movements	-	-	-	-	
Movement in CFR	-	-	-	-	

The Use of the Council's resources and the Investment Position

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2009/10 Actual £000s	2010/11 Estimated £000s	2011/12 Estimated £000s	2012/13 Estimated £000s	2013/14 Estimated £000s
Fund balances	(1,777)	(1,200)	(1,200)	(1,200)	(1,200)
Capital receipts	(46,290)	(37,728)	(23,805)	(18,101)	(17,502)
Earmarked reserves	(7,070)	(6,820)	(6,820)	(6,820)	(6,820)
Total Core Funds	(55,137)	(45,748)	(31,825)	(26,121)	(25,522)
Working Capital*	(9,382)	(9,382)	(9,382)	(9,382)	(9,382)
Expected Investments	(64,519)	(55,130)	(41,207)	(35,503)	(34,904)

* Working capital balances are estimated year end; mid year may be higher

Limits to Borrowing Activity

Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits.

For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2010/11 and the following two financial years.

Borrowing	2009/10 Actual £000's	2010/11 Estimated £000's	2011/12 Estimated £000's	2012/13 Estimated £000's	2013/14 Estimated £000's
Gross Borrowing	-	-	-	-	-
Investments	(64,519)	(55,130)	(41,207)	(35,503)	(34,904)
Net Borrowing	(64,519)	(55,130)	(41,207)	(35,503)	(34,904)
CFR	-	-	-	-	-

The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

A further two prudential indicators control or anticipate the overall level of borrowing. These are:

- The Authorised Limit for External Debt – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council.
- The Operational Boundary for External Debt – This indicator is based on the expected maximum external debt during the course of the year; it is not a limit.

The Council operates under the following Authorised Limit and Operational Boundary:

Authorised limit	2009/10 Actual £000s	2010/11 Estimated £000s	2011/12 Estimated £000s	2012/13 Estimated £000s	2013/14 Estimated £000s
Borrowing	10,000	10,000	10,000	10,000	10,000
Other long term liabilities	500	500	500	500	500
Total	10,500	10,500	10,500	10,500	10,500
Operational Boundary	2009/10 Actual £000s	2010/11 Estimated £000s	2011/12 Estimated £000s	2012/13 Estimated £000s	2013/14 Estimated £000s
Borrowing	-	-	-	-	-
Other long term liabilities	-	-	-	-	-
Total	-	-	-	-	-

Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. The Council is asked to approve the following indicators:

Actual and Estimates of the ratio of financing costs to net revenue stream – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of interest against the net revenue stream. Since becoming debt free the indicator is negative because the Council has no borrowing but carries substantial investments.

	2009/10 Actual %	2010/11 Estimated %	2011/12 Estimated %	2012/13 Estimated %	2013/14 Estimated %
Non-HRA	-	-	-	-	-

Estimates of the incremental impact of capital investment decisions on the Council Tax – This indicator identifies the revenue costs associated with **new schemes** introduced to the three year capital programme recommended in the budget report compared to the Council's existing approved commitments and current plans.

Incremental impact of capital investment decisions on the Band D Council Tax

	2011/12	2012/13	2013/14
Council Tax - Band D	£0.36	(£0.25)	(£0.50)

Treasury Management Prudential Indicators and Limits on Activity

The Council then has three further treasury prudential indicators:

	2011/12	2012/13	2013/14
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
Maturity Structure of fixed interest rate borrowing 2011/12			
	Lower	Upper	
Under 12 months	0%	100%	
12 months to 2 years	0%	0%	
2 years to 5 years	0%	0%	
5 years to 10 years	0%	0%	
10 years and above	0%	0%	
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£m	£m	£m
	0	0	0

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Accounts, Audit and Risk Committee

Annual Audit Fee & External Audit Progress Report

22 June 2011

Report of Head of Finance

PURPOSE OF REPORT

This reports sets out the audit and inspection work that the Audit Commission proposes to undertake for the 2011/12 financial year at Cherwell District Council and the fee associated with this work. The report also provides a progress report on the work of external audit.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- (1) note the contents of the annual audit fee letter (Appendix 1)
- (2) approve the extension of the Engagement Lead – Maria Grindley for a period of 2 further years
- (3) note the contents of the progress report (Appendix 2)

Summary

- 1.1 The audit fee letter was received on 20 April 2011 and discussed with the Chief Executive and the Chief Financial Officer (151 Officer).
- 1.2 The letter is attached in Appendix 1 – the proposed fee is £114,338. The Audit Commission proposes to set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. This amount can be contained within existing 2011/12 budget.
- 1.3 The District Auditor will be able to address any issues that the Committee have with the letter at the meeting.
- 1.4 Appendix 2 contains the latest progress report and the Engagement manager Nicola Jackson will be able to address any issues that the Committee would like to raise at the meeting.
- 1.5 Officers have provided responses to the recommendations and these will be monitored to ensure that they are implemented.

Key Issues for Consideration/Reasons for Decision and Options

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

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

Implications

Financial:	The audit fee can be contained within 2011/12 budget of £127,518 Comments checked by Karen Muir, Corporate System Accountant 01295 221559.
Legal:	There are no implications arising from this report. Comments checked by Karen Muir, Corporate System Accountant 01295 221559.
Risk Management:	There are no implications arising from this report Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

Wards Affected

All wards are affected.

Document Information

Appendix No	Title
Appendix 1	Annual Audit & Inspection Fee 2011/12
Appendix 2	External Audit Progress Report
Background Papers	
None	
Report Author	Karen Curtin, Head of Finance
Contact Information	01295 221551 Karen.Curtin@Cherwell-dc.gov.uk

20 April 2011

Mr I Davies
Interim Chief Executive
Cherwell District Council
Bodicote House
Banbury OX15 4AA

Direct line 08447 988952
Direct fax 0844 798 8999
Mobile 07769 932604

Dear Ian

Annual audit fee 2011/12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Cherwell District Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- The audit of financial statements
- Value for money conclusion
- Whole of Government accounts.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission proposes to set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee for Cherwell District Council is £114,338. The scale fee is based on the planned 2010/11 fee, adjusted for the proposals summarised above, shown in the table below. Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee.

Audit Commission, Unit 5, ISIS Business Centre, Horspath Road, Cowley, Oxford, OX4 2RD
T 0844 798 8950 F 0844 798 8951 www.audit-commission.gov.uk

Audit area	Scale fee 2011/12	Planned fee 2010/11
Audit fee	£114,338	£120,000
Certification of claims and returns * exact fee based on time spent will be charged	£31,885	£30,000

I will issue a separate audit plan in December 2011. This will detail the risks identified to both the financial statements audit and the vfm conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Head of Finance. I will then prepare a report outlining the reasons the fee needs to change for discussion with the Accounts, Audit and Risk Committee.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

Audit team

Your audit team must meet high specifications and must:

- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Maria Grindley Engagement Lead	m-grindley@audit-commission.gov.uk 0844 798 952	Maria is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of Accounts, Audit and Risk Committee and issuing the auditor's report.
Nicola Jackson Engagement Manager	n-jackson@audit-commission.gov.uk 0844 798 8962	Nicola manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance.

Independence and objectivity

I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity.

I consider any relationships that may affect the independence and objectivity of the team, which I am required by auditing and ethical standards to communicate to you. I need to bring to your attention the following matter. Engagement Leads are normally appointed for five years but there is an option to extend for a further two years if the auditor and the audit committee are satisfied that there are no risks relating to long association and that this is necessary to safeguard audit quality. 2011/12 will be the sixth year of my appointment at the Council. I am satisfied that there are no independence risks posed by my extension for a further two years. I believe that it would be detrimental to audit quality to make a change in Engagement Lead at this time of significant change.

The Director of Audit Policy and Regulation at the Audit Commission has approved my request for an extension but the Accounts, Audit and Risk Committee also needs to approve it. I would be grateful if you could include this letter in the June agenda for their consideration.

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. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk).

Yours sincerely

Maria Grindley, District Auditor

cc Karen Curtin, Head of Finance

cc Cllr Donaldson, Chair of the Accounts, Audit and Risk Committee

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the Accounts, Audit and Risk Committee.

Table 1

Planned output	Indicative date
Audit plan	December 2011
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Final accounts memorandum (if required)	October 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013

Progress Report

Cherwell District Council

June 2011

Area of work	Date	Comments
2010/11 audit		
Fees letter	April 2010	2010/11 fees letter discussed and agreed with Chief Executive and Senior Management Team April 2010.
Opinion audit - changes you can expect to see	Dec 2010	Presented to January Accounts, Audit and Risk Committee
Opinion audit plan	Dec 2010	Presented to January Accounts, Audit and Risk Committee
Annual governance report	Sept 2011	
Opinion on accounts and VFM conclusion:	Sept 2011	<p>We are required to issue an opinion on the financial statements. To support this work we review key financial systems including the evaluation and testing of key controls (reliance on internal audit as appropriate). This fieldwork was completed in March, and the results of our work is summarised in this progress report.</p> <p>Work on reviewing the Council's restatement of 2009/10 figures consistent with IFRS requirements was carried out in March/April. This took longer than originally anticipated due to the new cashflow model and fixed asset system that the Council purchased. We will complete our review in June 2011.</p>
• interim visit	March 2011	
• IFRS restatement	March 2011	
• final accounts	July 2011	
• vfm conclusion	June 2011	

Area of work	Date	Comments
		Our value money conclusion work will be based on the two new criteria specified by the Audit Commission. These reflect the key challenges facing audited bodies in improving efficiency and productivity, and reducing their costs. As part of this work we completed a financial resilience survey during April and May.
Annual Audit Letter	Nov 2011	
Grant claims 2010/11:		
NNDR	Sept 2011	Housing Benefit Claim work begins on-site 20th June.
Disabled facilities	Oct 2011	Other claims to be audited during August and Sept 2011
Housing benefit	Nov 2011	
Annual return	March 2012	
2011/12 audit		
Fees letter	April 2011	<i>We issued the 2011/12 fees letter to the Chief Executive in April and will present this letter to the June meeting of the Accounts, Audit and Risk Committee.</i>

Interim systems audit

1 We audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). One of our main objectives is to give an opinion on the financial statements.

2 We develop our testing strategy to determine the appropriate level of testing needed to give our opinion on the financial statements. To do this, we carry out a review of all systems which we identify as material to the financial statements and then assess the level of assurance that we can get from the proper operation of those systems. We liaise with Internal Audit in planning and performing our audit work. Our work involves:

- documenting all material systems;
- walkthrough testing for all material systems to assess whether the system and controls are operating as described;
- developing our testing strategy; and
- testing the key controls which we need to place reliance on, as determined by the testing strategy.

3 The material systems where we place reliance on the on proper operation of controls are: general ledger; payroll; accounts payable; accounts receivable; fixed assets; housing benefits; council tax/NNDR; car parking; treasury management and cash receipting/bank.

4 Our interim work is complete. We highlighted two control weaknesses with officers: retaining evidence to support the checking of Capita's work on NNDR and Council Tax; and reconciling Pay and Display car park income from the machines to the bank account. Recommendations are included in our action plan.

5 We are required to understand and evaluate the Council's IT controls and environment that support the material financial systems. We completed our work in February. We did not identify any weakness that would indicate a risk of material misstatement. We highlighted three issues with officers: disaster recovery testing; internal audit's work on firewalls; and IT change processes. Recommendations are included in our action plan.

Action Plan

Recommendations	
Issue: Revenues	
Council staff indicated that they carry out the following control checks on the work carried out by Capita but were unable to produce evidence to substantiate this:	
<ul style="list-style-type: none">■ accuracy/completeness of the 2010/11 NNDR and Council Tax billing runs;■ accuracy of input of the 2010/11 NNDR and Council Tax multipliers and banding; and■ review of accuracy of 10% review of accuracy of NDR processing.	
Rating	high
Recommendation	Retain evidence to support the checking of work carried out by Capita
Response	<p>The annual billing paperwork for the current financial year [2011/12] has been retained as suggested. Currently attempting to reinstate the paperwork for 2010/11 to provide supporting evidence that this was done and figures used correct.</p> <p>There is currently no NNDR 10% check made on a daily basis. 100 accounts are reviewed for the monthly KPI. The standard of work is consistently very high and gives no cause for concern. The checks can easily be reinstated if the standard of work was to drop but there has been no sign of this in the past 16 months.</p>

Recommendations	
Issue: Car Parking Income	
There is no reconciliation between machine audit trails and banked income to ensure that Pay & Display car parking income received into the bank account is consistent with that paid into car parking machines by customers.	
Rating	high
Recommendation	Ensure that Pay and Display Car Parking income received into the bank account is reconciled to machine audit trails.

Recommendations

Response	<p>We have arrangements in place. Every day Jade (our cash collection agents) send us a sheet of paper analysing each days parking machine takings. Slips from each machine are attached on the back for verification and audit trail.</p> <p>This sheet of paper is used to create a journal transaction to put these amounts in to Agresso. When the cash is received in to the bank account, the two amounts are then matched off against each other on the Agresso bank rec module. If the two amounts didn't agree then they can not be matched off.</p>
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Recommendations

Issue: Information Technology

The last full Disaster Recovery Exercise was carried out in 2009. It is important that exercises are carried out on a regular basis to ensure that data is not lost in the event of a system failure

Rating	high
Recommendation	Carry out a Full Disaster Recovery exercise on a regular (annual) basis
Response	<p>The full DR test scheduled for Q4 2011/12 was postponed by the risk owner (Paul Marston-Weston) pending the completion of re-building work at the DR site at the Council's Thorpe Lane Depot. A service-specific DR test with the Elections Service, simulating the loss of all infrastructure and the Council's datacentre at Bodicote House, was carried out and successfully demonstrated (and verified by the system owner) that no data was lost and that the service could be very speedily reinstated</p>

Recommendations

Issue: Information Technology

Internal Audit work in 2010/11 identified two high priority issues around firewalls.

Rating	high
Recommendation	Ensure that issues raised by Internal Audit during their testing on firewalls are addressed
Response	<p>All the recommended actions from Internal Audit's work have been implemented.</p>

Recommendations

Issue: Information Technology

The IT change process in place is the same for emergency change and non emergency changes, as a result of which all change is treated in the same way.

