

South Cambridgeshire Hall
Cambourne Business Park
Cambourne
Cambridge
CB23 6EA

t: 03450 450 500
f: 01954 713149
dx: DX 729500 Cambridge 15
minicom: 01480 376743
www.scambs.gov.uk



Tuesday 23 March 2010

To: Chairman – Councillor Peter Topping
Vice-Chairman – Councillor Nigel Bolitho
Members of the Corporate Governance Committee – Councillors John Batchelor,
Francis Burkitt, Douglas de Lacey, David McCraith and Richard Summerfield
Quorum: 3

Dear Councillor

You are invited to attend the next meeting of **CORPORATE GOVERNANCE COMMITTEE**, which will be held in **SWANSLEY ROOM, GROUND FLOOR** at South Cambridgeshire Hall on **WEDNESDAY, 31 MARCH 2010 at 9.30 a.m.**

Members are respectfully reminded that when substituting on committees, subcommittees, and outside or joint bodies, Democratic Services must be advised of the substitution *in advance of* the meeting. It is not possible to accept a substitute once the meeting has started. Council Standing Order 4.3 refers.

Yours faithfully
GJ HARLOCK
Chief Executive

The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you.

AGENDA		PAGES
1.	Apologies for Absence To receive apologies for absence from committee members.	
2.	Declarations of Interest	
3.	Minutes of Previous Meeting To confirm the minutes of the meeting held on 9 February 2010 as a correct record.	1 - 4
INTERNAL AUDIT REPORTS		
4 (a)	Internal Audit Plan (Operational Plan 2010/11 and 3 year strategic plan)	5 - 22
4 (b)	Internal Audit Progress Report	23 - 30
4 (c)	Draft Internal Audit Annual Report for Year Ended 31 March	31 - 40

EXTERNAL AUDIT REPORTS

- | | | |
|--------------|--|-----------------|
| 4 (d) | Presentation: International Finance Reporting Standards | 41 - 74 |
| | <ul style="list-style-type: none">• Presentation from Neil Gibson• Report from Audit Commission: Countdown to IFRS• Report from Audit Commission: Identifying and Accounting for Leases• Action Plan from Head of Accountancy | |
| 4 (e) | Publication: Code of Audit Practice 2010 | 75 - 104 |

OTHER REPORTS

- | | | |
|-----------|--|----------------------|
| 5. | Use of Resources Improvement Plan | 105 -
130 |
| 6. | Annual Governance Statement 2009/10: Final | 131 -
150 |
| 7. | Risk Management Strategy Review | 151 -
182 |
| 8. | Strategic Risk Register Quarterly Reports 2010/11 | 183 -
198 |

STANDING ITEMS

- | | | |
|------------|--|----------------------|
| 9. | Matters of Topical Interest | 199 -
214 |
| | Report from the Audit Commission: Statement of Responsibilities of Auditors and of Audited Bodies. | |
| 10. | Date of Next Meeting | |
| | Members are asked to bring their diaries. | |

GUIDANCE NOTES FOR VISITORS TO SOUTH CAMBRIDGESHIRE HALL

While the District Council endeavours to ensure that visitors come to no harm when visiting South Cambridgeshire Hall, those visitors also have a responsibility to make sure that they do not risk their own or others' safety.

Increased hygiene at South Cambridgeshire Hall

In light of the swine flu pandemic, we have intensified our usual cleaning routines in council buildings. We have also introduced hand gel dispensers throughout the offices, including public areas. When visiting South Cambridgeshire Hall you are encouraged to use these facilities if and when required to help limit the spread of flu.

Security

Members of the public attending meetings in non-public areas of the Council offices must report to Reception, sign in, and at all times wear the Visitor badges issued. Before leaving the building, such visitors must sign out and return their Visitor badges to Reception.

Emergency and Evacuation

In the event of a fire, a continuous alarm will sound. Evacuate the building using the nearest escape route; from the Council Chamber or Mezzanine viewing gallery this would be via the staircase just outside the door. Go to the assembly point at the far side of the staff car park.

- **Do not** use the lifts to exit the building. If you are unable to negotiate stairs by yourself, the emergency staircase landings are provided with fire refuge areas, which afford protection for a minimum of 1.5 hours. Press the alarm button and wait for assistance from the Council fire wardens or the fire brigade.
- **Do not** re-enter the building until the officer in charge or the fire brigade confirms that it is safe to do so.

First Aid

If someone feels unwell or needs first aid, please alert a member of staff.

Access for People with Disabilities

The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you. All meeting rooms are accessible to wheelchair users. There are disabled toilet facilities on each floor of the building. Hearing loops and earphones are available from reception and can be used in all meeting rooms.

Toilets

Public toilets are available on each floor of the building next to the lifts.

Recording of Business

Unless specifically authorised by resolution, no audio and / or visual or photographic recording in any format is allowed at any meeting of the Council, the executive (Cabinet), or any committee, sub-committee or other sub-group of the Council or the executive.

Banners, Placards and similar items

No member of the public shall be allowed to bring into or display at any Council meeting any banner, placard, poster or other similar item. The Chairman may require any such item to be removed.

Disturbance by Public

If a member of the public interrupts proceedings, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room. If there is a general disturbance in any part of the meeting room open to the public, the Chairman may call for that part to be cleared.

Smoking

Since 1 July 2008, the Council has operated a new Smoke Free Policy. Visitors are not allowed to smoke at any time within the Council offices, or in the car park or other grounds forming part of those offices.

Food and Drink

Vending machines and a water dispenser are available on the ground floor near the lifts at the front of the building. Visitors are not allowed to bring food or drink into the meeting room.

Mobile Phones

Visitors are asked to make sure that their phones and other mobile devices are set on silent / vibrate mode during meetings or are switched off altogether.

This page is left blank intentionally.

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Minutes of a meeting of the Corporate Governance Committee held on
Tuesday, 9 February 2010 at 10.00 a.m.

PRESENT:	Councillor Peter Topping – Chairman Councillor Nigel Bolitho – Vice-Chairman	
Councillors:	John Batchelor Douglas de Lacey Richard Summerfield	Francis Burkitt David McCraith
Officers:	Adrian Burns Alex Colyer Greg Harlock Fiona McMillan Steve Rayment Ian Senior	Head of Accountancy Executive Director, Corporate Services Chief Executive Acting Legal & Democratic Services Manager and Deputy Monitoring Officer Head of ICT Democratic Services Officer
External:	Neil Gibson Chris Harris Suzanne Lane MacAskill	Audit Commission RSM Tenon RSM Tenon Audit Commission

Apologies for absence were received from Councillor Simon Edwards (Finance and Staffing Portfolio Holder) and Councillor Janice Guest.

26. DECLARATIONS OF INTEREST

Councillor Nigel Bolitho declared a personal interest as the tenant of an industrial unit at Unit 3, to the rear of 176 High Street, Cottenham.

27. MINUTES OF PREVIOUS MEETING

The Corporate Governance Committee authorised the Chairman to sign, as a correct record, the Minutes of the meeting held on 23 October 2009, subject to a correction being made in Minute 19 (External Audit Reports – Annual Governance Report) to record, under 'Financial Statements', that Neil Gibson was representing the District Audit Service but was not the District Auditor.

28. INTERNAL AUDIT PROGRESS REPORT

Chris Harris (RSM Tenon and formerly of RSM Bentley Jennison) presented the Internal Audit Progress Report, dated February 2010. The overview was the financial systems at South Cambridgeshire District Council were essentially sound.

Members briefly discussed a number of issues arising from the report, including Value for Money concerns and review of the ICT service.

29. EXTERNAL AUDIT: ANNUAL AUDIT LETTER AND REVISED ANNUAL GOVERNANCE REPORT 2008/09

Neil Gibson presented the Annual Audit Letter for 2008-09, published by the Audit Commission in December 2009, and the Annual Governance Report for 2008-09, revised

and republished in November 2009.

Members discussed a number of issues arising from the Letter and Report, including

- Financial reporting standards
- The use of jargon and preference for plain English
- Value for Money
- The Audit Commission scoring system

30. STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2008/09

The Corporate Governance Committee received and noted the statement of Accounts and Annual Governance statement 2008-09.

31. CAMBRIDGESHIRE PENSION FUND ANNUAL REPORT 2008/09

The Corporate Governance Committee received and noted the Pension Fund Annual Report for 2008-09, published by Cambridgeshire County Council.

The Scheme was open to both councillors and staff, and a number of those present did in fact contribute to it.

Members noted with concern that the actuarially forecast deficit on the Pension Fund would, in all probability, require an employer's contribution rate of approximately 33% being introduced and maintained for a period of some 20 years, until the funding imbalance had been addressed. The Chief Executive commented that although as part of the pre-budget statement the Government had signalled its intention to cap employer's contribution rates at a predetermined level, further details of the proposal were not yet available.

Councillor Francis Burkitt questioned the extent of awareness of the Pension Scheme, and its implications, across South Cambridgeshire District Council as a whole. He suggested that there might be some merit in providing all 57 elected Members with a copy each of the Pension Fund Annual Report 2008-09 with a view to setting aside time at Full Council for a dedicated debate on the subject (that is, not as an aside to some other discussion).

Councillor Douglas de Lacey asked whether there was anything South Cambridgeshire District Council could do to enhance performance of the Funds. Greg Harlock (Chief Executive, said that the best this Council could do was to ensure effective stewardship in the management of its staffing arrangements.

Following further discussion, it was agreed that:

- Alex Colyer, Executive Director (Corporate Services) would invite the lead Cambridgeshire County Council officer for the Pensions Service to present the 2009/10 Pension Fund Annual Report to Members at a Corporate Governance Committee meeting in Autumn 2010.
- Invitations to attend the meeting in Autumn 2010 would also be extended to the Finance and Staffing Portfolio Holder at South Cambridgeshire District Council (currently Councillor Simon Edwards) or to the equivalent Portfolio Holder at that time, and to the councillor representing all district councils participating in the Fund.

32. COMPREHENSIVE AREA ASSESSMENT (CAA) ORGANISATIONAL ASSESSMENT

The Corporate Governance Committee considered a report setting out the findings of the

Organisational Assessment for South Cambridgeshire District Council for 2008-09, which had been published by the Audit Commission on 9 December 2009. The report highlighted the Assessment's key findings and outlined measures both for responding to the current assessment and preparing for future ones.

Members noted that green flags indicated exceptional performance or innovation from which others could learn. Cambridgeshire had received a green flag in respect of its partnership in reducing waste. Members noted that red flags indicated significant concerns requiring action. Cambridgeshire had not been identified for any red flags.

Focusing on the statement that "...Crime levels are low [in Cambridgeshire] compared to other areas but burglary and car crime has increased", Councillor Francis Burkitt sought clarification as to the kind of influence South Cambridgeshire District Council could bring to bear. In reply, the Corporate Manager (Community and Customer Services) referred to the Council's role within the South Cambridgeshire Crime and Disorder Reduction Partnership.

Councillor Douglas de Lacey expressed concern at the observation that "There has been little impact on tackling climate change". Stewart MacAskill (AC) acknowledged that the Council had achieved a great deal in terms of policy development in this context, but said there was little evidence of any impact achieved by such policy so far.

Councillor John Batchelor challenged the Audit Commission to explain why it seemed to be expressing opinions about Council actions. In response, Stewart MacAskill (AC) said that the Audit Commission's only concern was to examine the adequacy of the Council's *processes*.

Councillor Burkitt highlighted the Organisational Assessment's statement that "...planning requests are worked out slowly. Council targets for planning applications were not met in 2008/09 and more successful appeals were made against planning decisions". The Democratic Services Officer undertook to prepare a short report for the Corporate Governance Committee's next meeting, setting out actual planning and appeals performance during 2008-09.

Members identified the following key messages and, in the absence of both the Leader of Council and Deputy Leader at this meeting, asked the Chief Executive to convey them to the Cabinet on 11 February 2010:

- An Audit Commission score of '2' (adequate) was satisfactory. There was no need to strive for a score of '4' and, while a few specific scores of '3' would be welcome, the Council should not set itself targets, the achievement of which would not represent best use of resources.
- More work was needed in identifying outcomes, not just processes.

33. STRATEGIC RISK REGISTER QUARTERLY REPORT

The Corporate Governance Committee considered a report on the interim review of the Council's risk management strategy and process.

Councillor Douglas de Lacey asked the Committee to consider what the risk and financial cost to the Council might be should it fail to address the issue of climate change. It was suggested that this risk was one to which the Climate Change Working Group might wish to give some attention.

The Corporate Governance Committee

- (a) **approved** the reallocation of Member executive and governance roles regarding risk management between the Executive and Corporate Governance Committee, in line with paragraphs 7 to 10 of this report;
- (b) **approved** the adoption of a procedural framework following from the reallocation of roles, as suggested in paragraph 11 of this report;
- (c) **approved** the changes in recording, assessing, prioritising and reporting of risks, in line with paragraphs 12 to 16 of this report and Appendices A to D; and
- (d) **noted** that it is likely the Leader will assign the Executive responsibility to the Policy and Performance Portfolio Holder.

34. MATTERS OF TOPICAL INTEREST

Chris Harris (RSM Tenon) reported that, on 9 December 2009,, RSM Tenon had announced the intention to merge its operations with those of RSM Bentley Jennison. The merger was effective from 30 December 2009 and the vision was now to make RSM Tenon the leading financial and business advisers in its chosen markets. Mr Harris assured the Corporate Governance Committee that the Council would not in any sense be disadvantaged by the new business arrangement – the existing contract would be novated. Alex Colyer, Executive Director (Corporate Services), confirmed that there was no financial risk for the Council. The Chairman said that both RSM Tenon and RSM Bentley Jennison were companies of good standing and, as such, caused him no concern. Councillor Francis Burkitt hoped that the merger might result in greater efficiency during 2010-11.

Greg Harlock referred to the Audit Commission's intention to rotate its staff as part of its revolving structure of audit appointments. District Audit staff usually remain in place for five years in order that they, and local authorities, have the benefit of some consistency. Debbie Hanson had been responsible for South Cambridgeshire District Council for one year but the proposal was now to move her on. As a result of Greg Harlock expressing his disappointment at this move, the Audit Commission had agreed that Debbie Hanson would continue to fulfil the role of External Auditor to South Cambridgeshire District Council during 2010-11.

35. DATE OF NEXT MEETING

The next scheduled Corporate Governance Committee meeting would take place on Wednesday 31 March 2010, starting at 9.30am.

The Chairman requested that a Forward Plan be developed and linked in with a schedule of meetings for 2010-11.

The Meeting ended at 12.15 p.m.

RSM Tenon

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Strategy for Internal Audit

2010/11 – 2012/13

For presentation at the Corporate Governance Committee meeting of 31
March 2010

Approved by Chris Harris as Head of Internal Audit

CONTENTS

	Section	Page
1	Introduction	1
2	Developing your Strategy for Internal Audit	2
3	Internal Audit Resources	3
4	Considerations required of the Corporate Governance Committee	3
	Appendices	
A	Risk Maturity Matrix	5
B	Detailed Internal Audit Plan 2010/11	6
C	Updated Strategy for Internal Audit: 2010/11 – 2012/13	12

This report is prepared solely for the use of the Authority and senior management of South Cambridgeshire District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

© 2010 RSM Tenon Limited

RSM Tenon Limited is a member of RSM Tenon Group

RSM Tenon Limited is an independent member firm of RSM International an affiliation of independent accounting and consulting firms. RSM International is the name given to a network of independent accounting and consulting firms each of which practices in its own right. RSM International does not exist in any jurisdiction as a separate legal entity.

RSM Tenon Limited (No 4066924) is registered in England and Wales. Registered Office 66 Chiltern Street, London W1U 4GB. England

1 INTRODUCTION

1.1 THE PURPOSE OF INTERNAL AUDIT

The purpose of internal audit is to provide the Council, through the Corporate Governance Committee, with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the organisation's agreed objectives. This opinion forms part of the framework of assurances that the Council receives and should be used to help inform the Annual Governance Statement. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance and control.

Our strategy for 2009/2010 was approved by the Corporate Governance Committee in March 2009. The purpose of this document is to update that strategy and to provide a more detailed internal audit plan for 2010/11.

1.2 OUR RESPONSIBILITIES

Our professional responsibilities as internal auditors are set out in the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors (IIA).

As such, our approach to internal audit also meets the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

In line with these requirements, we perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, in particular to how those elements contribute to how the organisation will achieve its objectives.

2 THE UPDATED INTERNAL AUDIT PLAN

2.1 HOW THE STRATEGY WAS DEVELOPED

The plan has been updated following discussions with the Chief Executive, Executive Director Corporate Services and Executive Director Operational Services, and taking into account concerns identified by the Corporate Governance Committee as well as changes in the organisation's risk profile.

In 2009/10 we undertook a review of the organisation's risk maturity and concluded that South Cambridgeshire District Council is a risk managed organisation. Therefore we are able to place reliance on your risk registers / assurance framework to inform the update of the internal audit strategy (see the Risk Maturity Matrix at Appendix A).

The changes made to the internal audit plan for 2010/11 are as follows:

- Medium Term Financial Plan has been added to the audit plan as this is a key area for the Council and a risk that is now included within the Strategic Risk Register.
- We have added an Asset Management (Housing) review to our audit strategy to ensure that adequate controls are in place for the monitoring and reviewing the use of the Housing Stock including compliance with the Decent Homes Standards.
- An annual review of Council Grants has been added to the audit plan to ensure that grants are being used as specified and documentation is held to support this.
- Housing Future has now been removed from the three year strategy as this is no longer relevant to the Council.
- Recruitment and Retention has been removed from risk based audits as no longer included on Strategic Risk Register, however this is still included within the three year strategy as part of the Human Resources audits.
- The Customer Services audit has been removed from the 2010/11 audit plan as there is currently considerable work being undertaken within the Council on this area including accreditation that the Council are working to achieve.

3 INTERNAL AUDIT RESOURCES

3.1 YOUR INTERNAL AUDIT TEAM

Your internal audit team is led by Chris Harris.

Your Client Manager is Suzanne Lane.

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing standards.

3.2 INTERNAL AUDIT FEES

In line with our tender and subsequent engagement letter, the fee for your internal audit service for 2010/11 is £79,222 which is based on an estimated input of 260 days. A breakdown of and fees for each assignment is provided at Appendix B as part of the detailed internal audit plan for 2010/11.

We have been reviewing our internal audit planning mechanism to ensure we provide sufficient information to support our clients' risk management processes. A key aspect is the relationship between risk and the cost of providing assurance. Thus our plan for 2010/11 details the total cost of each review to enable management and the Corporate Governance Committee to make an informed judgement on that risk vs. assurance cost.

4 CONSIDERATIONS REQUIRED OF THE CORPORATE GOVERNANCE COMMITTEE

- Does the Strategy for Internal Audit (as set out at Appendix A) cover the organisation's key risks as they are recognised by the Corporate Governance Committee?
- Does the audit strategy include all those areas that the Corporate Governance Committee would expect to be subject to internal audit coverage, both in terms of our professional responsibilities as well as covering areas of concern flagged by management?
- Is the level of audit resource accepted by the Committee and agreed as appropriate, given the level of assurance required?
- Does the detailed internal audit plan for the coming financial year (see Appendix B) reflect the areas that the Corporate Governance Committee believe should be covered as priority?

APPENDIX A: RISK MATURITY MATRIX

Risk Maturity	Characteristics of your risk management arrangements	RSM Tenon's Internal Audit Approach
Risk Naïve	No formal approach developed for risk management	<p>Promote risk management, advisory work to help put the risk management framework in place.</p> <p>Rely on internal audit's assessment of risk to drive the internal audit plan.</p>
Risk Aware	Scattered silo based approach to risk management	<p>Promote embedded and joined up risk management activities.</p> <p>Rely on internal audit's assessment of risk to drive the internal audit plan.</p>
Risk Defined	Strategy and policies in place and communicated. Risk appetite defined	<p>Facilitate risk management/liaise with risk management. Review of risk management processes already in place.</p> <p>Internal Audit rely on your assessment of risk, but will also identify other risk areas for internal audit coverage.</p>
Risk Managed	<p>Enterprise wide approach to risk management developed and communicated.</p> <p>Risk management is considered at the highest level of the business, but could be further developed to inform decision making.</p>	<p>Depending on the business's attitude to risk management, provide advice and support to move to a risk enabled organisation. Audit existing risk management processes to confirm effectiveness.</p> <p>Management's assessment of risk drives the audit plan, although internal audit will continue to challenge whether there are other risks that require internal audit coverage.</p>
Risk Enabled	<p>Risk management and internal control fully embedded into the operations.</p> <p>Risk management is used to help manage the business; consequently the business is able to take risks on an informed basis to achieve its objectives.</p>	<p>Audit risk management processes to confirm effectiveness.</p> <p>Management's assessment of risk drives the audit plan, although internal audit will continue challenge whether there are other risks that require internal audit coverage.</p>

Source: Based on Risk Maturity Matrix, Institute of Internal Auditors, Risk Based Auditing Position Statement

APPENDIX B: DETAILED INTERNAL AUDIT PLAN 2010/2011

RISK BASED COVERAGE

Audit Title	Risk	Mitigating Controls to be considered in IA review	Fee per assignment	Provisional Timing	
Aims Approaches Actions – A.v.					
Financial and Control	Planning Budgetary	Medium Financial (MTFS) Term Strategy	<ul style="list-style-type: none"> ▪ Annual review of assumptions. ▪ Annual approval of Budget. ▪ Annual review of Medium Term Financial Plan. ▪ Monitoring of the Budget and the Financial Plan. ▪ Regular reporting of the actual against Budget and Financial Plan. 	£2,726	Q3
Total			£2,726		

COVERAGE FOR EXTERNAL AUDIT RELIANCE OR TO MEET REGULATORY REQUIREMENTS

Audit Title	High Level Controls to be considered in IA review	Scope	Fee per assignment	Provisional Timing
Corporate Governance	<ul style="list-style-type: none"> ▪ To be agreed 	To be agreed	£2,726	Q4
Risk Management and Assurance Stocktake	<ul style="list-style-type: none"> ▪ Risk Management Strategy ▪ Risk Register ▪ Risk reporting ▪ Identification and use of assurances. 	Follow up of the 2009/10 Risk Maturity review. In addition, this will include an Assurance Stocktake Thematic Review.	£2,726	Q2
Income & Debtors	<ul style="list-style-type: none"> • Raising and authorisation of invoices; • Chasing outstanding debts; • Debt write off. 	Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	£1,524	Q3

General Ledger	<ul style="list-style-type: none"> • Access Controls; • Journals; • Month end closedown and reconciliation process; • Annual Budget setting process. 	Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	£1,524	Q3
Creditors	<ul style="list-style-type: none"> • Placing of orders; • Confirmation of goods being received; • Authorisation of Invoices; • Processing of credit notes; • Preparation and authorisation of payment runs. 	Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	£1,524	Q3
Cash, Banking & Treasury Management	<ul style="list-style-type: none"> • Receipt of cash; • Processing of cash payments; • Bank mandate; • Bank reconciliation; • Control over loans and investments where appropriate; 	Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	£1,524	Q3
Payroll (including Expenses & Pensions)	<ul style="list-style-type: none"> • Starters; • Leavers; • Changes to contract details; • Payment authorisation & run; • Authorisation of expenses claims. • Reporting. 	Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	£2,398	Q3

Capital Expenditure and Asset Management	<ul style="list-style-type: none"> • Processing of capital payments; • Maintenance of the asset register; • Internal verification of assets; • Disposals of assets. 	A review of the capital accounting and maintenance of the asset register.	£2,411	Q3
Procurement	<ul style="list-style-type: none"> • Compliance with the SFI's / SO's; • Evidence of obtaining quotations and tenders; • Maintenance of tender register; • Payment authorisation. 	A review of procurement/tendering process. Purchase order management. Framework agreements and contracts.	£2,411	Q4
NNDR	<ul style="list-style-type: none"> • Procedures & training; • Review of charges; • Processing of discounts / exemptions; • Processing bills; • Debt recovery • Reconciliations. 	A risk based audit of the Authority's processes for the setting and collection of NNDR, including reconciliation to/from Valuation Office listings.	£1,524	Q3
Council Tax	<ul style="list-style-type: none"> • Procedures & training; • Review of charges; • Processing of discounts / exemptions; • Processing bills; • Debt recovery; • Reconciliations. 	A risk based audit of the Authority's processes for the setting and collection of Council Tax, including reconciliation to/from Valuation Office listings. Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	£1,524	Q3

Housing Benefits	<ul style="list-style-type: none"> • Procedures training; & • Processing applications; of • Checking applications; of • Reporting. 	A risk based audit of the Authority's processes to monitor and manage the validity and accuracy of benefit payments. Key controls to be tested will be agreed with External Audit prior to the commencement of fieldwork.	£3,874	Q4
Housing Rents	<ul style="list-style-type: none"> • Setting of Housing Rents; • Rent increases; • Collection of rents; • Rent arrears monitoring and chasing; • Rent arrears reporting. 	A review to ensure that the collection of housing rents is accurate and timely.	£1,698	Q2
Total			£27,388	

OTHER INTERNAL AUDIT WORK

Topic	High Level Scope	Fee per assignment	Provisional Timing
Safeguarding	An annual review to ensure the Authority are completing and can support the self-assessment Checklist on 'The Implementation of the Key Safeguarding Employment Standards'.	£2,726	Q3
Health and Safety	Gas Safety - Landlords must have gas fittings checked and certified each year. Where this is contracted out, the local authority needs assurance and evidence that this has been done.	£1,349	Q1
Human Resources	Specific area of HR to be agreed with management prior to completion of the work being completed. This may be the area of Absence Management.	£1,698	Q1
Performance Management	A review to ensure that the new national performance indicator systems have been established within the Authority and that these are being monitored.	£2,726	Q4
Environmental Health	To assist in ensuring an effective Environmental Health service which meets its targets and delivers a customer driven service. The specific scope of the review will be agreed with management prior to the start of the review.	£2,726	Q4
Housing Maintenance – Planned & Cyclical	A review to ensure an adequate programme exists for the timely completion of scheduled housing maintenance.	£1,698	Q1

Topic	High Level Scope	Fee per assignment	Provisional Timing
Housing Responsive Repairs	The Council are currently reviewing the procurement of the responsive repairs service, following their review; we will undertake an internal audit to ensure that adequate arrangements are in place for the identification and allocation of responsive repairs.	£1,698	Q4
Asset Management (Housing)	To ensure that the Authority is maintaining the standards of its housing stock and undertaking adequate options appraisals where required. The audit will review the use stock conditions survey and link to compliance with the Decent Homes Standards.	£2,726	Q2
Housing Allocations and Voids	A review of the choice based letting allocations process to ensure that properties are promptly identified, applicants chosen and void times minimised.	£1,698	Q2
Contact Centre	To review the arrangements in place for the training of staff and monitoring of performance within the Contact Centre run in partnership with Cambridge County Council. This service is currently being reviewed, therefore the scope of our work will be agreed with management to compliment the Council's review.	£1,349	Q4
Planning	To ensure the Authority is up to date with current legislation that is applied where appropriate. To ensure planning applications are processed promptly and delays are identified and dealt with. To ensure a customer driven service is in place.	£2,095	Q2
Section 106	To review Section 106 planning gain benefits.	£2,095	Q2
ICT Review	A review of the Authorities arrangements in place for Code of Connections.	£3,945	Q3
Grant Validation	To provide assurance that the grant has been used for the required purposes.	£2,726	Q2
Annual Governance Statement	To aid management in the compilation of the Annual Governance Statement to ensure that this is an accurate reflection of priority areas.	£5,081	Q4
Follow Up	To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of recommendations.	£1,524	Q4

Topic	High Level Scope	Fee per assignment	Provisional Timing
Audit Management	This will include: <ul style="list-style-type: none"> ▪ Annual planning ▪ Preparation for, and attendance at, Corporate Governance Committee meetings ▪ Regular liaison and progress updates ▪ Liaison with external audit ▪ Preparation of the annual internal audit opinion 	£11,248	Ongoing
Total		£49,108	
TOTAL FOR 2010/11 Internal Audit Plan		£79,222	

APPENDIX C: UPDATED STRATEGY FOR INTERNAL AUDIT 2010/11 – 2012/13

RISK BASED COVERAGE

Risks	Auditable Area	Objective Type ¹	Source	2010/11	2011/12	2012/13
Aims Approaches Actions – A.v.						
Medium Term Financial Strategy (MTFS)	Financial and Planning Budgetary Control	Strategic & Reporting	Strategic Register Risk	✓		✓
Aims Approaches Actions - C.i, C.ii.2, E.iii, E.iv.						
Planning for Growth	Growth	Strategic & Operational	Strategic Register Risk		✓	
Aims Approaches Actions – A.iv.						
Pandemic 'flu	Civil Contingencies Act (Business Continuity Plans)	Strategic	Strategic Register Risk		✓	