Rating	medium
Recommendation	Distinguish between emergency and non-emergency changes so that the different types of change can be prioritised accordingly
Response	Urgent changes are communicated in person; the team is small and located in one place, so when something which constitutes a change needs to be done urgently, the person requesting the change tells the approvers in person, so that the change can be approved or otherwise speedily.

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Accounts Audit and Risk Committee

Internal Audit Annual Report 2010/11

22 June 2011

Report of Chief Internal Auditor

PURPOSE OF REPORT

This report provides the Committee with the Internal Audit Annual Report for 2010/11.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To consider and approve this report.

Executive Summary

1.1 Introduction

This report provides the Committee with the Internal Audit Annual Report for 2010/11. This summarises the outcomes of our 2010/11 plan and the overall level of assurance we have awarded for the Council's systems of Internal Control.

1.2 Proposals

No specific proposals included

1.3 Conclusion

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

Background Information

Internal audit is required to produce an Annual Report on completion of the audit plan. This is in line with current Internal Audit Standards and the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom

Implications

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

Wards Affected

All

Document Information

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

June 2011

Cherwell District Council

Internal Audit Annual Report

Distribution List
s151 Officer Chief Executive Strategic Directors Accounts Audit and Risk Committee Leader of the Council

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Background and scope

Background to this report

The Government Internal Audit Standards (“GIAS”) and the Code of Practice for Internal Audit in Local Government in the UK 2006 require the Head of Internal Audit to provide a written report to those charged with governance timed to inform the organisation’s Annual Governance Statement (AGS). As such, the purpose of this report is to present our annual opinion of the adequacy and effectiveness of the Council’s system of internal control. This report is based upon the work agreed in the annual internal audit plan and conducted during the year.

Whilst our report is a key element of the assurance framework required to inform the Annual Governance Statement, there are also a number of other sources from which those charged with governance should gain assurance. The level of assurance required from Internal Audit was agreed with the Accounts Audit and Risk Committee (AAR) and presented in our annual internal audit plan. As such, our opinion does not supplant responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

This report covers the period from 1 April 2010 to 31 March 2011

Acknowledgements

We are grateful for the assistance that was provided to us by Cherwell District Council staff in the course of our work.

Our annual opinion

Introduction

Under the terms of our engagement we are required to provide those charged with governance with an opinion on the overall **adequacy and effectiveness** of the Council's:

- risk management
- control and;
- governance processes.

Collectively we refer to all of these activities in this report as “**the system of internal control**”.

Our opinion is based on the audit work performed as set out in the 2010/11 internal audit plan agreed by the AAR in March 2010. Our opinion is subject to the inherent limitations set out in the Limitations and Responsibilities section of this report.

Annual opinion on internal controls

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

We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses. However, internal audit procedures alone, although they are carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

We have completed the program of internal audit work for the year ended 31 March 2011 and have identified 1 significant control weakness to be considered for inclusion in the Council's Annual Governance Statement. Our work on the Council's Firewalls identified 2 high risk issues (detailed below) around their design and configuration. We note however, that no security breaches occurred during the year, and none have been identified in recent years. However, given the significance of computer systems to the Council, we consider this control design issue to have a significant effect on the system of internal control. We recognise, however, the prompt action taken in response to the audit recommendations including the review of contracts with the firewall providers, which will address these issues.

In addition to the work in the audit plan we have provided additional support to both officers and members in respect of key issues facing the Council and the Local Government Arena (most notably in the areas of International Financial Reporting Standards and Risk Management). We look forward to continuing to support you in these areas during 2011/12.

It should be noted that we have identified areas of good practice in relation to the operation of internal control systems within Finance, HR and Legal Services and have issued High Assurance in 7 reports (see below for further details)

On the basis of our conclusions noted we can offer **MODERATE** assurance on the internal control framework of the Council. (See Appendix B for definitions) We provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risk recommendations. The level of our assurance will therefore be moderated by these risks and we cannot provide a high level of assurance.

Internal audit work conducted

Current year's internal audit plan

Our internal audit work has been conducted in accordance with our letter of engagement, GIAS, the Code of Practice for Internal Audit in Local Government in the UK 2006 and the agreed Annual Internal Audit plan.

The Annual Internal Audit plan was agreed with the Accounts Audit and Risk Committee in March 2010.

The results of individual audit assignments (and summary of key findings)

We set out below the results of our work in terms of the number and relative priority of findings. A number of reports are in draft stage and are awaiting management responses. These have been highlighted for reference.

Audit	Date of Fieldwork	Assignment assurance level	Number of findings			
			Critical	High	Medium	Low
Assurance Reports						
General Ledger	Nov 2010	HIGH	0	0	1	4
Debtors	Nov 2010	MODERATE	0	0	2	4
Creditors	Nov 2010	MODERATE	0	1	1	2
Payroll	August 2010	HIGH	0	0	2	0
Budgetary Control	March 2011	HIGH	0	0	1	2
Collection Fund	August 2010	MODERATE	0	0	6	3
Bank Reconciliations	August 2010	MODERATE	0	0	2	2
Cashiers	July 2010	MODERATE	0	0	2	4
Treasury Management	August 2010	HIGH	0	0	2	1
Housing Benefits	Nov 2010	MODERATE	0	0	3	2
Fixed Assets	March 2011	<i>DRAFT</i> MODERATE	0	0	5	1
Car Parking	August 2010	MODERATE	0	0	2	3
Risk Management	March 2011	MODERATE	0	0	2	5

Partnership Working	Jan 2011	HIGH	0	0	1	3
Freedom of Information	August 2010	HIGH	0	0	1	1
Health and Safety	Nov 2010	HIGH	0	0	1	1
Job Evaluation	Nov 2010	HIGH	0	0	0	0
Anti Fraud and Whistleblowing	Oct 2010	MODERATE	0	0	2	2
Performance Management	Jan 2011	MODERATE	0	0	3	3
IT Asset Management	Feb 2011	MODERATE	0	0	2	3
IT Service	Feb 2011	MODERATE	0	1	2	0
Firewall	Feb 2011	LIMITED	0	2	3	2
<i>Support and Value Enhancement– No opinion issued</i>						
IFRS Support	No significant issues noted that would impact upon our Annual Audit Opinion					
Shared Management Business Plan						
Procurement/Contract Assurance						

Key Findings

During the year we identified only a small number of audit findings that were classed as high priority. These have been set out below:

Creditor Payments

During testing of adherence to the purchasing process we identified that the order and invoicing process is not being followed consistently. In a sample of 25 invoices tested, no purchase order was raised for 85% of cases and 5 of these were with suppliers not on the approved suppliers list. In addition testing highlighted 1 unmatched purchase order that had been outstanding since 2007.

IT Service Review

Following a ISO 20000 standard review in year, the Council identified that the Cherwell Management System (CMS), which is the current helpdesk/incident management tool, is not aligned with the Council's goals. The remedial action identified was to upgrade the current CMS to a service management system. This upgrade is critical in the process of achieving the ISO20000 certification. At the time of audit no implementation or migration plans had been put in place for this project.

Firewall Review

2 high risk issues were noted during this review of the Council's firewall procedures:

- The Councils firewalls are currently being accessed and managed in an insecure manner. Unsafe protocols and generic and shared user names are currently being used to manage the firewalls; and
- The configuration of the Council's firewalls are insufficient, increasing the risk that a security breach may occur

Results of follow-up work

We have conducted follow-up work throughout the year as part of our assignment reviews.

We are pleased to note the high number of recommendations that have been followed up. We will continue to track follow up of issues noted in 2010/11 as part of our 2011/12 audit reviews.

Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to Cherwell District Council is as at 31 March 2011. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

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

Responsibilities of management and of internal auditors

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

We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses and, if detected, we carried out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

We have carried out sufficient procedure to confirm that we are independent from the organisation and management.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Basis of our assessment

In accordance with the Good Practice Guidance supporting the Government Internal Audit Standards, our assessment on risk management, control and governance is based upon the result of internal audits completed during the period in accordance with the Plan approved by the Accounts Audit and Risk Committee. We have obtained sufficient, reliable and relevant evidence to support the assertions that we make within our assessment of risk management, control and governance.

Limitations in our scope

The scope of our work has not been limited in any way during the course of the year.

Access to this report and responsibility to third parties





This report has been prepared solely for Cherwell District Council in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. However, we acknowledge that this report may be made available to third parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Appendix A Annual assurance levels and risk ratings

Annual assurance statements

Level of Assurance	Description
High	We will provide 'high' assurance in our annual opinion where we have only identified low and medium rated risks during the course of our audit work on business critical systems.
Moderate	We will provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risk recommendations and / or the number of medium rated risks is significant in aggregate. The level of our assurance will therefore be moderated by these risks and we cannot provide a high level of assurance.
Limited	We will provide 'limited' assurance in our annual opinion where we have identified high or critical rated risks during our audit work on business critical systems, but these risks are not pervasive to the system of internal control <u>and</u> there are identifiable and discrete elements of the system of internal control which are adequately designed and operating effectively. Our assurance will therefore be limited to these elements of the system of internal control.
No	We will provide 'no' assurance in our annual opinion where we have identified critical rated risks during the course of our audit work on business critical systems that are pervasive to the system of internal control or where we have identified a number of high rated risks that are significant to the system of internal control in aggregate.

Definition of risk ratings within our individual audit assignments

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

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the “Legislation”), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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Accounts Audit and Risk Committee

Internal Audit Progress Report

22 June 2011

Report of Chief Internal Auditor

PURPOSE OF REPORT

This report provides the Committee with an update of the work of Internal Audit since the last meeting and presents the Internal Audit Report 2010/11 Firewall Review.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To consider and approve this report.

Executive Summary

1.1 Introduction

This report provides the Committee with an update of the work of Internal Audit since the last meeting. It includes a high level overview of final reports issued and issues raised. We have brought to this meeting our review of the Councils Firewalls for 2010/11 as we have awarded limited assurance to this area.

1.2 Proposals

No specific proposals included

1.3 Conclusion

The Accounts, Audit and Risk Committee is recommended to consider and approve these reports and the issues arising from the Firewall report.

Background Information

Internal Audit has undertaken work in accordance with the 2010/11 Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee. Progress reports are taken to this committee to outline the work performed and conclusions forged to date.

Implications

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

Wards Affected

All

Document Information

Appendix No	Title
Appendix 1	Internal Audit Progress Report
Appendix 2	Internal Audit Report 2010/11 – Firewall Review
Background Papers	
n/a	
Report Author	Chris Dickens, Chief Internal Auditor
Contact Information	07720 427215 Chris.Dickens@cherwell-dc.gov.uk



Internal audit
summary
report for
Accounts, Audit
and Risk
Committee

June 2011



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1. Plan outturn

2010/11 and 2011/12 Audit Plan

We have undertaken work in accordance with the 2010/11 Internal Audit Plan which was approved by the Accounts, Audit and Risk Committee at its meeting in March 2010. Our performance against this plan has been reported within our Annual Report presented at this meeting.

In addition, we have commenced planning and fieldwork for our 2011/12 reviews and will report on progress against this at your next meeting.

2. Reporting and activity progress

Final reports issued since the previous meeting

- **Budgetary Control** – An opinion of **HIGH ASSURANCE** has been provided for the Council's budget setting and monitoring process. Only 1 moderate risk issue was noted around authorisation limits detailed on virement forms not being consistent with the financial regulations.
- **Fixed Assets – MODERATE ASSURANCE** has been given on the Council's Fixed Asset process. Issues were noted around the implementation of the Council's new Fixed Asset system where we would have expected a formal implementation plan to be in place and comprehensive reconciliations to be performed ahead of uploading the data. Only minor issues were noted around the processing of Capital transactions.
- **IT Service Report** - We have given an opinion of **MODERATE ASSURANCE** on the controls in place around the Councils processes for achieving ISO2000 certificate. One high risk issue was noted around the need for the Council to put in place an implementation and migration plan for the upgrade of their Management System.
- **IT Asset Management Report** – An opinion of **MODERATE ASSURANCE** has been provided for the Councils IT Asset Management processes. Issues were raised around the absence of a central tracking and monitoring system for IT assets. In addition, there is no process in place for returning IT assets to a central team.
- **Firewall** – A **LIMITED ASSURANCE** opinion has been issued on the Councils firewalls. As such, this report has been brought in full to this meeting for discussion.
- **Performance Management** – We have reviewed the processes in place for collecting data for a number of the Councils performance indicators. 3 issues were noted around the measurement of the number of "Jobs created in Cherwell". The Council should ensure that documentation is retained to evidence performance in this area and that a complete listing of businesses that may create jobs is maintained.
- **Procurement** – We performed a piece of Value for Money work on the Council's Landscaping and Leisure contracts. The contract managers involved in these contracts were found to be highly competent and effective processes are in place to monitor costs and performance. More work would be beneficial around standardising contract management procedures and sharing best practice across the Council. This was a value enhancement review and therefore no opinion has been issued.
- **International Financial Reporting Standards (IFRS)** – We are continuing to support the Council in preparing their accounts under IFRS. No formal opinion is to be issued in this area

3 - Recent PwC Publications

As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. The PricewaterhouseCoopers Public Sector Research Centre (PSRC) produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector. We have highlighted some recent publications that may be of interest to the Council below:

Making your Property Work Harder:

The 2010 Spending Review set out far-reaching spending cuts across the public sector and has placed unprecedented financial pressure on local authorities. With local government facing funding cuts of around 26%, there is an expectation that they find savings from property while protecting the front-line.

Contrary to popular opinion, once the schools portfolio is stripped out and depressed market prices are factored in, there is not an excess of council property. Asset sales over the last 30 years have funded significant capital programmes and releasing buildings from the operational estate is no longer easy. The straightforward deals are done and the low-hanging fruit long since picked.

If public sector bodies are to avoid 'slash and burn' with the inevitable consequences for service delivery, a more challenging approach to property rationalisation that is tied to service redesign is required. This approach challenges services' dependency on assets and explores new channels of delivery.

This publication outlines how the importance of a mature property function and how property should be rationalised to drive out efficiencies in local government.

Capable Communities: Towards Citizen-Powered Public Services

Everyone is talking about the 'Big Society' as part of the next stage of public service reform, but much of the discussion to date has been abstract rather than practical. Getting citizens more involved in the design and delivery of public services has real promise as a way of empowering citizens, improving outcomes and providing better value for money. But we need to understand much better how this agenda can be translated into practice. This report asks how, in practical terms, citizens can act together to improve the way public services work for them. This can involve individuals volunteering their time to help others, but it is also about empowering people to help themselves.

Standardising processes, improving performance

Information Technology (IT) is vital to the workings of local government and underpins all of the services that councils deliver. However, the IT that supports day to day processes and activities is often needlessly complex and fails to deliver service improvements or meaningful productivity gains. In addition, despite the significant spend on IT infrastructure during the boom years of e-government, this investment has failed to deliver some of the predicted benefits of improved business processes and ready access to both information and services for customers and employees alike.

Despite this current state of play, we are optimistic for the future. We believe that the right IT will underpin more efficient operating models for councils in the future. In addition, we estimate that councils could decrease their total cost of IT by up to 20% (based on PwC's work with councils





undertaking this type of transformation journey). This can be achieved while maintaining or improving services, based on our experience of transformation work at over 40 organisations, where IT simplification is seen as a key enabler.

In this Talking Points publication we explore how councils can break out of the current vicious cycle, which leads to higher IT costs, and demonstrate how councils can simplify IT requirements to create simpler, more cost effective IT environments that support improved standard processes and models of working.

Appendix One

Our assessment criteria are shown below:

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

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

Overall opinion rating:

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

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

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Cherwell District Council Internal Audit report 2010/11

Firewall review

Final report

June 2011

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Distribution list	
For action	Pat Simpson- Head of Customer Services and Information Systems
For information	Sue Smith- Chief Executive Karen Curtin – s151 Officer

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This report has been prepared solely for Cherwell District Council. In accordance with the terms and conditions set out in our engagement letter. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

1. Executive Summary

Overall opinion	Summary of key findings
<p>Overall opinion</p> <p>Limited Assurance can be provided over the effectiveness of the firewalls in protecting the Council's information and systems.</p> <p>Our opinion is based on the work performed as set out in the agreed terms of reference (Appendix 3) and is subject to the inherent limitations set out in Appendix 2.</p> <p>Scope and limitations of review</p> <p>This review focused on the technical configuration of the firewalls in place at the Council's headquarters along with a detailed review of the management practices associated with the management and maintenance of the firewalls.</p>	<p>The Council is exposed to risks around firewall configuration.</p> <p>A significant number of insecure configurations were observed on the firewalls being managed by the Council and third parties, which expose the Council to the risk of unauthorised access to systems, networks and services.</p>

2. Background and scope

Introduction

This review was undertaken as part of the 2010/11 Internal Audit Plan agreed by the Accounts, Audit and Risk (AAR) Committee.

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Background

Firewalls are devices which control connectivity between different networks they are used to isolate and protect organisations from both internal and external threats.

Firewalls are a key component of the Council's network infrastructure, and provide protection to the Council's networks, systems and services from unauthorised access from both internal and external threats.

This review focused on the technical configuration of the firewalls in place at the Council's premises along with a detailed review of the practices associated with the management and maintenance of the firewalls.

Scope of review

In accordance with our Terms of Reference (Appendix 1), agreed with the Head of Customer Services and Information Systems, we undertook a review of the firewalls at Cherwell District Council.

Limitations of scope

The scope of our work was limited to those areas identified in the terms of reference.

3. Overall evaluation

Summary of findings

Objective	Total number of issues	Number of issues identified			
		Critical	High	Medium	Low
Determine if the Firewall rule base has been configured in a secure manner in line with industry best practice.	3	0	1	1	1
That controls and processes are in place to ensure the Firewalls are managed in a secure and consistent manner.	2	0	1	1	0
Controls are in place to ensure appropriate logging and monitoring is conducted over the Firewalls.	1	0	0	1	0
A review of network documentation to ensure all network entry points are adequately protected by Firewalls or Access control lists.	0	0	0	0	0
A review of the controls in place to ensure that in the event of a hardware failure, network access to Council systems and services are not disrupted.	0	0	0	0	0
Council employees managing the firewalls have received appropriate training to ensure the firewalls are managed to vendor and industry best practice.	1	0	0	0	1
Evaluate if the Council has deployed additional perimeter countermeasures mitigate from the risk of unauthorised access or disruption to Council networks and systems.	0	0	0	0	0

Objective	Total number of issues	Number of issues identified			
		Critical	High	Medium	Low
Determine if the forthcoming Firewall migration will provide the same level of functionality and protection as the current Firewalls.	1	0	0	1	0

4. Detailed findings

Issue 1: Firewall Management	Operating Effectiveness
Control objective: That controls and processes are in place to ensure the Firewalls are managed in a secure and consistent manner.	
Matters arising	
<p>The firewalls are being accessed and managed in an insecure manner, including:</p> <ul style="list-style-type: none"> • The Telnet protocol (which is a communication channel which transmits data in clear text) is used to access the firewalls; • Generic and shared user accounts being used to manage the firewalls; • Weak access control lists in place to restrict access to the firewalls; • Secure Shell (SSH) version 1 protocol (which is an encrypted communication channel) is configured to accept management connections. <p>See Appendix 1 for detailed findings.</p>	
Risks arising	
<p>The Telnet protocol is an inherent insecure protocol that transmits user login credentials unencrypted, which could be revealed using widely available network sniffing tools.</p> <p>Generic Admin accounts do not provide individual accountability or an adequate audit trail. Additionally generic accounts could be utilised to gain unauthorised access to the firewall.</p> <p>Without appropriate controls in place to restrict access to the firewalls, there is a risk that Council users will be able gain unauthorised access to the firewalls, resulting in downtime and disruption to services.</p> <p>SSH version 1 is an insecure protocol with known vulnerabilities, which exploited could result in unauthorised access to the firewall.</p>	
Recommendations	

The Telnet protocol should be disabled and the access to the network infrastructure should use only the secure SSH version 2 protocol.

All network administrators responsible for the management of the firewalls should have individual, not generic, user accounts.

Access control lists should be applied to the firewalls, to restrict what IP address they will accept administrative connections from. Additionally the Council should consider implementing a dedicated management VLAN which would be used for the sole purpose of managing the firewall infrastructure.

Management response


<p>Priority</p> <p>High</p> <p>●</p>	<p>Management response</p> <ul style="list-style-type: none"> • The SSH v1 has been replaced with SSH v2. • Two unique individual accounts have been created. Martin Porter and Vishnu Maharaj • Access control lists have been restricted to 192.168.5.x range • Annual external third party CHECK penetration tests are completed and not identified any firewall weakness. 	<p>Action plan</p> <p>No outstanding actions</p> <p><u>PwC Response</u></p> <p>We acknowledge the actions that management have taken to address these issues. However as these controls have not been in place for the full financial year (our review was conducted in December 2010), this issue remains high risk on the basis that the Council was exposed to risk for the majority of the year.</p>
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Issue 2: Firewall Rulebase		Operating Effectiveness
Control objective: Determine if the Firewall rule base has been configured in a secure manner in line with industry best practice.		
Matters arising		
<p>During our high-level review, we have identified a number of rules deployed on the firewalls that do not adhere to industry good practice, including a number of open generic rules that are not restricted to specific services and systems.</p> <p>Additionally we noted a number of obsolete configurations in place on the firewalls which are no longer required.</p> <p>See Appendix 1 for detailed findings.</p>		
Risks arising		
<p>The use of weak firewall configurations significantly increases the risk of unauthorised access, resulting in damage and disruption to the Council's networks, systems and services.</p> <p>There is a risk that, if redundant rules are not removed, the firewalls will still be accepting connections which are no longer required, which could result in a security breach.</p>		
Recommendations		
<p>The Council should review the current processes and procedures associated with implementing firewall changes to ensure firewall rules are implemented in a secure manner.</p> <p>All open generic rules should be reviewed to consider the use of the <i>Any</i> term.</p> <p>The Council should ensure that all temporary and redundant rules are removed once they are no longer required.</p>		
Management response		
Priority	Management response	Action plan
<p>High</p> <p>●</p>	<p>We have reviewed all firewalls and (with a Cisco Gold Partner) have corrected all the points that highlighted. The migration away from the Star managed firewall is programmed to begin in May.</p> <p>In addition a quarterly review of firewall rule base has been scheduled and audited as part of our ISO 27001 1.2.4 Technical Controls of the Measuring the</p>	<p>Migration away from Star (by June 2012 latest – cancellation notice has been issued)</p> <p>Carry out quarterly reviews</p> <p><u>PwC Response</u></p>

Effectiveness of the Information Security Management System (ISMS).

We make a risk assessment of each rule and only use the "any" terms where it supports free flowing working practices. We undertake an IT health check every year including external, internal penetration testing and system review and used PWC recommendations last year to expand this review to meet GCSX 4.1 code of connection.

We acknowledge the actions that management have taken to address these issues. However as these controls have not been in place for the full financial year (our review was conducted in December 2010), this issue remains high risk on the basis that the Council was exposed to risk for the majority of the year.

Issue 3: Third Party Support and Management		Control design
Control objective: That controls and processes are in place to ensure the Firewalls are managed in a secure and consistent manner.		
Matters arising		
<p>The Council is dependent on the suppliers Star and CAE Technology services to manage and provide support for the management and maintenance of the firewalls in place at the Council.</p> <p>A number of configuration issues identified on the Council's firewalls are due to the weak configurations implemented by these suppliers</p>		
Risks arising		
<p>There is a risk that due to the weak configurations implemented by the existing suppliers, critical Council systems and services could be at risk from unauthorised access or a prolonged outage occurring.</p> <p>The firewall being managed by Star is directly connected to the Internet. The poor configuration of this firewall could be exploited to gain access unauthorised external access to Council's networks.</p> <p>Additionally there is a risk that the Council is not getting value for money from its current firewall support providers.</p>		
Recommendations		
<p>The Council need to ensure that new firewalls introduced the network or changes to existing firewalls are applied by experienced vendor certified consultants in line with both vendor and industry best practice.</p> <p>The Council should with a matter of urgency approach the suppliers and ensure the firewalls are fully reviewed and reconfigured in a secure manner.</p>		
Management response		
Priority Medium 	Management response CAE (Cisco Gold Partner) have allocated a dedicated, senior firewall engineer to work with CDC. This engineer has implemented all changes recommended and working with us on all the reviews to implement best practice and to improve the security of the rule base. The working relationship between CDC and CAE has changed in that we have also trained a CDC employee to Cisco CCNA, SNAF1 standards to be able to challenge CAE.	Action plan Migrate away from Star beginning May 2011 and completed June 2012 at the latest. Continue with annual penetration tests and responsive action

Following best practice a firewall build document has been created to ensure consistency that meets industry best practice when implementing new devices.

Star provide a managed firewall to Cherwell District council, as part of this service Star proactively monitor the firewall on a 24/7/365 basis to ensure it is operational. In addition each year an external pen test of all external IP addresses is undertaken to identify any weakness to generate a risk treatment plan.


We have given Star notice of contract termination as we are migrating all services from STAR to ADEPT plc.

We do penetration tests every year and have a full record of taking very quick action against any high risk findings.


These actions make this an issue of medium priority, decreasing as the migration progresses


Issue 4: Firewall Migration Project		Control design
Control objective: Determine if the forthcoming Firewall migration will provide the same level of functionality and protection as the current Firewalls.		
Matters arising		
<p>The Council is looking to consolidate a number of firewalls as part of the overall network project. During our review we identified that the firewall consolidation project was not being run as a formally managed project. A number of key documents had not been developed including;</p> <ul style="list-style-type: none"> • A business case; • Budget; • Project initiation document (PID). 		
Risks arising		
<p>Without appropriate documentation and a structured project plan in place there is a risk that the project will not deliver the desired outcomes, exceed allocated budget or fail. The lack of robust project management practices may result in poor implementation of the new firewalls. Security vulnerabilities may be introduced that potentially expose the Council to unauthorised access.</p>		
Recommendations		
<p>A formal project management methodology should be followed during the all phases of the firewall migration project.</p> <p>A minimum the following should be developed;</p> <ul style="list-style-type: none"> • Business case; • Project plan; • Budget; • Network and firewall design documents. 		
Management response		
Priority	Management response	Action plan
<p>Medium</p> <p>●</p>	<p>A business case and budget was approved as part of the Council's capital programme and the contract was awarded to ADEPT PLC as part of a wholly managed service, paid for as a fixed contract price, ensuring allocated budget will not be exceeded. The specific project plan for the firewall migration to the new MPLS network will be developed once the infrastructure is in place.</p>	<p>Complete the MPLS network infrastructure Q1 2011/12.</p> <p>Migrate from Star managed firewall to Adept by end June 2012 latest</p>

The migration from STAR managed firewall to ADEPT MPLS network is scheduled to start in May when project management documentation, network and firewall design documents will be developed.