COVERAGE FOR EXTERNAL AUDIT RELIANCE OR TO MEET REGULATORY REQUIREMENTS

Systems	Source of Requirement	2010/11	2011/12	2012/13
Corporate Governance	Annual Review of the Authority's Governance processes.	✓	✓	✓
Risk Management	Annual Review of the Authority's Risk Management processes.	✓	✓	✓
Income & Debtors	To ensure all funds due to the Authority are promptly recognised and invoiced for. To confirm there is an adequate and effective debt control process to minimise outstanding debt.	✓	✓	✓
General Ledger	The accuracy and integrity of the general ledger is pivotal in the production of the Authority's accounts.	✓	✓	✓
Creditors	Promptness and process of input, approval and payment of supplier invoices to ensure charges made on the Authority are valid and authorised.	✓	✓	✓
Cash, Banking & Treasury Management	To ensure the Authority's bank accounts and cash are adequately controlled and monitored. To ensure that investment opportunities are clearly identified and managed to maximise security where appropriate.	✓	✓	✓
Payroll (including Expenses & Pensions)	To ensure the Authority is compliant with statutory legislation and that all payroll, pension and expense payments are correctly authorised.	✓	✓	✓

¹ Ref: COSO ERM Framework

Systems	Source of Requirement	2010/11	2011/12	2012/13
Capital Expenditure and Asset Management	This review will focus on the Capital Accounting and expenditure arrangements and will also examine the controls in place to update and manage the asset register and inventories.	✓	✓	✓
Procurement	To review the procurement/tendering process used by the Authority to ensure integrity and compliance with legislation.	✓	✓	✓
NNDR	To ensure that commercial premises are correctly charged for based on reconciliations between the Authority's records and Valuation Office listings.	✓	✓	✓
Council Tax	To ensure domestic properties are correctly charged for based on the CT band settings and reconciliations between the Authority and Valuation Office listings.	✓	✓	✓
Housing Benefits	To ensure that benefits are accessible, correctly calculated, paid promptly, adequately monitored and accurately recorded with other related areas.	✓	✓	✓
Housing Rents	To ensure that housing rents are appropriately set, collected and that rent arrears are chase in line with the Councils Policy.	✓	✓	✓

ADVISORY INPUT AND OTHER INTERNAL AUDIT COVERAGE

Internal Coverage	Audit	Source / Rationale	2010/11	2011/12	2012/13
Safeguarding		An annual review to ensure the Authority are completing and can support the self-assessment Checklist on 'The Implementation of the Key Safeguarding Employment Standards'.	✓	✓	✓
Partnerships		A review of the Authority's partnership arrangements to ensure that the Authority adequately identifies and manages the partnerships they are engaged in.		✓	
Health and Safety		To establish that processes are in place to ensure compliance with Health & Safety legislation and that new legislation is acted upon promptly.	✓		
Human Resources		One of the key platforms to the effective delivery of the Authority's objectives is through its human resource.	✓	✓	✓
Performance Management		Adequacy of performance management integral part of governance arrangements.	✓	✓	✓
Taxation		To ensure the Authority is correctly identifying VAT, NI and PAYE amounts to be paid promptly and that the payments are reconciled and authorised.		✓	
Insurance		To ensure that the Authority has appropriate insurance policies in place, that these are regularly reviewed and claims are appropriately dealt with.			✓

Internal Coverage	Audit	Source / Rationale	2010/11	2011/12	2012/13
Environmental Health		To assist in ensuring an effective Environmental Health service which meets its targets and delivers a customer driven service. This could include emergency planning issues.	✓	✓	✓
Housing Maintenance – Planned & Cyclical		Housing stock which is not subject to a good maintenance programme may deteriorate and remedial action may be far more expensive.	✓	✓	✓
Housing Repairs	Responsive	Responsive Repairs for the Authority are performed by two contractors, the Direct Labour Organisation (DLO) who are the in-house team for South Cambridgeshire District Council, and Cambridge City Services, the maintenance team for Cambridge City Council. This review could include the recording and allocation of repairs, the utilisation of the DLO and the stocks and stores of the DLO. This is a key client facing service.	✓	✓	✓
Asset Management (Housing)		To ensure that the Authority is maintaining the standards of its housing stock. The audit will review the stock conditions survey and link to compliance with the Decent Homes Standards.	✓		✓
Housing Allocations and Voids		To ensure that housing stock is allocated promptly to the right applicants through the choice based letting system.	✓	✓	✓
Customer Services		Customer Service arrangements is a key area for the Authority. This review could include customer compliments and complaints or customer first response.		✓	✓
Contact Centre		The first point of contact for the public in reaching the Authority is through calls placed to the Contact Centre run in partnership with Cambridge County Council. As such this is a key client facing service.	✓		
Contract Services		To ensure that contract service delivery is effectively measured and managed through appropriate contract management.		✓	
Planning		To establish that the Authority has processes in place to ensure that they are up to date with current legislation and that it is applied where appropriate. To ensure planning applications are processed promptly and delays are identified and dealt with. To ensure a customer driven service is in place.	✓		✓
Section 106		Section 106 planning gain is an important element of any development and maximum benefit should be achieved.	✓		✓
ICT Review		An Audit Needs Assessment will be undertaken to assess the proposed Computer Audit work.	✓	✓	✓
Grant Validation		To provide assurance that the grant has been used for the required purposes.	✓	✓	✓

Internal Coverage	Audit	Source / Rationale	2010/11	2011/12	2012/13
Proactive Fraud work		CIPFA's updated Red Book 2, Managing the Risk of Fraud, was published in November 2008. A high level review of the organisation against the Red Book 2 will be undertaken.		✓	✓
Annual Governance Statement		To ensure that the Annual Governance Statement is an accurate reflection of priority areas.	✓	✓	✓
Follow Up		To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of recommendations.	✓	✓	✓
Audit Management		This will include: <ul style="list-style-type: none"> ▪ Annual planning ▪ Preparation for, and attendance at, Corporate Governance Committee meetings ▪ Regular liaison and progress updates ▪ Liaison with external audit ▪ Preparation of the annual internal audit opinion 	✓	✓	✓

In developing your internal audit plan for 2010/11 we have noted various areas of your Strategic Risk Register where no specific internal audit work is being carried out. These are listed below and the risk descriptions are taken directly from the Strategic Risk Register:

- Housing services budgeting and staffing
- EU Services Directive
- Making Cambridgeshire Count
- Equalities
- Illegal Traveller encampments or developments
- Climate change adaptation
- Lack of development progress
- LAA actions
- Embedding values

This page is left blank intentionally.

RSM: Tenon

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

INTERNAL AUDIT PROGRESS REPORT

MARCH 2010

CONTENTS

SECTION	Page
1 Introduction	1
2 Final reports issued	1
3 Key Findings from Internal Audit Work	1
4 Work in Progress or Planned	2
5 Changes to our Plan	2
6 Sector Guidance	2
Appendix A Periodic Plan Performance 2009/10	

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of South Cambridgeshire District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

© 2010 RSM Tenon Limited

RSM Tenon Limited is a member of RSM Tenon Group

RSM Tenon Limited is an independent member firm of RSM International an affiliation of independent accounting and consulting firms. RSM International is the name given to a network of independent accounting and consulting firms each of which practices in its own right. RSM International does not exist in any jurisdiction as a separate legal entity.

RSM Tenon Limited (No 4066924) is registered in England and Wales. Registered Office 66 Chiltern Street, London W1U 4GB. England

1. INTRODUCTION

1.1 The periodic internal audit plan for 2009/10 has previously been approved by the Corporate Governance Committee. This report summarises the outcome of work completed to date against that plan, and Appendix A provides cumulative data in support of internal audit performance.

2. FINAL REPORTS ISSUED

2.1 We have finalised eight reports since the last Committee meeting; these being in the areas of:

- ICT Review (10.09/10);
- Procurement (17.09/10);
- Insurance (18.09/10).
- Council Tax (19.09/10);
- NDR (20.09/10);
- Performance Management (21.09/10);
- Housing Benefits (22.09/10); and
- Annual Governance Statement.

3. KEY FINDINGS FROM INTERNAL AUDIT WORK

- 3.1 The Corporate Governance Committee should note that the assurances given in our audit assignments will be taken into account when we form our overall opinion on the assurance that we can provide in our Annual Report at the end of the year. In particular the Corporate Governance Committee should note that any negative assurance opinions will need to be noted in the annual report and may result in a qualified or negative annual opinion.
- 3.2 No common weaknesses have been identified within our reports.

4. WORK IN PROGRESS OR PLANNED

4.1 We have issued three draft reports for which we are awaiting management responses; these being in the areas of:

- Environmental Health – Scores on the Doors (23.09/10)
- Customer Services – Complaints (24.09/10)
- Corporate Governance – Member Training and Development (25.09/10)
- Follow Up (26.09/10)

4.2 The is current no work at the fieldwork stage:

5. CHANGES TO OUR PLAN

5.1 There have been no changes to the Audit Plan since the last Corporate Governance Committee. The Housing Futures audit has been removed from the audit plan, this has been replaced with a review of Carbon Management.

6. SECTOR GUIDANCE

6.1 There have been no further relevant client briefings issued since the last Corporate Governance Committee.

APPENDIX A: OPERATIONAL PLAN PERFORMANCE 2009/10

Detailed below is a summary of the work undertaken in 2009/10 to date, showing the levels of assurance given and the number of recommendations arising. Reports being considered at this Committee are shown in italics. Definitions with regard to the levels of assurance and the classification of recommendations are provided below.

Recommendation Categorisation

Our findings and recommendations are categorised as follows:

Fundamental (F): *action is imperative to ensure that the objectives for the area under review are met*

Significant (S): *requires action to avoid exposure to significant risks in achieving the objectives for the area under review.*

Merits Attention (MA): *action advised to enhance control or improve operational efficiency*

Opinions

Risk Based Internal Audit Assignments

The definitions for the level of assurance that can be given are:

Level	Control Design	Control Application
Substantial Assurance	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
Adequate Assurance	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses.
Limited Assurance	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

(positive opinions)

(negative opinion)

Follow Up Reviews

Our opinions reflect the progress made in implementing previous internal audit recommendations:

Good Progress

(positive opinions)

Reasonable Progress

Little Progress

(negative opinion)

Auditable Area	Date Planned	Date Completed	Status	Audit approach	Days Planned	Days Actual	Last year actual	Assurance level given	Number of Recommendations Made				
									F	S	MA	In Total	Agreed
Work complete to date													
Housing Responsive Repairs (1)	09/04/09	17/04/09	Final Report Issued	Systematic	8	8	8	Adequate	0	0	11	11	11
Housing Maintenance – Planned & Cyclical (2)	11/05/09	28/05/09	Final Report Issued	Systematic	8	8	8	Adequate	0	2	7	9	9
Absence Management (3)	22/06/09	30/06/09	Final Report Issued	Systematic	8	8	8	Adequate	0	2	5	7	7
Emergency Planning and Business Continuity (Civil Contingency Act) (4)	13/07/09	17/07/09	Final Report Issued	Key Controls	8	8	8	Substantial	0	1	3	4	4
Review of Counter Fraud Arrangements (5)	29/07/09	31/07/09	Final Report Issued	Thematic	10	10	5	Advisory	0	2	6	8	8
Contract Services (6)	20/07/09	23/07/09	Final Report Issued	Systematic	8	8	8	Adequate	0	4	4	8	8
Housing Rents (7)	12/08/09	18/08/09	Final Report Issued	Key Controls	8	8	8	Adequate	0	2	3	5	5
Risk Maturity (8)	Jul-09	14/08/09	Final Report Issued	Advisory	8	8	8.5	Risk Managed	0	2	10	12	12
Housing Allocations and Voids (9)	12/08/09	24/08/09	Final Report Issued	Systematic	8	8	10	Adequate	0	0	6	6	6
ICT Review (10)	7/9/09	15/9/09	Final Report Issued	Key Controls	10	10	15	Limited	0	16	8	24	21 (3 MA not agreed)

Auditable Area	Date Planned	Date Completed	Status	Audit approach	Days Planned	Days Actual	Last year actual	Assurance level given	Number of Recommendations Made				
									F	S	MA	In Total	Agreed
General Ledger (including Budgetary Control) (11)	21/09/09	24/09/09	Final Report Issued	Key Controls	7	7	6	Adequate	0	0	4	4	4
Capital Expenditure and Asset Management (12)	21/09/09	24/09/09	Final Report Issued	Key Controls	7	7	7	Adequate	0	2	4	6	6
Payroll (including Expenses & Pensions) (13)	05/10/09	14/10/09	Final Report Issued	Key Controls	12	12	12	Substantial	0	0	0	0	0
Cash, Banking & Treasury Management (14)	15/10/09	19/10/09	Final Report Issued	Key Controls	7	7	6	Substantial	0	0	1	1	1
Income & Debtors (15)	19/10/09	21/10/09	Final Report Issued	Key Controls	7	7	6	Substantial	0	0	4	4	4
Creditors (16)	26/10/09	30/10/09	Final Report Issued	Key Controls	7	7	6	Substantial	0	0	5	5	5
Procurement (17)	19/10/09	30/10/09	Final Report Issued	Systematic	8	8	8	Adequate	0	3	2	5	5
Insurance (18)	6/11/09	11/11/09	Final Report Issued	Systematic	6	6	-	Adequate	0	3	3	6	6
Council Tax (19)	16/11/09	23/11/09	Final Report Issued	Systematic	7	7	7	Substantial	0	1	5	6	6
NNDR (20)	9/11/09	12/11/09	Final Report Issued	Systematic	7	7	7	Adequate	0	2	2	4	4
Performance Management (21)	11/1/10	11/1/10	Final Report Issued	Systematic	8	8	8	Substantial	0	0	3	3	3
Housing Benefits (22)	4/1/10	4/1/10	Final Report Issued	Systematic	14	14	14	Substantial	0	0	7	7	7
Annual Governance Statement	Feb 10	Mar 10	Report Issued	Advisory	10	12	12	N/A	-	-	-	-	-
Totals to date:									0	42	103	145	142

Auditable Area	Date Planned	Date Completed	Draft Issued	Status	Days Planned	Audit approach	Assurance level given	Number of Recommendations Made						
								F	S	MA	In Total	Agreed		
Work in progress or yet to start (including reports still in draft)														
Environmental Health (23)	01/02/10	09/02/10	25/02/10	Draft Report Issued	8									
Customer Services	01/03/10	10/03/10	18/03/10	Draft Report Issued	8									
Growth	23/03/10				10									
Carbon Management (previously Housing Futures)	26/04/10				10									
Corporate Governance	02/03/10	04/03/10	19/03/10	Draft Report Issued	8									
Follow Up	22/02/10	26/02/10	23/03/10	Draft Report Issued	7									
Contingency					8									
				Total	59									

RSM Tenon

A decorative graphic consisting of two parallel blue lines that curve upwards from the left side of the page towards the top right corner.

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Internal Audit Annual Report

Year Ended 31 March 2010

Draft

Presented at the Corporate Governance Committee meeting of: 31 March
2010

Approved by: Chris Harris as Head of Internal Audit

CONTENTS

Section	Page
1 Introduction	1
2 Internal Audit Assurance for 2009/10	3
Appendix A Internal Audit Opinions and Recommendations 2009/10	6

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of South Cambridgeshire District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

© 2010 RSM Tenon Limited

RSM Tenon Limited is a member of RSM Tenon Group

RSM Tenon Limited is an independent member firm of RSM International an affiliation of independent accounting and consulting firms. RSM International is the name given to a network of independent accounting and consulting firms each of which practices in its own right. RSM International does not exist in any jurisdiction as a separate legal entity.

RSM Tenon Limited (No 4066924) is registered in England and Wales. Registered Office 66 Chiltern Street, London W1U 4GB. England

1 INTRODUCTION

1.1 THE ROLE OF INTERNAL AUDIT

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of South Cambridgeshire District Council's assurance cycle and if used properly can inform and update the organisation's risk profile. Internal Audit is just one of the sources of assurance available to the Council and Corporate Governance Committee.

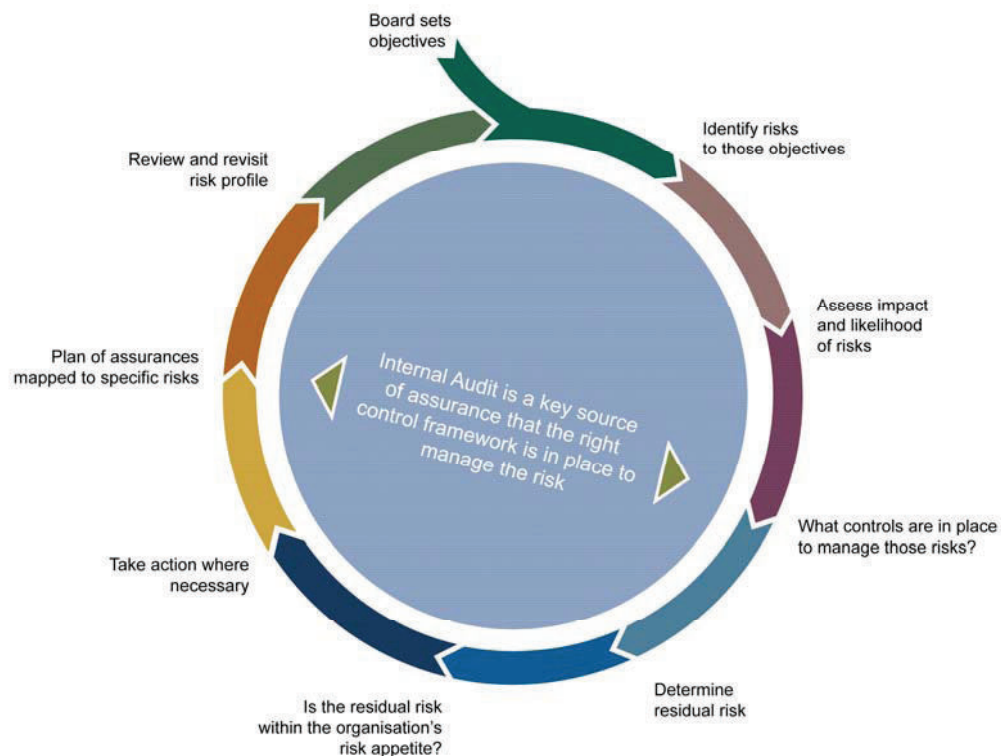


Exhibit A: The Assurance Cycle. © RSM Tenon

The definition of internal audit, as described in CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom, is set out below:

- Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, and fraud-related work.

1.2 GOVERNANCE STATEMENT

Under Regulation 4[2] of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit [Amendment] [England] Regulations 2006, authorities are required to publish a statement on internal control. From 2007/08, authorities have had to publish an annual governance statement in line with the CIPFA/SOLACE Good Governance Framework to meet that statutory requirement.

As your internal audit provider, the assignment opinions that RSM Tenon provides the organisation during the year are part of the framework or assurances that assist the Council prepare an informed governance statement.

2 INTERNAL AUDIT ASSURANCE FOR 2009/2010

2.1 CONTEXT

As the provider of the internal audit service to South Cambridgeshire District Council we provide the Council through the Corporate Governance Committee with an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report is prepared solely for the use of South Cambridgeshire District Council and its senior management team. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

2.2 INTERNAL AUDIT ASSURANCE STATEMENT

This annual Head of Internal Audit opinion is provided to South Cambridgeshire District Council by RSM Tenon Limited. RSM Bentley Jennison was appointed to provide internal audit services to the organisation from April 2007. At the end of 2009, RSM Bentley Jennison merged with the Tenon Group to form RSM Tenon.

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of South Cambridgeshire District Council's arrangements.

In our opinion, based upon the work we have undertaken, for the 12 months ended 31 March 2010 South Cambridgeshire District Council has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives.

2.3 SCOPE OF THE INTERNAL AUDIT OPINION

In arriving at our opinion, we have taken into account:

- The results of all internal audits undertaken during the year ended 31 March 2010 (see and Appendix A for a summary of audits);
- The results of follow-up action taken in respect of audits from previous years;
- Whether fundamental or significant recommendations have been accepted by management and, if not, the consequent risks;
- The affects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports or other assurance providers to the Corporate Governance Committee and/or Council;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs have been covered to date.

2.4 THE BASIS OF THE OPINION

In reaching this opinion the following factors were taken into particular consideration:-

Governance

South Cambridgeshire District Council's review of Governance for 2009/10 included assisting the Authority with the completion of the Annual Governance Statement including the Statement of Internal Control. In addition, we undertook a review of the Member Training and Development. The 2009/10 Internal Audit review found that taking account of the issues identified in our opinion the Council can take **adequate assurance** that the controls upon which the organisation relies to manage these risks, as currently laid down and operated, are effective. (see appendix B for definition of assurance levels and categorisation of recommendations).

Risk Management

South Cambridgeshire District Council continues to enhance its Risk Management arrangements; we reviewed the Risk Management Policy, Risk Register and the embedding of Risk Management within the Area. In 2009/10 we undertook a review of the organisation's risk maturity and concluded that South Cambridgeshire District Council is a **Risk Managed** organisation. (see appendix B for definition of Risk Maturity)

Internal Control

All except one reports issued to date have resulted in positive assurance levels, these being either substantial or adequate assurance. The one exception to this is the ICT Review. Further details of this are included within Appendix A of this report. Additional information on any issues identified within our work can be obtained from management if required.

Our follow-up review indicated that management have implemented a reasonable number of the recommendations raised in our prior year audit reports. Management have assured us that the issues raised within all of our reports issued this year will be addressed in accordance with the agreed action plans in addition to the outstanding recommendations identified within our follow up work. We will undertake a follow up review of this area during 2010/11 to confirm that these actions have been taken.

Acceptance of Recommendations

All recommendation made during the year were accepted by management with the exception of three merits attention recommendations within the ICT Review.

2.5 GOVERNANCE STATEMENT

The overall opinion may be used by the Council in the preparation of the annual governance statement.

2.6 CONFLICTS OF INTEREST

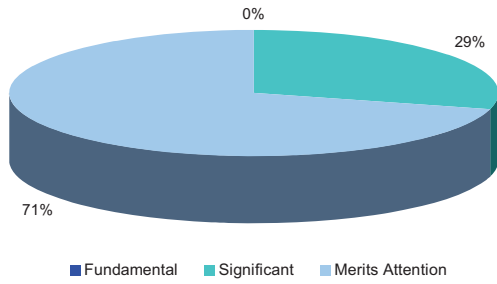
We have not undertaken any work or activity during 2009/10 that would lead us to declare any conflict of interests.

2.7 BENCHMARKING DATA

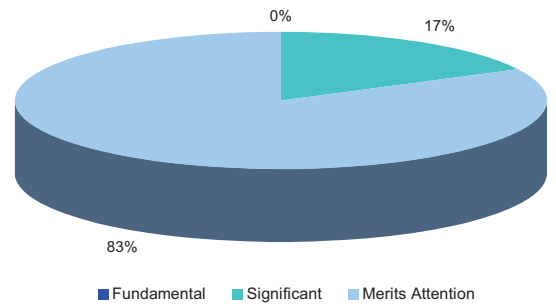
The tables below show the split of internal audit recommendations and opinions for South Cambridgeshire District Council in 2009/10 and those made in 2008/09.

Comparison of the categories of internal audit recommendations made 2009/10 and 2008/09

Recommendations 2009/10



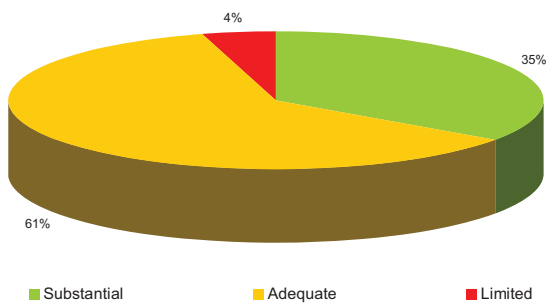
Recommendations 2008/09



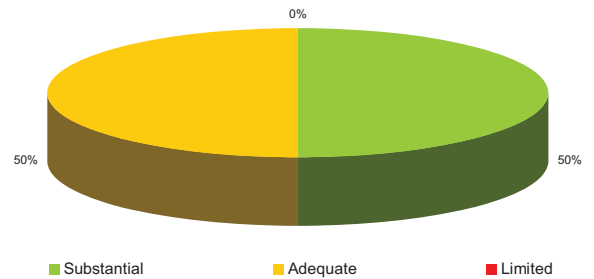
Comparison of assurance levels provided by internal audit in 2009/10 and 2008/09

For assurance assignments only

Assurance Levels 2009/10



Assurance Levels 2008/09



APPENDIX A: INTERNAL AUDIT OPINIONS AND RECOMMENDATIONS 2009/10

Auditable Area	Assurance Level Given	Number of Recommendations made			
		Fundamental	Significant	Merits Attention	In Total
Housing Responsive Maintenance	Adequate	0	0	11	11
Housing Maintenance – Planned and Cyclical	Adequate	0	2	7	9
Absence Management	Adequate	0	2	5	7
Emergency Planning and Business Continuity (Civil Contingency Act)	Substantial	0	1	3	4
Review of Counter Fraud Arrangements	Advisory	0	2	6	8
Contract Services – Regular and High Payments Review	Adequate	0	4	4	8
Housing Rents	Adequate	0	2	3	5
Risk Maturity	Risk Managed	0	2	10	12
Housing Allocations and Voids	Adequate	0	0	6	6
ICT Review	Limited	0	16	8	24
General Ledger (Including Budgetary Control)	Adequate	0	0	4	4
Capital Expenditure and Asset Management	Adequate	0	2	4	6
Payroll (including Expenses and Pensions)	Substantial	0	0	0	0
					21 (3 MAs not agreed)

Auditable Area	Assurance Level Given	Number of Recommendations made						
		Fundamental		Significant	Merits Attention	In Total	Agreed	
		0	1					
Cash, Banking and Treasury Management	Substantial	0	0	0	1	1	1	
Income and Debtors	Substantial	0	0	0	4	4	4	
Creditors	Substantial	0	0	0	5	5	5	
Procurement	Adequate	0	3	3	2	5	5	
Insurance	Adequate	0	3	3	3	6	6	
Council Tax	Substantial	0	1	1	5	6	6	
National Non Domestic Rates	Adequate	0	2	2	2	4	4	
Performance Management	Substantial	0	0	0	3	3	3	
Housing Benefit	Substantial	0	0	0	7	7	7	
Environmental Health – Scores on the Doors (Draft)	Adequate	0	1	1	9	10		
Customer Services – Complaints (Draft)	Adequate	0	3	3	1	4		
Corporate Governance – Members Training and Development (Draft)	Adequate	0	3	3	6	9		
Follow Up (Draft)	Reasonable	0	4	4	12	16		
Planning for Growth		Work not yet complete						
Carbon Management		Work not yet complete						
Annual Governance Statement	N/A Advisory	-	-	-	-	-	-	
Contingency								

Appendix B: Definitions of the levels of assurance and the classification of recommendations.

The definitions for the level of **assurance** that can be given are:

	Level	Effectiveness	Control Design	Control Application
positive opinions	Substantial Assurance	Targets have been met or exceeded.	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
	Adequate Assurance	Targets have been closely missed or there are appropriate reasons as to why they have not been met	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses.
negative opinion	Limited Assurance	Targets have not been met and no reasons are given as to why.	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

Within our **risk maturity** reviews, we have gauged organisations' risk maturity on a scale from risk naïve to risk enabled:



Recommendations made during the year have been categorised as follows:

Fundamental	Action is imperative to ensure that the objectives for the area under review are met.
Significant	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Merits Attention	Action advised to enhance control or improve operational efficiency.

International Financial Reporting Standards



Presenter: Neil Gibson

What will we cover?

- Background to IFRS
- Lessons from the NHS
- Managing the project
- Key technical issues
 - 2009/10 – preparing for IFRS
 - 2010/11 – implementing IFRS
- Assessing risks
- Support from the Audit Commission
- Critical success factors

What does IFRS mean?

Collective expression embracing:

- 29 International Accounting Standards (IAS)
- 8 International Financial Reporting Standards (IFRS)
- International Accounting Standards Board Framework
- Interpretation Committee Statements



Why IFRS?

- Public sector moved toward full compliance with UK GAAP
- UK GAAP converging with IFRS
- Single set of public sector-wide standards

Application to UK public sector

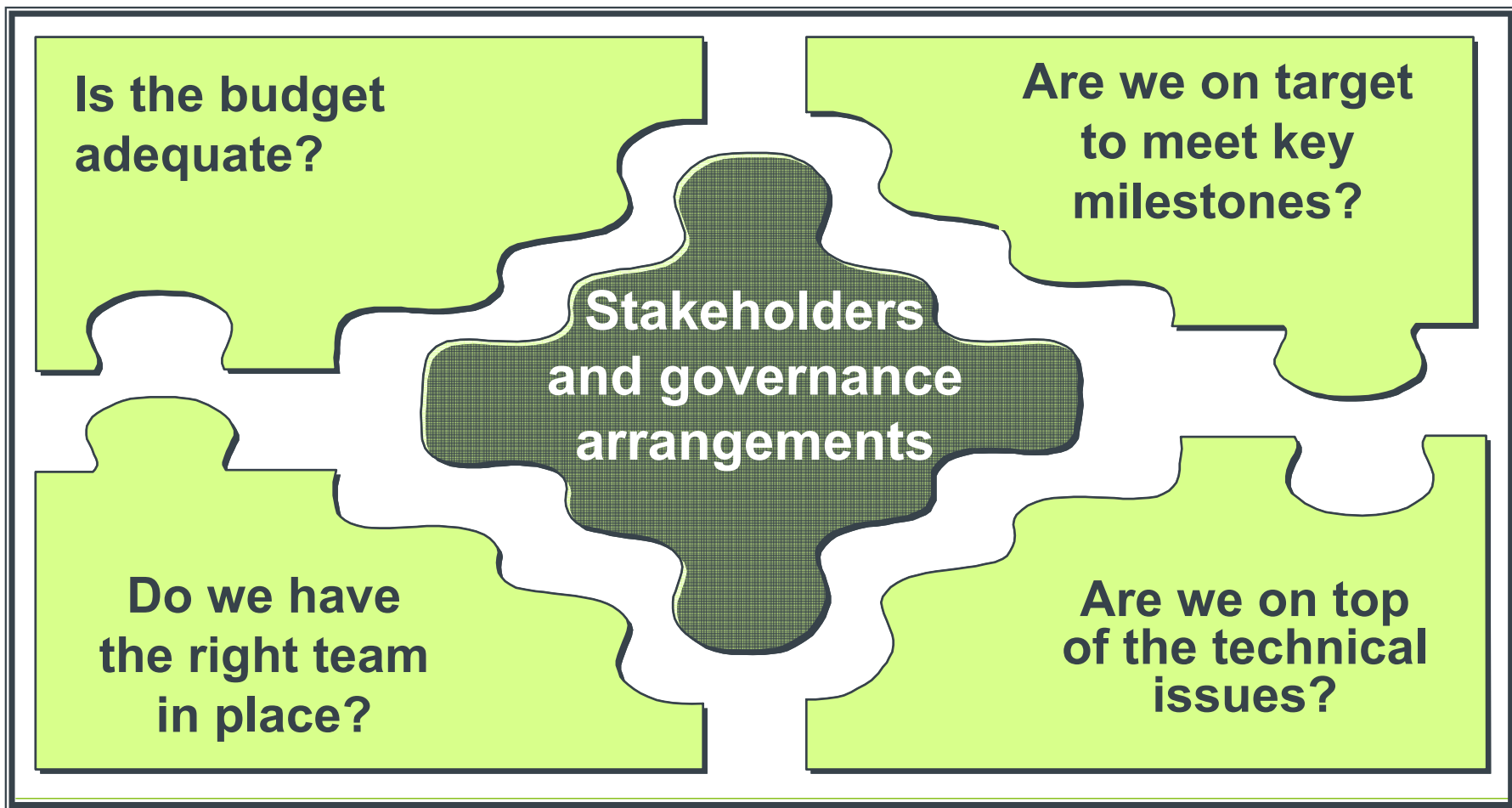
- Central government and NHS
 - originally from 2008/09
 - postponed to 2009/10
- Local Government bodies
 - WGA 2009/10
 - PFI and similar contracts 2009/10
 - full implementation 2010/2011



Lessons from the NHS

- Start early
- Engage key stakeholders:
 - senior management
 - non-executives
 - non-finance staff
- Talk to the auditors
- Get a plan
 - risk assessed
 - resourced
- Implement the plan
 - Governance arrangements

Management arrangements



Technical issues for 2009/10 - preparing for IFRS

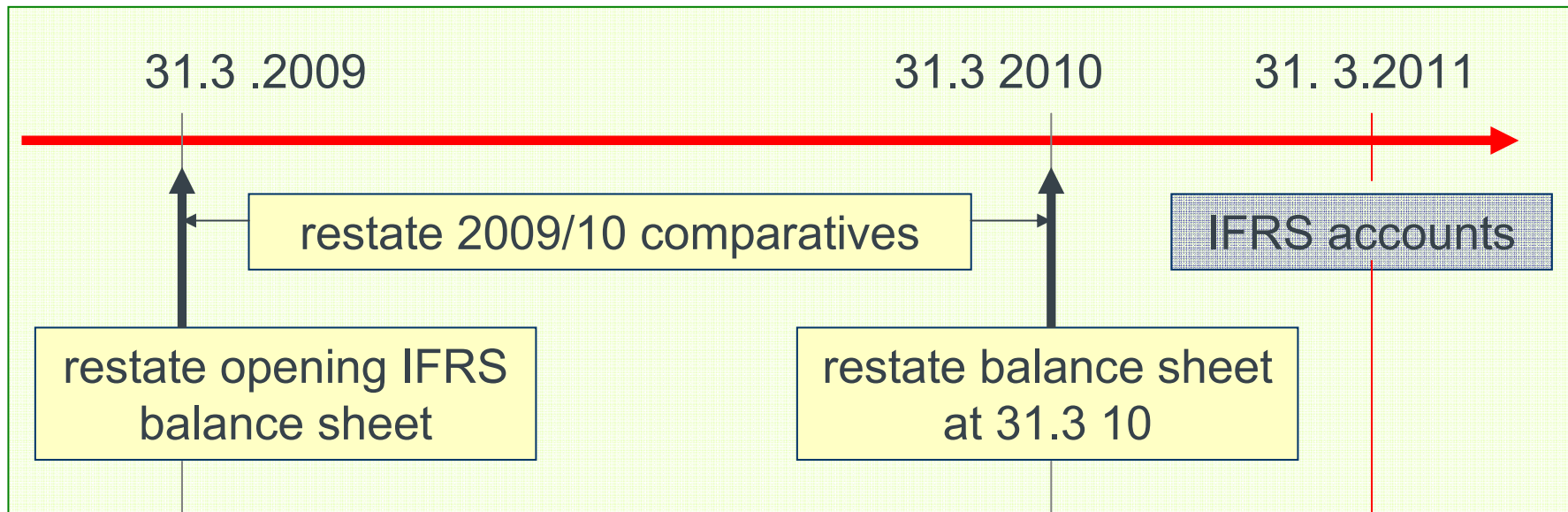
- PFI and similar contracts
 - effectively early adoption of one element of IFRS
 - IFRIC 12 principles
 - full retrospective adoption (i.e. as though always accounted for under these rules)
 - Prior period adjustment

Top 5 technical issues for 2010/11 - implementing IFRS

- First time adoption and presentation of statements
- Leases
- Employee benefits - compensated absences
- Segmental reporting
- Property plant & equipment



First time adoption (IFRS1)



- Applied retrospectively (with a few exceptions)

Leases - practical issues

- Identification (completeness)
 - embedded leases;
 - peppercorn leases
 - systems & documentation
 - Assessing materiality individually & collectively
 - de minimis limits
 - Classification & measurement
 - input from valuer
 - Evidencing the process
 - Budget & capital financing implications
-



Compensated absences- practical issues

- Measurement of unused entitlement c/fwd
 - leave year
 - policy on carry-forward - leave & other absences
 - contractual provisions
- Variations between staff groups
- Availability of information
 - how is the information recorded?
 - implications for HR /other systems
- Estimation procedures



Segmental reporting

- Net cost of services - objective analysis (BVACoP)
- Segmental reporting - subjective analysis
- Reportable segments
 - based on internal reporting
 - 10% or more of gross expenditure/income
 - cover at least 75% of expenditure (NCS)
 - combining segments



Property plant & equipment

- Valuation/revaluation
 - measurement base
 - frequency
 - recognition of revaluation gains/losses
- Subsequent expenditure - recognition criteria
- Depreciation
 - component accounting (from 1.4.10)
- Classification
 - IFRS 5



Assessing risks

Impact	Monitor	Mild peril	Panic zone
	Monitor	Mild peril	Mild peril
	Chill zone	Collect evidence	Collect evidence
			Risk

IFRS and leases – stage 1 (realisation)

Impact			100s of leases to be reviewed
			Risk

IFRS and leases – stage 2 (rationalise)

Impact		15 material leases	
		Group of leases might be material	
			Remainder cannot possibly be material

Risk

IFRS and leases – stage 3 (implement)

Impact	All material leases restated		
	Group of leases restated		
			Other leases assessed as not material

Risk

IFRS and leases – stage 4 (audit)

Impact	Restatement not challenged		
	Restatement not challenged		
			Assessment not challenged

Risk

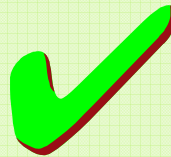
Help from the Audit Commission - at a national level

- Briefing papers
- Local Government Workshops
 - January and February 2010
- IFRS survey
 - Data collection
 - Detailed field work
 - National reports (March/April 2010)
 - Possible follow up report (October 2010)

Role of the auditor

The auditor can...

- Discuss the implications of IFRS
- Undertake an early review of accounting proposals
- Discuss presentation and measurement issues
- Review and discuss processes and systems



Cannot...

- Recommend accounting policies
- Calculate entries required
- Recommend disclosures or presentation of item
- Advise on or implement systems



Critical success factors

- Start early
 - Engage
 - members
 - senior management
 - Get a plan and commitment to deliver
 - budget
 - systems
 - members and senior managers
 - your finance team
 - non-finance colleagues (property, HR others)
 - Work with your auditor
-

International Financial Reporting Standards

Any Questions??



This page is left blank intentionally.

Countdown to IFRS

Checklist for members

From 2010/11 local government will be required to prepare accounts in accordance with international accounting standards (IFRS). A failure to achieve successful transition to IFRS would cause significant reputational damage not only to individual authorities but to the local government sector as a whole. Poor preparation will heighten the risk that accounts will not meet requirements and so attract a qualified auditor's opinion or be published late. At a practical level, there is a risk that avoidable additional costs will be incurred if the implementation timetable is not well managed or is allowed to slip. The transition process is a real test of self regulation by local government.

The audit committee (or its equivalent) needs to be sufficiently aware of the requirements of IFRS to ensure the transition project is on track. In order to help members discuss their IFRS transition plan with relevant officers we have set out a number of suggested questions overleaf.

Countdown to IFRS

Checklist for members

- **Have we assessed what impact IFRS will have on our authority?**
- **What role should the audit committee play in supporting the transition to IFRS?**
- **How much is it going to cost? What is the impact on our budgets?**
- **Do we have a project plan? How are we doing against this plan? Are we where we need to be?**
- **What are the main problem areas?**
- **Do we have the skills and expertise to resolve them? Are we taking any external advice?**
- **What are the risks to delivery and are these included in the risk register? What are we doing to mitigate these risks?**
- **What are the consequences for us if we don't achieve the transition to IFRS according to the plan?**
- **Have we engaged with the external auditors?**
- **Are we producing mock/shadow accounts in IFRS format? What is the audit committee's role in reviewing these?**

Further information on IFRS please refer to our briefing paper [Countdown to IFRS](#) and other briefing papers are available at www.audit-commission.gov.uk/IFRS

Identifying and accounting for leases

Countdown to IFRS in local government

In *Countdown to IFRS*, published in February 2010, we said that we would be issuing a series of briefing papers covering the technical issues local authorities need to address now if they are to achieve a smooth transition to IFRS. This is the first in that series and looks at the issues arising from the introduction of *International Accounting Standard (IAS) 17: Leases*.

In our November 2009 survey, auditors assessed only 14 per cent of authorities as on track to deliver IFRS financial statements compliant with IAS 17 for 2010/11. Twenty-seven per cent were assessed as having major issues and 59 per cent with minor issues.

Authorities need to have a detailed plan to ensure they identify all arrangements falling under IAS 17 and that they account for such arrangements correctly. This briefing paper sets out some of the key issues and practical examples that authorities should consider as part of their work on the review of lease arrangements.

Potential arrangements

Authorities are involved in a wide range of arrangements that involve the use of an asset or assets. When considering the appropriate accounting for that arrangement under IFRS, it is important to understand the nature of the arrangement at an early stage.

Some of these arrangements will need to be accounted for as service concessions in accordance with IFRIC 12; others will need to be accounted for as leases under IAS 17. The first step is to identify the range of different arrangements the authority is involved in. Authorities then need to consider which accounting route to follow in each case. This section explains the process that needs to be followed.

In *Countdown to IFRS*, we noted that *IFRIC 12: Service Concessions* can cover more than PFI schemes. Alongside IFRIC 12, *IFRIC 4: Determining Whether an Arrangement Contains a Lease* looks at those arrangements that, while not taking the legal form of a lease, are in substance leases for accounting purposes. Taken together, IFRIC 12 and IFRIC 4 provide a clear framework for considering how to recognise arrangements including the use of an asset for accounting purposes.

IFRIC 12 contains three key tests that indicate whether an arrangement should be recognised as a service concession and the related assets, therefore, recognised on the balance sheet:

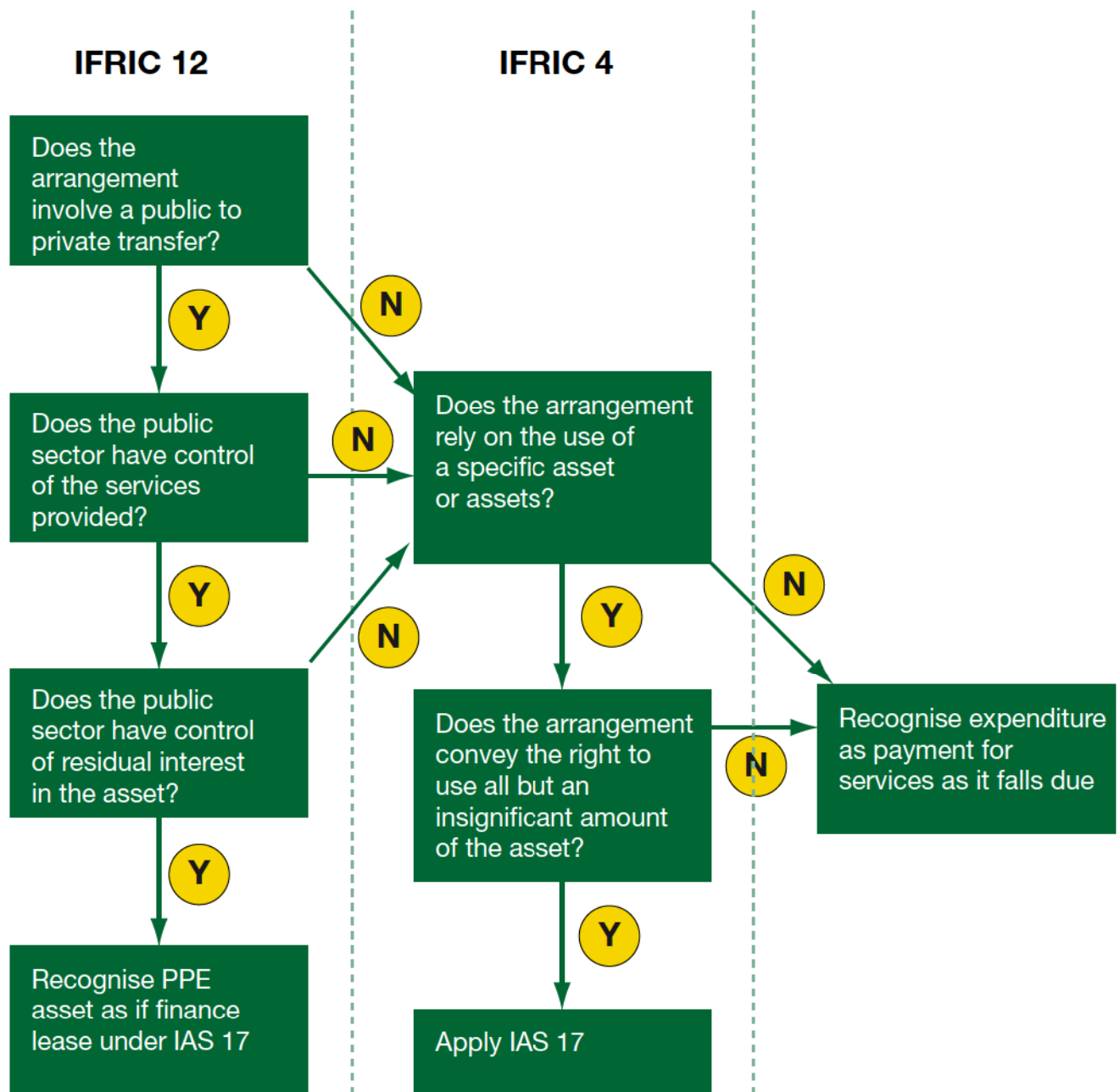
- there is a public to private transfer – that is, the services are provided by a private sector partner;
- the public sector has control of the services to be provided; and
- the public sector controls the residual interest in the property.

If any of these tests are not met, the arrangement is not recognised as a service concession. At that point, it is necessary to consider whether the arrangement contains a lease in accordance with IFRIC 4. Again, there are two key tests that indicate whether the arrangement contains a lease:

- the arrangement relies on the use of a specific asset or assets; and
- the arrangement conveys the right to use all but an insignificant amount of the asset.

The following diagram summarises these thought processes.

Figure 1: **Decision Tree: Lease arrangements identification process**



Source: Audit Commission

An authority may be involved in two similar arrangements in the provision of a service; the first involving a private sector service provider and the second another public sector body. The first arrangement should be considered initially under IFRIC 12 as the arrangement is between a private sector provider and a public sector body. Applying the flowchart in Figure 1, if the authority meets the three tests, the asset would be included on the authority's balance sheet.

However, in the second situation, where the service is provided by another public sector body rather than a private sector provider, IFRIC 12 does not apply. The authority will need to consider the arrangement under IFRIC 4. Applying the flowchart in Figure 1, if the two conditions are met, the authority will need to apply IAS 17. In accordance with IAS 17, it is possible that the arrangement may be accounted for as an operating lease and, therefore, the asset will not be recognised on the authority's balance sheet.

An arrangement that meets the requirements of IFRIC 4 can take various forms

An arrangement that meets the requirements of IFRIC 4 can take various forms, including arrangements between public sector bodies as discussed above and licences to operate. The following provides an example of such an arrangement.

An authority has outsourced its refuse collection arrangements to a private sector provider under a licence to operate. Under the arrangement, the operator purchases a new fleet of refuse vehicles, paints them in the authority's colours and uses them exclusively for the authority's refuse collection contract.

Under the arrangement, the authority has the right to use the refuse vehicles. Also, as they are used exclusively on the authority's refuse collection contract, the arrangement conveys the right to use all but an insignificant amount of the asset. As a result, the authority would need to consider the arrangement under the terms of IAS 17 and may have to recognise the assets on the balance sheet as a finance lease.

Reviewing arrangements

Many authorities will have large numbers of leases of varying sizes and complexity and may also identify arrangements containing leases as defined by IFRIC 4. They will need to consider how they review those leases to ensure that their restated accounts are IFRS-compliant. Authorities need to put in place a timetable and approach for identifying and reviewing all leases. Experience from the private sectorⁱ and the NHSⁱⁱ has shown that this is a time-consuming and resource intensive exercise. There is a risk that, without a proper plan and set timescales, all lease arrangements may not be identified and therefore the financial statements will not be complete.

- i Deloitte, *IFRS Insights – IFRS Conversion: Some Important Lessons Learned*, www.iasplus.com/usa/ifrsinsights/0903ifrsinsights.pdf
- ii *IFRS Briefing Paper 3 for Health: Managing the Transition to International Financial Reporting standards*, www.audit-commission.gov.uk/ifrs

The starting point to this must be a clear understanding of what assets are being used under what arrangements. Therefore, as a priority, authorities need to identify any arrangement that involves the use of an asset. As we emphasised in *Countdown to IFRS* this is not something that can be done by the finance department alone. Operational staff across the organisation, including in schools, will have a better understanding of what assets they are using and should be able to provide documentary evidence to support any review of the nature of the arrangement.

The resulting number of arrangements that need consideration under IAS 17 could be large. The key to managing a review of that size will be to take a risk-based approach. Possible approaches include:

- reviewing standard contracts or lease terms (for example, authorities may be able to group leases for vehicles or photocopiers where these have been procured through a central leasing contract);
- reviewing a sample of leases contracts for a particular class of leases where contracts are standard and extrapolate the results across the whole class;
- identifying material leases and focusing on the accounting treatment for these;
- tailoring discussions with departments focusing on the assets they use; and
- assigning a 'lead' for each type of asset (for example, buildings or vehicles).

Authorities should take a risk-based approach

When undertaking assessments, authorities will need to ensure that they have available all of the information necessary for forming a view on accounting treatment. Details of the lease term, including any break clauses and review periods, and lease payments should be available from the lease contract, so it is important that authorities have traced all the relevant lease documentation. Estimates of the fair value of the asset may also be available from the lease contract. However, if not available, it may be necessary to instruct valuers to provide a valuation. The lead-in time for getting valuations, particularly if there are a significant number of assets to value, can be lengthy. Therefore, it is important that this requirement is identified early to ensure all necessary work is undertaken to enable the restatement to take place.

Authorities can take steps to help identify any future lease arrangements by putting into place an effective system and processes for service and legal departments to follow. For example, a generic form to be completed by all departments as part of the procurement process that sets out the arrangement and is sent to the finance department.

Applying IAS 17

In many respects, IAS 17 is similar to SSAP 21, the UK standard under which leases are currently recognised. The definition of finance and operating leases is the same and the consideration of the classification of a lease focuses on the transfer of risks and rewards.

Accounting treatment will depend on the consideration of a number of qualitative tests

However, there are some significant differences that may result in leases being reclassified from finance to operating leases on restatement to IFRS.

Most significantly, the '90 per cent test' in SSAP 21 does not exist in IAS 17. While there is an equivalent test of assessing whether the net present value of the minimum lease payments amounts to at least substantially all of the fair value of the asset, no quantitative value is applied to this. Rather, under IAS 17, this is one of several qualitative tests that, individually or in combination, would normally lead to a lease being classified as a finance lease. Paragraph 10 of IAS 17 states:

Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable and that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset, even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the lease assets are of a specialised nature such that only the lessee can use them without major modifications being made.

Authorities will need to consider the impact of these situations, individually or in combination, on all of their material leases. This may result in more leases being classified as finance leases.

IAS 17 also requires the separate consideration of land and buildings within a lease arrangement. Unless ownership of the land transfers to the lessee at the end of the lease term, the standard assumes the lease of the land would be recognised as an operating lease. The building is then considered under the standard and could be recognised as a finance lease on the balance sheet. By comparison, SSAP 21 has an underlying assumption that leases of land and buildings would be considered together and recognised as operating leases.

In keeping with the other IFRSs and IASs, IAS 17 also requires more disclosure than UK standards. Those additional disclosures, which are

specified in the standard, may require gathering more information than is currently available. Authorities, therefore, need to identify the information required for disclosure and ensure that this is available.

Authorities could consider using their internal audit departments to provide assurance that they have correctly identified and applied the accounting standards. Internal audit can sample test leases that will be included in the financial statements and also those that are not.

Further information

Please visit www.audit-commission.gov.uk/IFRS for more information about IFRS and implementation work.

Code of Audit Practice for local government and Statement of Responsibilities

The Code of Audit Practice for local government needs to be approved by Parliament every five years. This allows updating to reflect technical changes and bring the Code into conformity with wider legislative changes. The 2010 Code of Audit Practice for local government was approved by Parliament on 9 March 2010 and comes into immediate effect (and therefore applies to the remainder of our 2009/10 audit). The main changes reflected in the new Code are designed to:

- align auditors' responsibilities in relation to their annual value for money conclusion with the key lines of enquiry for the revised approach to use of resources assessments;
- reflect legislative changes since the 2005 Code (amended in July 2008) was approved, including the abolition of the audit of best value performance plans for specified local government bodies;
- include in the local government Code references to the remuneration report and the whole of government accounts return; and
- incorporate minor drafting changes, where the Commission felt that the wording of the 2005 Code needed clarification or could be improved.

Given the nature of the changes outlined it is not expected that the new Code will have a significant effect on the audit work currently being undertaken or planned.

The Code is supplemented by the Statement of Responsibilities of Auditors and Audited Bodies, which sets out the respective responsibilities of auditors and audited bodies. This has also been updated to accompany the revised Code and becomes effective from 1 April 2010.

The Corporate Governance Committee is asked to note the 2010 Code of Audit Practice and Statement of Responsibilities.

This page is left blank intentionally.

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. In discharging these specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with the Commission's Code of Audit Practice.

Code of audit practice 2010

Local government bodies

March 2010

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

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

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

Contents

Preface	3
The role of external audit in the public sector	3
The role of the Audit Commission	3
Statutory responsibilities and powers of appointed auditors	4
The Code of Audit Practice	4
The contents of the Code	5
Chapter 1 General principles	6
Status and application of the Code of Audit Practice	6
Scope of the Code	6
Scope of the audit and auditors' objectives	7
The audit approach	7
Integrity, objectivity and independence	8
Data security and confidentiality	8
Chapter 2 Auditors' responsibilities in relation to the financial statements	9
Chapter 3 Auditors' responsibilities in relation to the use of resources	11
Auditors' responsibilities in relation to the use of resources	12
Considerations relating to planning audit work in relation to the use of resources	12
Work specified by the Commission	13

Chapter 4 Reporting the results of audit work	14
Outputs from the audit	14
Principles of audit reporting	15
Audit planning documents	15
Reports or memoranda on individual aspects of audit work	16
Reports to those charged with governance	16
The audit report	16
Auditors' certificates	16
Annual audit letters	17
Reports in the public interest	17
Recommendations under section 11(3) of the Act	18
Information to be reported to the Commission	18
Chapter 5 Principles relating to the exercise of specific powers and duties of local government auditors	19
Schedule 1: The audit of small bodies	20
Introduction	20
Governance and accountability	20
The audit approach	20
Appendix: Glossary	22

Preface

The role of external audit in the public sector

External audit is an essential part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. External auditors in the public sector give an independent opinion on public bodies' financial statements and may review, and report on, aspects of the arrangements put in place by public bodies to ensure the proper conduct of their financial affairs and to manage their performance and use of resources. Because of the special accountabilities attached to public money and the conduct of public business, external audit in the public sector is characterised by three distinct features:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the financial statements, but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources; and
- auditors may report aspects of their work to the public and other key stakeholders.

These features are consistent with the 'principles of public audit' as defined by the Public Audit Forum, which comprises all the national audit agencies in the UK.

The role of the Audit Commission

The Audit Commission (the Commission) is an independent body with statutory responsibilities to regulate the audit of local government and NHS bodies in England, and to promote improvements in the economy, efficiency and effectiveness of public services. We work with our partner inspectorates to assess local public services and make practical recommendations for promoting a better quality of life for local people.ⁱ

The Commission's responsibilities in relation to audit are:

- appointing auditors to local government and NHS bodies;
- setting the required standards for its appointed auditors; and
- regulating the quality of audits.

ⁱ Our partner inspectorates are: the Care Quality Commission; HM Inspectorate of Constabulary; HM Inspectorate of Prisons; HM Inspectorate of Probation; and Ofsted.

The Commission appoints auditors from the Commission's own staff and from private firms of auditors. It provides advice and support to auditors on technical matters and monitors their performance through a rigorous quality review process. Once appointed, auditors carry out their statutory and other responsibilities, and exercise their professional judgement, independently of the Commission.

Statutory responsibilities and powers of appointed auditors

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998 (the Act). In discharging these specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with the Commission's *Code of Audit Practice* (the Code).

The Code of Audit Practice

The Act requires the Commission to 'prepare, and keep under review, a Code of Audit Practice prescribing the way in which auditors [appointed by the Commission] are to carry out their functions under the Act' and which embodies 'what appears to the Commission to be the best professional practice with respect to the standards, procedures and techniques to be adopted by auditors'.

The Act also provides for the preparation of a different Code 'with respect to the audit of the accounts of health service bodies as compared with the Code applicable to the accounts of other bodies'.ⁱ

The Code must be read in conjunction with any regulations that are in force under section 27 of the Act.

The Commission is committed to keeping the Code up to date to reflect changes both in the operating environment of audited bodies and in auditing standards and practice, and may amend the Code where appropriate in the light of practical experience.

ⁱ This Code covers the audits of local government bodies. These comprise the various bodies that provide public services locally, including local authorities (and their pension funds, if applicable), fire authorities, police authorities, local councils and local probation boards and trusts. A separate Code has been prepared for the audits of NHS bodies.

The *Code* must be approved by a resolution of each House of Parliament at intervals of not more than five years. In the intervening period, the *Code* may be amended by laying proposed alterations before parliament. In addition to the *Code*, the Commission publishes separate documents that are aimed specifically at audited bodies and members of the public, including:

- *Statement of Responsibilities of Auditors and of Audited Bodies* – which highlights the different responsibilities of the auditor and the audited body, and the limits on what the auditor can reasonably be expected to do;
- *Councils' Accounts: Your Rights* – which sets out the rights of members of the public to inspect, and of local electors to question and object to, local government bodies' accounts, and explains the powers of the auditor; and
- *How to Complain* – which explains how audited bodies or members of the public can complain about the work of the Commission and its auditors.

The contents of the Code

The *Code* comprises five sections:

- general principles;
- auditors' responsibilities in relation to the financial statements;
- auditors' responsibilities in relation to the use of resources;
- reporting the results of audit work; and
- principles relating to the exercise of specific powers and duties of local government auditors.