Issue 5 Firewall Training		Operating Effectiveness
Control objective: Council employees managing the firewalls have received appropriate training to ensure the firewalls are managed to vendor and industry best practice.		
Matters arising		
Council staff responsible for firewall administration have received no formal product specific training on the firewall products in use at the Council. There is a concern that the team may not be able to adequately manage and support the firewalls going forwards.		
Risks arising		
<p>There is a risk that the Council firewall infrastructure may not be managed effectively and securely, increasing the potential risk of security incidents and increased downtime occurring on Council's firewall infrastructure due to:</p> <ul style="list-style-type: none"> • Incorrect or insecure configurations; • Not utilising the full functionality of the product. 		
Recommendations		
<p>To ensure that the Council's firewalls are appropriately configured, it is essential that suitable vendor training is provided to members of staff responsible for the management and configuration of the firewalls on a day-to-day basis.</p> <p>Training should be scheduled and completed as soon as possible to minimise any potential exposure to the Council.</p>		
Management response		
Priority Low 	Management response A member of the infrastructure team has completed CCNA and the Cisco firewall course (SNAF1). However due to the small nature of the ICT infrastructure team the risk mitigation of firewall management has been transferred to a CISCO GOLD partner. The learning is being cascaded to a second team member.	Action plan Learning cascade by end Q1 2011/12

Issue 6 Intrusion detection and Monitoring		Operating Effectiveness
Control objective: Controls are in place to ensure appropriate logging and monitoring is conducted over the Firewalls.		
Matters arising		
<p>The Council has not implemented any intrusion detection or intrusion prevention system to monitor and report on any intrusion attempts.</p> <p>None of the firewalls in place at the Council are being pro-actively monitored.</p> <p>Firewall logs are not periodically reviewed to identify exceptions for suspicious activity.</p>		
Risks arising		
<p>Without an adequate solution in place to detect, monitor and report on intrusion attempts, the Council will not be aware of potential problems, security breaches or unauthorised access attempts. Potentially undetected, unauthorised access could be gained to Council servers, systems and networks.</p> <p>There is a risk that problems or issues with the firewalls will go undetected if they are not pro-actively monitored.</p>		
Recommendations		
<p>A proactive intrusion detection strategy should be implemented. The overall approach should encompass, as a minimum, the following elements:</p> <ul style="list-style-type: none"> • The areas that will be monitored following a risk assessment in order to prioritise which areas or assets are high risk; • The methods and tools that will be used to detect intrusions and unauthorised access; • The resources required to perform security monitoring activities, and deal with the output from security logs and intrusion detection systems; • Out of hours monitoring requirements; <p>The consideration of legislative requirements such as the Freedom of Information Act, Employment Act etc.</p> <p>The existing monitoring tools in place within the Council should be utilised to monitor the state and the health of the firewalls.</p>		
Management response		
Priority	Management response	Action plan
Medium	All IT assets are risk assessed to meet ISO 27001 standard. A risk assessment took place for 2009/10 and has just been assessed by the new risk owner (infrastructure	Consider making a capital bid for intrusion detection software and

	managers) generating a risk treatment plan for 2011. Out of hours monitoring has been risk assessed by the senior risk owner as to accept the risk as part of a Member/Officer review of ICT.	dashboard-style monitoring
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Issue 7 Firewall Ant--Spoofing		Operating Effectiveness
Control objective: Determine if the Firewall rule base has been configured in a secure manner in line with industry best practice.		
Matters arising		
The anti-spoofing feature, which protects servers from attacks where intruders hide their real IP address behind another legitimate IP address, has not been configured on a number of Council firewalls.		
Risks arising		
There is a risk that unauthorised access to the Council could be gained by intruders simulating that they are logging on to Council systems from a valid Council IP address.		
Recommendations		
The anti-spoofing facility should be configured on every firewall interface.		
Management response		
Priority Medium 	Management response We will investigate implementing the recommendation; anti-spoofing functionality could have wider impacts which we would need to understand before going ahead. This is an issue of medium priority	Action plan Incident/Request # 26200 Evaluate the possible risks/benefits in Q1 2011/12 and then determine a course of action

Issue 8 Firewall Build Process		Operating Effectiveness
Control objective: Determine if the Firewall rule base has been configured in a secure manner in line with industry best practice.		
Matters arising		
The configuration of the Cher-Cap firewall, which was configured by consultants from CAE, was copied from an existing Council firewall. We identified that the firewall contained objects and networks in the configuration which were not required.		
Risks arising		
There is a risk that a copied firewall configuration will contain settings that are not required for the function of the firewall. These redundant configurations could potentially be used to gain unauthorised access to the services and systems being protected by the firewall.		
Recommendations		
The Council should develop internal build standards which document the process for building and deploying additional firewalls to the Council network. All new firewalls introduced to the network should have their configuration tailored to the specific function of the firewall and not be copied from existing firewalls.		
Management response		
Priority Low ●	Management response A new firewall build template has created, meeting industry best practice	Action plan Ensure the template is used through our change control procedures, by end Q1 2012/12

Appendix 1 – Firewall Findings

Firewalls Reviewed

Below is an example of some the insecure configurations identified with the firewalls, these have been provided to enable Council staff to resolve the problems identified.

CDC002.CPE.02(Netscreen)

- Obsolete VPN configuration.
- Telnet protocol enabled.
- Shared generic admin accounts in place.
- Weak firewall rules in place which have not been restricted either source destination or service.

Sample of weak firewall rules configured

Source	Destination	Service
10.0.0.16/32	Any	9127
192.168.2.92/32	Any	5008-UDP
192.168.70.49/32	Any	465-TCP
any	89.206.224.148	HTTP,FTP,SSH

Homeworker2(CISCO ASA)

- No Firewall rules in place, device used to terminate VPN's.
- Anti-Spoofing not enabled.
- Telnet service enabled.
- All internal hosts have access to the firewall
 - http 0.0.0.0 0.0.0.0 inside
 - telnet 0.0.0.0 0.0.0.0 inside
- SSH V1 enabled
- Shared generic admin accounts in place




Capita Firewall (CISCO ASA)


- No Firewall rules in place, device used to terminate VPN's.
- Anti-Spoofing not enabled.
- Telnet service enabled.
- All internal hosts have access to the firewall
 - http 0.0.0.0 0.0.0.0 inside
 - telnet 0.0.0.0 0.0.0.0 inside
 - ssh 0.0.0.0 0.0.0.0 inside
- Cloned from Homeworker2
- SSH Version 1& 2 enabled
- Shared generic accounts in use

Appendix 2 – Basis of our opinion

Individual risk ratings

Each of the control weaknesses identified have been categorised according to risk as follows:

Risk rating	Assessment rationale
Critical 	A control weakness that could have a: <ul style="list-style-type: none"> • Significant impact in the achievement of the organisation's operational objectives as set out in its operational plan; or • Material financial impact on the organisation (quantify); or • Significant breach in laws and regulations resulting in severe fines or consequences; or • Critical impact on the reputation of the organisation which could threaten its future viability
High 	A control weakness that could have a: <ul style="list-style-type: none"> • Significant impact in the achievement of the objectives of the system, function or process under review as set out in the terms of reference; or • Significant financial impact on the organisation (quantify); or • Breach in laws and regulations resulting in fines and consequences which are significant to the system, function or process under review but not the overall organisation; or • Significant impact on the reputation of the organisation
Medium 	A control weakness that could have a: <ul style="list-style-type: none"> • Moderate impact in the achievement of the objectives of the system, function or process under review as set out in the terms of reference; or • Moderate financial impact on the organisation (quantify); or • Breach in laws and regulations resulting in fines and consequences which impact but are not significant to the system, function or process under review; or • Moderate impact on the reputation of the organisation.

<p>Low</p> 	<p>A control weakness that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the achievement of the objectives of the system, function or process under review as set out in the terms of reference; or • Minor financial impact on the organisation (quantify); or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation
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Assurance ratings

The table below details the assurance ratings for grading individual audits:

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

Appendix 3 – Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review of Firewalls subject to the limitations outlined below. This is an independent assurance report and our work has been performed in accordance with ISAE 3000 ("International Standard on Assurance Engagements").

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to Firewalls is at the present date. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

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

Responsibilities of management and internal auditors

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

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

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Appendix 4 – Terms of Reference

Objectives and deliverables

Objectives

Firewalls are a key component of the Council's network infrastructure, and provide protection to the Council's networks, systems and services from unauthorised access from both internal and external threats.

This review will focus on the technical configuration of the Firewalls in place at the Council offices along with a detailed review of the management practices associated with the management and maintenance of the Firewalls.

Additionally we will review the planned migration of the Firewalls to a new vendor product, to ascertain if the Council will receive the same level of functionality and protection as the current solution in place.

Deliverables

Our deliverable will be a report detailing our findings with regard to our assessment of the Council for managing contracts together with recommendations where possible.

Information Requirements

Listed below is information that will be required at the commencement of the audit:

- Network schematic diagrams illustrating all internal networks and connecting third party networks;
- Internal management policies and procedures;
- Results of penetration testing or scanning ;
- Third party contracts and service level agreements in relation to the management of the Firewalls;
- Firewalls build standards and configuration guidelines;
- Project plans for the Firewall migration.

The Auditors performing the review have appropriate security clearance to view restricted documentation.

The list is not intended to be exhaustive. Evidence should be available to support all operating controls. Other information arising from our review of the above documentation may be requested on an ad hoc basis.

Our scope and approach

Our work will focus on identifying the guidance, procedures and controls in place to mitigate key risks through:

- Considering whether the policies and procedures in place are fit for purpose;

NOT PROTECTIVELY MARKED

- Reviewing technical configurations and network documentation; and
- Interviewing technical staff responsible for the day to day management of the Firewalls and network;
- Reviewing the new Firewall solution soon to be commissioned.

The key points that we will focus on are:

- Determine if the Firewall rule base has been configured in a secure manner in line with industry best practice;
- That controls and processes are in place to ensure the Firewalls are managed in a secure and consistent manner;
- Controls are in place to ensure appropriate logging and monitoring is conducted over the Firewalls;
- A review of network documentation to ensure all network entry points are adequately protected by Firewalls or ACL's;
- A review of the controls in place to ensure that in the event of a hardware failure, network access to Council systems and services are not disrupted;
- Council employees managing the Firewall's have received appropriate training to ensure the Firewalls are managed to vendor and industry best practice;
- Evaluate if the Council has deployed additional perimeter countermeasures mitigate from the risk of unauthorised access or disruption to Council networks and systems;
- Determine if the forthcoming Firewall migration will provide the same level of functionality and protection as the current Firewalls.

We will discuss our findings with the Head of Customer Services and Information Systems or nominated representative to develop recommendations and action plans. A draft report will be issued to the Strategic Director Environment and Community and any other relevant officers for review and to document management responses.

Limitation of Scope

The scope of our work will be limited to those areas identified in the terms of reference. We will not be reviewing the Council's change management process or other general IT policies.

Also the GCSX Firewalls will also be excluded from this review.

Stakeholders and responsibilities

Role	Contacts	Responsibilities
Head of Customer Services and Information Systems	Pat Simpson	<ul style="list-style-type: none"> • Review draft terms of reference • Review and meet to discuss issues arising and develop management responses and action plan
Information Systems Manager	Gareth Jones	<ul style="list-style-type: none"> • Review draft report. • Implement agreed recommendations and ensure ongoing compliance
Strategic Director Environment and Community	Ian Davies	<ul style="list-style-type: none"> • Receive agreed terms of reference • Receive draft and final reports
Head of Legal and Democratic Services	Liz Howlett	<ul style="list-style-type: none"> • Receive agreed terms of reference • Receive draft and final reports
Chief Executive	Mary Harpley	<ul style="list-style-type: none"> • Receive final report

Timetable

Steps	Date
TOR approval	September 2010
Fieldwork commencement	December 2010
Fieldwork completed	December 2010
Draft report of findings issued	February 2011
Receipt of Management response	February 2011
Final report of findings issued	February 2011

Our Team

Interim Chief Internal Auditor	Chris Dickens
Audit Manager	Neil Ward
Auditor	Pritesh Pardivalla

Budget

Our budget for this assignment is 5 days. If the number of days required to perform this review increases above the number of days budgeted, we will bring this to management attention.

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Accounts, Audit and Risk Committee

Annual Report of the Committee 2010/11

22 June 2011

Report of Head of Finance

PURPOSE OF REPORT

The purpose of this report is to review and approve the annual report of the Accounts, Audit and Risk committee for 2010/11 and recommend that it be presented to full Council.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended:

- (1) To consider, amend or endorse this report for consideration at the next appropriate full council meeting.

Summary

- 1.1 The Accounts, Audit and Risk Committee (AARC) is required by the Constitution to make an annual report to the Council.
- 1.2 The AARC Committee has undertaken detailed reviews of the matters for which it has responsibility, raising numerous questions and seeking assurances of the Council officers and representatives of Internal and External Audit.
- 1.3 The report highlights the key issues that were considered by the Committee over the last twelve months. The report is attached in Appendix 1 and the full details of the 2010/11 work programme are attached in Annex A.
- 1.4 Activities included;
 - an independent assurance that the council's risk management framework and associated control environment are adequate
 - an independent scrutiny of the authority's exposure to risk which may weaken the control environment
 - comprehensively reviewed the financial statements and annual governance statement and
 - monitored the transition to IFRS.
- 1.5 The National Audit Office produces a checklist for audit committees which is based on 5 good practice principles relating to 1) the role of the committee, 2)

membership, 3) skills, 4) scope of work and 5) communication.

- 1.6 This checklist has been completed for 2010/11 and this indicates that the audit committee is working effectively.

Implications

Financial:	There are no financial issues arising from this report. Comments checked by Karen Muir, Corporate System Accountant 01295 221559.
Legal:	According to the terms of reference of the Accounts, Audit and Risk committee an annual report detailing the work of the committee should be prepared annually. Comments checked by Nigel Bell, Interim Monitoring Officer, 01295 221687.
Risk Management:	The appropriate risk register entries highlighted by the Committee during the year have been added and will be monitored as part of monthly risk update. Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

Wards Affected

All wards are affected.

Document Information

Appendix No	Title
Appendix 1 Appendix A to Appendix 1	Annual Report 2010/11 Work programme
Background Papers	
All AARC Agendas and Supporting Reports	
Report Author	Karen Curtin, Head of Finance
Contact Information	01295 221551 Karen.Curtin@Cherwell-dc.gov.uk

Accounts, Audit and Risk Committee Annual Report 2010/11

1. Chairman's Foreword

- 1.1 I am very pleased to present this Annual Report for 2010/11 to both the Committee and to full Council. This is my second year as Chairman of the Accounts, Audit and Risk Committee, and I am delighted to be reporting that the Council continues to demonstrate a strong and embedded culture of good governance underpinned by an effective corporate governance framework.
- 1.2 The report shows that the Accounts, Audit and Risk Committee has undertaken its role effectively, covering a wide range of topics and ensuring that appropriate governance and control arrangements are in place to protect the interests of the Council and the district generally.
- 1.3 I would like to thank all the members who served on the Committee during 2010/11, the Audit Commission (external auditors), PricewaterhouseCoopers (Internal Audit) and to Council officers who have supported the work of the Committee and more specifically me in my role as Chairman.

Councilor John Donaldson
Chairman

2. Purpose of Report

- 2.1 The Accounts, Audit and Risk Committee is required by the Constitution to make an annual report to the Council. The Committee agreed that as well as being best practice, this would be a useful tool to document and communicate the AARC achievements.
- 2.2 The Head of Finance, in consultation with the Chairman, was tasked with preparing the Annual Report and ensuring it is considered at the next appropriate meeting of Full Council and on an annual basis thereafter.