Schedule 1 to the *Code* provides for the audit of small bodies.

The Appendix contains a glossary of terms.

Chapter 1: General principles

Status and application of the Code of Audit Practice

1 This *Code of Audit Practice* (the *Code*) has been laid before parliament under section 4 of the Audit Commission Act 1998 (the *Act*) and has been approved by resolution of each House of Parliament. It came into effect on 9 March 2010 and replaces the *Code* that has been in effect from 9 March 2005, as amended on 21 July 2008.

Scope of the Code

2 The *Code* prescribes the way in which auditors of local government bodies, as defined in Schedule 2 of the *Act*, appointed by the Audit Commission (the *Commission*) should carry out their functions under the *Act*. As with any code that attempts to cover a wide variety of circumstances, the application of the *Code* in any particular case will depend on the specific circumstances and on auditors' assessments of what is reasonable and appropriate in those circumstances. All the provisions of the *Code* are to be read and applied with that necessary qualification.

3 The *Commission* may wish to appoint different auditors to carry out different elements of the audit at an audited body. In such cases, auditors should apply the *Code* in so far as, in their judgement, it is appropriate, taking into account any relevant guidance issued by the *Commission*.

4 There will be circumstances in which aspects of the *Code* that are potentially applicable may be inappropriate to the audit of certain bodies, for example because of the nature of their business or the relatively small amounts of public money controlled by the bodies in question. In carrying out the audit of such bodies, auditors should apply the *Code* in so far as, in their judgement, it is appropriate, taking into account the nature of the business of the body and any relevant guidance issued by the *Commission*. In carrying out the audit of bodies with either annual income or annual expenditure below a specified financial threshold, auditors should apply Schedule 1 to the *Code*.

5 From time to time, when necessary, the *Commission* also issues guidance to auditors. The *Commission* does so under its powers under section 3(8) of the *Act* and Paragraph 7 of Schedule 1 to the *Act*, to appoint auditors and to determine their terms of appointment.

Scope of the audit and auditors' objectives

6 Because of the special accountabilities attached to public money and the conduct of public business, the scope of external audit in local government is extended to cover not only the financial statements, but also the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors' responsibilities in relation to the financial statements are covered by professional auditing standards and so the *Code* focuses more on how the wider range of functions of auditors appointed by the Commission should be carried out.

7 Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the *Code*, the audited body's:

- a. financial statements; and
- b. arrangements for securing economy, efficiency and effectiveness in its use of resources.

8 Auditors should plan and carry out their audits to meet these audit objectives and comply with the requirements of the *Code*. The appointed auditor is responsible for carrying out an audit that meets these objectives.

9 Auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

The audit approach

10 Auditors should carry out the audit economically, efficiently and effectively, and in as timely a way as possible. In framing an audit approach to meet the objectives of the audit, they should:

- a. plan and perform the audit, on the basis of their assessment of audit risks, determining where to direct their work and to allocate resources to ensure that the audit is tailored to the circumstances of the audited body. They should obtain such information and explanations as they consider necessary to provide themselves with sufficient evidence to meet their responsibilities under statute and the *Code*. Auditors are not expected to review or perform detailed tests of all financial or other systems and processes or of all accounting procedures and transactions;
- b. have regard to the principle that each part of the audit needs to be viewed in the context of the whole, or integrated, audit. No one part stands alone and work in relation to one element of the audit informs work in relation to other elements;
- c. have regard to the fact that local government bodies operate and deliver their services in a range of partnerships and other forms of joint working or contracts with other public, private or third sector bodies. Auditors should therefore consider whether they need to follow public money into and across such arrangements;

- d. discuss with the audited body the need for timely and effective production of working papers and other information required for audit, so that the process can be carried out as efficiently and effectively as possible;
- e. establish effective coordination arrangements with internal audit. Auditors should seek to place maximum reliance on the work of internal audit whenever possible;
- f. cooperate with other external auditors and the Commission, and provide information to the Commission (both locally and nationally), to enable knowledge of good practice to be transferred effectively across local government and from one audited body to another;
- g. establish effective coordination arrangements, including for sharing information, with the Commission, its partner inspectorates and other review agencies and other appointed auditors, to minimise the burden of regulation on audited bodies, so far as is consistent with the discharge of auditors' responsibilities, and to make best use of overall audit and inspection resources; and
- h. adopt a constructive and positive approach wherever possible, thereby supporting and encouraging worthwhile change, while providing independent scrutiny and assurance, and fulfilling their statutory and professional responsibilities.

Integrity, objectivity and independence

11 Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired.

Data security and confidentiality

12 Auditors and their staff must ensure that all data received or obtained during the audit is held securely and that all reasonable steps are taken to ensure compliance with statutory and other requirements relating to the collection, holding and disclosure of information.

Chapter 2: Auditors' responsibilities in relation to the financial statements

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.

Function	Statute
1 To be satisfied that the accounts comply with statutory requirements.	s5(1)(b), s5(1)(c)
2 To be satisfied that proper practices have been observed in compiling the accounts.	s5(1)(d)
3 To express an opinion on the statement of accounts.	s9(1)(b)

13 The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of financial transactions;
- maintain proper accounting records; and
- prepare financial statements in accordance with the relevant accounting framework.

14 The audited body is also responsible for preparing and publishing with the financial statements a statement on internal controlⁱ and a remuneration report and for preparing a whole of government accounts return. Some local government bodies publish other information, such as an annual report, alongside the financial statements.

15 At the conclusion of the audit of the accounts, auditors are required to give their opinion on the financial statements, including:

- a. whether they present fairly, or give a true and fair view of, the financial position of the audited body and its expenditure and income for the year in question;
- b. whether they have been prepared properly in accordance with the relevant accounting framework; and
- c. for local probation boards and trusts, on the regularity of their expenditure and income.ⁱⁱ

ⁱ This is known as the Annual Governance Statement for local authorities.

ⁱⁱ Although local probation boards and trusts are local government bodies for the purposes of this *Code*, they are not local authorities. In particular, local probation boards and trusts are subject to a different accounting framework from other bodies covered by this *Code*. Where relevant, requirements that apply specifically to local probation boards and trusts are highlighted in the *Code*.

16 In carrying out this responsibility, auditors should provide reasonable assurance that the financial statements:

- a. are free from material misstatement, whether caused by fraud or other irregularity or error;
- b. comply with statutory and other applicable requirements; and
- c. comply with all relevant requirements for accounting presentation and disclosure.

17 Auditors should review, and report on as appropriate, other information published with the financial statements, including the statement on internal control and the remuneration report.

18 In reviewing the statement on internal control, auditors should take into account the knowledge of the audited body that they gain through carrying out audit work in relation to the body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

19 Auditors should also review and report on the whole of government accounts return.

20 In carrying out their responsibilities in relation to the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time, and have regard to any other relevant guidance and advice issued by the Auditing Practices Board (APB), including that covering the work of auditors in relation to audited bodies' statements on internal control. Auditors should also comply with the APB's Ethical Standards currently in force, and as may be amended from time to time.

Chapter 3: Auditors' responsibilities in relation to the use of resources

This section sets out how auditors fulfil the following statutory function. References in the table are to the Audit Commission Act 1998.

Function	Statute
1 To be satisfied that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources.	s5(1)(e)

21 It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and demonstrating the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

22 The audited body is responsible for reporting on aspects of these arrangements as part of its annual statement on internal control.

Auditors' responsibilities in relation to the use of resources

23 Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility, auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements and report on these arrangements. In doing so, auditors must have regard to the criteria specified by the Commission.

24 Auditors' sources of assurance in discharging their responsibilities in relation to audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources are:

- the audited body's whole system of internal control as reported on in its statement on internal control;
- the results of the work of the Commission, its partner inspectorates and other review agencies, if the results of the work have an impact on their responsibilities;
- work specified by the Commission in support of carrying out its functions; and
- any other work that auditors consider is necessary to discharge their responsibilities.

25 Auditors should normally place reliance on the reported results of the work of the Commission, its partner inspectorates and other review agencies in relation to corporate or service performance without carrying out procedures to assess the quality of the work performed and without re-performing any of the work, except where particular circumstances or information lead them to conclude that it would not be reasonable to place reliance on such reported results.

26 In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. The audited body is responsible for deciding whether and how to implement any recommendations made by auditors. In making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.

Considerations relating to planning audit work in relation to the use of resources

27 In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors should consider and assess the significant risks of giving a wrong conclusion on these arrangements. The auditor's assessment of what is

significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors should discuss their assessment of these audit risks with the audited body.

28 Auditors' assessment of risk should reflect their consideration of the relevance and significance of the potential business risks faced by all bodies of a particular type, and other risks that apply specifically to individual audited bodies. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body, and are relevant to auditors' responsibilities under the *Code*. Auditors should also consider the audited body's own assessment of the risks it faces and the arrangements put in place by the body to manage and address its risks. In assessing risks in relation to audited bodies' arrangements to secure economy, efficiency and effectiveness, auditors should have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of the Commission, its partner inspectorates and other review agencies; and
- relevant improvement needs, identified in discussion with the Commission, its partner inspectorates and other review agencies.

29 On the basis of their risk assessment, auditors should plan their work and decide whether to:

- highlight the risk to the audited body;
- defer any work in the light of current or planned work by the body or the Commission, its partner inspectorates and other review agencies; or
- carry out work in relation to specific risks to form a view on the adequacy of aspects of the body's stewardship and governance and corporate performance management and financial management arrangements.

30 In considering whether to carry out work in relation to a particular risk, auditors should have regard to the potential for them to contribute to improvement in the delivery of the functions of the audited body. Such work may include working with others in order to assess how well risks arising from the audited body's involvement in partnerships or other joint-working arrangements are being addressed.

Work specified by the Commission

31 The Commission may, from time to time, specify additional elements of work to be carried out by auditors so that it can fulfil its statutory functions. Work mandated by the Commission will be in addition to auditors' principal responsibilities.

Chapter 4: Reporting the results of audit work

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.

Function	Statute
1 To comply with the <i>Code</i> .	s5(2)
2 To consider whether, in the public interest, to report on any matter that comes to the attention of the auditor so that it may be considered by the body concerned or brought to the attention of the public.	s8
3 To certify the completion of the audit.	s9(1)(a)
4 To express an opinion on the statement of accounts.	s9(1)(b)
5 To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	s11(3)

Outputs from the audit

32 The results of audit work will be reported in a range of outputs that, unless specified otherwise, should be addressed to the audited body.

33 The following outputs should be issued at key points in the audit process:

- a. audit planning document;
- b. oral and/or written reports or memoranda to officers and, where appropriate, members, on the results of, or matters arising from, specific aspects of auditors' work;
- c. a report to those charged with governance summarising the conclusions of the auditor;
- d. an audit report including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;ⁱ
- e. a certificate that the audit has been completed in accordance with statutory requirements; and
- f. an annual audit letter.

ⁱ For local probation boards and trusts the opinion on the financial statements includes the auditor's opinion on the regularity of expenditure and income.

34 In addition, the following outputs, the need for which may arise at any point during the audit process, should be issued where appropriate:

- a. a report dealing with any matter that the auditor considers needs to be raised, in the public interest, under section 8 of the Act;
- b. any recommendations under section 11(3) of the Act; and
- c. information to be reported to the Commission in a specified format to enable it to carry out any of its other functions or to assist its partner inspectorates and other review agencies and the National Audit Office in carrying out their functions.

Principles of audit reporting

35 Auditors should maintain regular communications with audited bodies and ensure that emerging findings are discussed on a timely basis at the level within the audited body that auditors consider to be most appropriate.

36 All outputs from the audit should be:

- clear and succinctly expressed;
- relevant to the needs of the audited body;
- explicit when drawing conclusions and making recommendations; and
- issued promptly at the appropriate point in the audit process.

37 Auditors should report to the audited body in such a way as to enable its members or officers to understand:

- the nature and scope of the audit work;
- any significant issues arising from auditors' work;
- the nature and grounds for any concerns they have; and
- where appropriate, any action that needs to be taken by the audited body to secure improvement.

38 Auditors' recommendations, arising from their work in relation to audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, should:

- be specific about what action the audited body should consider taking;
- be useful, practicable and based on an assessment of the benefits to the audited body of implementing them; and
- take account of the costs of implementation and report where these are likely to be significant.

Audit planning documents

39 Audit planning documents should set out how auditors intend to carry out their responsibilities, in the light of their assessment of risks. Auditors should explain their assessment of risks and discuss audit planning documents with those charged with governance. They should include provision for effective follow-up arrangements to review whether the audited body has properly considered any matters that have been identified previously and, where appropriate, has implemented agreed actions. Planning documents should also demonstrate explicitly how

planned audit work will relate to those improvement planning priorities, relevant to the responsibilities of auditors, identified following any relevant assessments of performance by the Commission. Planning documents should be kept under review and updated as necessary.

Reports or memoranda on individual aspects of audit work

40 Auditors may report the results of, and matters arising from, specific elements or parts of the audit in reports, memoranda or properly evidenced presentations. Such reports, memoranda or presentations should be prepared and issued or delivered as soon as possible after completion of the work.

Reports to those charged with governance

41 Auditors' reports to those charged with governance should cover the full range of auditors' responsibilities under statute and the *Code*. However, these reports do not need to duplicate significant matters previously communicated to those charged with governance. Auditors should satisfy themselves that these reports are considered at the level within the audited body that they consider to be most appropriate.

The audit report

42 The audit report covers all the responsibilities of the auditor under section 5 of the Act. Therefore, it comprises the auditor's opinion on the financial statements and, having regard to relevant criteria, the auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The audit report should also include, by exception, any report by the auditor on:

- the statement on internal control;
- any matters that prevent the auditor being satisfied that the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
- any matters reported in the public interest in the course of, or at the conclusion of, the audit;
- any recommendations made under section 11(3) of the Act; and
- the exercise of any other special powers of the auditor under the Act.

Auditors' certificates

43 Auditors are required to certify the completion of each audit. The effect of the certificate is to close the audit. This marks the point when the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged.

44 There will be occasions when audit work in relation to the financial statements is substantially completed but the audit cannot be concluded – for example, because there are outstanding matters to be resolved arising from action or possible action under the Act. Auditors should consider issuing their audit report, including the opinion and the conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, as soon as the necessary audit work has been carried out, subject to any exception or other qualification that the auditor may need to consider.

Annual audit letters

45 The purpose of preparing and issuing annual audit letters is to communicate to the audited body and external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body. The annual audit letter should cover the work carried out by auditors since the previous annual audit letter was issued and matters previously reported to those charged with governance.

46 The annual audit letter should be addressed to all the members of the audited body and the auditor should ensure that all members receive a copy. Where the audited body does not arrange for distribution to all members, the auditor should make the necessary arrangements. Although some audited bodies are not subject to a statutory requirement to publish their annual audit letters, auditors should encourage these bodies to publicise the availability of the letters.

47 The auditor should issue the annual audit letter to the audited body as soon as possible after completion of the audit and, other than in exceptional circumstances, no later than a date to be specified by the Commission, following the end of the financial year to which the accounts relate.

Reports in the public interest

48 Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit, so that it may be considered by the body concerned or brought to the attention of the public.

49 Auditors should consider whether the public interest requires any such matter to be made the subject of an immediate report rather than of a report to be made at the conclusion of the audit. An immediate report should be made where auditors consider a matter is sufficiently important to be brought to the notice of the audited body or the public as a matter of urgency.

50 In preparing and issuing reports in the public interest, auditors should tailor their approach to the urgency and significance of their concerns.

Recommendations under section 11(3) of the Act

51 The auditor should consider whether to make any written recommendations to the audited body under section 11(3) of the Act, which need to be considered and responded to publicly. Where the auditor considers it necessary to make such recommendations, these can be included, where relevant, within other written outputs from the audit or they may be the subject of a specific report to the audited body.

Information to be reported to the Commission

52 From time to time auditors may be required to report information to the Commission in a specified format to enable it to carry out its functions, including assessments of performance at relevant bodies, or to assist its partner inspectorates and other review agencies and the National Audit Office to carry out their functions.

Chapter 5: Principles relating to the exercise of specific powers and duties of local government auditors

This section sets out how auditors fulfil the following statutory functions. References in the table are to the Audit Commission Act 1998.

Function	Statute
1 To give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts.	s15 and s16
2 To apply to the court for a declaration that an item of account is contrary to law.	s17
3 To consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review.	s19A, s19B, s19C and s24

53 In addition to the general functions of auditors set out in previous sections of the *Code*, auditors of local government bodies have specific powers and duties under the Act. In exercising any of these specific powers and duties, including when they are carrying out audits of small local government bodies under Schedule 1, auditors should tailor their approach to the particular circumstances of the matters under consideration.

54 Where any representations are made or information is provided that is relevant to the audit, or matters relevant to the audit otherwise come to their attention, auditors should consider whether the matter needs investigation and action under their specific powers or whether it can be considered more effectively within planned work programmes and audit reporting arrangements under their general audit powers.

55 In considering whether to exercise any of their specific powers under the Act, auditors should apply a balanced and proportionate approach in determining the time and resources to be spent on dealing with matters that come to their attention. They should consider:

- the significance of the subject matter;
- whether there is wider public interest in the issues raised;
- whether the substance of the matter has previously been considered by the body's auditor;
- the costs of dealing with the matter, bearing in mind that these fall directly on the taxpayer; and
- in the case of objections, the rights of both those subject to objection and the objector.

Schedule 1: The audit of small bodies

Introduction

S1.1 This Schedule sets out the approach to be adopted for the audit of those bodies (referred to in this Schedule as small bodies) with either annual income or annual expenditure below a financial threshold, which may change from time to time and is prescribed by relevant regulations.ⁱ

Governance and accountability

S1.2 It is the responsibility of small bodies to put in place proper arrangements to ensure the proper conduct of their financial affairs, and to monitor the adequacy and effectiveness of those arrangements in practice. Small bodies are required to maintain proper accounting records and control systems and to maintain an adequate system of internal audit of those accounting records and control systems.

S1.3 Small bodies are responsible for preparing and publishing, and providing the auditor with, the accounting statements prepared for the financial year, together with such additional information and explanation as is necessary to provide sufficient evidence that they have maintained adequate systems of internal control and internal audit throughout the financial year.

The audit approach

S1.4 Auditors of small bodies should undertake an examination of the accounts and additional information and explanation provided by the body.

S1.5 Auditors should meet their responsibility by:

- reviewing compliance with the requirements for the preparation of the accounts;
- carrying out a high-level analytical review of financial and other information provided to the auditor; and
- reviewing such additional information and explanation as is necessary to provide sufficient evidence that the body has maintained an adequate system of internal control and internal audit throughout the financial year.

ⁱ Regulations made under section 27 of the Act prescribe a financial threshold for the purposes of determining the type of financial statements that a body is required to prepare and for other purposes.

S1.6 Where, on the basis of the auditor's reviews, the auditor requires further evidence in relation to any relevant matter, additional testing should be undertaken to address the auditor's concerns.

S1.7 When the auditor has completed an examination of the accounts and additional information and explanation provided, the auditor gives an opinion on the accounting statements and certifies the completion of the audit. Auditors provide assurance in the form of an opinion whether, on the basis of their review, the accounts and the other information provided are in accordance with the specified requirements and that no matters have come to their attention giving cause for concern that relevant legislative and regulatory requirements have not been met.

Appendix: Glossary

Accounting statements

The annual income and expenditure account, statement of balances or record of receipts and payments that a small body is required to prepare in accordance with, and in the form specified in, any annual return required by proper practices in relation to accounts.

This definition applies to small bodies only. Other audited bodies are required to prepare a statement of accounts. (See also 'Financial statements').

Act (the)

The Audit Commission Act 1998.

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Annual report

Although not required to do so, some local government bodies produce and publish other information, such as an annual report, alongside the financial statements. The annual report describes the aims and achievements of an audited body during a particular year and may include a summarised version of the financial statements.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the *Code* to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, Ethical Standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The *Code of Audit Practice*.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Small bodies are not required to prepare a statement of accounts. They are required to prepare accounting statements.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Local government bodies

Bodies other than NHS bodies to which the Commission is responsible for appointing auditors, as set out in Schedule 2 of the Act. These include, for the purposes of applying the *Code*, local authorities, local councils (parish and town councils), police authorities, fire authorities, national park authorities and local probation boards and trusts.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements. The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Members

The elected or appointed members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Partner inspectorates and review agencies

The Commission’s partner inspectorates are those organisations that are responsible for carrying out inspections, including bodies with statutory inspection functions such as Ofsted, the Care Quality Commission, and Her Majesty’s Inspectorate of Constabulary. Review agencies include other bodies that have regulatory responsibilities in relation to local government bodies, including government departments, the government offices and relevant regulators of local government professions.

Regularity (of the expenditure and income of local probation boards and trusts)

Whether, subject to the concept of materiality, the expenditure and income of local probation boards and trusts have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Small bodies

Audited bodies with either annual income or annual expenditure (whichever is the higher) below a financial threshold, which may change from time to time and is prescribed for the purposes of regulations made under section 27 of the Act. The financial threshold is prescribed for the purposes of determining the type of financial statements that a body is required to prepare and for other purposes.

Statement on internal control

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation boards and trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in *Managing Public Money*.

Third sector

The third sector includes voluntary and community organisations, charities, social enterprises and cooperative and mutual organisations.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'. In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements.

Audit committees are not mandatory for local government bodies, other than police authorities and local probation boards and trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

If you require a copy of this document in large print, in Braille, on tape, or in a language other than English, please call: **0844 798 7070**

If you require a printed copy of this document, please call: **0800 50 20 30** or email: ac-orders@audit-commission.gov.uk

This document is available on our website

We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: **0844 798 3131**
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Corporate Governance Committee	31 March 2010
AUTHOR/S:	Executive Director Corporate Services / Corporate Manager Community & Customer Services	

USE OF RESOURCES IMPROVEMENT PLAN

Purpose

1. To receive the Council's Improvement Plan in response to the areas for improvement highlighted in the Audit Commission's Annual Governance Report
2. This is not a key decision; the item is included on the agenda at the Committee's request.

Background

3. The Committee received the Annual Governance Report of the Audit Commission at its meeting in October 2009. At the request of officers that report highlighted a number of areas for improvement that the Audit Commission recommended the Council consider with a view to improving its overall score under the Use of Resources Assessment.
4. They have considered each of these recommendations and have formulated an Improvement Plan detailing their proposed response; this is set out at Appendix 1.

Considerations / Options

5. The Committee has previously considered how the Council should respond to the Use of Resources assessment in general terms. At the same time the Finance Task and Finish Group have also made recommendations that directly relate to some of the areas for improvement highlighted by the Audit Commission. The Executive Director Corporate Services and the Corporate Manager Community & Customer Services have framed the improvement plan with a view to implementing measures that can be delivered within existing resources and that are, in their view, relevant and appropriate for the Council.
6. The Committee is requested to consider the actions proposed and any additions or amendments to the plan as necessary.

Implications

7. No major implications have been identified in the framing of the improvement plan although all of the activities should have positive impacts on the Council's Corporate Governance arrangements.

8.	Financial	All of the improvement activities will be delivered from within existing resources
	Legal	None identified
	Staffing	All of the improvement activities will be delivered from within existing resources

Risk Management	None identified
Equal Opportunities	None identified

Consultations

9. The Audit Commission, the Portfolio Holder for Northstowe (as Executive Member with responsibility for Comprehensive Area Assessment) and those listed as responsible officers in Appendix 1 have been consulted in the drafting of the improvement plan.

Effect on Strategic Aims

- | | |
|-----|---|
| 10. | Commitment to being a listening council, providing first class services accessible to all. |
| | The improvement activities should have a positive impact on the Council's Corporate Governance arrangements |
| | Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all. |
| | Nothing identified by the report author |
| | Commitment to making South Cambridgeshire a place in which residents can feel proud to live. |
| | Nothing identified by the report author |
| | Commitment to assisting provision for local jobs for all. |
| | Nothing identified by the report author |
| | Commitment to providing a voice for rural life. |
| | Nothing identified by the report author |

Conclusions/Summary

11. The report authors have considered the areas for improvement suggested by the Audit Commission and have set out their recommended responses at Appendix 1.

Recommendation

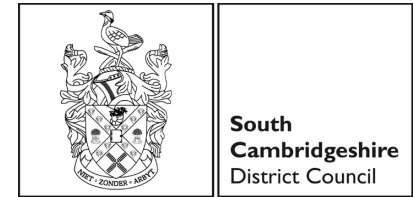
12. That the Use of Resources Improvement Plan, as set out at Appendix 1, be approved.

Background Papers: the following background papers were used in the preparation of this report:

Annual Governance Report for South Cambridgeshire District Council dated October 2009 published by the Audit Commission

Contact Officer: Alex Colyer – Executive Director Corporate Services
Telephone: (01954) 713023

Use of Resources Improvement Plan 2009/10



South
Cambridgeshire
District Council

Implementation Status

R Little or no progress has been made to date.

A Significant progress has been achieved.

G The improvement action has been completed and the outcome has been achieved.

MANAGING FINANCES

How effectively does the organisation manage its finances to deliver value for money?

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
1.1 - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?									
1.1.1	Medium term financial strategy does not adequately address the underlying budget deficit.	G	1	The latest version does address the underlying budget deficit over the period covered by the MTFS (the next 5 years).	February 2010	Cabinet will review the capital programme in February 2010 .	Alex Colyer	Adrian Burns	Cabinet reviewed the capital programme in February 2010, having regard to the additional funds likely to be available from Housing & Planning Delivery Grant.

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
1.1.2	There is a lack of clarity over the impact of spending changes on the operational performance of the Council within decision making reports.	G	2	<p>Be more robust in making links to funded service budgets and performance.</p> <p>The Finance Task & Finish Group recommended that officers examine whether budget proposals could be accompanied by more performance information showing comparative data and the potential impact that budget proposals could have on performance. This would ensure a more accurate way of analysing spending and outcomes.</p>	December 2009	Corporate managers tasked to ensure that 2010/11 service plans deliver this objective.	<p>Alex Colyer</p> <p>Alex Colyer / Paul Howes</p> <p>Paul Howes</p> <p>Paul Howes</p>	<p>Alex Colyer</p> <p>Alex Colyer / Paul Howes</p> <p>Paul Howes</p> <p>Paul Howes</p>	<p>Recent reports to Cabinet on refuse and recycling options and on the proposed revenues and benefits shared service demonstrate this.</p> <p>The portfolio holder is satisfied that integrated business monitoring reports are meeting this objective.</p> <p>Corvu gives ready access to performance data.</p> <p>Review of service plans showed that budget and performance had been linked.</p>

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
1.1.3	The capital programme takes account of Major Repairs Allowance criterion rather than Financial Reporting Standard 15. (Some things allowed under MRA are not "capital".) [Note: This resulted in reclassifying approximately £40,000 of £12,000,000 expenditure in the 2008/09 accounts.]	G	3	The use of FRS 15 will continue to be applied to future years' estimates and final accounts.	With immediate effect	Classification of expenditure in the estimates (January/February 2010) and final accounts (April 2010).	Alex Colyer	Adrian Burns	
1.1.4	Planned improvements in financial management have not been achieved.	A	4	The appointment of the Executive Director (Corporate Services) has meant that these improvements have been progressed. The Finance Task & Finish Group made 11 recommendations in a report to Cabinet in March 2009.	March 2010	Progress is being monitored through the separate "Cabinet Action Plan". Monthly . The final Task & Finish Group report is going to Scrutiny & Overview Committee and to Cabinet in April 2010 .	Alex Colyer	Jackie Sayers	7 actions were complete by December 2009; the remainder are on target for completion; some will be actioned in 2010/11.

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
1.1.5	Members consider that residents and stakeholders do not have sufficient involvement in the financial planning process.	A	5	Involve residents & stakeholders more in the financial planning process.	March 2011	<p>Consultation with residents via Winter 2009 South Cambs magazine and online.</p> <p>Focus group with residents on 16 December 2009 about how to present financial information in a more understandable way.</p> <p>Review the cycle, and level, or budget consultation with the intention of, in future years, seeking to consult in more depth on specific services priorities. Links will be developed with future Place Surveys and customer satisfaction initiatives. March 2011</p> <p>Presentation made to the Cambridge Chamber of Commerce, 15 February 2010</p>	Paul Howes Alex Colyer	Georgina Hayward Nicole Kritzinger	<p>Consultation closed on 15 January 2010. Results being fed via SMT to Cabinet budget report.</p> <p>Council Tax leaflet amended in 2010 in response to this; other points raised will be implemented next year.</p>
1.1.6	There is a variable level of understanding of why variances occur between budget and outturn.	G	6	Include more detail in financial position reports, estimate reports and statement of accounts explanatory foreword.	April 2010	<p>Next financial position report to the end of January 2010: - to SMT, 24 February 2010 - to Finance & Staffing Portfolio Holder, 17 March 2010.</p>	Alex Colyer	Adrian Burns	Reported to SMT and Finance & Staffing Portfolio Holder as per Milestones.