3. Role of the Committee

- 3.1 The Accounts Audit and Risk Committee is a regulatory Committee. The purpose of the committee is to oversee the financial processes of the Council; the Audit Commission recommended that all local authorities establish a committee of this nature.
- 3.2 The Accounts, Audit and Risk Committee (AARC) operates in accordance with the "Audit Committees, Practical Guidance for Local Authorities" produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2006. The Guidance defines the purpose of an Audit Committee as follows:

"To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the

authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process."

- 3.3 The Council's Accounts, Audit and Risk Committee has an ongoing role in ensuring a responsive and effective internal audit function and the effective management of the Council's risks and provides 'robust challenge' to the internal control and other governance arrangements of the Council.
- 3.4 The terms of reference of the AARC are defined within the Council's Constitution; the relevant extract is below;
- Ensuring that the Council's corporate governance arrangements are adequate and operating effectively in practice
 - Considering the Council's Code of Corporate Governance and the Annual Governance Statement before approval by the Executive
 - Monitoring the effectiveness of the Council's risk management procedures, the internal control environment and counter fraud and corruption arrangements and report any concerns to the Executive
 - Endorse the annual Risk Management Strategy and recommend it to the Executive for adoption
 - Approval of the Council's Statement of Account
 - Considering any reports of internal or external auditors and agreeing the action to be taken from those reports including any recommendations to the Council
 - To consider and make recommendations on the internal audit plan
 - To consider a report on the effectiveness of the internal audit system at least annually
 - To consider risks associated with significant partnerships entered into by the Council and to receive reports on the management of those risks
 - To receive the District Auditor's management letter and make recommendations arising from it
 - To produce an annual report to Council on the activities of the committee.

4. Membership, Meetings and Attendance

4.1 Membership

- 4.2 The Audit Committee comprises of eight elected members representing all political parties:
- Councilor John Donaldson (Chairman)
 - Councilor Trevor Stevens (Vice-Chairman)
 - Councilor Ken Attack
 - Councilor Tim Emptage
 - Councilor Nick Mawer
 - Councilor Lawrie Stratford
 - Councilor Rose Stratford
 - Councilor Barry Wood
- 4.3 Having the right skills, knowledge and experience are key attributes for members of an audit committee to have in order for this key assurance function to be effective.

- 4.4 Specifically members should have the ability to question, probe and seek clarification about complex issues, and should have experience in some of the core functions of the Committee; financial awareness is essential, but a broad understanding of the financial, risk and control, and governance issues facing local authorities and the Council specifically is more important than having an accounting background or professional qualification.

4.5 Meetings

- 4.6 The Accounts, Audit and Risk Assurance Committee met seven times during the 2010/11 year.

- 4.7 A high level of commitment from Committee members is demonstrated through the level of attendance which is summarized below:

	Audit Meetings(7)	Attendance
Councilor John Donaldson (Chairman)	6	86%
Councilor Trevor Stevens (Vice-Chairman)	7	100%
Councilor Ken Attack	6	86%
Councilor Tim Emptage	6	86%
Councilor Nick Mawer	7	100%
Councilor Lawrie Stratford	5	71%
Councilor Rose Stratford	5	71%
Councilor Barry Wood	6	86%

4.8 Other Members

- 4.9 The Committee was also grateful for the attendance at the September meeting and contribution of the Portfolio Holder of Resources – Councilor James Macnamara.

4.10 Officers

- 4.11 The Committee continues to be well supported by Officers, providing reports either in accordance with the Committee's work programme, or at the request of the Committee.

- 4.12 During the year the following officers attended meetings;

- Mary Harpley - Chief Executive
- Karen Curtin – Head of Finance (151 Officer March 2011 onwards)
- Martin Henry – 151 Officer (April 2010 – Feb 2011)
- Karen Muir – Corporate System Accountant
- Jessica Lacey – Technical Accountant
- Jeff Brawley – Benefits Investigation Manager
- Claire Taylor - Corporate Strategy and Performance Manager
- Rosemary Watts – Risk & Insurance Manager
- Natasha Clark - Senior Democratic and Scrutiny Officer
- Chris Dickens – Chief Internal Auditor (PWC)
- Katherine Bennett – Internal Audit Manager (PWC)

4.13 External Audit

- 4.14 Our External Auditors, the Audit Commission, routinely attend all the Committee meetings making a welcome contribution to governance processes within the Council and the development of committee members.
- .

5. Work Programme

- 5.1 Appendix A contains a schedule of the agenda items considered by the Committee throughout the 2010/11 year.

- 5.2 The Committee reviewed a number of items in the course of the year in order to assure itself of the adequacy of the Council's internal control arrangements. These included:

5.3 Financial Statement & Annual Governance Statement Approval

- 5.4 Comprehensive review of statements - the Committee members met with the Head of Finance and finance officers to undertake a comprehensive review of the financial statements and Annual Governance Statement one week prior to adoption at the committee meeting, this resulted in a thorough understanding of the key statements and identification of some small amendments to the accounts.

- 5.5 Approval of the draft set of accounts – the Committee approved the draft statement of accounts, enabling the External Auditors to start their statutory audit of the Statement of Accounts.

5.6 Transition to International Financial Reporting Standards (IFRS)

- 5.7 The International Financial Reporting Standards (IFRS) are to be adopted with effect from the 2010/11 financial year, replacing UK Generally Accepted Accounting Practice (GAAP). The Finance team continues to work with the external auditors to support the transition to IFRS reporting.

- 5.8 The Committee was pleased to note that the Audit Commission had identified Cherwell District Council as being engaged positively in the transition process to IFRS as many council's were unprepared.

- 5.9 A regular report on progress has been taken to the Committee during the year.

5.10 Treasury Management

- 5.11 In response to problems in the financial markets during the 'credit crunch', CIPFA revised the Code of Practice for Treasury Management and Prudential Indicators. A key recommendation of the revised Code was that there was a mechanism for reviewing Council's Treasury Management and Prudential Indicators (including the Investment Strategy) through scrutiny by the Audit Committee. We considered the 2011/12 Treasury Management Strategy & Prudential Indicators at our meeting in March 2011. The committee has received regular reports on compliance with strategy during the year.

5.12 Risk Management

- 5.13 The committee owns and regularly monitors the Corporate Risk register as part of its terms of reference and recommends amendments where appropriate. The committee received and considered reports on the management of strategic risks on a regular basis and agreed a new review programme. During 2010/11, all the Council's strategic, corporate, partnership and operational risks were redefined to ensure a greater focus on the most significant risks identified. The Committee reviewed the CIPFA good practice guidance on risk management and received a briefing from the Council's internal auditors. This covered the auditor's approach to risk management and also the best practice on the 'top ten' governance risks identified by CIPFA for 2011.
- 5.14 During 2010/11 two additional risks were identified and added to the register. These were the strategic risks associated with the programme of shared management with South Northamptonshire Council. The rationale behind this is the impact failure of the programme will have on the delivery of the Council's Medium Term Financial Strategy and therefore the strategic objectives of the organisation.
- 5.15 The second risk was corporate fraud and the rationale behind this is the impact failure to control this risk would have on the Council's reputation and possibly the delivery of key services or objectives.

5.16 Internal Audit

- 5.17 Following an extensive tender and selection process, PricewaterhouseCoopers were appointed to provide the Council's internal audit service, on a fully outsourced basis, with effect from 1st April 2009.
- 5.18 Internal Auditing standards, including the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (The CIPFA Code) require the Head of Internal Audit to provide those charged with governance with an opinion on the overall adequacy and effectiveness of the Council's:
- Risk management
 - Control
 - Governance processes.
- 5.19 The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager and/or chief officer. The report includes recommendations for improvements that are included within an action plan (and graded as high, medium or low), and requires agreement or rejection by service manager and/or chief officers. These reports and recommendations are reviewed by the committee and officers are challenged on the responses and action plans.
- 5.20 The Internal Audit Annual Report 2010/11 provides assurance from the internal audit assignments undertaken during the year. The opinion provided by Internal Audit is "moderate assurance" on the adequacy and effectiveness of the system of internal control overall. This is the same result as for 2009-10 demonstrating a sustained improvement.

5.21 External Audit

- 5.22 External audit is undertaken by the Audit Commission and provides assurance regarding the controls the Council has in place. Where the auditor identifies weaknesses in the Council's arrangements, these are highlighted in the Annual Audit and Inspection Letter. The 2009/10 letter was published in November 2010.

5.23 The key messages from the Audit Commission's report were:

- The Council faces some major challenges. These include responding to the government's Spending Review which requires every council across the country to make large financial savings. The Council has been anticipating the spending review for some time. It has made plans to make significant savings through its Medium Term Plan and Financial Strategy. This includes a review of all services in conjunction with the Council's latest public consultation and residents priorities.
- The letter gave an unqualified opinion on the 2010/11 financial statements and commented that there were only minor presentational errors in the statements adopted.
- The Annual Audit Letter acknowledged that its review did not identify any significant weaknesses in the internal control arrangements.
- The Audit Commission issued an unqualified conclusion on value for money stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

5.24 Internal Audit and External Audit Work Programmes for 2010-11

5.25 The committee reviewed the scope and depth of external and internal audit work to ensure that it gives the Council good value for money. The progress against the work plans were monitored at every Committee meeting through the year and no issues were identified.

5.26 Consultation of the Accounts and Audit Regulations 2003

5.27 The Committee provided a response on the consultation which suggested changes to the approval of the financial statements, review by audit committees and a standalone Annual Governance Statement

6. Training and Development

6.1 During 2010/11, the Committee has sought to increase its effectiveness through additional training and greater engagement with the internal audit function. The following sessions were held during 2010/11:

Date	Topic	Facilitator
17 May 2010	Code of Governance - AGS	Liz Howlett
16 June 2010	Financial Statement Review	Karen Curtin
13 December 2010	Fraud	Jeff Brawley
13 December 2010	IFRS	Audit Commission
27 May 2010	Local Government Finance Review	Phil O'Dell, Karen Curtin
19 January 2010	Risk	PriceWaterhouseCoopers
2 June 2011	Treasury	Sector, Karen Curtin

- 6.2 Although the topics relate to financial issues, the sessions are not exclusive to the Committee and are open to all members.
- 6.3 We propose to continue to hold regular update/briefing sessions on issues within our terms of reference throughout 2011/12.

7. Effectiveness of the Committee

- 7.1 The National Audit Office produces a checklist for audit committees which is based on 5 good practice principles relating to 1) the role of the committee, 2) membership, 3) skills, 4) scope of work and 5) communication. This checklist has been completed for 2010/11 and this indicates that the audit committee is working effectively. This checklist will be completed annually and will form the basis for areas of improvement or training needs for the committee's work programme.
- 7.2 When control weaknesses have been identified the AARC has challenged the responsible officers, ensured that arrangements are put in place to strengthen governance arrangements and monitored progress against action plans.
- 7.3 For the year April 2010 to March 2011 the Committee has provided:
- an independent assurance that the council's risk management framework and associated control environment are adequate
 - an independent scrutiny of the authority's exposure to risk which may weaken the control environment
 - comprehensively reviewed the financial statements and annual governance statement and
 - monitored the transition to IFRS.

Document Information

Appendix No	Title
1	<i>Agenda Topics in 2010/11</i>
Background Papers	
CIPFA Treasury Management Code of Practice Council Constitution National Audit Office – Audit Committee Self Assessment Checklist	
Report Author	John Donaldson, Chairman Karen Curtin, Head of Finance
Contact Information	01295 221551 Karen.Curtin@Cherwell-dc.gov.uk

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2010/11 Work Programme

Topic	Lead	16 th June 2010	23 rd June 2010	22 nd Sept 2010	13 th Dec 2010	19 th Jan 2011	14 th March 2011
1. Apologies for Absence and Notification of Substitute Members	Chairman of AARC				Standing Agenda Item		
2. Declarations of Interest	Chairman of AARC				Standing Agenda Item		
3. Petitions and Requests to Address the Meeting	Chairman of AARC				Standing Agenda Item		
4. Urgent Business	Chairman of AARC				Standing Agenda Item		
5. Minutes of the previous meeting	Chairman of AARC				Standing Agenda Item		
Training Session	Chairman of AARC & Head of Finance						
Review of Work Programme	Chairman of AARC & Head of Finance				Standing Agenda Item		
Audit Commission Certification of Claims	Audit Commission						✓
Audit Commission Fee Letter	Audit Commission		✓				
Audit Commission Opinion Plan	Audit Commission		✓				
Audit Commission Triennial Review of Internal Audit	Audit Commission		✓				
Annual Audit Letter 2009/10	Audit Commission				✓		
External Audit Annual Governance Report	Audit Commission			✓			
External Audit Update	Audit Commission				✓		✓
External Audit Annual Plan 2010/11	Audit Commission					✓	
External Audit Fees Update	Audit Commission					✓	
Internal Audit Progress Report	Chief Internal Auditor		✓	✓	✓		
Follow up on Internal Audit Report	Chief Internal Auditor			As required			
Internal Audit Annual Plan	Chief Internal Auditor						✓
Internal Audit Annual Report 2009/10	Chief Internal Auditor		✓				
Risk Management Principles and Core Risks	Corporate Strategy and Performance Manager & Head of Finance				✓		
Risk Management Strategy 2011/12	Corporate Strategy and Performance Manager & Head of Finance				✓		
Corporate Risk Register Update	Corporate Strategy and Performance Manager & Head of Finance					✓	✓
Anti Fraud and Corruption Update	Head of Finance & Fraud Manager				✓		
Annual Governance Statement Review	Head of Finance		✓	✓			
Annual Governance Statement Approval	Head of Finance		✓	✓			
Statement of Accounts 2009/10 Review	Head of Finance	✓					
Statement of Accounts 2009/10 Approval	Head of Finance		✓	✓			
Annual Report and Summary of Accounts	Head of Finance		✓	✓			
Treasury Management 2009/10 Outturn Report	Head of Finance		✓	✓			
Treasury Management Budget Monitoring & Compliance	Head of Finance				✓		
Treasury Management Strategy & Practices	Head of Finance						✓
Accountancy Progress Report - 2010/11 Closedown	Technical Accountant					✓	
Accounting Policies	Technical Accountant						✓
Update on International Financial Reporting Standards (IFRS)	Technical Accountant			✓	✓	✓	✓

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Accounts, Audit and Risk Committee

Risk Management

22 June 2011

Report of Corporate Strategy and Performance Manager

PURPOSE OF REPORT

To update the Committee on the management of Strategic, Corporate and Partnership Risks during the last quarter of 2010/11 and highlight any emerging issues for consideration.