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
1.1.7	The expected outcomes from additional finance training have not been identified or measured.	A	7	Expected outcomes to be identified: - for Members, in the Members' Development Plan; - for officers, in Personal Development Plans; and measured: - for Members, through Member surveys; - for officers, through the Performance and Development Review Scheme. Financial management is a key component of the Management Competency Framework.	March 2010	(Note: This also emphasises the importance of both completing development plans and attending identified development events.)	Alex Colyer	Members: Alex Colyer and Adrian Burns, via Democratic Services Officers: Alex Colyer and Adrian Burns, via HR	A finance training session was held for non-Executive Members on 4 February 2010. This informed the subsequent scrutiny of the budget.

The above improvement actions meet the organisation's aim of being a listening council, providing first class services accessible to all.

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
1.2 - Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?									
1.2.1	Identification of costs drivers and their consequential impact on operational service performance is not well developed.		8	As 2. above.					
1.2.2	The "good practice" standards' approach to reviewing Housing Voids is not uniformly adopted for service reviews.	A	9	Obtain information from Housing and from ICT (re the ICT service review) on the approaches used; produce template & guidelines for other services to follow.	March 2010	Link to point 10 – good practice approach will be incorporated into refresh of guidance.	Paul Howes	Richard May	As 10 below

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
1.2.3	Outcomes for initiatives are not always clearly defined at the onset.	A	10	Make sure desired outcomes are clearly articulated in reports and other documents at the outset of projects or initiatives. (Recent examples include: refuse & recycling service review; shared revenues & benefits service; housing restructure.)	March 2010 during 2009/10	Review and refresh the Project Management toolkit and guidance. Distribute to all relevant staff and make available on the intranet. September 2010 Develop and deliver a comprehensive training programme to ensure compliance and consistency across the organisation. September 2010	Paul Howes	Richard May	Initial report was considered by SMT on 27 January 2010. Review began in March 2010
1.2.4	There is a lack of integration in performance and financial reporting.	A	11	As 2. above.	March 2010	Develop new reporting template; launch improvements by March 2010 . Will embed and continually review this reporting process during 2010/11 . (Note: The main milestone of developing the new template will be done by March 2010; the second milestone is really an on-going process of review that should happen anyway, hence the reason for the completion date being March 2010.)	Paul Howes and Alex Colyer Paul Howes	Graham Smith and Ian Salter	Integrated business monitoring reports were in place during 2008/09. We are reviewing the way in which these reports are presented, with the aim to achieve more meaningful integration and reflect that quarterly reports are now going to Portfolio Holders and only the year-end report to Cabinet.

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
1.2.5	Post implementation reviews and knowledge sharing between departments is not an organisational norm.	A	12	As (10) above. This is the other end of the project from identifying aims and objectives and so will be covered by refresh of the project management toolkit guidelines.	September 2010	<p>Review and refresh the Project Management toolkit and guidance. Distribute to all relevant staff and make available on the intranet. September 2010</p> <p>Develop and deliver a comprehensive training programme to ensure compliance and consistency across the organisation. September 2010</p> <p>Projects in progress during the past 12 months will be identified and a schedule compiled of when post implementation reviews are to be reported.</p>	Paul Howes		Initial report was considered by SMT on 27 January 2010. Review began in March 2010
				To make Community & Customer Services the conduit for sharing learning/ information across the organisation.	March 2010	<p>CCS to develop quarterly e-newsletter outlining progress in previous quarter e.g. reviews completed, consultation activity, changes to population figures etc.</p> <p>(Note: Customer Service Excellence has a post implementation review built in to the project plan.)</p>	Paul Howes		<p>SMT report agreed 27 January 2010 – outlining commitment to CCS becoming 'information hub'</p> <p>Area profile complete – launched at end March 2010</p>

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
1.2.6	VfM resulting from partnership working has not been fully established or monitored on a consistent basis.	A	13	Ensure that all service areas have regard to VfM principles and undertake an assessment of their VfM performance.	March 2010	Develop corporate VfM self assessment template (March 2010) Carry out VfM self assessments for all service areas to feed into CAA and Use of Resources self assessments (July 2010)	Paul Howes		VfM self assessment template agreed by SMT on 27 January 2010 to be rolled out asap. On track to have programme of reviews and pilots in place by end of March 2010
				For significant partnerships, identify baselines where these exist/ establish baselines where they do not; monitor against baselines.	March 2010	Investigating suitable methods and whether this should be applied to all partnership working or just formal partnerships; The methodology adopted will be implemented in a phased prioritised way.	Paul Howes	Gemma Barron	A scrutiny task and finish group was established in December 2009, looking at partnerships contributing to services for children and young people.
The above improvement actions meet the organisation's aim of being a listening council, providing first class services accessible to all.									

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
1.3 - Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?									
1.3.1	No analysis of the reasons for outturn to budget variances has been completed e.g. changed circumstances or incorrect budgeting.		14	As 6. above.					
1.3.2	Integrated business monitoring reports for financial and performance information are in the early stages of development.		15	As 2. above.					
1.3.3	Closedown procedures and quality review do not ensure that the Statement of Accounts is fully compliant with the SORP.	A	16	<p>The external auditor is to provide a schedule of matters (required working papers) to be taken into account in 2009/10.</p> <p>The auditor has also provided a final accounts memorandum on 2008/09, received 8 February 2010, covering matters relevant to the 2009/10 accounts.</p>	In time for 2009/10 closedown timetable	<p>Include in the accounts closedown procedures and timetable; attend training as required.</p> <p>The valuer will be clearly instructed by Accountancy; initial contact made in late December 2009 – the District Valuer replied in early January 2010.</p>	Alex Colyer	Adrian Burns/ Sally Smart	<p>Training attended:</p> <ul style="list-style-type: none"> • Final accounts workshop; • Cipfa Property Advisory Service capital; • Cipfa Finance Advisory Network 2009/10 accounts seminar <p>Discussions are ongoing with the DV</p>
1.3.4	External reporting is not seen as being user friendly.	A	17	<p>Ensure that information that is published is in an accessible format for stakeholders and the public.</p> <p>The Finance Task & Finish Group also looked at this.</p>	October 2010	<p>Customer service excellence issue; may be specific actions during 2010-11 project.</p> <p>The Council's annual accounts are due for publication during summer 2010.</p>	Paul Howes	Corporate Issues workstream of CSE project	CSE project is coming to the end of the self assessment phase and is looking at the quality of information provided to customers externally

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
1.3.5	An action plan for the implementation of IFRS has not been prepared and approved by Members.	A	18	To be included in Accountancy's improvement plan as part of the service planning process. An IFRS project plan will accompany external audit's presentation.	March 2010	Members will receive a presentation on IFRS from the auditors and an action plan from the Head of Accountancy at the March 2010 Corporate Governance Committee.	Alex Colyer	Adrian Burns External Audit/ Adrian Burns	

The above improvement actions meet the organisation's aim of being a listening council, providing first class services accessible to all.

GOVERNING THE BUSINESS

How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
KLOE: 2.1: Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?									
2.1.1	The expected outcomes for partnership initiatives are not clearly established at the onset making it impossible to evaluate the success or otherwise of a project.	A	19	Ensure that expected outcomes for partnership initiatives are clearly established at the outset of the initiative.	March 2010	Evaluation and review of existing partnerships carried out March 2010	Paul Howes	Gemma Barron	<p>We already do this for our significant partnerships http://insite/admin/documents/retrieve.asp?pk_document=907220 and this is included as guidance in the partnerships toolkit.</p> <p>We have now updated our matrix of partnerships and will again include a partnerships register, which includes outcomes, for our significant partnerships.</p>
2.1.2	The Council has not identified how it will use procurement to achieve its strategic objectives.	G	20	The Audit Commission provided comments on the proposed revised procurement strategy.	March 2010	The updated procurement strategy was taken to the Planning Portfolio Holder meeting in March 2010 .	Alex Colyer	John Garnham	The updated procurement strategy was approved by the Planning Portfolio Holder in March 2010.

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
2.1.3	The views of other affected and interested parties as well as partners are not always obtained prior to decision-making.	A	21	Involve residents & stakeholders more in the financial planning and decision making process.	September 2010	<p>Develop new Consultations Strategy (September 2010)</p> <p>Develop Consultation Toolkit (September 2010)</p> <p>Develop Consultation database, allowing interactive record of all consultation activity occurring within the authority to be kept/publicised (September 2010)</p> <p>Develop a corporate stakeholders list (September 2010)</p>	Paul Howes		All reports contain a standard section setting out who has been consulted on the matter under consideration.

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
2.1.4	The Council needs to acquire a better understanding of the supply market.	A	22	<p>When we have a specific procurement project where our understanding of the supply market is less, investigate the supply market before drawing up the specification and inviting tenders (e.g. planning IT system).</p> <p>Remind staff of range of frameworks etc available.</p> <p>Consider ways in which future commissioning needs can be made known to potential suppliers.</p> <p>(Note: We are limited in how much we can support the supply market without being anti-competitive; plus, lack of finance and capacity.)</p>	<p>As part of each individual project timetable</p> <p>March 2010</p> <p>?</p>		Alex Colyer	<p>Sean Missin and procurement / commissioning manager(s)</p> <p>Sean Missin</p> <p>?</p>	<p>A good understanding of the supply market for particular priority spend areas:</p> <ul style="list-style-type: none"> - construction; - waste management; - energy; - transport. <p>Participation in various frameworks and partnerships (Cambs CC, ESPO, OGC, CPG, etc).</p> <p>Signed up to the Cambs Compact.</p> <p>The contracts database and service plans inform our future needs.</p>

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
2.1.5	The service review programme has not been achieved.	A	23	Improve services through the completion of a programme of service reviews.	March 2011	<p>Develop programme of future reviews – link with VfM action (1.2.6) (September 2010)</p> <p>Review & refresh corporate Project Management methodology (September 2010)</p> <p>Carry out structured training programme on refreshed Project Management methodology (March 2011)</p>	Paul Howes		<p>A number of significant service reviews either have recently been conducted or are being conducted, e.g. ICT, New Communities, Housing, Planning.</p> <p>Initial report was considered by SMT on 27 January 2010. Review will begin in February 2010</p>
The above improvement actions meet the organisation's aim of being a listening council, providing first class services accessible to all rvicees.									

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 – March 2010
KLOE: 2.2: Does the organisation produce relevant and reliable data and information to support decision-making and manage performance?									
2.2.1	Data quality monitoring is not consistent throughout the Council.	A	24	Ensure that data quality is consistent across the organisation and that data is robust and of good quality enabling sound management decisions to be made.	March 2010	Agree Performance Management Manual by March 2010 . Refresh Data Quality Strategy and include within Performance Management Manual, including links to Knowledge Management work.	Paul Howes		Draft Performance Management Manual completed – will go to SMT on 31 March 2010 for approval
2.2.2	CORVU is not fully embedded with the Council's performance management regime, with additional training and detailed links to service planning being required.	A	25	Facilitate the further development of CorVu into a fit for purpose, comprehensive performance monitoring/ improvement tool.	July 2010	Develop a post implementation action plan to maximise the effectiveness of the system (July 2010)	Paul Howes	Ian Salter/ Senior Policy and Performance Officer	Review started – currently looking at accessibility to system, number of administrators etc
2.2.3	Instances of inadequate audit trails in support of performance indicators, which could not be easily reproduced.	A	26	Promote the effective use of performance information within service areas and ensure that current information produced is fit for purpose and relevant.	July 2010	Agree Performance Management Manual by March 2010 Review existing performance monitoring arrangements and performance measures for all service areas (July 2010) Carry out audit spot checks of 2009/10 performance indicators (July 2010)	Paul Howes	Richard May	As for (24) above, Performance Management Manual will include guidance on providing adequate PI audit trails.

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 – March 2010
2.2.4	Inconsistent approach to the production and retention of detailed guidance and procedure notes with knowledge residing with a single officer.	A	27	Produce template (need exemplar ?); list systems; prioritise (business critical); action plan.	March 2010	IGWG members will be requested to identify Information Asset Owners and request confirmation that documented procedures are available. This exercise is part of the Data Handling Guidelines (best practice) and will form part of the Council's Information Governance Policy and Strategy. Note: All SCDC purchased systems come with user manuals. For SCDC applications, users provide instructions as appropriate.	Alex Colyer	IGWG/ Information Asset Owners	Stephen Horner and Ian Salter agreed to look at data quality at the IGWG meeting 8/12/09, so this may be picked up as part of that.
2.2.5	Fixed asset register does not fully comply with the requirement of the SORP.	A	28	A revised fixed asset register that substantially meets the requirements has been produced for the 2008/09 accounts.	March 2010	Further work is currently being undertaken and the need for further development/ replacement of the register will be considered.	Alex Colyer	Adrian Burns	The current fixed asset register (Excel spreadsheets) will continue to be used for 2009/10 with amendments to deal with possible increases in asset values; a replacement system is a longer term issue.

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 – March 2010
2.2.6	The failure to fully develop procedures to share and receive quality information in respect of partnerships reduces the quality of performance monitoring for those partnerships.	A	29	Ensure that effective procedures are in place to share quality information between partners.	March 2010	Develop information sharing protocols to facilitate the sharing of data across partnerships.	Paul Howes	Stephen Horner/ David Lord/ Ian Salter & Gemma Barron	<p>Information Sharing Protocols have now been drafted, which include clauses about the quality and integrity of data being shared.</p> <p>In addition, the Data Quality Policy and Strategy is being revised to include further guidance and procedures to validate and ensure the accuracy of all data shared.</p> <p>Once finalised current information sharing protocols to be reviewed.</p>

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 – March 2010
2.2.7	The improvements expected from projects/ systems redesign are not always identified.	A	30	<p>As (10) above. (Project management)</p> <p>The ICT and Information Governance Steering Group (ICTIG) and SMT are keen to ensure the Project Management Toolkit is used to provide the appropriate controls and management of all projects (ICT or otherwise).</p> <p>This message needs to be well rehearsed and understood.</p> <p>By using a proper PM methodology, all such requirements can be easily described and monitored.</p>	September 2010	<p>Review and refresh the Project Management toolkit and guidance. Distribute to all relevant staff and make available on the intranet. September 2010</p> <p>Develop and deliver a comprehensive training programme to ensure compliance and consistency across the organisation. September 2010</p>	Paul Howes	Richard May	Initial report was considered by SMT on 27 January 2010. Review began in March 2010
The above improvement actions meet the organisation's aim of being a listening council, providing first class services accessible to all.									

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
KLOE: 2.3: Does the organisation promote and demonstrate the principles and values of good governance?									
2.3.1	Members do not have individual development plans.	A	31	Member Development Programme.	March 2011	Member Development Charter - aim to achieve Charter accreditation by March 2011	Fiona McMillan	Fiona McMillan	Work underway to create individual development plans
2.3.2	Training feedback is based on 'soft' issues rather than independently verifiable and measurable outcomes.	A	32	Change feedback form. There is a pre- and post-evaluation form, agreed March 2009, which sought measurable aims and outcomes. This needs to be embedded within the organisation.	March 2011	Member Development Charter - aim to achieve Charter accreditation by March 2011	Fiona McMillan	Fiona McMillan	Internal Audit review of Member Development in March 2010; draft report received.
2.3.3	The strengthening of senior management capacity has yet to be achieved.	G	33	Now achieved.	N/a		N/a		
2.3.4	The purpose and outcomes that each partnership will deliver have not been established.	A	34	Ensure that each partnership that the council enters into has a clear purpose, terms of reference and identifiable outcomes.	March 2010	Review all partnerships to ensure that they have clear terms of reference and identifiable outcomes (March 2010)	Paul Howes	Gemma Barron	Revised terms of reference with purpose and outcomes are in place for the countywide thematic strategic partnerships as well as strengthened governance arrangements for the LSP and CDRP, which were reviewed in 2008/09.

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
2.3.5	Customer services and complaints handling have improved, although not to the planned extent.	A	35	Achieve Customer Service Excellence accreditation.	March 2011	<p>Revised Complaints and Compliments Policy adopted. December 2009</p> <p>The action plan to improve customer services and complaints handling has been produced and exists in the form of the Customer Service Excellence project document. The project is due for completion by March 2011.</p>	Paul Howes	Paul Knight	Stage 1 of the project is in progress and focuses on awareness raising and training. Project is on schedule.
The above improvement actions meet the organisation's aim of being a listening council, providing first class services accessible to all.									

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
KLOE: 2.4: Does the organisation manage its risks and maintain a sound system of internal control?									
2.4.1	Risk registers are becoming more important in the operational and strategic management of the Council.	A	36	Get the risk registers set up in CorVu.	March 2010	Ascertain availability of consultancy and funding, December 2009 Prepare prioritised programme, January 2010 Implement programme, March 2010	Alex Colyer	John Garnham	Policy & Performance are working on a project plan to set risk registers up in CorVu.
2.4.2	Delay in agreeing internal audit report on fraud prevention and security.	A	37	Now agreed; various actions being implemented.	March 2010		Alex Colyer	John Garnham	
2.4.3	The Annual Governance Statement focuses on processes and actions but does not cover the outcomes that these seek to achieve.	G	38	Make sure outcomes sought are clearly articulated.	March 2010	Draft Annual Governance Statement (AGS) to Corporate Governance Committee in March 2010.	Fiona McMillan	Fiona McMillan	The purpose of the AGS is clearly stated, together with framework and principles; processes and actions are to meet these and audit recs.
2.4.4	Procedure notes and manuals are not available for all business critical systems.	A	39	As 27 above Produce template (need exemplar ?); list systems; prioritise (business critical); action plan.	March 2010	IGWG members will be requested to identify Information Asset Owners and request confirmation that documented procedures are available. This exercise is part of the Data Handling Guidelines (best practice) and will form part of the Council's Information Governance Policy and Strategy. Note: All SCDC purchased systems come with user manuals. For SCDC applications, users provide instructions as appropriate.	Alex Colyer	IGWG/ Information Asset Owners	Stephen Horner and Ian Salter agreed to look at data quality at the IGWG meeting 8/12/09, so this may be picked up as part of that.

The above improvement actions meet the organisation's aim of being a listening council, providing first class services accessible to all.

MANAGING RESOURCES

How well does the organisation manage its (natural resources, physical assets, and) people to meet current and future needs and deliver value for money?

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
KLOE: 3.3: Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?									
3.3.1	Management competency and learning framework developed in 2008/09, starting to be introduced in 2009/10.	G	40	Framework introduced to support competency assessments. Chartered Management Institute qualifications being delivered at levels 3, 5 and 7. Corporate management training programme published on InSite.	March 2010	1 st cohort to complete Level 3 programme June 2009 Level 5 programme to commence	Susan Gardner Craig	Jill Mellors	Level 3 cohort completed June 2009
3.3.2	Workforce plan skills, attitudes and behaviours are not included in job and person specifications.	G	41	Workforce Plan reviewed in 2009. Action Plan developed. Job descriptions and person specs outline key skills required for the job. Introducing competency assessments for manager & supervisor roles prior to recruitment.	Immediate	Workforce Plan to Cabinet for approval	Susan Gardner Craig	Susan Gardner-Craig	Cabinet approved Sept 2009

KLOE	Area for Improvement identified	Status	Action Number	Action	Completion Date	Milestones	Accountable Officer	Responsible	Progress Update 3 - March 2010
3.3.3	IIP accreditation achieved in February 2009 but benefits in terms of operational performance have not been identified or assessed.	G	42	Many of the benefits and issues within IIP will be assessed through the employee survey. This will check our progress and point to where additional work is needed.	December 2009	Employee survey scheduled for October 2009 Agree action plan with EMT – January 2010	Susan Gardner Craig	Ian Cawthra	Survey completed – October 2009 Results available - November 2009 Improvement shown against 2008. Action Plan agreed at EMT January 2010
3.3.4	Workforce planning is short term.	A	43	Workforce Plan covers period up to 2012.	December 2010	Review Workforce Plan Update Workforce Plan by December 2010	Susan Gardner Craig	Susan Gardner Craig/ Paul Howes	Review of Workforce Plan during 2010
3.3.5	Staff vacancies contribute to failure to achieve expected performance.	A	44	For each vacancy, identify resources needed to continue to achieve expected performance; if resources not made available, understand impact on performance.	Immediate	Managers to: <ul style="list-style-type: none"> o reallocate work o utilise secondment opportunities o use internal adverts o assess risk 	Susan Gardner Craig	Line managers	Freeze on vacancies at present – internal advertising only.
3.3.6	The Council moved to Level 2 of the Local Government Equality Standard in June 2009.	A	45	Reach Level 3 'Achieving' standard.	September 2010	Action plan to achieve level 3 is work in progress	Paul Howes	Richard May/ Paul Williams	Some slippage in timescale set due to a delay in recruiting an Equalities Project Officer to progress the programme of Impact Assessments. However the new officer started at the beginning of March 2010.

The above improvement actions meet the organisation's aim of being a listening council, providing first class services accessible to all.

This page is left blank intentionally.

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Corporate Governance Committee 31st March 2010
AUTHOR/S: Executive Director (Corporate Services)/ Acting Legal and Democratic Services Manager

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL'S ANNUAL GOVERNANCE STATEMENT 2009/10**Purpose**

1. To consider and approve the draft Annual Governance Statement 2009/10 prior to the statement being signed by the Leader and Chief Executive and being included in the statement of accounts for the year ending 31st March 2010.

Background

2. The requirement to publish an Annual Governance Statement ("the AGS") is a statutory requirement which was introduced with effect from the 2007/2008 financial year. The AGS provides public assurance about the effectiveness of the Council's system of internal control and the Council's corporate governance arrangements and assurance framework.
3. The CIPFA/SOLACE governance framework "Delivering Good Governance in Local Government" brings together an underlying set of legislative requirements, governance principles and management processes and highlights the fact that good governance relates to the whole organisation. Six core principles of governance in the framework focus on the systems and processes for the direction and control of the Council and its activities through which it accounts and engages with the community.

Considerations

4. The functions of the Corporate Governance Committee include consideration of the AGS prior to its inclusion in the annual statement of accounts. The AGS should explain the governance framework operating during the accounting period, assess the effectiveness of those controls and identify any significant issues and associated actions.
5. The draft AGS is attached at Appendix A. There is no standard wording for explaining governance arrangements and the review of their effectiveness; rather a good governance statement will be an open and honest self-assessment of the Council's performance across all of its activities, with a clear statement of the actions being taken or required to address areas of concern. Internal audit have assisted officers in the preparation of the AGS by gathering assurances against the six core principles of governance. Officers across the Council have also provided evidence of assurances by self-assessment against the Local Code of Governance.
6. From the work done throughout 2009/2010 Internal Audit has concluded that the council has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives.

7. Internal Audit reviewed the Council’s risk management policy, Risk Register and the embedding of Risk Management and undertook a review of the Council’s risk maturity and concluded that the Council is a "Risk Managed" organisation. This, the second-highest rating achievable, is defined as the council having an "enterprise-wide risk management approach considering risk at highest level but could be further embedded in decision making".
8. No "significant" governance issues have been identified in this year’s AGS. The only significant issue which was identified in the 2008/09 AGS, a recommendation to ensure the implementation of the CORVU system, has been implemented. Four issues have been identified as meriting attention to further strengthen effective corporate governance at the Council, and are set out in the table at Section 6 of the report.

Implications

9. Financial	Good corporate governance and internal controls reduce the risk to the Council of financial loss.
Legal	It is a statutory requirement to produce an Annual Governance Statement under the Accounts and Audit (Amendment) (England) Regulations 2006 and the Statement of Reporting Practice 2007 (CIPFA). Operating good corporate governance and internal control systems should demonstrate high ethical standards.
Staffing	None
Risk Management	Failure to produce an Annual Governance Statement would affect the approval of the statement of accounts and the use of resources assessment
Equal Opportunities	None

Consultations

10. The Senior Management Team, relevant members of the Executive Management Team, other senior officers and Internal Audit were consulted as part of the preparation of this report.

Effect on Strategic Aims

11.	Commitment to being a listening council, providing first class services accessible to all.
	The Annual Governance Statement covers the whole range of Council activities and the way in which it implements its policies and values reflecting the strategic aims of the authority.
	Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.
	See above
	Commitment to making South Cambridgeshire a place in which residents can feel proud to live.
	See above
	Commitment to assisting provision for local jobs for all.
	See above
	Commitment to providing a voice for rural life.
	See above

Recommendations

12. The Corporate Governance Committee is requested to consider and approve the draft Annual Governance Statement and note the information which supports the report.
13. The Corporate Governance Committee is asked to note that the final version of the Statement will be updated, if appropriate, following the receipt of comments from the Committee, between the date of the 31st March meeting and the approval of the final accounts.
14. The Corporate Governance Committee is asked to note the progress made to address the significant governance issues identified in the Annual Governance Statement for 2008/2009.

Background Papers: the following background papers were used in the preparation of this report:

Annual Governance Statement 2008/2009
Delivering Good Governance in Local Government – Guidance and Framework
published by CIPFA 2007
Internal Audit Annual Report Year ended 31 March 2010
ICT Review Internal Audit Report March 2010

Contact Officer: Fiona McMillan – Acting Legal and Democratic Services Manager
Telephone: (01954) 713027

This page is left blank intentionally.



South Cambridgeshire District Council

Annual Governance Statement 2009/10

For the period 1st April 2009 to 31st March 2010

March 2010

1. SCOPE OF RESPONSIBILITY

South Cambridgeshire 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, properly accounted for and 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 in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility South Cambridgeshire District Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/ SOLACE Framework *Delivering Good Governance in Local Government*.

A copy of the code is on the Council's website at www.scambs.gov.uk. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit (Amendment) (England) Regulations 2006) in relation to the publication of a statement on internal control.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled and the activities through which it engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and 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.

The governance framework has been in place at the Council for the year ended 31 March 2010 and up to the date of approval of the annual report and statement of accounts.

3. THE GOVERNANCE FRAMEWORK

South Cambridgeshire District Council has a responsibility for ensuring a sound system of governance to meet statutory requirements requiring public authorities to adhere to proper practices in reviewing the effectiveness of their system of internal control and preparing a statement on internal control. This governance statement meets that requirement and sets out brief details of the arrangements the Council has in place regarding the key systems and processes comprising the Council's governance framework. This forms part of the Council's overall assurance framework, which incorporates the Local Code of Governance adopted by the Council covering six core principles and the accompanying supporting principles contained within the CIPFA/SOLACE Framework for delivering good governance in local government (2007).

Principle one: Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

- The Council's Vision is 'To make South Cambridgeshire a safe and healthy place where residents are proud to live and where there will be opportunities for employment, enterprise and world-leading innovation. We will be a listening Council, providing a voice for rural life and first class services accessible to all'.
- The Council has established the following aims which set out how the vision will be delivered: -
 - Being a listening council, providing first class services accessible to all
 - Ensuring that South Cambridgeshire continues to be a safe and healthy place for you and your family
 - Making South Cambridgeshire a place in which residents can feel proud to live
 - Assisting provision for local jobs for you and your family
 - Providing a voice for rural life
- These aims are underpinned by approaches which provide a framework showing how the aims will be delivered and specific actions which will be undertaken to deliver the aims.
- The Council has also adopted values to guide the way it works and provides services. These are customer service, improving services, trust and mutual respect.
- The Council has communicated its vision, aims and values internally through monthly Corporate Briefs to staff, the internal staff magazine 'Scene' and the intranet "In-Site". They have also been communicated to South Cambridgeshire residents through its quarterly magazine "South Cambs" and via the website.
- The Council produced a Corporate Plan for 2009/10, which set out key achievements for 2008/09 and the challenges and priorities for 2009/10 and demonstrated how the Council planned to meet these challenges during the year, how it has continued to ensure improvements and managed resources effectively to deliver high quality services to the whole community. The Corporate Plan is available on the Council's website.

- The Corporate Plan is underpinned by service plans for 2009/10 setting out the actions to be taken and targets to be met. Achievement of these plans is regularly monitored by service managers.
- The Policy and Performance service drives delivery of the Corporate Plan, working closely with services to spread best practice, track performance and strengthen performance against local targets. The performance management framework monitors delivery against targets and the Cabinet or Portfolio Holder receives quarterly integrated business monitoring reports, which incorporate the Council's financial performance.
- During the year the Council set out a three year action plan for improving performance. A performance improvement group comprising of the Portfolio Holder (Policy and Performance) and an officer from each service has been set up to monitor progress on the action plan. This group will meet monthly to highlight performance issues which can then be dealt with.
- The Council has a Medium Term Financial Strategy, which is reviewed and updated annually as part of the budget setting process to support the achievement of the Council's corporate objectives. The budget and policy framework outlines the process and timetable to be followed each year when setting the Council's budget. The financial management framework includes regular budget monitoring reports to the Senior Management Team, Executive Management Team, Executive and Portfolio Holder meetings to ensure best use of council resources.
- The achievement of efficiency savings is monitored through the efficiency savings group. Each service plan includes a value for money overview which is being further developed for 2010 by the introduction of a value for money template and an assessment of value for money for each service. The annual audit letter for 2008/09 gave an unqualified value for money conclusion.
- Partnership working is an essential element for the Council to deliver its services effectively and assist the Council in meeting its objectives. In order to ensure that the Council participates in successful partnerships with robust governance arrangements, the Council has adopted a "Partnership Toolkit" that covers eight partnership standards agreed by the Corporate Governance Committee. Standard Terms of Reference headings based on national guidance are included in the toolkit for use in all partnerships led by the Council.
- The Council has a full list of all its partnerships and each of these has been scored to identify the key partnerships. All key partnerships are risk assessed and any scoring above the threshold would be included in the risk register which is regularly monitored. Currently none score above the threshold.
- The Local Strategic Partnership provides a framework for addressing the social, economic and environmental concerns of people in South Cambridgeshire through partnership working. The Council's Sustainable Community Strategy, agreed in March 2008, outlines the LSP's long-term vision for a sustainable South Cambridgeshire as well as its three year objectives and priorities. The South

Cambridgeshire Local Strategic Partnership Board meets regularly to discuss progress against indicators and targets. The Board is to merge with Cambridge City LSP to increase efficiency and effectiveness.

Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles.

- The Constitution was last updated in January 2010 and acts as the guide for the operations of the Council and identifies the roles and responsibilities of the Executive, Officers and Members. The Constitution also identifies the delegation of responsibilities for Council functions through Committees, the Executive, portfolio holders and officers, and sets out how decisions are made. It sets out management and operational responsibility within the Council. All decisions are published in a weekly e-bulletin, which is distributed to all Members, staff and all parish councils within the district.
- The Constitution contains Codes of Conduct for officers and members, a protocol for member/officer relations and full job descriptions for Members, including role descriptions for Chairmen of the Council's Committees.
- The Monitoring Officer and Democratic Services team maintain up to date versions of the Constitution and ensure decision-making is fair and lawful. Advice from the Monitoring Officer and/or the Chief Finance Officer is taken on whether any decisions are outside the budget and policy framework. All Executive reports are forwarded to Legal and Finance prior to publication for input into the implications of proposed actions and strategies.
- The roles and responsibilities of statutory officers are set out in the Constitution and job descriptions. The Chief Executive is designated Head of the Paid Service, the Executive Director (Corporate Services) is the designated Chief Finance Officer responsible for the proper administration of the Council's financial affairs under Section 151 of the Local Government Act 1972 and the Executive Director (Operational Services) is the Monitoring Officer.
- A remuneration panel is in place to monitor and review the remuneration of members each financial year. A local agreement covers pay and conditions for officers, a steering group has been set up to review all pay and benefits and a full job evaluation exercise is underway.
- Service delivery is monitored through quarterly integrated business monitoring reports, covering the following areas:
 - Financial Performance
 - Corporate Plan Performance
 - CORVU – Integrated Performance Management System

Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

- The Constitution acts as the guide for the operations of the Council and identifies the roles and responsibilities of the executive, officers and Members.
- The Constitution is supported by operational procedure manuals containing information on financial regulations, contract regulations, business procedures and processes to be followed in all areas of the Council.
- Expected standards of conduct and behaviour are set out in the Code of Conduct and other protocols contained within the Constitution. All members have also been given a Members' Toolkit which includes the Code of Conduct and all other relevant protocols and guidance for members. All members have been trained on the Code of Conduct.
- The Code of Conduct addresses the issue of members not taking part in decision-making if they have declared a prejudicial interest and about registration and declaration of personal interests. Declarations of interest are a standing item on all agendas. A register of interests for all members including co-optees on to the Standards Committee is updated annually and shown on the website.
- The Constitution also includes an Anti-theft, Fraud and Corruption Policy.
- Members are asked to sign up to a Member Undertaking to show their commitment to abide by the codes and protocols as a demonstration of support for the high standards of personal behaviour by Members and good working relationships with officers.
- Officers are bound by their own Code of Conduct which sets out guidelines for officer behaviour.
- The Member Toolkit contains an internal disputes resolution procedure which can be used to deal with alleged breaches of the Code of Conduct.
- The Council has adopted four values; customer service, improving services, trust and mutual respect which underpin the way it works and provides services. A programme is underway to embed these values throughout the organisation and they are incorporated into the staff appraisal system.
- The Standards Committee promotes and maintains high standards of conduct within the Council and its' Parish Councils. The Committee assesses, reviews and makes determinations in respect of allegations of misconduct against district and parish councillors, and makes recommendations to Council on matters such as reviews of the Code of Conduct. It currently has 19 members: 8 Council Members who are appointed by Council; 4 Parish members who are nominated by Parish Councils and there are 7 independent (lay) members whose appointment is ratified by Council.
- The Standards Committee has been recognised nationally as an example of best practice and short-listed for the LGC awards in the Standards and Ethics category.

Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

- The Constitution acts as the guide for the operations of the council and identifies the roles and responsibilities of the executive, officers and Members. The Constitution also identifies the delegation of responsibilities for Council Functions through Committees and sets out how decisions are made. All decisions are published in a weekly e-bulletin, which is distributed to all Members, staff and the 90 parish councils within the Council's area.
- The Council has a Scrutiny and Overview Committee with terms of reference and operating procedures set out in the Constitution. The committee can call in for review any decision made by the Executive, Individual Portfolio Holders or by officers. The Committee uses task and finish groups to carry out specific pieces of work. A timetable for scrutiny programme planning sets out deadlines and an annual Scrutiny and Overview Committee report is produced to the annual meeting of Council.
- Portfolio Holder meetings are open to the public and, wherever possible, decisions are taken at these regularly scheduled meetings, in line with the Constitution. Matters decided outside of the formal meetings, for reasons of urgency, are published on pro-forma decision sheets. A member of the Scrutiny and Overview Committee attends all portfolio holders meetings.
- Forward plans showing all decisions coming up are produced for meetings of executive portfolio holders, the Cabinet, the Council and senior management team. These plans are published on the website.
- All agendas and reports plus relevant supporting documents are available on the website in compliance with the statutory deadline for publication of five clear working days.
- The Corporate Governance Committee takes responsibility for all governance arrangements within the Council and undertakes the core functions of the Audit Committee.
- The Council has a complaints procedure in place. Complaints are reported to the Senior Management Team and Portfolio Holders on a quarterly basis. Complaints are also reported to the Scrutiny and Overview Committee. The complaints policy has been reviewed during 2009/10 and will now incorporate complaints, compliments and comments. A "Learning from complaints" form has also been introduced in 2009/10.
- A standard report template is used for all meetings which requires authors to cover all options, relevant background, details of consultation, key implications (financial, human resources, legal and equal opportunities) and how the matter contributes to the Council meeting its corporate objectives and service priorities.
- The Council's legal team provides advice to decision makers on areas that have legal implications and financial advice is provided by the accountants. Suitably qualified staff are employed within the legal and financial teams.

- The Council's Risk Management Strategy has been reviewed during the year for approval by the Corporate Governance Committee. The document acknowledges the obligation to minimise adverse risk and details the process for identifying, recording, assessing, managing and reviewing risk. A strategic risk register has been compiled and is reviewed quarterly by the Executive Management Team and Corporate Governance Committee. Project, partnership and service risk registers are also in place, these are reviewed quarterly by departmental management teams and annually by the Executive Management Team on a rolling programme.
- As part of the Internal Audit plan for 2009/10 a follow up to the risk maturity audit was carried out to determine how embedded risk management arrangements are within the Council. The Council was deemed to be "Risk Managed" which equates to a score of four out of five, an improvement on the previous years audit.
- The Council has a Code of Conduct for staff incorporated in the Constitution, an Anti-Theft, Fraud and Corruption Policy and Capability and Disciplinary Procedures.
- The Council's Whistle-Blowing policy has been promoted and communicated to staff throughout the year through "In-Site", "Scene" magazine, and display of posters throughout South Cambridgeshire Hall and at the depot. This policy is included as a standing item on Standards Committee agendas.
- The Council has an in-house legal team supporting Members and all sections of the Council. The Legal and Democratic Services Manager attends all meetings of the Council and a senior lawyer is always in attendance at regulatory committees to ensure that the limits of lawful activity are not breached and that decision-making is fair.

Principle 5: Developing the capacity and capability of Members and officers to be effective.

- An induction programme is in place for newly elected and re-elected members. An Induction Pack is also provided to all new and continuing Members. In addition, members are provided with a copy of the Member Toolkit which contains more detailed information about standards expected of councillors, and includes vital documents such as the Code of Conduct.
- The Council has agreed a Member Development Strategy 2008 – 2011 which requires all members to carry out an annual self-assessment of their training needs. The results from the self-assessment are built into the member training and development programme. This will assist members to build their skills to enable them to play a full part in the work of the Council and in leading their communities.
- A system of one to one meetings between Committee chairs and their members is planned for 2010.
- Upon appointment, new officers will attend an induction session with the Chief Executive followed by a formal half-day induction and a departmental induction programme with their line manager.

- Ongoing training needs are identified through the staff Performance and Development Review (PDR) scheme and all staff have personal development plans. A management competency framework has also been developed and the competencies are reviewed through the appraisal scheme.
- The Council's Workforce Plan was refreshed during the year to take into account the developments during the year, new challenges facing the Council, corporate objectives and requirements identified within service plans.
- All posts within the Council have a detailed job description and person specification to ensure that staff are suitably qualified to undertake their responsibilities.
- All staff are subject to the Council's PDR scheme which establishes clear links between tangible performance objectives, targets, service plans and corporate objectives. It will enable agreed incremental progression, improve performance, identify development opportunities and improve communications and relationships.
- All staff have the option to apply for support in relation to further education and professional development leading to recognised qualifications, which meet business need, enhance or develop job performance and/or contribute to future role requirements.
- The Executive Management Team has benefited from specific training to develop its capacity.
- The Council has been awarded the Investors in People Standard by demonstrating its commitment to improving business performance through its most valuable asset – its people. This award reflects the very strong ethos of providing development and personal support for staff, a good work – life balance, open and approachable managers, excellent career and professional development, high levels of service to residents, a sound appraisal process and staff involvement in the planning process.

Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability.

- The terms of reference for the Scrutiny and Overview Committee include consideration and implementation of mechanisms to encourage and enhance community participation in the development of policy options. Stakeholders are invited to attend meetings and contribute to the Committee's work programmes including co-option onto panels where appropriate. Some meetings are taken out to the community to encourage participation.
- During 2009/10 the Scrutiny and overview Committee established two task and finish groups covering finance and children and young people. Evidence for these groups was provided through a focus group of residents with an interest in finance and 3 members of the Committee interviewing children and young people in schools and youth clubs.

- A timetable for scrutiny programme planning is used that sets out deadlines and an annual Scrutiny and Overview Committee report is produced to the Council. The website includes information on scrutiny and a hand out is provided to residents who attend Scrutiny meetings.
- All Council, Committee, Cabinet and Portfolio meetings are held in an open environment. The right to attend and speak at meetings is enshrined within the Constitution and guidance regarding public speaking is made available on the website. The Council's Planning Committee meetings include the opportunity for public speaking by applicants and objectors in accordance with a protocol.
- Stakeholder forums have been set up for development control and building control agents and environmental health.
- All agendas and minutes of meetings are on the website together with a forward plan and record of decisions made.
- The Council's website contains information on all Council services and provides for feedback to be given. A recent development is the inclusion of a 'Get involved' section.
- The Community Engagement Strategy to meet the new duty to involve (as set out in the Local Government and Public Involvement in Health Act 2007) was implemented in 2009.
- The South Cambs magazine is published four times a year and delivered to every household in the district, updating residents on council news and encouraging residents to ask questions at meetings of Cabinet and Council.
- Briefings are held with the local media on average 6 times a year to enhance communications and maximise coverage on service issues.
- The Council continues to ensure that all communications with the public are accessible to all by providing translation, large print, standard phrase descriptions and Braille.
- The Council's Local Strategic Partnership provides a framework for addressing the social and economic concerns of people in South Cambridgeshire through partnership working. It has been agreed that the LSP will merge with Cambridge City.
- During 2009/10 specific developments include a Gypsy and Traveller Community Strategy, a Community Transport Plan to engage those in rural areas and a comprehensive Equalities Policy. A Youth Participation Strategy is being consulted on.
- Liaison with Parish Councils has been improved by the introduction of 6 monthly meetings and quarterly parish planning meetings.
- The Corporate Plan published annually includes a review of performance during the last year and plans for the following year. Performance and value for money

information is provided in the Council Tax leaflet which has been enhanced and improved.

4. REVIEW OF EFFECTIVENESS

South Cambridgeshire District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

This review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates, including the Audit Commission through the CGI; CPA; Use of Resources and Direction of Travel statements.

The following actions and processes have been applied in maintaining and reviewing the effectiveness of the governance framework over the last twelve months:

The Council and its Senior Management Team have developed and implemented a number of policies and corporate documents as well carrying out a number of actions, as follows: -

- The Corporate Plan 2009/10 was agreed setting out the priorities for the year and how these will be delivered.
- The Council's Constitution has been reviewed throughout the year to reflect key changes in policy.
- The Partnership Toolkit was reviewed and refined to ensure all partnership arrangements have been assessed and have adequate governance arrangements in place in order to meet the Council's objectives.
- The Medium Term Financial Strategy has been reviewed and updated and is embedded in the business planning process.
- Under the harder Use of Resources test for 2009 the Council achieved a score of level 2 confirming that it is performing adequately.
- The Capital Strategy has been further developed to maximise the contribution of the capital programme towards the achievement of the Council's corporate objectives.
- The corporate management structure has been reviewed and an Executive Director (Corporate Services) appointed with S151 responsibility.
- Work has been ongoing to embed the Council's values throughout the authority.
- The stock transfer ballot held in May/June 2009 resulted in the Council being retained as landlord.
- The Council's risk management strategy has been reviewed.
- Liaison with Parish Councils has been improved by the introduction of 6 monthly meetings and parish planning meetings held every 3 months.
- A Gypsy and Traveller Community Strategy has been adopted and a Gypsy and Traveller Development Plan document consulted on.

The Corporate Governance Committee:

- Monitored performance of the Internal Audit function through quarterly reports
- Approved the Internal Audit Strategic Plan
- Reviewed the Assurance Framework and Annual Governance Statement
- Reviewed the Local Strategic Partnership - Governance Arrangements – this was done by Cabinet.
- Reviewed the Strategic Risk Register on a quarterly basis and approved a revised Risk Management Strategy.
- Approved the Statement of Accounts for 2008/2009
- Reviewed the Comprehensive Area Assessment and Use of Resources updates

The Scrutiny and Overview Committee:

- Completed work and made recommendations to Cabinet from two task and finish groups looking at financial improvements and meeting the needs of children and young people.
- Reviewed the work of the Crime and Disorder Partnership, the Health Service and the Local Strategic Partnership.
- Scrutinised the case for providing the revenue and benefits service in partnership with Uttlesford District Council.
- Provided robust scrutiny and challenge on the financial outturn for 2008/09, the budget for 2010/11 and the medium term financial strategy.
- Examined the Council's process for determining those planning applications that are delegated to officers which resulted in the development of a revised procedure.
- Considered the implications of retaining the housing stock and challenged the methodology used for the stock condition survey.
- Monitored the progress against the action plan for supporting businesses through the economic downturn.
- Provided challenge in the Council's process of self-evaluation against the Equalities Standard for Local Government.
- Examined other issues including the Performance Improvement Strategy, Choice Based Lettings, the Corporate Plan and the draft Youth Participation Strategy.
- Provided scrutiny monitors to attend each portfolio holders' meetings acting as a bridge between Scrutiny and the Cabinet.
- Carried out training with a trainer from the Improvement and Development Agency (IDEA) to refresh monitor skills and share good practice.
- The call-in procedure was used twice during 2009/10 the first to examine a decision regarding the security of councillors' email accounts and the second relating to the decision-making process around the merger of the revenues and benefits service
- Reviewed the continuation of holding meetings at 'off-site' venues as a result of feedback and attendance figures. It was decided to continue with some off-site meetings depending on the agenda.

The Standards Committee:

- Arranged for representatives to attend the 2009 Annual Assembly of Standards Committee
- Considered allegations of breaches of the Code of Conduct at meetings of the Assessment and Review Panels
- Monitored the handling of complaints through quarterly reports from its Assessment, Review and Hearings Panels
- Received updates on references made to Standards Board for England (SBE) and reports of Local Investigations
- Agreed a Standards Committee work programme
- Established links with Corporate Governance Committee and the Chief Executive, leader and group leaders to promote the work of the committee across the council
- Submitted quarterly reports to Standards Board for England
- Monitored the Operation of the Code of Conduct
- Provided advice and training to District and Parish Councillors in relation to the Code of Conduct
- Monitored the operation of the Council's Whistle-blowing Policy
- Established a Parish Liaison Working Group and issued hard copies of the Parish Council Governance Toolkit designed to help ensure good governance for town and parish councils. This was accompanied by the Standards Committee's own meeting preparation checklist for parish councils.
- Published 3 newsletters distributed to parish councils, district councillors and available on the Standards Committee website to raise the Committee's profile locally and provide guidance on the Code of Conduct.
- Articles about the Standards Committee have appeared in each quarterly issue of the South Cambs magazine.
- Held a seminar for officers to explain the role of the Committee and the procedure to follow if an officer made a complaint about a breach of the Code of Conduct.
- Organised training for parish councils in conjunction with the Cambridgeshire and Peterborough Association of Local Councils.
- Held workshops and training sessions for committee members before or after each regularly scheduled meeting.
- Recommended to Council changes to the Members' Allowances Scheme in respect of the effect on allowances of suspension or partial suspension.
- Received national recognition in the Standards for England annual review of 2008/09 and short-listed for the Local Government Chronicle Awards in the Standards and Ethics category.

External Audit and Audit Commission's comments:

- The Council has achieved scores of 2 out of 4 on both use of resources and managing performance.
- The Council's direction of travel is positive.
- The Council's Statement of Accounts 2008/09 received an unqualified opinion from External Audit.
- The Council's was given an unqualified value for money conclusion for 2008/09.
- The Council's internal control environment during 2008/09 was deemed to be adequate.

The Council's Assurance Framework:

The assurance framework is underpinned by the following processes and policies:

- Corporate objectives and priority setting
- Service planning process
- Annual budget and budgetary control process
- Performance management framework
- Self assessment against the local code of governance
- Risk Management Strategy
- Anti Theft, Fraud and Corruption Policy
- Whistleblowing Policy
- Codes of Conduct / Ethical Standards
- Financial Regulations and Contract Regulations
- Partnership protocols
- Constitution
- Data Quality Strategy

The framework is also informed by the views of Internal and External Audit and other review agencies.

Internal Audit:

- The internal audit provision is managed, independently, by the Audit Partner and operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006.
- The Audit Plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management.
- Regular meetings between the internal and external auditor and review of the internal audit work by external audit ensure that duplication of effort is avoided.
- All Audit reports include an audit opinion on the adequacy of internal control; direction of travel and prioritised action plans to address any areas requiring improvement. Audit reports are submitted to the Chief Executive, Executive Director and Corporate Managers as appropriate; the Corporate Governance Committee receives regular updates on progress of the plan and full reports on request.

Internal Audit Opinion

The Internal Audit Opinion for 2009/19 is as follows:

"We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of South Cambridgeshire District Council's arrangements.

In our opinion, based on the work we have undertaken, for the 12 months ended 31 March 2010 South Cambridgeshire District Council has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives."

Internal Audit reviewed the Council's risk management policy, Risk Register and the embedding of Risk Management and undertook a review of the Council's risk maturity and concluded that the Council is a "Risk Managed" organisation. This, the second-

highest level achievable, is defined as the council having an “enterprise-wide risk management approach considering risk at highest level but could be further embedded in decision making”.

Only one audit, the ICT Review, had a “Limited Assurance” opinion. The Council has already put steps in place to address the findings of this Audit and this action should be completed by the end of July 2010.

5. IMPROVEMENTS DURING THE YEAR

This table highlights the progress made on the sole issue that was identified in the 2008/09 review as significant:

2008/2009 Recommendation	Progress in 2009/2010
1) Following on from recommendation 4 from 07/08 the Council to ensure that CORVU use is implemented successfully.	The CORVU system has been implemented and is providing ongoing information for the monitoring of performance. Developments are ongoing to ensure that the system is used to its full capacity. Training has been provided.

6. SIGNIFICANT GOVERNANCE ISSUES

No issues which may be regarded as significant were identified during 2009/10 as a result of the review of arrangements and by the work of external and internal audit .

Although not classed as significant, the following issues have been identified as meriting attention to further strengthen effective corporate governance:

2009/2010 Recommendation	Action Planned for 2010/2011
1) Continue to develop the CORVU system to ensure that it is used to full capacity.	<i>CorVu system is being well used throughout the authority, however a post-implementation action plan will be put in place in 2010/11 to ensure that it is easy to use and relevant, that is being used to its full capacity and to further develop the system</i>
2) Ensure full integration between financial and performance monitoring.	<i>Good progress has been made in 2009/10 with the integrated business monitoring reports starting to make links between finance and performance when necessary. This development will continue into 2010/11 with links being highlighted where appropriate to enable policy decisions to be made.</i>

<p>3) Develop procedures to share and receive quality information in respect of partnerships and provide more systematic reporting.</p>	<p><i>It will be ensured that elected members are briefed to update cabinet meetings on key partnerships. Important information from key partnerships will also be included in CCS e-newsletter outlined in 4 below.</i></p>
<p>4) Ensure that the system of learning from complaints is implemented and information disseminated throughout the organisation.</p>	<p><i>As number 2, good progress has been made in 2009/10 but it is accepted that further development is needed. Use of the learning forms will be enhanced and learning will be made a separate section on the quarterly reports. Community and Customer Services will circulate regular e-newsletters outlining with learning from complaints, consultations etc to the rest of the organisation.</i></p>

These improvements are planned to strengthen effective corporate governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Council's Corporate Governance Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

Signed

Date:
Greg Harlock
Chief Executive

Date:
Councillor Ray Manning
Leader of the Council

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Corporate Governance Committee 31 March 2010
AUTHOR/S: Executive Director (Corporate Services) / Finance Project Officer

REVIEW OF RISK MANAGEMENT STRATEGY**Purpose**

1. The purpose of this report is for Corporate Governance Committee to conduct the annual review of the Council's risk management strategy and process and agree any changes considered necessary.

Background

2. The Council's Risk Management Strategy was first adopted in January 2004 and updated in September 2007 and again in September 2008; this last, to take into account the Use of Resources Key Line of Enquiry (KLOE) regarding risk management, the CIPFA Better Governance Forum's "Risk Management Guidance for Elected/Board Members" and recommendations from an internal audit review of risk maturity.
3. This review of the Risk Management Strategy was deferred from September 2009 so that recommendations resulting from internal audit's risk maturity update could be taken into account. At its meeting on 9 February 2010, Corporate Governance Committee approved interim changes regarding risk management executive and governance roles and the risk management process, which addressed some of internal audit's recommendations.
4. Associated with this, the Corporate Manager (Community & Customer Services) is reviewing the process for identifying important corporate projects and ensuring that proper project and risk management procedures are in place for each one, including effective and consistent management reporting at key stages. It is intended that project risk management procedures will be aligned with the updated Risk Management Strategy in a revised Project Management Toolkit.
5. The Audit Commission identified as an 'Area for improvement' in the Use of Resources assessment, "Risk registers are becoming more important in the operational and strategic management of the Council." Discussions have been held with the Policy and Performance team and a consultant to get risk registers set up in CorVu.

Considerations

6. Corporate Governance Committee has regularly challenged items included in the strategic risk register or assessments of their impact and/or likelihood, and also suggested other risks for consideration.
7. A review of the risks identified and assessed over the past 18 months has revealed that several strategic risks have been successfully managed, indicating that the Council's risk management strategy and process is effective:
 - (a) The improvement agenda;

- (b) CGI actions;
- (c) Managing the delivery of political priorities;
- (d) Better Regulation Agenda;
- (e) Pandemic 'flu;
- (f) EU Services Directive.

In addition, impact and likelihood assessments of two other strategic risks have been reduced: Embedding values; and Equalities.

8. The Risk Management Strategy has been updated for the changes approved at the interim review and those proposed to address the remaining internal audit recommendations. **Appendix A** attached sets out all the recommendations resulting from internal audit's risk maturity update, together with management responses, actions taken and updates proposed to the risk management strategy. The resulting proposed revised Risk Management Strategy is attached at **Appendix B**.
9. It should be noted that, although the proposed revised Risk Management Strategy reflects the reallocation of the Member "executive" risk management role to the Northstowe Portfolio Holder, Corporate Governance Committee will continue to review and approve the strategic risk register until the Council has agreed the related amendment to the Constitution.

Options

10. Corporate Governance Committee could approve the changes proposed to address the remaining internal audit recommendations and the resulting proposed revised Risk Management Strategy. (***This is the recommended option.***) Alternatively, Corporate Governance Committee could suggest other improvements or enhancements to the Risk Management Strategy, risk management process or document formats.

Implications

11. Financial, Legal, Staffing	There are no immediate financial, legal or staffing implications resulting from this report.
Risk Management	The updated strategy will ensure the authority has an effective risk management process, reflecting the authority's political arrangements and management structure and the Council's Aims, and providing appropriate ownership and assurance.
Equal Opportunities	The Council's Risk Management Strategy and process has no inherent equal opportunities implications.

Consultations

12. The review of the Council's Risk Management Strategy has taken into account aspects of risk management best practice and recommendations from the internal audit risk maturity update.
13. At its meeting on 24 February 2010, SMT recommended the changes proposed in the revised Risk Management Strategy to the Corporate Governance Committee.
14. The Northstowe Portfolio Holder was informed of and invited to comment on the proposed revised Risk Management Strategy, as a result of which the following changes are suggested to the Risk Management Strategy:
 - (a) in paragraph 9.2.1 and the "Notes" section of the chart in section 10, add the Northstowe Portfolio Holder to the Chairman of the Corporate Governance

Committee and the Environmental Services Portfolio Holder as the Members who decide on risk management training for Members, reflecting the reallocation of the Member executive risk management role.

- (b) give the previous paragraph 10.2 more prominence by bringing it before the chart as paragraph 10.1 and add new paragraph 10.2 about early warning that something might go wrong, encouraging openness and avoiding a blame culture.

Effect on Strategic Aims

15.	<p>Commitment to being a listening council, providing first class services accessible to all.</p> <p>The proposals in this report contribute to the Council's corporate governance responsibilities; they also ensure that strategic risks involved in the delivery of the Council's services and meeting the Council's Aims are identified and managed.</p> <p>Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.</p>
	<p>Commitment to making South Cambridgeshire a place in which residents can feel proud to live.</p>
	<p>Commitment to assisting provision for local jobs for all.</p>
	<p>Commitment to providing a voice for rural life.</p>

Conclusions/Summary

- 16. The Corporate Governance Committee has exercised its responsibility for risk management effectively, including annual review of the risk management strategy and process and quarterly review and approval of the strategic risk register and associated action plans.
- 17. The Council's Risk Management Strategy was comprehensively revised in September 2007 and further updated in September 2008.
- 18. SMT received an interim report on 9 December 2009, regarding proposed changes to risk management executive and governance roles and to the risk management process (which addressed some of internal audit's recommendations). Corporate Governance Committee approved the changes (with a further enhancement to the governance role) at its meeting on 9 February 2010.
- 19. This report proposes changes to address the remaining internal audit recommendations and provides a proposed revised Risk Management Strategy that takes these, other suggestions and the changes approved at the interim review into account.

Recommendation:

- 20. That the revised Risk Management Strategy, as set out at Appendix B, be approved.

Background Papers: the following background papers were used in the preparation of this report:

RSM Bentley Jennison Risk Maturity Update

Contact Officer: John Garnham – Finance Project Officer

Telephone: (01954) 713101

Appendix A

Recommendations resulting from the Internal Audit risk maturity update regarding the Risk Management Strategy

Ref	Recommendation	Categorisation	Management response, Implementation date, Manager responsible	Action taken	Update to risk management strategy
1a	Identify and record mitigating controls for all risks identified.	Significant	<p>We accept that identifying and recording mitigating controls for all risks may be good practice, but there is a need to apply a reasonableness test.</p> <p>The Finance Project Officer (FPO) will ensure that mitigating controls are identified and recorded for all risks assessed above the tolerance line: in action plans (strategic risk register) or service plans (service area risk registers).</p> <p>31 December 2009 Finance Project Officer (FPO)</p>	<p>The risk register format was revised in February 2010 to include control measures.</p> <p>Control measures will be included for risks “above the line” in the first instance. Control measures for risks “below the line” will be included in later versions of risk registers, on a prioritised basis.</p>	The revised risk register format has been incorporated in the updated risk management strategy. (Annex C)

Ref	Recommendation	Categorisation	Management response, Implementation date, Manager responsible	Action taken	Update to risk management strategy
1b	Ensure that actions to mitigate service risks are recorded and monitored and that specific key dates are included in all action plans.	Merits Attention	<p>Guidance to corporate and service managers on risk management and service planning has been updated to emphasise this.</p> <p>The FPO will remind corporate and service managers to include key dates where possible; however, it is not always possible to be specific.</p> <p>30 September 2009 FPO</p>	An email was sent to all corporate managers in September 2009 reminding them of this.	The updated risk management strategy requires service managers to include control measures to address risks (paragraphs 5.2.2 and 7.3)
1c	Ensure that risks in service plans are consistent with the risk registers.	Merits Attention	<p>Guidance to corporate and service managers on risk management and service planning has been updated to emphasise this.</p> <p>30 September 2009 FPO</p> <p>The FPO will liaise with corporate and service managers to facilitate this.</p> <p>31 December 2009 (first draft) 31 March 2010 (final version) FPO</p>	An email was sent to all corporate managers in September 2009 reminding them of this.	Service area risks above the line will be noted in the Overview section of service plans. (paragraph 8.5.2)

Ref	Recommendation	Categorisation	Management response, Implementation date, Manager responsible	Action taken	Update to risk management strategy
2a	Ensure that service risk registers are reported to EMT at least annually.	Merits Attention	The FPO has suggested a forward plan to the Executive Director (Operational Services) to facilitate this. 30 September 2009 FPO	An email was sent to the Executive Director (Operational Services) in August 2009; updated in December 2009.	N/a (but paragraph 8.5.2 refers)
2b	Ensure that the risk registers on the intranet are updated to reflect the latest versions.	Merits Attention	The FPO will forward updated versions of risk registers to the Web Services Officer for uploading to the intranet. 30 September 2009 FPO	An email was sent to the Web Services Officer in September 2009.	(paragraph 9.1.2)

Ref	Recommendation	Categorisation	Management response, Implementation date, Manager responsible	Action taken	Update to risk management strategy
4	Consider use of numeric scores for impact so that a combined score can be produced for each risk i.e. impact x likelihood which will clarify the prioritisation of risks.	Merits Attention	<p>The numeric only assessment for report writers was to help them know what to do when risks being mentioned in reports are above the tolerance line. Managers are familiar with the alpha-numeric references in risk registers and the risk management strategy specifies how risks are prioritised.</p> <p>However, the use of numeric only scores will be considered when the risk management strategy is reviewed.</p> <p>31 March 2010 FPO</p>	<p>The revised risk register format incorporates a double-numeric assessment.</p> <p>This will be applied to risk registers from March 2010 onwards.</p>	The double-numeric assessment has been incorporated in risk management strategy. (Annexes D, E and F; paragraphs 6.1.1 and 6.2.1)

Ref	Recommendation	Categorisation	Management response, Implementation date, Manager responsible	Action taken	Update to risk management strategy
5	Reconsider the use of inherent and residual risk assessment.	Significant	<p>The possible use of inherent and residual risk was considered when the Council first implemented its risk management strategy in January 2004 and discounted at that stage as not adding any value to the Council in the management of risks and possibly causing confusion.</p> <p>Other district councils locally and the County Council do not appear to use inherent and residual risks. The Council's risk management consultants have consistently advised that using inherent and residual risk would be too detailed for the Council's needs.</p> <p>The Executive Director (Corporate Services) has also concurred with that view, having made his own assessment.</p> <p>We remain to be convinced that the extra work involved in identifying and then maintaining a process of</p>	N/a	N/a

Ref	Recommendation	Categorisation	Management response, Implementation date, Manager responsible	Action taken	Update to risk management strategy
			inherent and residual risks would benefit the Council.		
7	Ensure that all risk registers are cross referenced to the Council's Aims, Approaches and Actions framework.	Merits Attention	The FPO will remind risk owners and corporate managers to do this. 30 September 2009 FPO	An email was sent to all corporate managers in September 2009 reminding them of this.	N/a (but paragraph 5.2.1 refers)
11	Service risk registers should be monitored and reviewed at team meetings on a quarterly basis and feedback from these reviews provided to the FPO for comment and report to EMT as necessary.	Merits Attention	The FPO will remind corporate managers to do this. 30 September 2009 FPO	An email was sent to all corporate managers in September 2009 reminding them of this.	N/a (but paragraphs 8.1.1 and 8.5.2 refer)
14	Cross reference between the strategic and service risk registers and ensure that risk descriptions are consistent where relevant.	Merits Attention	The FPO will facilitate cross-referencing between the strategic and service area risk registers. Risk descriptions may not always be consistent between the strategic and service area risk registers, e.g. where a risk has a particular effect in a service area. 31 December 2009 FPO	Review of the strategic risk register identified only one risk that was also recorded on a service area risk register; the others were of such a corporate nature that they were not also recorded in service area risk registers. It is therefore suggested that no further action be taken with regard to this recommendation.	N/a

Ref	Recommendation	Categorisation	Management response, Implementation date, Manager responsible	Action taken	Update to risk management strategy
15	Following the inclusion of mitigating controls (see recommendation 1) sources of assurance should also be recorded.	Significant	As part of the refresh of the risk management strategy, the action plan template and its use will be reviewed to ensure that it provides the required assurance. 31 March 2010 FPO	The inclusion of “additional control measures” for a risk would suggest that the control measures in place were not considered wholly adequate. By inference, therefore, if no additional control measures are recorded, this would indicate that the control measures in place are judged to be adequate.	N/a
16	Ensure that risks identified in reports are included in risk registers in accordance with the strategy.	Merits Attention	New arrangements are being trialled for ‘signing off’ Cabinet reports. The FPO will use this to assess what guidance and training report writers need to ensure best use of the risk management implications section of reports and that risks assessed above the tolerance line are reported as necessary. 31 December 2009 FPO	The trial is due to continue to the May 2010 Cabinet meeting. However, it does appear that the risk management implications section needs reviewing and training given. FPO to discuss with Executive Director (Corporate Services) by 31 March 2010.	N/a (but paragraph 8.5.6 refers)

Ref	Recommendation	Categorisation	Management response, Implementation date, Manager responsible	Action taken	Update to risk management strategy
20	Consider the introduction of acceptance software for staff to acknowledge their risk management responsibilities.	Merits Attention	Acceptance software was already being considered by HR; however, its introduction would depend upon: (a) a budget being identified to incur the expenditure against; (b) staff in HR and ICT having the capacity to implement it. 31 March 2010 HR Manager	No budget is available.	N/a

Appendix B

Proposed updated Risk Management Strategy



Risk Management Strategy

Contents

1.	Purpose.....	1
2.	Objectives.....	1
3.	Guiding principles.....	1
4.	Approach to risk management	2
5.	Identifying and recording risks.....	2
6.	Assessing and prioritising risks	3
7.	Managing risks.....	4
8.	Reviewing and reporting risks	5
9.	Communication and learning.....	7
10.	Organisational arrangements	8
Annex A	The scope of risk; areas to cover	
Annex B	Some of the risks to consider when making strategic decisions	
Annex C	Strategic Risk Register template	
Annex D	Likelihood Assessment guidelines	
Annex E	Impact Assessment guidelines	
Annex F	Prioritisation matrix template	

1. Purpose

- 1.1 South Cambridgeshire District Council's primary role is to make South Cambridgeshire a safe and healthy place where residents are proud to live and where there will be opportunities for employment, enterprise and world-leading innovation, and to be a listening Council, providing a voice for rural life and first-class services accessible to all.
- 1.2 The Council has an obligation to minimise risks involved in providing or enabling service delivery. This strategy is a key part of strategic planning and an integral part of service planning and performance management. It sets out the arrangements for the identification, assessment, management and review of risks that may adversely affect the Council's services or the achievement of its aims and objectives.

2. Objectives

- 2.1 The Council's concern is to manage risk effectively, eliminating or controlling risk to an acceptable level. This is done by identification, assessment and management of potential risks, rather than reaction and remedy to past events.
- 2.2 The objectives of the strategy are to:
- (a) Integrate risk management into the culture of the Council, including a process to identify and report upon existing and emerging risks to the Council.
 - (b) Anticipate and respond to changing social, environmental, legislative, etc requirements.
 - (c) Manage risks in accordance with best practice, so that they are eliminated or controlled to an acceptable level.
 - (d) Raise awareness of the need for risk management by managers responsible for the Council's delivery of services.
 - (e) Improve the delivery of Council services and enhance the Council's reputation and public image.
- 2.3 It will not always be feasible completely to eliminate risk. Indeed, calculated risk-taking may be required in certain circumstances to achieve innovative or creative solutions that will help to improve services to customers. However, reckless or unplanned risk-taking would never be acceptable.

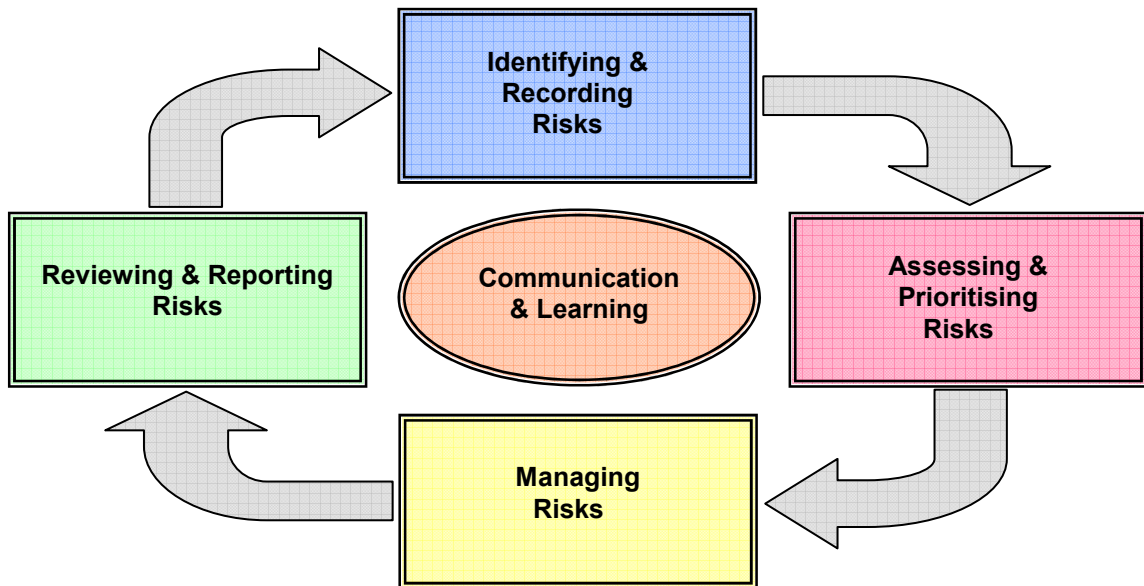
3. Guiding principles

- 3.1 To fulfil its risk management objectives, the Council will:
- (a) Develop a culture that involves the participation of all appropriate staff in risk management.
 - (b) Secure the commitment of Members and management at all levels to promote risk management and provide leadership and direction:
 - the executive role - agreement and ownership of the Council's strategic risk register, i.e. the strategic risks facing the Council - will be led by the Northstowe Portfolio Holder;
 - the governance role - advice and assurance regarding the adequacy and effectiveness of the Council's risk management strategy and process - will be undertaken by the Corporate Governance Committee.
 - (c) Adopt agreed standards of risk management that are monitored at corporate and service level and ensure that further action is taken where necessary.
 - (d) Ensure that regular identification, assessment and management of significant risks is integral to all corporate and service planning.

- (e) Ensure that effective processes are in place to facilitate prompt remedial action on adverse events and their identification and reporting and to enable near misses to inform future action.
- (f) Have effective communication to make sure everyone is sufficiently informed about risk management.
- (g) Provide information, training, guidance and advice, as appropriate, to meet these objectives.

4. Approach to risk management

4.1 The Council employs a simple four step process to manage its risks:



4.2 These steps are outlined in the sections below.

4.3 In accordance with best practice, risk management at the Council incorporates the identification and management of strategic risks, service area risks, project risks and partnership risks. The process is thus embedded throughout the Council.

5. Identifying and recording risks

5.1 *Identifying risks*

5.1.1 A risk is an event that may occur, which will have an impact on the Council's services, or the achievement of its objectives and priorities. This strategy requires the Council to identify strategic, service area (i.e. operational), project and partnership risks.

5.1.2 Types of risks are outlined in the diagram at **Annex A**. While not exhaustive, the diagram provides a starting point for identifying potential risks, including reputational risks, at both strategic and service area levels, as well as for projects and partnerships.

5.1.3 Further illustrations of some of the risks that should be considered when taking strategic decisions are suggested in **Annex B** (again, the categories are neither prescriptive nor exhaustive).

5.2 **Recording risks**

5.2.1 Identified risks will be recorded in the relevant strategic or service area risk register, project or partnership risk register. The strategic risk register template is attached at **Annex C**. The strategic risk register will identify the top risks facing the Council from a corporate perspective and will note for each risk identified:

- relevant Council Aims, Approaches and/or Actions;
- Control measures already in place to address the risk;
- the assessed Impact and Likelihood scores and resulting Total scores (see 6.1.1 below);
- the Direction of Travel of the risk (i.e. whether the Impact and Likelihood assessments have stayed the same, reduced or increased);
- the person nominated as the responsible “Risk Owner”;
- the Review Frequency, i.e. the frequency at which the control measures are being reviewed;
- Additional control measures considered necessary to manage the risk;
- Additional resources/cost required to manage the risk;
- any Adjusted risk score resulting from re-evaluation of the Impact and Likelihood taking the additional control measures into account;
- for risks assessed ‘above the line’, the Timeline (to progress), i.e. the Month/Year by which it is planned that the risk will be mitigated to below the line.

A dotted line shows the Council’s risk tolerance line (see 6.2.2 below).

5.2.2 Service area risk registers will use the same format.

5.2.3 The Council will require projects (see section 8.2 below) to use the standard risk register format set out in this strategy. The Project Management Toolkit will be updated to reflect this and guidance will be made available within the Toolkit.

5.2.4 The Council will encourage partnerships (see section 8.3 below) to use the standard risk register format set out in this strategy; however, the Council acknowledges that a partnership may choose to use another format appropriate to its needs. If a partnership chooses not to use the standard format, the Council’s lead officer for that partnership should liaise with the Finance Project Officer (FPO) for guidance on how to structure the risk register/log. Guidance will also be made available in the Partnership Toolkit.

6. **Assessing and prioritising risks**

6.1 **Assessing risks**

6.1.1 Each of the identified risks, at both strategic and service area levels and for projects and partnerships, will be assessed in terms of the likelihood of the risk occurring and the potential impact of it materialising, according to the guidelines in **Annex D** and **Annex E**, respectively.

6.2 **Prioritising risks**

6.2.1 A matrix of these assessments will be used to prioritise risks (see **Annex F**), enabling the Council to make decisions about their significance and prioritise action. The numbers in the matrix boxes represent Total risk scores, obtained by multiplying the Impact score by the Likelihood score. The Total risk scores indicate the order of priority of assessed risks. The strategic risk register will be re-scheduled in line with the order resulting from the prioritisation matrix. (Where the same Total risk score

can be obtained in more than one area of the matrix, the Impact score will take priority over the Likelihood score.)

6.2.2 The dotted line running through the matrix shows the Council's risk tolerance line, between the level of risk the Council is prepared to accept without putting in place additional control measures and the level at which risks are considered to require further action.

6.2.3 The Council's risk appetite is defined thus: "The Council will ensure that all risks identified are appropriately managed; however, it will require further attention to be given to:

- risks having an Extreme or High impact, with a likelihood of Possible or higher; and
- risks having a Medium impact, with a likelihood of Likely or higher."

6.2.4 Those assessed risks that fall 'above the line' are considered to require further action to reduce either the likelihood of the risk occurring or its impact if and when it does occur; additional control measures will be identified and recorded for these risks (see 7.1 below).

7. Managing risks

7.1 Risks above the risk tolerance line (i.e. with a Total risk score of 12 or higher) require additional control measures to be put in place to manage them, i.e.:

- active management (including considering terminating the activity or project);
- contingency plans – robust plans in place to detect any variation from expectations; and/or
- mitigation to reduce likelihood (if cost effective).

7.2 At the strategic level, risk owners (i.e. the officers named in the strategic risk register) will work with the FPO to develop and implement additional control measures for managing risks assessed above the risk tolerance line. Where additional control measures affect other Aims, Approaches and/or Actions, services, projects or partnerships, require additional resources or will incur additional costs, risk owners will discuss these with the managers/officers concerned.

7.3 At the service area level, service managers will develop and implement additional control measures for managing risks assessed above the risk tolerance line. Where additional control measures affect other Aims, Approaches and/or Actions, services, projects or partnerships, require additional resources or will incur additional costs, service managers will discuss these with the managers/officers concerned.

7.4 Project and partnership risks will be managed in accordance with their governance arrangements.

7.5 Risks below the risk tolerance line (i.e. with a Total risk score of 10 or lower) will be reassessed quarterly to ensure there is no change to the underlying risk or control measures.

8. Reviewing and reporting risks

8.1 Reviewing risks

- 8.1.1 Risks are reviewed utilising existing service planning, project management, partnership, Executive Management Team (EMT), Northstowe Portfolio Holder and Corporate Governance Committee meetings:
- EMT will review the strategic risk register quarterly, including consideration of the impact and likelihood assessments and the control measures in place to address risks.
 - The Northstowe Portfolio Holder will similarly review the strategic risk register quarterly.
 - Corporate Governance Committee will receive quarterly, the strategic risk register, covering reports and other associated documents as presented to the Northstowe Portfolio Holder, together with the minutes of the portfolio holder meetings, to monitor that the strategic risk register has been properly considered by the portfolio holder.
 - Service managers will review service area risk registers as part of the annual preparation of service plans and at quarterly intervals.
 - Corporate managers may collate their service areas' risk registers, to give a comprehensive set of risks coming under their responsibility and to enable moderation of impact and likelihood assessments; the FPO would facilitate this. (Risk registers for service areas reporting direct to a chief officer - e.g. the Executive Director (Corporate Services) - may be collated similarly.)
 - Project managers and partnership lead officers will review their risk logs/ registers at frequencies set out in their project or partnership plans.
- 8.1.2 Should significant risks arise between reviews, they will be considered when they are identified, as necessary.

8.2 Project risks

- 8.2.1 Projects, such as those of a corporate or significant service nature, major ICT related projects, etc, are required to have their own risk registers. The format of these will be brought in line with the strategic risk register template. Project managers will review project risk registers in accordance with their project management arrangements.

8.3 Partnership risks

- 8.3.1 This strategy covers the way that the Council manages the risks facing it in the delivery of its services and the achievement of its objectives and priorities. Where these are delivered in partnership with other organisations, the application of this strategy may extend outside the Council's direct control.
- 8.3.2 The Council must therefore identify all the partnerships in which it participates and have an understanding of its involvement and the implications of that involvement in each partnership. Equally, each of the partnerships must have clearly set out objectives and an understanding of the Council's role in the partnership.
- 8.3.3 The Council must review its partnerships to identify those that are most strategic and important for it and the wider community. For these significant partnerships, a two stage approach will be adopted by those managing them:
- (a) Identify and assess, from the Council's perspective, the risks that face the Council from participating in the partnership. This analysis should identify the

controls and contingency plans (including an appropriate exit strategy) that are or should be in place. This will be informed by the extent to which the partnership has effective controls and risk management procedures in place and whether it is able to provide the Council with the relevant assurances in this regard.

- (b) Champion effective risk and performance management procedures within the partnership (including the risk of fraud and corruption), so that the threats to the achievement of the partnership's objectives are properly identified, assessed and managed.

8.3.4 Partnership lead officers will review partnership risk registers in accordance with the partnerships' governance arrangements.

8.4 **Links**

8.4.1 When reviewing the strategic risk register, EMT may cascade a strategic risk to an appropriate service area, project or partnership risk register, so that it can be included in the relevant service manager, project manager or partnership lead officer can take a corporate lead on managing it.

8.4.2 When reviewing their service area risk registers, service managers may escalate a service area risk for EMT to consider including in the strategic risk register, if the risk is significant or has a corporate nature. The FPO may similarly escalate a risk if it, or a similar one, is being recorded in more than one service area risk register.

8.4.3 The strategic risk register may also include project and partnership risks, if these are of a corporate or significant nature. The project/ partnership risk registers will record the detailed risks and control measures relating to the particular project/partnership.

8.4.4 The FPO will facilitate these links. The FPO will also keep a record of the risks included in the strategic risk register and the impact and likelihood assessments of them, so that the priority of identified strategic risks can be tracked over time.

8.5 **Reporting risks**

8.5.1 The FPO will report the draft strategic risk register to EMT quarterly, for review and recommendation to the Northstowe Portfolio Holder. (Corporate Governance Committee will monitor this, as described under 8.1.1 above. Corporate Governance Committee may report to full Council, if the Committee considers it necessary to ensure that strategic risks are appropriately managed.)

8.5.2 Service managers will report service area risk registers alongside service plans to portfolio holders annually for approval; service area risks above the line will be noted in the Overview section of service plans. Service managers will update their service area risk registers and control measures to the FPO quarterly, for EMT to consider in its quarterly review of the strategic risk register. In addition, EMT will review service area risk registers, collated by corporate area/direct reports, on a rolling programme throughout the year.

8.5.3 Project managers and partnership lead officers will report project and partnership risk registers in accordance with their project management/governance arrangements and reporting frequencies. Project managers and partnership lead officers will update their risk registers, including control measures, to the FPO quarterly, for EMT to consider in its quarterly review of the strategic risk register.

- 8.5.4 Updates of risk registers will be provided to the Council's insurance officer, to facilitate discussion of insurance cover and negotiation of any premium discounts or reductions with the Council's insurers.
- 8.5.5 If a risk materialises, it will be reported as follows:
- strategic: a report to the next meeting of EMT by the risk owner, in conjunction with the FPO, outlining the event that occurred, the consequence for the service, objective or priority and the outcome that resulted, together with recommendations for the application of any lessons to be learnt;
 - service area: a similar report to the service manager by the risk owner;
 - EMT or the service manager, as appropriate, will decide how the recommendations regarding lessons to be learnt will be implemented;
 - for project or partnership risks materialising: a similar report by the project manager or partnership lead officer; decisions about how recommendations regarding lessons to be learnt will be implemented will be taken in accordance with the project management or partnership governance arrangements.
- 8.5.6 Reports to Members contain as standard a Risk Management Implications section. Report writers use this section to describe risks associated with the report's proposals, possible consequences, the likelihood and potential impact of the risk occurring. Where the risk is assessed above the Council's tolerance line, report writers also outline the additional actions that will be taken to mitigate the risk and copy the report to the FPO, so that the risk can be incorporated in the strategic risk register and/or relevant service area risk register, project risk log, or partnership risk log/register, as appropriate. Members should be fully briefed on risks identified in the report.
- 8.5.7 Reports to Members also include as standard, Options and Financial Implications sections. Where reports relate to major options appraisal or capital investment decisions, report writers will also review relevant risk registers and logs, to identify any risks that need to be considered in the report.
- 8.5.8 Positive aspects of the matter under consideration will generally be mainly described in the body of the report to Members, alongside the various "Implications" sections (Financial, Legal, Staffing, Equal Opportunities). Report writers can also use the Risk Management Implications section to highlight any positive risks (opportunities) not mentioned elsewhere in the report.
- 8.5.9 The FPO will report to EMT on the risk management strategy and process (including staffing resources) annually, or if there is a material change during the year, for EMT to review the strategy and process and make any recommendations regarding them to Corporate Governance Committee.

9. Communication and learning

9.1 Communication

- 9.1.1 Relevant staff and Members will be given timely guidance and advice relating to their risk management responsibilities, including particular aspects such as review of risk registers.
- 9.1.2 Staff and Members will also be kept informed through a risk management page on In-Site, the Council's intranet, on which the following will be posted:
- the risk management strategy,

- the latest version of the strategic risk register,
- the latest versions of service area risk registers;
- guidance and advice concerning risk management, including assessment criteria for the potential impact and likelihood of risks occurring;
- risk management templates.

9.2 **Learning**

9.2.1 The Council will keep its risk management strategy and processes up to date by learning from a variety of sources:

- keeping up to date with the Audit Commission's Comprehensive Area Assessment (CAA) Use of Resources, Key Lines of Enquiry (KLOEs) assessment criteria, and similar standards;
- applying best practice from other local authorities and organisations, as appropriate;
- ascertaining whether risk management matters identified in one service area also apply elsewhere across the Council;
- providing relevant training for appropriate staff and Members, facilitated by external specialists if necessary. (EMT will decide the training to be provided to staff, following a recommendation by the FPO; the Chairman of the Corporate Governance Committee and the Northstowe Portfolio Holder, and the Environmental Services Portfolio Holder, responsible respectively for risk management and for Member training, will decide the training to be provided to Members, following a recommendation from EMT. A record will be kept of risk management training attended by staff and Members; Corporate Governance Committee will review risk management training and the attendance records quarterly, to ensure that capabilities remain adequate.)
(Note: Funding for external training is currently available under the Council's insurance contract.)

10. **Organisational arrangements**

10.1 All staff, at every level, have a role to play in risk management, since they are often best placed to identify many of the risks faced by the Council. All staff therefore have a responsibility to identify and minimise risk. This includes taking prompt remedial action on adverse events and near misses, when necessary, and the reporting of these. Staff also have a responsibility to follow Council policies and procedures designed to manage risk and maintain a general level of risk awareness.

10.2 The prompt alerting of something going wrong can help prevent a situation from becoming worse. Staff are therefore encouraged to alert their line manager to potential risks at the earliest opportunity, without the fear of blame being attributed as a result. This will enable action to be taken as soon as possible to reduce either the likelihood of the risk occurring or the possible effects of it doing so and also promote a culture of openness, transparency and support.

10.3 The chart on the following pages summarises the Council's arrangements for risk management:

Corporate Governance Committee

The general functions that come under the responsibility of the Committee include:

- To review and advise the Council on the embedding and maintenance of an effective system of corporate governance, risk management and internal control.
- To give assurance to the Council that there is a sufficient and systematic review of the corporate governance, risk management and internal control arrangements within the Council.

With regard to risk management, the Committee:

- Reviews the risk management strategy and process annually, updating them if necessary.
- Monitors the reviews of the strategic risk register by the Northstowe Portfolio Holder quarterly.
- Receives relevant training, as and when appropriate.

The Committee may report to full Council, if considered necessary to ensure that strategic risks are appropriately managed.

Executive

- The Northstowe Portfolio Holder reviews the risk management strategy and process annually, recommending changes to Corporate Governance Committee if necessary.
- The Northstowe Portfolio Holder reviews and approves the strategic risk register quarterly.
- Portfolio holders approve service area risk registers annually, alongside service plans.
- Receives relevant training, as and when appropriate.

The Northstowe Portfolio Holder is the lead Member for risk management.

Notes:

- The Chairman of the Corporate Governance Committee, the Northstowe Portfolio Holder and the Environmental Services Portfolio Holder decide the training to be provided to Members, following a recommendation from EMT.

Executive Management Team (EMT)

- Reviews the risk management strategy and process annually, recommending changes to Corporate Governance Committee if necessary.
- Reviews the strategic risk register quarterly; recommends the strategic risk register to the Northstowe Portfolio Holder.
- May cascade a strategic risk to an appropriate service area risk register.
- Reviews service area risk registers, collated by corporate area/direct reports, on a rolling programme throughout the year.
- Considers reports on strategic risks that occur and decides how lessons learnt will be implemented.
- Promotes and champions risk management.
- Decides training to be provided to staff, following a recommendation from the FPO; recommends training to Corporate Governance Committee.
- The Executive Director (Corporate Services) is the senior manager responsible for risk management.

“Risk owners”

(Note: The “risk owner” is the person nominated as the lead officer responsible for risks identified in risk registers.)

At the strategic level:

- Work with the FPO to develop and implement control measures for managing strategic risks assessed above the tolerance line.
- Report strategic risks materialising, in conjunction with the FPO, to the next meeting of EMT, recommending the application of any lessons to be learnt.

At the service area level:

- Work with the service manager to develop and implement control measures for managing service area risks assessed above the tolerance line.
- Report service area risks materialising to the service manager.

Service managers

- Review service area risk registers alongside service plans annually, reporting these to portfolio holders for approval, and at quarterly intervals.
- Where strategic risks are cascaded to a service area risk register, take a corporate lead on managing the risk.
- May escalate a service area risk for EMT to consider including in the strategic risk register.
- Implement control measures to manage service area risks.
- Update the FPO quarterly regarding service area risk registers and control measures.
- Consider reports on service area risks that occur and decide how lessons learnt will be implemented.
- Have primary responsibility for managing risks in their service areas: since they are best-placed to determine the appropriate actions to minimise risks to their customers, staff, services or budgets.

Project managers

- Review project risk registers at frequencies set out in project plans, reporting these in line with project management arrangements.
- Update the FPO quarterly regarding project risk registers, including control measures.
- Report project risks materialising, in accordance with project management arrangements.