This report is public

Recommendations

The Accounts, Audit and Risk Committee is recommended to:

1. To review the quarter 4 Strategic, Corporate and Partnership Risk Register. (Appendix 1).
2. To review the proposed reporting timetable to the Executive and the Accounts Audit and Risk Committee 2011/2012 (paragraphs 1.8 and 1.9).
3. To note the outcomes of the risk management internal audit review (Appendix 2).

Executive Summary

- 1.1 In advance of 2010/11 the Council undertook a fundamental review of its risks and the reporting requirements. This provided the opportunity to consider the underlying principles of the overall approach to managing risk. The review also resulted in a streamlined set of core strategic, corporate and partnership risks and the requirement that operational risks are monitored at the service level. These core risks are now monitored on a monthly basis.
- 1.2 In April 2010 the Council established a high level strategic risk register which integrated performance and risk reporting using Performance Plus, the Council's corporate performance management system. Risks are reviewed monthly and monitored by the Corporate Management Team. There is effective oversight by members through the Executive and the Accounts Audit and Risk Committee.

- 1.3 In the last quarter there was an internal audit review of risk management. As a result a moderate assurance was given with a small number of issues highlighted.

Appendix 2 sets out the reports and its findings. The management actions have been agreed and are in the process of being implemented. The findings from the report have also been presented to EMT.

- 1.4 The report sets out the following:

- The principles by which the Council manages risk (paragraph 1.5)
- The quarter 4 risk report review (paragraph 1.6 and appendix 1).
- The findings from the internal audit review of risk management (paragraph 1.7 and appendix 2)
- The revised risk register for 2011/12 (paragraph 1.8 and appendix 3).
- The proposed timetable for reporting risks to the Executive and the Accounts Audit and Risk Committee 2011/2012 (paragraph 1.9).
- An update on operational risk management (paragraph 1.10)

Proposals

- 1.5 **Underlying Principles** the following principles continue to be used for the management of risk:

Core Risks These are the core set of risks that are recorded in the Council's Risk Register and are monitored and reported through the corporate Performance Management Framework. They are monitored by CMT on a monthly basis and by the Executive and Account, Audit and Risk Committee on a monthly basis. These risks are defined as strategic, corporate and partnership risks (see 'types of risk' below).

Net Risk This is a measure of impact x 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 Net Risk are highlighted in the risk monitoring reports to draw attention to any increase or decrease in risk and any new controls required.

Types of Risk the Council distinguishes between types of risk and those defined as strategic, corporate or partnership are held on the Council's core risk register. Operational risks are managed at the service and directorate level and not corporately through the performance management framework. 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.

1.6 Quarter 4 Strategic, Corporate and Partnerships Risk Review

Strategic, Corporate and Partnership are reviewed on a monthly basis and reported via the performance and risk management framework to the Executive on a quarterly basis. The contents of the Risk Register as a whole are reviewed at least annually to ensure its contents reflect current priorities and circumstances, as noted above this was undertaken by EMT in February 2011. In addition, the portfolio holder for performance and organisational change is briefed with regards to risk and performance on a monthly basis.

The next quarterly risk (quarter 4 – year end) review will be received by Executive at their meeting in July. The table below highlights where risks have remained constant, increased or decreased between quarters 3 and 4. Full details are attached at Appendix 2.

Changes	Risk name	Comments
Risk rating constant	STRAT01 Deprivation and Equalities	<ul style="list-style-type: none"> • Risk reviewed, project issues and risk log also in place
	STRAT02 Eco Town	<ul style="list-style-type: none"> • NB. Govt plans to review national planning framework including Eco Town PPS. Local policy (LDF and shared vision must be robust and in place to ensure direction of projects
	STRAT03 Local Development Framework	
	STRAT04 Economic and Social Changes	<ul style="list-style-type: none"> • LSP supporting review of new economic development strategy
	STRAT05 Horton Hospital	<ul style="list-style-type: none"> • The council is continuing its support and community leadership role
	STRAT06 The Natural Environment	<ul style="list-style-type: none"> • Environment strategy on track, actions monitored through PMF
	STRAT08 Financial Resources	<ul style="list-style-type: none"> • MTFS under review work has commenced on 2012/13 budget
	CORP01 Health and Safety	<ul style="list-style-type: none"> • Risk reviewed no matters arising.
	CORP04 Equalities Legislation	<ul style="list-style-type: none"> • Risk remains heightened (as per last quarter) EQIA scheme reviewed.
	CORP06 Civil Emergency	<ul style="list-style-type: none"> • Risk reviewed no matters arising.
	CORP07 Data Quality	<ul style="list-style-type: none"> • Risk remains heightened (as per last quarter) DQ audit completed.
	PART02 Local Strategic Partnership	<ul style="list-style-type: none"> • Commitment to partnership reiterated at

		last meeting. LSP adopting a horizon scanning view to pick up any issues.
	PART03 Community Safety Partnership	<ul style="list-style-type: none"> • Risk reviewed no matters arising.
	PART04 Spatial Planning and Infrastructure Partnership	<ul style="list-style-type: none"> • Role of partnership under review given national policy change, local enterprise partnerships will be entered onto the
Risk rating improved	STRAT07 Managing Change CORP02 Capital Investments CORP03 ICT Systems	<ul style="list-style-type: none"> • Effective controls in place updated and implemented. Register. • MTFS under review (use of investment income) • Successful test undertaken.
Risk rating worsened	- none	-
Risk added in quarter	STRAT09 Shared Services	A net risk rating of 6 has been reported. Controls are in place
Risk removed - as of April 2011	CORP05 Job Evaluation PART01 Local Area Agreement	Risks are no longer relevant to the organisation.

1.7 Internal Audit Review of Risk Management

During the final quarter a review of the council's risk management systems and processes was undertaken by internal audit. A moderate assurance was given with a number of small issues highlighted.

Control Design		Operating Effectiveness	
Critical	0	Critical	0
High	0	High	0
Medium	1	Medium	1
Low	3	Low	2

A full copy of the findings is attached as appendix 2. Management responses have been agreed and where practicable have been actioned. Some responses will be undertaken as part of the shared management programme. EMT have been made aware of the findings and the performance and risk working group has now met, refocused its terms of reference and will progress any risk and performance issues.

1.8 Risk Register 2011/12

Following a full scale review of the Risk Register in 2009/10, the 2010/11 register contained 19 risks (8 Strategic, 7 Corporate and 4 Partnership). At their meeting in December 2010 the Accounts, Audit and Risk Committee requested that an additional strategic risk was added to the register regarding shared management with South Northants Council. This was done in January 2011 and the risk has been monitored on a monthly basis since.

At their meeting on 8 February 2011 the Extended Management Team

(comprising the Interim Chief Executive, Directors and Service Heads) undertook a full review of the risk register. A number of new risks were identified and a number of existing risks were recognised as requiring a review in the light of new government policy or changed circumstances. The risk of Corporate Fraud was also added to the register.

Appendix 3 provides an overview of the risk register for 2011/12. This register will provide the basis for risk management during 2011/12. At the time of drafting the report all risk had been reviewed. The Committee will receive a detailed update at their meeting in September 2011.

Ongoing Reporting Arrangements

- 1.9 For 2011/12 the reporting of the Strategic, Corporate and Partnerships Risk Register will continue to be integrated into the quarterly performance report to the Executive, as set out below:

- 2010/11 Year end review 04 July 2011
- Quarter 1- 08 August 2011
- Quarter 2- 07 November 2011
- Quarter 3- TBC
- Quarter 4- TBC

It is also proposed that the performance of all the risks on the Strategic/Corporate/Partnerships Risk Register is reported to the Accounts, Audit and Risk Committee on a quarterly basis as outlined below:

- 2010/11 Quarter 1 and year end review 22 June 2011
- Quarter 1- 21 September 2011
- Quarter 2- 12 December 2011
- Quarter 3- TBC
- Quarter 4- TBC

Operational Risks

- 1.10 Operational risks are not included in the strategic, corporate and partnerships risk register. These risks are managed and monitored locally at the directorate and service level. However, managers are able to use the same performance and risk monitoring system as they do for strategic risks. As with service performance indicators, any issues arising from these operational risks may be escalated via the performance and risk reports to the Corporate Management Team. In the event of this occurring they would also be reported to the Executive and Accounts, Audit and Risk Committee in their quarterly reports. Operational risks are reviewed on a quarterly basis.
- 1.11 During February 2011 three operational risk training sessions were held to support staff to identify and add operational risks to the performance plus system. Operational risks have also been identified through the development of service plans for 2011/12. Between March and May service managers entered 41 new operational risks onto the register, including operational partnerships.

Conclusion

- 1.12 Since 1 April 2010 a number of significant changes to the way risk is managed at the Council have been introduced. These changes were built on an already strong performance that has been recognised by the Audit Commission. By integrating risk and performance management, we have a clearer understanding of the risks which may prevent the Council achieving its strategic objectives and in improving the accountability to Members we have taken the management of risk to a higher stage of development.

During the final quarter of the year all risks on the strategic, corporate and partnership risk register have been monitored and reviewed. Some of the issues highlighted in quarter 3 remain in place (for example the increased risk of being challenged through equalities legislation and the increased significance of data quality in the light of the transparency agenda) and controls are in place to address these.

Looking forward into the next quarter the Council has fully reviewed and updated its risk register and improved management information is now available with regards to operational risks through the Performance Plus system.

Background Information

- 2.1 The Council has now adopted a single Performance and Risk Management Framework which integrates the reporting processes for performance and risk and embeds the Risk Strategy adopted by this Committee at its meeting on 13 December 2010.
- 2.2 From 1 April 2010 the Council has used Performance Plus to monitor the Council's high level risks (Strategic, Corporate and Partnership). This move allows an integrated approach to managing risk and organisational performance and rationalises the administration involved.
- 2.3 During 2011/12 Performance Plus will also be available for managers to use to store their operational risks. Monitoring of operational risk remains a departmental responsibility but where a risk needs to be escalated to the strategic risk register CMT will have the opportunity to do so as part of their monthly review of performance and risk.
- 2.4 As part of its corporate management role the Extended Management Team (EMT – comprised of service heads) reviewed the 2010/11 at their meeting on 8 February 2011. The changes have been reflected in the risk register for 2011/12.
- 2.5 The Council has also reviewed the 'ten governance risks' highlighted by CIPFA in their Audit Committee update paper (January 2011) and these issues have been reflected in the latest version of the risk register (Appendix 3). At the next meeting of the AARC these risks will be reviewed in more detail covering their status during the first quarter.

Key Issues for Consideration/Reasons for Decision and Options

- 3.1 To review the quarter 4 risk report.
- 3.2 To note the findings of the Risk Management Audit.

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

- | | |
|-------------------|---|
| Option One | To support the current approach and having considered the Strategic, Corporate and Partnership risks, report any concerns arising to the Executive. |
| Option Two | To reject the current approach and proposals and report any concerns arising to the Executive. |

Implications

- | | |
|-------------------------|--|
| Financial: | The Council has identified the impact of the current economic climate and financial pressures on the Council's ability to deliver its corporate priorities as a Strategic Risk. There is also a Corporate Risk arising from the Council's ability to fund its activities because of a reduction in investment income or income from other capital assets such as buildings.
Comments checked by Karen Curtin, Head of Finance, 01295 221551 |
| Legal: | There are no direct legal implications arising from this report but the Council has to ensure it is aware of any risks to its delivering what is required by law.

Comments checked by Nigel Bell, Team Leader – Planning & Litigation / Interim Monitoring Officer, 01295 221687 |
| Risk Management: | The lead officer responsible for risk reporting is the author of this report.

Comments checked by Helen Hayes, Performance and Risk Officer, 01295 2211751 |

Wards Affected

All

Corporate Plan Themes

All

Document Information

Appendix No	Title
Appendix 1	Quarter 4 Risk Report
Appendix 2	Risk Management Audit Report
Appendix 3	Risk Register 2011/12
Background Papers	
1. Risk Management Strategy	
2. Executive Report 7 March 2011 Performance and Risk Management Framework	
Report Author	Claire Taylor, Corporate Strategy and Performance Manager
Contact Information	claire.taylor@cherwell-dc.gov.uk 01295 221563

Risk Management 2010/2011 April 2010 - March 2011											
Risk Heading	Owner	Description	Q3 : December 2010			Controls	Q4 : March 2011			Direction of Travel	Comments this quarter
			Gross Risk Rating	Gross RAG	Net Risk Rating		Gross Risk Rating	Gross RAG	Net Risk Rating		
Strategic Risks											
STRAT01 Deprivation & Equalities	Ian Davies	The risk in not breaking the cycle of deprivation and addressing inequalities across the District is that the life opportunities of residents in the greatest need will not be improved and as a result the reputation of the Council will suffer. The risk is particularly acute in areas such as the Neithrop, Ruscote and Grimsbury wards in Banbury where there is a high level of deprivation as measured by the Government's indices of multiple deprivation.	High Medium 12	A !	Medium 9	Proposals include a) Long term approach for support to local people and communities as many issued can only be addressed on this basis b) Multi agency action with clear and common objectives c) Additional funding from Government grants to supplement current resources	High Medium 12	A !	Medium 9	⬆	
STRAT02 Eco Town	John Hoad	The risks are that national and local policy support and resources will be inadequate to support the development of the NW Bicester Eco-Town. As a result the Council may fail to fully exploit the Eco-Town as an opportunity to develop a centre of excellence in terms of sustainable living.	High 16	R	Medium 8	a) Planning policy development through Local Development Framework. b) Eco Bicester Town Project plan and related partnership working with private and public sector partners c) Dedicated Project Team	High 16	R	Medium 8	⬆	Government intent is to review national planning policy framework, including Eco-town's PPS supplement. Local policy development in LDF Core Strategy and 'Eco-Bicester' - one shared vision is needed to ensure direction for the project
STRAT03 Local Development Framework	Philip Clarke	The risks are that the Local Development Framework is not prepared adequately, in time, or is found unsound at public examination. Such outcomes would result in further risks arising from speculative planning applications, undesirable major developments and / or expense for the Council in contesting planning appeals. An unsound plan would mean that the Council would have to repeat 2 to 3 years work at high cost.	High 20	R	High Medium 15	This risk will be managed through close dialogue with GOSE and other local authorities. Interim advice from the SoS is anticipated during July and Councillors will be advised when more is known.	High 20	R	High Medium 15	⬆	
STRAT04 Economic & Social Changes	John Hoad	The risk is that the Council does not identify and respond to general economic and social changes and as a result would not fulfil its role as a community leader and a provider of top quality services driven by a clear understanding of community and individual needs.	High 16	R	High Medium 12	Control measures remain the same a) Service and financial planning process b) Sustainable Community Strategy c) Economic Development Strategy and related partnership activities	High 16	R	High Medium 12	⬆	Note: review of Economic Development Strategy via LSP in progress. Final strategy to be published May 2011. Strategy indicates response to changing economic conditions. Public sector spending restraint will impact on ability of CDC / partners to respond to local issues.
STRAT05 Horton Hospital	Ian Davies	The risks to maintaining the Horton Hospital as a facility that meets community aspirations for local health provision are the deliverability and affordability of a revised consultant delivered service model for paediatrics and obstetrics. Failure of either will jeopardise current service provision and could result in a service reduction from the Horton.	High 16	R	Medium 9	a) Support to the PCT in challenging ORHT proposals b) Providing evidence of deliverability of consultant delivered services elsewhere c) Gaining consensus locally that this is important	High 16	R	Medium 9	⬆	
STRAT06 The Natural Environment	Ed Potter	The risk is that the Council does not take the necessary actions to meet its obligation, as set by National Government, to ensure its own operations and that of its District's residents and businesses reduce their carbon footprints.	High Medium 15	A !	Medium 9	a) Environmental Strategy for a changing climate b) Responsibility for delivery plans for the Environmental Strategy clear c) Relevant delivery groups	High Medium 15	A !	Medium 09	⬆	
STRAT07 Managing Change	Anne-Marie Scott	The risk is that the Council does not adequately manage the impact of major change programmes on organisational performance and individual morale.	High 16	R	High 16	Change management policies in place External legal and HR support planned Project management approach applied, incorporating risk identification and mitigation	High 16	R	Medium 9	↗	
STRAT08 Financial Resources	Karen Curtin	The risk is that in an uncertain economic and financial climate the Council will not have the resources to deliver its corporate priorities. Poor economic conditions also tend to produce increased demand on services. As the Council's income from capital reduces our dependency on interest to support revenue expenditure must also reduce and capital assets will need to be rebuilt to fund future infrastructure investments. Failure to do either will result in budgetary shortfall, service reductions, above inflation increases to council tax and lack of capital to fund future community schemes.	High 16	R	High Medium 12	Whilst we don't under estimate the challenges presented as a result of the economic downturn, the council's financial position remains strong ensuring we are able to continue to meet our priorities in the future. Our rolling programme of VFM reviews has generated cost reductions of £3.7m over the last 3 years, proving our ability to deliver identified savings in full over extended periods of time. Support costs and frontline services alike have been subject to VFM reviews. We have reduced support costs by £1m over the last 3 years, a reduction of 18% in real terms. a) Budget 2010/11 b) Medium financial strategy and sensitivity analysis c) Workforce planning d) Dashboard – budget monitoring	High 16	R	High Medium 12	⬆	Continue to monitor regularly. New MTFS being prepared for May Executive will consider this further

Continue to monitor regularly. New MTFS being prepared for May Executive will consider this further

Risk Management 2010/2011 April 2010 - March 2011											
Risk Heading	Owner	Description	Q3 : December 2010			Controls	Q4 : March 2011			Direction of Travel	Comments this quarter
			Gross Risk Rating	Gross RAG	Net Risk Rating		Gross Risk Rating	Gross RAG	Net Risk Rating		
STRAT09 Shared management with South Northants District Council Resources	Ian Davies	The risk that the shared management arrangements fail to be effectively managed and implemented and will adversely impact upon the Council's financial position and ability to balance its budget with further cutting service budgets. Other potential adverse affects include: • Loss of key staff and declining morale • Loss of organisational reputation • Legal challenge • Decline in organisational performance • Failure of ICT system to be effectively integrated for shared management There is a comprehensive list of risks established in the development of the shared management business case and these are detailed in Appendix 6 of the business case and contain details of risk, controls and mitigations.				<ul style="list-style-type: none"> RS09a Joint Arrangement Steering Group and terms of reference in line with SJ13 agreement RS09b Steering group supported with professional legal and HR advice RS09c Steering group includes senior elected members and managers from both organisations RS09d Steering Group will provide regular reports and keep risk under review. RS09e Professional recruitment consultants appointed RS09f Communications briefings in place RS09g business case developed and agreed RS09h ICT work programme in place 	High Medium 16		Medium 6	New risk added First Report	
Corporate Risks											
CORP01 Health & Safety	David Marriott	The risk is that a failure to comply with health and safety and welfare legislation and policies could lead to injuries and death, high sickness absence and claims and litigation against the Council.	High 20	R	High Medium 10	<ul style="list-style-type: none"> a) Wide range of Health & Safety policies and procedures in place as set out on the Council's intranet b) Training is given to all relevant staff undertaking manual work c) Relevant safe working practice notes are issued as part of standard induction procedures 	High 20	R	High Medium 10	↗	
CORP02 Capital Investments	Karen Curtin	The risk is to the Council's ability to fund its activities because of a reduction in investment income or income from other capital assets such as buildings.	High 16	R	High Medium 12	<ul style="list-style-type: none"> a) Utilisation of treasury management advisors to assist with investing in strong rated institutions. b) We adhere to an annual investment strategy that complies with CIPFA code c) All rental income from buildings is monitored monthly and managed by the Head of Estates to minimise the number of "empty" properties. In this economic climate we will review our occupancy rates. d) Budget 2010/11 e) Medium term financial strategy f) Asset Management Strategy g) Dashboard – budget monitoring h) Annual Treasury Management Strategy i) Counterparty Lists 	High 16	R	Medium 9	↗	Use of investment income remains under review and will be considered in MTFS refresh in May 2011.
CORP03 ICT Systems	Pat Simpson	<ul style="list-style-type: none"> 1) ICT unable to provide Disaster Recovery Services as required by the Business Continuity Plan. 2) Loss of ICT systems that would have a significant negative impact on service delivery and cause exceptional costs to the Council. 	High 20	R	Medium 8	<ul style="list-style-type: none"> 1a) Disaster Recovery Plan to be tested by system administrators on a 6 monthly schedule. 2a) Architectural approach of systems and implementation of key projects is quality assured by external auditors; 2b) Annual compliance with ISO 27001 through annual testing of operation procedures by external auditors 	High 20	R	Low 4	↗	A successful test invocation at the request of Elections was carried out this month. A full test is planned for after the work at Thorpe Lane is complete
CORP04 Equalities Legislation	Claire Taylor	The risk is the Council may be open to litigation and loss of reputation if it is not compliant with equalities legislation.	High Medium 15	A !	High Medium 12	<ul style="list-style-type: none"> a) Equalities scheme b) Mandatory Equalities Training c) Equalities performance monitored through d) PMF e) IDEA Peer assessment planned for 2010 f) Equalities steering group and communications plan 	High Medium 15	A !	High Medium 12	↗	Risk associated with EIAs still increased. Review of EIAs taken place as part of service planning.
CORP05 Job Evaluation	Anne-Marie Scott	The risk is the impact of a significant number of appeals arising from the Job Evaluation scheme on the resources of the Council and Human Resources in particular. Also there is a risk that Job Evaluation may encourage staff to pursue equal pay claims due to greater awareness.	High Medium 12	A !	Medium 6	<ul style="list-style-type: none"> 1) Consultation with employee representatives 2) Equal pay audit 3) Job Evaluation project 4) Removal of Company Car Scheme 	High Medium 12	A !	Low 4	↗	

Risk Management 2010/2011 April 2010 - March 2011										
Risk Heading	Owner	Description	Q3 : December 2010			Controls	Q4 : March 2011			Direction of Travel
			Gross Risk Rating	Gross RAG	Net Risk Rating		Gross Risk Rating	Gross RAG	Net Risk Rating	
CORP06 Civil Emergency	Paul Marston-Weston	Civil Emergency	High Medium 15	A !	Medium 5	As a Category 1 Responder under the Civil Contingencies Act 2004, the Council has a duty to prepare and maintain an Emergency Plan which is updated on a regular basis. Furthermore, the plan has an annual testing and exercising schedule. Table top exercises are carried out annually to test the robustness of the plan and for plan familiarisation. Training is also provided as necessary to relevant staff to enable them to undertake effectively their emergency planning duties/role.	High Medium 15	A !	High Medium 10	↑
CORP07 Data Quality	Claire Taylor	The risk is that unreliable data sources are used to support decision and policy making putting the Council at risk of making poor decisions. Decisions are made on the basis of information about the population and the nature of the district. If data is out of date, incomplete or inaccurate, those decisions may turn out to be inappropriate.	High Medium 12	A !	High Medium 12	a) Single trusted data source available for all decision makers to access b) Use external trusted and reliable data source as the basis for our own information c) Internal audit programme for performance indicators d) Initiate a series of data quality health checks	High Medium 12	A !	High Medium 12	↑
Partnership Risks										
PART01 Local Area Agreement	Claire Taylor	The risk is the failure to deliver the Council's elements of the Local Area Agreement having a negative impact on service delivery to the public, the Council's reputation with other local authorities and this being reflected in national inspection regimes.	High Medium 12	A !	Medium 9	a) PMF b) High level of District engagement in LA42 negotiation c) CDC coordination of all Oxon districts LAA performance management arrangements. d) LSP management group to monitor performance	High Medium 12	A !	Medium 9	↑
PART02 Local Strategic Partnership	Claire Taylor	The risk is the failure of the Local Strategic Partnership to deliver its objectives having a negative impact on service delivery to the public, the Council's reputation with other local agencies and this being reflected in national inspection regimes.	Medium 9	A	Medium 9	a) Partnership governance review implemented b) Management group to support implementation of LSP decisions c) Annual self assessment of performance	Medium 9	A	High Medium 12	↑
PART03 Community Safety Partnership	Chris Rothwell	Failure of the Community Safety Partnership to deliver a continuous reduction in crime and the fear of crime.	High Medium 12	A !	High Medium 12	The four Action Groups produce annual action plans to deliver the priorities of the partnership. This is monitored bi-monthly by the partnership's performance management team (CDC head of service and TVP local commander) which reports into the quarterly strategic partnership meetings.	High Medium 12	A !	High Medium 12	↑
PART04 Spatial Planning & Infrastructure Partnership	John Hoad	The risk is the failure of the Spatial Planning and Infrastructure Partnership to establish itself as an effective body locally and in relations with National Government. The consequences are reduced funding for the local area and failure to fully exploit development and infrastructure provision opportunities.	High Medium 12	A !	Medium 8	Control Measures remain the same. a) Partnership Work Programme / Forward Plan b) Resource provision for Partnership work (use of LAA Reward Grant)	High Medium 12	A !	Medium 8	↑
How the risk should be managed										
Indicated by:-			Requires Active Management High Impact / High Probability: this risk requires active management to manage down and maintain the exposure at an acceptable level. Escalate upwards.							
High			Contingency Plans Required A robust contingency plan is required, together with early warning mechanisms to detect any deviation from the profile. Escalate upwards.							
High Medium			Monitoring Required This risk may require some additional risk mitigation to reduce the likelihood (if it can be done cost effectively), but good housekeeping to ensure that the impact remains low should be adequate. Monitor to identify any change in the risk.							
Medium			Review Periodically This risk is unlikely to require further mitigating actions, but the status should be reviewed quarterly to ensure that conditions have not changed.							
Low			Risk rating stayed the same Last quarter compared to this							
↑			Risk rating improved Performance increased (risk rating decreased) Last quarter compared to this							
↗			Risk rating worsened Performance declined (risk rating increased) Last quarter compared to this							
↓										

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Cherwell District Council Internal Audit Report 2010/11

Risk Management

Final Report

May 2011

Distribution list		
For action	Claire Taylor	Corporate Strategy and Performance Management
For information	Ian Davies	Interim Chief Executive
	Richard Hawtin	Internal Audit Contract Manager
	Karen Curtin	Head of Finance and S151 Officer

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This report has been prepared solely for Cherwell District Council. In accordance with the terms and conditions set out in our engagement letter. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

1. Executive Summary

Overall Opinion	Summary of Key Findings																				
<p>Overall opinion</p> <p>Moderate Assurance can be given on the adequacy and operating effectiveness of controls in place over housing benefits. Our assurance ratings are defined in Appendix 1.</p> <p>Our opinion is based on the work performed as set out in the agreed terms of reference (Appendix 3) and is subject to the inherent limitations set out in Appendix 2.</p> <p>Scope and limitations of review</p> <p>We conducted a review of Risk Management in accordance with the International Standard for Assurance Engagements 3000, “ISAE 3000”. The key objectives of the review, the scope and the limitations of scope were agreed with management in advance and are set out in the terms of reference (Appendix 3).</p>	<p>The number of key findings resulting from audit work undertaken is as follows:</p> <table><tr><th colspan="2">Control Design</th><th colspan="2">Operating Effectiveness</th></tr><tr><td>Critical</td><td>0</td><td>Critical</td><td>0</td></tr><tr><td>High</td><td>0</td><td>High</td><td>0</td></tr><tr><td>Medium</td><td>1</td><td>Medium</td><td>1</td></tr><tr><td>Low</td><td>3</td><td>Low</td><td>2</td></tr></table>	Control Design		Operating Effectiveness		Critical	0	Critical	0	High	0	High	0	Medium	1	Medium	1	Low	3	Low	2
Control Design		Operating Effectiveness																			
Critical	0	Critical	0																		
High	0	High	0																		
Medium	1	Medium	1																		
Low	3	Low	2																		

2. Background and Scope

Introduction

This review was undertaken as part of the 2010/11 Internal Audit Plan agreed by the Accounts, Audit and Risk (AAR) Committee.

This report has been prepared solely for Cherwell District Council in accordance with the terms and conditions set out in our letter of engagement. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Background

Effective risk management is essential in helping any organisation to improve governance, focus decision making and achieve objectives. Risk management is ensured through maintenance of risk registers and an awareness of risk throughout an organisation. During 2010/11 the Council has integrated performance management with risk management and the risk register is now maintained on the performance management system (Performance Plus). The current Strategic, Corporate and Partnership register has 9 Strategic risks, 7 Corporate risks and 5 Partnership risks. Every risk has an owner who is responsible for updating the risk and implementing the actions.

The Accounts, Audit and Risk Committee are responsible for overseeing risk

management. We noted that between April 2010 and November 2010 risks had not been reported to the Accounts, Audit and Risk Committee however since that time reporting has been regular and a future reporting plan has been agreed therefore no recommendation has been raised in relation to this issue.

This report reflects our findings over the controls and processes in place as at the time of our internal audit fieldwork which took place during March 2011.

Scope of review

In accordance with our Terms of Reference (Appendix 3), agreed with the Corporate Strategy and Performance Manager, we undertook a limited scope audit of the Risk Management process. This limited scope audit involved a review of the design of the key controls together with detailed testing to determine whether the controls were operating in practice.

Limitations of scope

The scope of our work was limited to those areas which were identified in the terms of reference.

3. Overall Evaluation


Summary of findings


Objective	Total number of issues	Number of control design issues				Number of operating effectiveness issues			
		Critical	High	Medium	Low	Critical	High	Medium	Low
Vision, Commitment and Ownership of Risk Management within the Council	0	0	0	0	0	0	0	0	0
Structure, Roles and Responsibilities are clearly defined in respect of risk management	3	0	0	0	3	0	0	0	0
Risks are identified from across the Authority	2	0	0	1	0	0	0	1	0
Risks are clearly prioritised and rated in terms of impact and likelihood. A consistent method is used across the Council	0	0	0	0	0	0	0	0	0
Actions and responses to risks are identified and monitored on a regular basis	2	0	0	0	0	0	0	1	1
Risks are reviewed on a regular basis	0	0	0	0	0	0	0	0	0
Officers and Members are trained to ensure a wider appreciation of risk management	0	0	0	0	0	0	0	0	0

4. Detailed Findings


Issue 1: Responsibilities and Actions		Control Design
Control objective: Structure, Roles and Responsibilities are clearly defined in respect of risk management		
Matters arising		
The current Risk Strategy includes a section on responsibilities for risk management at a corporate level, however a full governance structure including relevant working groups and risk owners responsibilities is not outlined. This is of particular importance given the new shared management arrangements that will come into place in 2011/12.		
Risks arising		
Governance arrangements may not be clearly outlined leading to an increased risk that risk is not effectively identified and managed.		
Recommendations		
Following the new structure the Council should map the full governance arrangements for risk management within the Risk Strategy document.		
Management response		
Priority Low ●	Management response <p>Agreed.</p> <p>Ownership of risk is clear (and roles and responsibilities are outlined in both the risk strategy and the risk handbook). However, governance structures could be more effectively codified through a diagrammatic appendix to the risk strategy. This action is best undertaken when the new shared management structures are in operation as governance structures are likely to be amended during this process.</p>	Action plan By whom: Corporate Strategy and Performance Manager Implementation date: December 2011


Issue 2: Risk Management Handbook		Control Design
Control objective: Structure, Roles and Responsibilities are clearly defined in respect of risk management		
Matters arising		
The risk management handbook has not been updated to reflect how the Council integrates risk and performance management process. In addition the current handbook lacks detail on how actions should be linked to risks and how partnership risks should be managed.		
Risks arising		
Processes lack clarity and therefore risk management may not be enforced consistently across the organisation.		
Recommendations		
The risk management handbook should be updated to reflect the recent improvements in integrating risk and performance management as well as information on mapping action plans to risks, and managing partnership risks		
Management response		
Priority Low ●	Management response Agreed The PMF handbook covers how risk relates to performance (pages 20-28). The Risk handbook will be updated to briefly cover how it integrates to performance (i.e. by referencing the PMF and overiewing the process). An additional section will be added to the handbook on partnership risks. The service planning guidance will also be amended to reflect how actions should be related to risks.	Action plan By whom: Corporate Strategy and Performance Manager Implementation date: July 2011

Issue 3: Partnership risks		Control Design
Control objective: Risks are identified from across the Authority		
Matters arising		
The Council does not currently have procedures in place to provide assurance that joint projects are subject to risk management processes. Separate risk registers are not in place for all significant partnerships.		
Risks arising		
Risks may not be managed at a partnership level.		
Recommendations		
The Council should ensure that all significant partnerships have a separate risk register detailing identified risks and mitigating actions..		
Management response		
Priority Medium 	Management response Agreed. For the council's highest profile projects, such as Brighter Futures in Banbury and the Shared Management project separate risk registers are in place. Some partnerships do not hold separate risk registers but the council's risk associated with them is entered on to the partnerships register. Other partnerships do have risk registers (e.g. the Community Safety Partnership) During 2011 all partnerships will be reviewed given the national policy context, as such partnership risks will be identified as part of this process.	Action plan By whom: Partnership lead managers Implementation date: September 2011

Issue 4: Updating Risk Register		Operating Effectiveness
Control objective: Actions and responses to risks are identified and monitored on a regular basis		
Matters arising		
All risks should be reviewed and updated on a monthly basis and reported to the Corporate Management Team (CMT). As per the January 2011 CMT reports, 5/19 risks included on the Strategic Risk Register had not been updated. 1 of these risks (Horton Hospital) was rated as having a high gross risk and had not been updated since the October report.		
Risks arising		
Risks are not subject to appropriate monitoring or managed effectively.		
Recommendations		
A reminder of the importance of effective risk management should be issued to risk owners to ensure that risks, controls and actions are reviewed and updated on a monthly basis. CMT should seek to hold risk owners to account to ensure that this process is adhered to.		
Management response		
Priority Medium 	Management response Agreed.	Action plan By whom: Corporate Strategy and Performance Manager Implementation date: May 2011

Issue 5: Controls description		Operating Effectiveness
Control objective: Actions and responses to risks are identified and monitored on a regular basis		
Matters arising		
It was noted when reviewing the Corporate Risk Register that it is often difficult to distinguish whether the “controls” that are detailed relate to existing processes or future planned action. It is therefore not possible to fully understand the respective risk scores in this context.		
Risks arising		
Risk scores may not be accurate, increasing the risk that appropriate action may not be taken.		
Recommendations		
Guidance should be provided to clarify how controls and planned actions should be recorded and mapped on the risk register. Work should be performed to ensure that the “net” risk score reflects whether controls are currently in place.		
Management response		
Priority Low ●	Management response Agreed.The risk handbook update will include guidance on risk actions and appropriate commentary when updating risks. The issue will be raised at EMT.	Action plan By whom: Corporate Strategy and Performance Manager Implementation date: June 2011





Issue 6: Responsibilities and Actions		Control Design
Control objective: Structure, Roles and Responsibilities are clearly defined in respect of risk management		
Matters arising		
There is currently no Terms of Reference in place for the Council's Risk Management Group. The group do not formally monitor progress on actions.		
Risks arising		
Roles and responsibilities are not clearly defined, increasing the risk that effective governance of Risk Management is not maintained.		
Recommendations		
A Terms of Reference should be drawn up for the Risk Management Group. Documentation should be maintained to show designated actions and progress against these.		
Management response		
Priority Low 	Management response Agreed. The integration of performance and risk means that the risk management working group and the performance managers group will be integrated. The first meeting is scheduled for May 9 th at which a single set of terms of reference will be agreed.	Action plan By whom: Performance and Risk officer Implementation date: 9th may 2011

Issue 7: CIPFA Risks		Operating Effectiveness
Control objective: Risks are identified from across the Authority.		
Matters arising		
<p>The Corporate Risk Register was reviewed in line with CIPFA guidance (Strategic Risk Management, Governance Risks in 2011) to confirm that potential high risks identified by CIPFA, have been included on the Corporate Risk Register where appropriate.</p> <p>During testing, it was noted that 4/10 potential risk areas identified by CIPFA are not reflected on the register. These areas are:</p> <ul style="list-style-type: none"> • Transparency Agenda • Changes to information governance legislation • Forthcoming changes to the standards regime (England) • Local Accountability 		
Risks arising		
Potential risk areas are not identified and managed effectively..		
Recommendations		
The Council should review those risks that have been omitted and consider inclusion in the corporate risk register.		
Management response		
Priority Low 	Management response <p>Agreed. Both the transparency agenda and the information governance legislation were identified at EMT in February 2011 as issues and will appear on the 2011/12 risk register. The risk associated with the standards regime is underassessment and will be reviewed by CMT at their monthly performance review. In terms of local accountability the Council has made this area a priority and it is reflected in this public performance pledges for 2011/12. The issue is included as part of the council's risk assessment of transparency as the controls form part of the same action plan.</p>	Action plan <p>By whom: Corporate Strategy and Performance Manager, Head of Legal and Democratic Services</p> <p>Implementation date: implemented in part outstanding issues to be resolved by June 2011.</p>

Appendix 1 – Basis of our Opinion

Individual risk ratings

Each of the control weaknesses identified have been categorised according to risk as follows:

Risk rating	Assessment rationale
Critical 	A control weakness that could have a: <ul style="list-style-type: none"> • Significant impact in the achievement of the organisation's operational objectives as set out in its operational plan; or • Material financial impact on the organisation; or • Significant breach in laws and regulations resulting in severe fines or consequences; or • Critical impact on the reputation of the organisation which could threaten its future viability.
High 	A control weakness that could have a: <ul style="list-style-type: none"> • Significant impact in the achievement of the objectives of the system, function or process under review as set out in the terms of reference; or • Significant financial impact on the organisation; or • Breach in laws and regulations resulting in fines and consequences which are significant to the system, function or process under review but not the overall organisation; or • Significant impact on the reputation of the organisation.
Medium 	A control weakness that could have a: <ul style="list-style-type: none"> • Moderate impact in the achievement of the objectives of the system, function or process under review as set out in the terms of reference; or • Moderate financial impact on the organisation; or • Breach in laws and regulations resulting in fines and consequences which impact but are not significant to the system, function or process under review; or • Moderate impact on the reputation of the organisation.
Low 	A control weakness that could have a: <ul style="list-style-type: none"> • Minor impact on the achievement of the objectives of the system, function or process under review as set out in the terms of reference; or • Minor financial impact on the organisation; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.

Assurance Ratings

The table below details the assurance ratings for grading individual audits:

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

Appendix 2 – Limitations and Responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review of Risk Management subject to the limitations outlined below. This is an independent assurance report and our work has been performed in accordance with ISAE 3000 ("International Standard on Assurance Engagements").

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to Risk Management is as at March 2011. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

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

Responsibilities of management and internal auditors

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

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

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Appendix 3 – Terms of Reference

Objectives

Our objective is to undertake a review of risk management arrangements to ensure an adequate level of controls exist over managing and responding to risks.

Deliverables

Our deliverable will be a report detailing our findings with regard to our assessment of the design and effectiveness of controls in place over managing and responding to risks.

Scope and Approach

Our work will focus on identifying the guidance, procedures and controls in place to mitigate key risks through:

- Documenting the underlying guidance, policy and processes in place and identifying key controls;
- Considering whether the policies and procedures in place are fit for purpose; and
- Testing key controls.

The key points that we will focus on are:

- Vision, Commitment and Ownership of Risk Management within the Council.
- Structure, Roles and Responsibilities are clearly defined in respect of risk management.
- Risks are identified from across the Authority.
- Risks are clearly prioritised and rated in terms of impact and likelihood. A consistent method is used across the Council.
- Actions and responses to risks are identified and monitored on a regular basis.
- Risks are reviewed on a regular basis.
- Officers and Members are trained to ensure a wider appreciation of risk management.

Limitations of Scope

The scope of our work will be limited to those areas identified in the terms of reference.

Stakeholders and Responsibilities

Role	Contacts	Responsibilities
Corporate Strategy and Performance Manager Risk Management and Insurance Officer	Claire Taylor Rosemary Watts	<ul style="list-style-type: none"> Review and approve terms of reference Review and meet to discuss issues arising and develop management responses and action plan Review draft report. Review final report.
Head of Finance Head of Legal and Democratic Services	Karen Curtin Liz Howlett	<ul style="list-style-type: none"> Receive agreed terms of reference Receive draft and final reports.
Interim Chief Executive	Ian Davies	<ul style="list-style-type: none"> Receive final report

Our Team

Chief Internal Auditor	Chris Dickens
Audit Manager	Katherine Bennett
Auditor	Sarah Swan

Timetable

Steps	Date
TOR approval	February 2011
Fieldwork commencement	21st February 2011
Fieldwork completed	T + 1 weeks
Draft report of findings issued	T + 3 weeks
Receipt of Management response	T + 5 weeks
Final report of findings issued	T + 6 weeks

Budget

Our budget for this assignment is 5 days. If the number of days required to perform this review increases above the number of days budgeted, we will bring this to management attention.

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

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Appendix 3

Risk register

Risk Type	2010.11	2011.12
s1	Deprivation and equalities	Deprivation and equalities
s2	Eco Town	Eco Town
s3	LDF	LDF
s4	Economic and Social Change	Economic and Social Change
s5	Horton Hospital	Horton Hospital
s6	Natural Environment	Natural Environment
s7	Managing Change	Managing Change
s8	Financial resources	Financial resources
s9	Shared Services	Shared Services
s10	n/a	New for 2011.12 Managing legislative and policy change
c1	Health and Safety	Health and Safety
c2	Capital Investments	Capital Investments
c3a&b	ICT Systems	ICT Systems
c4	Equalities Legislation	Equalities Legislation
c5	Job Evaluation	Deleted for 2011.12
c6	Civil Emergency	Civil Emergency
c7	Data Quality	Revised for 2011.12 Managing Data and Information
c8	n/a	New for 2011.12 Corporate Fraud
p1	LAA	Deleted for 2011.12
p2	LSP	LSP
p3	Community Safety	Community Safety
p4	SPIP	Revised for 2011.12 LEP
p5	n/a	New for 2011.12 Oxfordshire Waste Partnership
p6	n/a	New for 2011.12 Health and Wellbeing
Total	20	22

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