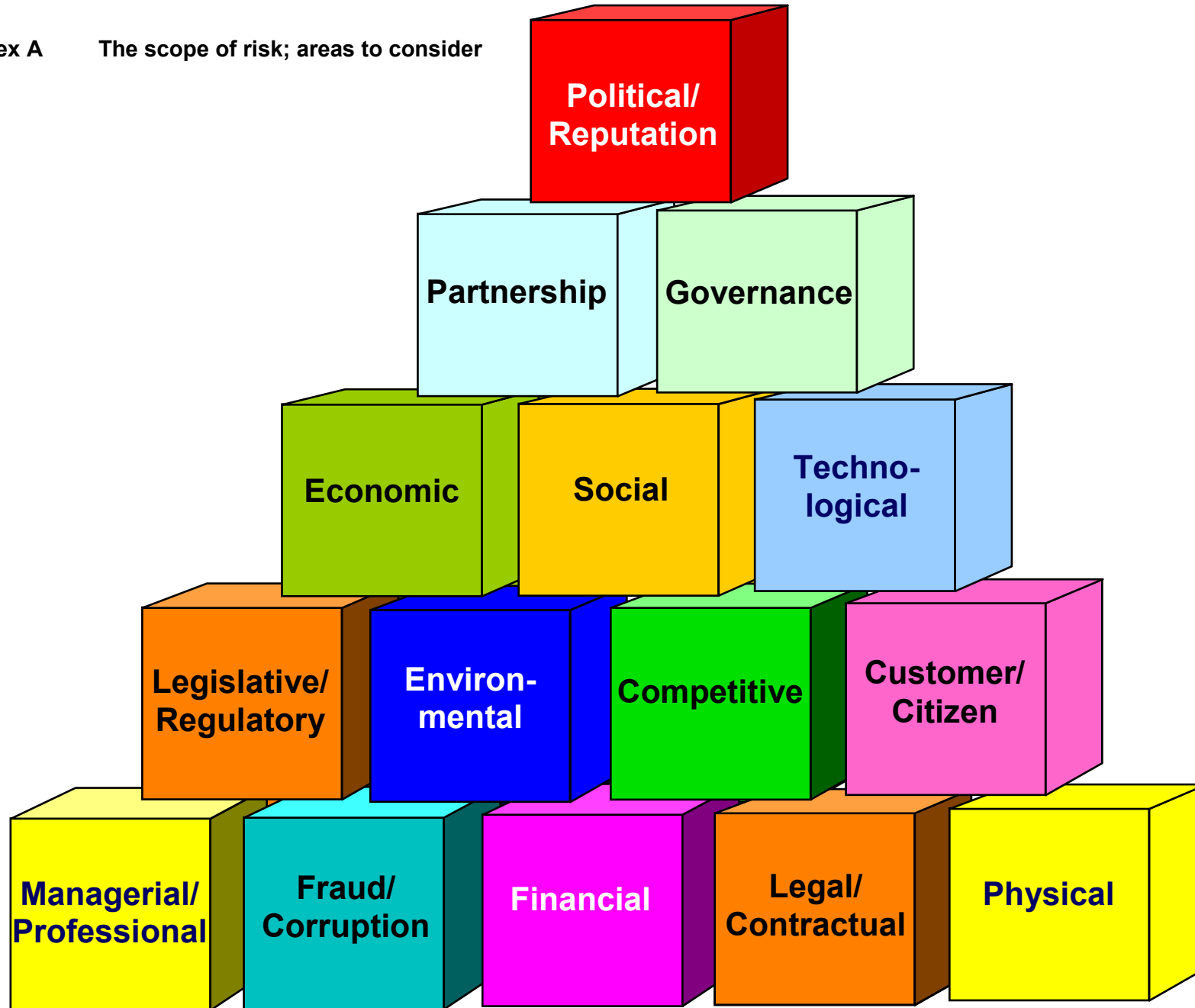
Partnership lead officers

- Review partnership risk registers at frequencies set out in partnership plans, reporting these in line with governance arrangements.
- Update the FPO quarterly regarding partnership risk registers, including control measures.
- Report partnership risks materialising, in accordance with governance arrangements.

Finance Project Officer (FPO)

- Coordinates EMT's annual review of the risk management strategy and the resulting reports to the Corporate Governance Committee.
- Coordinates EMT's quarterly review of the strategic risk register and associated action plans, and the resulting reports to the Northstowe Portfolio Holder.
- Assists nominated risk owners to develop and implement control measures to manage strategic risks assessed above the Council's risk tolerance line.
- Keeps a record tracking the priority of identified strategic risks.
- Assists risk owners to report on strategic risks that occur, together with recommendations regarding any lessons to be learnt.
- Coordinates service managers' reviews of service area risk registers, quarterly.
- Reviews service area risk registers to identify risks of a significant, corporate or common nature.
- Facilitates the collation of service area risk registers for corporate managers.
- Facilitates cascade of strategic risks to relevant service area risk registers and escalation of significant, corporate or common service area risks for EMT to consider including in the strategic risk register.
- Links project and partnership risk registers to the strategic risk register and/or service area risk registers, as appropriate.
- Facilitates inclusion of risks identified in reports to Members, in the appropriate risk register
- Recommends training for staff and Members to EMT.
- Facilitates relevant training, guidance and advice on risk management.
- Communicates risk management matters to staff.

Annex A The scope of risk; areas to consider



Annex B

Some of the risks to consider when making strategic decisions

The following categories are neither prescriptive nor exhaustive, but illustrate some of the risks Members should consider when taking strategic decisions.

Strategic political risks - associated with failure to deliver either local or central government policy, or to meet the Council's commitments. Includes things such as:

- Wrong strategic priorities
- Not meeting the government's agenda
- Decisions based on faulty or incomplete information
- Too slow to innovate/modernise
- Unfulfilled promises to electorate
- Community planning oversights/errors

Strategic economic risks - affecting the ability of the Council to meet its financial commitments. Includes things such as:

- Internal budgetary pressures
- Inadequate insurance cover
- External macro level economic changes (e.g. interest rates, inflation)
- The consequences of proposed investment decisions
- General/regional economic problems
- High cost of capital
- Treasury risk
- Missed business and service opportunities
- Failure to meet efficiency targets

Strategic social risks - relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to deliver its objectives. Includes things such as:

- Failing to meet the needs of a disadvantaged community
- Impact of demographic change
- Failures in partnership working
- Problems in delivering life-long learning
- Crime and disorder

Strategic technological risks—associated with the capacity of the Council to deal with the pace/scale of technological change, or its ability to use technology to address changing demand. They may also include the consequences of internal technological failures on the Council's ability to deliver its objectives. Includes things such as:

- Obsolescence of technology
- Hacking or corruption of data
- Breach of confidentiality
- Failure in communications

Strategic legislative risks - associated with current or potential changes in national or European law. Includes things such as:

- Inadequate response to new legislation

- Intervention by regulatory bodies and inspectorates
- Judicial review
- Human Rights Act, Disability Discrimination Act etc. breaches

Strategic environmental risks - relating to the environmental consequences of progressing the Council's corporate objectives or service priorities (e.g. in terms of energy, efficiency, pollution, recycling, landfill requirements, emissions etc). Includes things such as:

- Noise, contamination and pollution
- Impact of planning and transport policies
- Global warming
- Flood defences

Strategic competitive risks - affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value. Includes things such as:

- Takeover of services by government/agencies
- Failure to show best value and/or value for money
- Failure of bids for government funds

Strategic customer/citizen risks— associated with failure to meet the current and changing needs and expectations of customers and citizens. Includes things such as:

- Lack of appropriate consultation
- Bad public and media relations

Annex C Strategic Risk Register template

Ref.	Title and Description of risk The risk event, <i>leading to</i> consequence for service/ Aim(s)/ Action(s), <i>resulting in</i> possible outcome(s).	3 A's	Control measures in place	Risk score		Direction of travel	Risk owner / Review frequency	Additional control measures	Additional cost resources required	Adjusted risk score (where relevant)		Timeline to progress
				Impact	Likelihood					Impact	Likelihood	
	Title The risk event, <i>leading to</i> consequence for service/ Aim(s)/Action(s), <i>resulting in</i> possible outcome(s).			Impact	5	↓→↑	Risk owner / Review frequency			Impact		
	Title The risk event, <i>leading to</i> consequence for service/ Aim(s)/Action(s), <i>resulting in</i> possible outcome(s).			Likelihood	5	()				Likelihood		
	Total					new						
	Title The risk event, <i>leading to</i> consequence for service/ Aim(s)/Action(s), <i>resulting in</i> possible outcome(s).			Impact	5	↓→↑	Risk owner / Review frequency			Impact		
	Title The risk event, <i>leading to</i> consequence for service/ Aim(s)/Action(s), <i>resulting in</i> possible outcome(s).			Likelihood	5	()				Likelihood		
	Total					new						
	Title The risk event, <i>leading to</i> consequence for service/ Aim(s)/Action(s), <i>resulting in</i> possible outcome(s).			Impact	5	↓→↑	Risk owner / Review frequency			Impact		
	Title The risk event, <i>leading to</i> consequence for service/ Aim(s)/Action(s), <i>resulting in</i> possible outcome(s).			Likelihood	5	()				Likelihood		
	Total					new						
	Title The risk event, <i>leading to</i> consequence for service/ Aim(s)/Action(s), <i>resulting in</i> possible outcome(s).			Impact	5	↓→↑	Risk owner / Review frequency			Impact		
	Title The risk event, <i>leading to</i> consequence for service/ Aim(s)/Action(s), <i>resulting in</i> possible outcome(s).			Likelihood	5	()				Likelihood		
	Total					new						

3 A's (Aims, Approaches, Actions)

Use this column to cross reference risks to:

- (a) the relevant Aims, Approaches and/or Actions adopted by Council on 27 November 2008 with effect from 1 April 2009 (e.g. A. v., or E. ii. 2, etc); and
- (b) the twelve Council Actions for 2010/11 approved by Council on 26 November 2009 (e.g. 1, 3, etc).

Impact

- 5 Extreme
- 4 High
- 3 Medium
- 2 Low
- 1 Insignificant

Likelihood

- 5 Almost certain
- 4 Likely
- 3 Possible
- 2 Unlikely
- 1 Rare

Direction of Travel

- ↓ Priority reduced from last review (give the previous Total score in the brackets)
- Priority equal to last review
- ↑ Priority increased from last review (give the previous Total score in the brackets)
- new Risk included in the risk register for the first time

- Notes: 1. The "Ref." will be a unique risk reference, retained by the risk throughout the period of its inclusion in the risk register.
 2. Criteria and guidelines for assessing Impact and Likelihood are available on In-Site under Corporate Information > Risk Management.
 3. The "Total" risk score is obtained by multiplying the Impact score by the Likelihood score.
 4. The "Adjusted risk score" would result from re-evaluation of the Impact and Likelihood taking the additional control measures into account.
 5. The dotted line (-----) shows the Council's risk tolerance line.
 6. The "Timeline to progress" is the date (Month Year) by which it is planned that the risk will be mitigated to below the line.

Annex D Likelihood assessment guidelines

<i>Likelihood</i>	<i>Guidelines</i>	<i>Score</i>
Almost certain	<ul style="list-style-type: none"> • Is expected to occur in most circumstances (more than 90%), or • More than 90% likely to occur in the next 12 months 	5
Likely	<ul style="list-style-type: none"> • Will probably occur at some time, or in most circumstances (66% - 90%), or • 66% to 90% likely to occur in the next 12 months 	4
Possible	<ul style="list-style-type: none"> • Fairly likely to occur at some time, or in some circumstances (36% - 65%), or • 36% to 65% likely to occur in the next 12 months 	3
Unlikely	<ul style="list-style-type: none"> • Is unlikely to occur, but could, at some time (11% - 35%), or • 11% to 35% likely to occur in the next 12 months 	2
Rare	<ul style="list-style-type: none"> • May only occur in exceptional circumstances (up to 10%), or • Up to 10% likely to occur in the next 12 months 	1

Annex E Impact assessment guidelines

Impact	Giving rise to one or more of the following:							Score
	Service disruption	People	Financial loss (including claim or fine)	Environment	Statutory service/ legal obligations	Management	Reputation	
Extreme	Serious disruption to services (loss of services for more than 7 days)	Loss of life	Financial loss over £500k	Major regional / national environmental damage	<ul style="list-style-type: none"> Central government intervention; or Multiple civil or criminal suits 	Could lead to resignation of Leader or Chief Executive	Extensive adverse coverage in national press and/or television	5
High	Major disruption to services (loss of services for up to 7 days)	Extensive multiple injuries	Financial loss between £251k - £500k	Major local environmental damage	<ul style="list-style-type: none"> Strong regulatory sanctions; or Litigation 	Could lead to resignation of Member or Executive Director	Adverse coverage in national press and/or television	4
Medium	Noticeable disruption to services (loss of services for up to 48 hours)	Serious injury (medical treatment required)	Financial loss between £51k - £250k	Moderate environmental damage	<ul style="list-style-type: none"> Regulatory sanctions, interventions, public interest reports; or Litigation 	Disciplinary / capability procedures invoked	Extensive adverse front page local press coverage	3
Low	Some disruption to internal services; no impact on customers	Minor injury (first aid)	Financial loss of between £6k - £50k	Minor environmental damage	<ul style="list-style-type: none"> Minor regulatory consequences; or Litigation 	Formal HR procedure invoked	Some local press coverage; or, adverse internal comment	2
Insignificant	Insignificant disruption to internal services; no impact on customers	No injuries	Financial loss of up to £5k	Insignificant environmental damage	<ul style="list-style-type: none"> No regulatory consequences; or Litigation 	Informal HR procedure invoked	No reputational damage	1

Annex F Prioritisation Matrix template

			IMPACT				
			Insignificant	Low	Medium	High	Extreme
			1	2	3	4	5
LIKELIHOOD	Almost certain	5	5	10	15	20	25
	Likely	4	4	8	12	16	20
	Possible	3	3	6	9	12	15
	Unlikely	2	2	4	6	8	10
	Rare	1	1	2	3	4	5

----- Risk Tolerance Line

Managing the risk

[Note: The score is obtained by multiplying the Impact by the Likelihood (e.g. Impact: High; Likelihood: Possible, would result in a score of 12 - i.e. 4 x 3).]

Above the risk tolerance line (i.e. a score of 12 – 25):

- Requires active management (consider termination of the activity or project)
- Contingency plans – robust plan in place to detect any deviation from expectations
- May require some mitigation to reduce likelihood (if cost effective)

Below the risk tolerance line (i.e. a score of 1 – 10):

- Reassess quarterly to ensure no change to underlying risk or control measures

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Corporate Governance Committee	31 March 2010
AUTHOR/S:	Executive Director (Corporate Services) / Finance Project Officer	

STRATEGIC RISK REGISTER – QUARTERLY REVIEW**Purpose**

1. The purpose of this report is to enable Corporate Governance Committee to review and approve the Council's strategic risk register.

Executive Summary

2. At its meeting on 9 February 2010, Corporate Governance Committee approved reallocating the Member "executive" role regarding risk management to the Executive. The Leader of the Council subsequently assigned this responsibility to the Northstowe Portfolio Holder (paragraphs 7(a) and 8 below refer).
3. As risk management comes under Corporate Governance Committee's general responsibilities in the Council's Constitution, this reallocation will need an amendment to the Constitution agreed by Council. The review of the strategic risk register therefore remains with Corporate Governance Committee pending this agreement (paragraphs 8 and 9 below refer).
4. Also at its meeting on 9 February 2010, Corporate Governance Committee approved a revised risk register format and a revised matrix for assessing/scoring Impact and Likelihood of risks (paragraph 7(c) below refers). These changes have been applied to this review of the strategic risk register.
5. The key matters for Corporate Governance Committee in this report are to consider and agree:
 - (a) changes to existing risks and control measures (paragraph 10 below refers);
 - (b) new risks included in the strategic risk register (paragraph 11 below refers).
6. The Northstowe Portfolio Holder reviewed the updated strategic risk register and matrix at his meeting on 11 March 2010 and has recommended their approval to Corporate Governance Committee.

Background

7. At its meeting on 9 February 2010, Corporate Governance Committee approved:
 - (a) the reallocation of Member executive and governance roles regarding risk management between the Executive and Corporate Governance Committee:
 - (i) agreement and ownership of the strategic risks facing the Council - the executive role - to the Executive, led by the appropriate portfolio holder;
 - (ii) approval of the risk management strategy; advice and assurance regarding the adequacy and effectiveness of risk management - the governance role - to Corporate Governance Committee;

- (iii) Corporate Governance Committee to receive quarterly, the strategic risk register, covering reports and other associated documents presented to the portfolio holder, together with the minutes of the portfolio holder meetings, to monitor that the strategic risk register has been properly considered by the portfolio holder;
- (iv) Corporate Governance Committee to continue to receive an annual report on the risk management strategy and process, including how Executive Management Team (EMT) and the portfolio holder have performed the quarterly reviews of the Council's strategic risk register, thus giving the Committee assurance over the process;
- (v) the reporting of the risk management strategy and strategic risk register once a year to Council;

(b) the adoption of the procedural framework below setting out the reallocation of roles:

	SMT/ EMT	Executive	Corporate Governance Committee	Council
(i) review of the Council's risk management strategy	annually, as now [February]	annually [March]		
(ii) review of the adequacy and effectiveness of the Council's risk management strategy and processes, taking recommendations resulting from (i) above into account	annually, as now [February]		annually, as now [March]	
(iii) review and update of the Council's strategic risk register	quarterly, as now [May, August, November, February]	quarterly (previously Corporate Governance Committee)		
(iv) monitoring the review of the Council's strategic risk register			quarterly	
(v) reporting of the risk management strategy and strategic risk register				annually [April]

- (c) changes in recording, assessing, prioritising and reporting of risks:
- (i) reconfiguration of the matrix (Impact v Likelihood) to 5 x 5;
 - (ii) changing the scoring of risks to a double-numeric method, where the highest score for both Impact and Likelihood is 5;
 - (iii) updated criteria for assessing Impact and Likelihood of risks, aligned to the revised matrix;

- (iv) a revised risk register format to improve consideration of risks, bringing information together so that it can be viewed on one document.

(Further information regarding these points can be found in the [report to Corporate Governance Committee, 9 February 2010](#), paragraphs 13 to 17.)

These changes have been applied to this review of the strategic risk register.

8. As risk management comes under Corporate Governance Committee's general responsibilities in the Council's Constitution - and as responsibility for reviewing the strategic risk register is not separately identified - the reallocation of the Member "executive" risk management role to the Executive will need to be an amendment to the Constitution and be agreed by Council. It should be noted that the Leader has assigned the responsibility for the executive risk management role to the Northstowe Portfolio Holder.
9. Pending Council approval, the strategic risk register therefore needs to be reviewed and approved by Corporate Governance Committee. However, the Northstowe Portfolio Holder did review the strategic risk register at his meeting on 11 March 2010 (paragraph 14 below refers).

Considerations

10. The strategic risk register was reviewed with the nominated risk owners and other officers. A proposed updated version was presented to EMT at its meeting on 24 February 2010. EMT agreed the following changes to the strategic risk register:
 - (a) Medium Term Financial Strategy (MTFS): The description had been updated to reflect a risk that the impact of successful equal pay claims exceeds available reserves. Control measures had been updated as follows:
 - (i) the revised MTFS incorporates updated assumptions;
 - (ii) EMT/SMT review progress in achieving budget targets;
 - (iii) treasury management performance is reported quarterly to the Finance & Staffing Portfolio Holder;
 - (iv) the integrated business monitoring process.As the financial risks had been largely incorporated within the latest version of the MTFS, EMT reduced the risk score from 15 (Impact, Extreme, 5; Likelihood, Possible, 3) to 8 (Impact, High, 4; Likelihood, Unlikely, 2).
 - (b) Pandemic 'flu: The national pandemic 'flu lines had been closed; numbers were less than normal seasonal 'flu and were being dealt with at PCT level; there had not been a serious impact on the authority. Accordingly, EMT agreed that the risk be removed from the strategic risk register.
 - (c) Housing services budgeting and staffing: The subsidy settlement, combined with savings and agreed rent increases, had resulted in a reduced deficit budget for 2010/11.
 - (d) EU Services Directive: The authority was ahead of others in implementing the requirements; although not yet fully operational, it was considered that there would be no difficulties in achieving this. Accordingly, EMT agreed that the risk be removed from the strategic risk register.
 - (e) Making Cambridgeshire Count (MCC): As the Council had withdrawn from this project (although it is willing to participate in the shared services and the gypsy and traveller workstreams outside of the MCC project), EMT agreed that the risk be removed from the strategic risk register.
 - (f) Planning for Growth: The risk focused on reduced Housing & Planning Delivery Grant (H&PDG) and the consequential impact on the Council's financial position. As this had been taken into account in the updated MTFS (see (a) above) and as lack of development progress was included as a

separate risk on the strategic risk register (see (j) below), EMT agreed that this risk be removed from the strategic risk register.

- (g) Equalities: Control measures had been included as follows:
 - (i) the Council has an action plan to achieve Level 3 of the Local Government Equality Standard;
 - (ii) the Comprehensive Equalities Policy, including a Gender Equality Scheme, is on Cabinet's forward plan for May 2010.
 - (h) Illegal traveller encampments or developments: The Council's consultation on a draft Gipsy & Traveller Development Plan Document, which was being updated in preparation for adoption by the New Communities Portfolio Holder in May 2010, had been included in the control measures.
 - (i) Climate change adaptation: A Climate Change Action Plan being prepared for adoption by Cabinet in May 2010 had been included in the control measures.
 - (j) Lack of development progress: As Northstowe could be included in the next wave of eco-towns, a dedicated portfolio holder had been appointed to drive the development forward and give it the prominence needed to successfully create a sustainable and desirable community. The first portfolio holder meeting was to be held on 11 March 2010. The reference to Northstowe had therefore been removed from the description of the risk; however, EMT considered that the current risk score should be retained pending progress on Cambridge East
11. EMT also agreed to include the following new risks on the strategic risk register at its meeting on 24 February 2010:
- (a) Productive employee time: The various restructuring exercises taking place could cause staff uncertainty, anxiety or stress, leading to either significant staff absence or reduced productivity, resulting in a possible inability to provide full services to the public. Several policies already in place provide control measures; in addition, an Employee Engagement Strategy and a Staff Forum are being discussed. The risk has initially been scored at 9 (Impact, Medium, 3; Likelihood, Possible, 3).
 - (b) Shared services: Entering into a shared services agreement with diminished control over resources or governance could lead to reduced performance or increased cost to the Council, resulting in adverse publicity and damage to reputation. Alternatively, not entering into shared services arrangements could mean the Council missing opportunities for service improvement or not achieving savings, again resulting in damage to reputation. Control measures include business cases, agreed "Heads of Terms" and due diligence exercises. The risk has initially been scored at 9 (Impact, Medium, 3; Likelihood, Possible, 3).
12. The updated and new risks have been included as appropriate in the draft strategic risk register and matrix, attached at **Appendices A and B**. The previous alpha-numeric risk scores have been included for information this time in brackets under the 'Total' risk score (Impact, A to D [A highest]; Likelihood 1 to 6 [1 highest]). The updated criteria for assessing Impact and Likelihood of risks have been included for information at the end of Appendix A. A diagram at **Appendix C** shows how the previous risk matrix maps across to the new risk matrix against the updated Impact and Likelihood criteria.
13. The new risk register format requires control measures to be recorded for all risks; however, as explained in paragraph 19 of the report to Corporate Governance Committee on 9 February 2010, the previous strategic risk action plans only recorded actions/controls in place for risks above the line, so these have been migrated to the new risk register format at this review, together with some control measures for risks

below the line. Control measures will be fully incorporated for risks below the line at the next review of the strategic risk register.

14. The Northstowe Portfolio Holder considered the draft strategic risk register at his meeting on 11 March 2010 (the report and appendices can be viewed at <http://scambs.moderngov.co.uk/ielListDocuments.aspx?CId=950&MId=5085&Ver=4>, item 2 refers). The portfolio holder and those present considered whether the correct strategic risks were identified and whether the risk scores and control measures were appropriate. The portfolio holder recommended approval of the updated strategic risk register and matrix to the Corporate Governance Committee. Specific comments made at the meeting included:
- (a) Climate change adaptation: the Climate Change Action Plan being prepared for adoption could reduce the seriousness of the threat but the portfolio holder did not consider that the risk score should be altered at this stage;
 - (b) Lack of development progress: the decision by the government to drop the Transport Innovation Fund (TIF) had not been known when EMT had considered this risk at its meeting on 24 February 2010 (paragraph 10. (j) above), but the Area Action Plans for Cambridge East and other city fringe sites had been developed prior to the TIF proposals and so the loss of TIF should not affect the specific sites although there could be an impact on growth areas generally. Accordingly, the portfolio holder considered that the risk score was appropriate;
 - (c) The 'Adjusted risk score' column would be used in future versions of the strategic risk register, as control measures were implemented, but as most of these were still in preparation it would be premature to alter scores this time.

Options

15. In reviewing the strategic risk register and matrix (paragraphs 10 to 14 and Appendices A to B), Corporate Governance Committee could:
- (a) add to, delete from, or make other changes to the strategic risk register (Appendix A), in terms of either the title or detail of the risks or control measures;
 - (b) alter the assessment of risks on the matrix (Appendix B), in terms of either their impact or likelihood.

Implications

16. Financial, Legal, Staffing	There are no immediate financial, legal or staffing implications resulting from this report. Some of the control measures may have financial, legal or staffing implications; if so, these will be considered in separate reports.
Risk Management	Risk management is undertaken regularly in order to minimise the possibility of the Council being adversely affected should either an unforeseen risk arise or an assessed risk not be properly planned for.
Equal Opportunities	The Council's risk management process has no inherent equal opportunities implications; however, Equalities is included as a risk area on the strategic risk register.

Consultations

17. Risk owners, service and other relevant managers, and members of EMT have been consulted regarding this review of the strategic risk register and matrix.

- 18. The Northstowe Portfolio Holder reviewed the updated strategic risk register and matrix at his meeting on 11 March 2010 and has recommended their approval to Corporate Governance Committee.
- 19. There will be liaison with officers as appropriate regarding the implementation of any recommendations made by Corporate Governance Committee regarding this report.

Effect on Strategic Aims

20.	<p>Commitment to being a listening council, providing first class services accessible to all.</p> <p>The proposals in this report ensure that strategic risks involved in the delivery of the Council's Corporate Plan and in meeting the Council's Aims are identified and managed; they also contribute to the Council's corporate governance responsibilities.</p> <p>Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.</p>
	<p>Commitment to making South Cambridgeshire a place in which residents can feel proud to live.</p>
	<p>Commitment to assisting provision for local jobs for all.</p>
	<p>Commitment to providing a voice for rural life.</p>

Conclusions/Summary

- 21. Appendices A and B represent the strategic risk register and matrix resulting from consultations and the review by EMT; the Northstowe Portfolio Holder has recommended their approval to Corporate Governance Committee. Corporate Governance Committee needs to review and agree the strategic risk register and matrix as outlined in paragraph 15.
- 22. The quarterly review of the strategic risk register enables the Council to manage its strategic risks to an acceptable level.

Recommendation:

- 23. That the updated strategic risk register and matrix be approved.

Background Papers: the following background papers were used in the preparation of this report:

None unpublished

Contact Officer: John Garnham – Finance Project Officer
Telephone: (01954) 713101

Appendix A - Strategic Risk Register - March 2010



Ref.	Title and Description of risk The risk event, leading to consequence for service/ Aim(s)/ Action(s), resulting in possible outcome(s).	3 A's	Control measures in place	Risk score		Direction of travel	Risk owner / Review frequency	Additional control measures	Additional cost resources required	Adjusted risk score (where relevant)		Timeline to progress	
				Impact	Likelihood					Total	Impact		Likelihood
Str1	Housing services budgeting and staffing Significant efficiencies and savings not achieved in housing services and revenue/ capital budgets, leading to Housing Revenue Account (HRA) continuing to run at a deficit, resulting in HRA working balance insufficient to meet ongoing and potential one-off demands; vulnerability to Government annual subsidy determination; deterioration in services provided to tenants; possible staffing implications; adverse publicity or other reputational damage.	C.iii.	A plan has been agreed with the Housing Portfolio Holder to implement efficiencies and savings in order to address/mitigate the impact on services.	Impact	5	→	Corporate Manager (Affordable Homes) / Review frequency			Impact	Likelihood	Total	Ongoing during 2010/11
Str2	Equalities The Council is successfully challenged over not complying with general equalities legislation or legislation specific to public and local authority bodies, leading to possible Commission for Human Rights and Equalities inspection, resulting in reduction in reserves available to support balanced MTFS, adverse publicity and effect on reputation.	A.ii.3. B.iv.6. C.iv.3.	An action plan to achieve Level 3 ("Achieving") of the Local Government Equality Standard is in progress.	Impact	4	→	Corporate Manager (Community and Customer Services) / Review frequency	Gender Equality Scheme in preparation for adoption by Cabinet.		Impact	Likelihood	Total	May 2010
Str3	Illegal Traveller encampments or developments Failure to find required number of sites, or sites identified do not meet the needs of local Travellers, leading to illegal encampments or developments in the District, resulting in community tensions; cost and workload of enforcement action, including provision of alternative sites and/or housing; poor public perception and damage to reputation.	E.i. C.iv.3.	The draft Gipsy and Traveller Development Plan Document (GTDPD) has been out for public consultation.	Impact	3	→	Corporate Manager (Planning & Sustainable Communities) / Quarterly	GTDPD now in preparation for adoption by the New Communities Portfolio Holder.		Impact	Likelihood	Total	May 2010

Ref.	Title and Description of risk The risk event, <i>leading to</i> consequence for service/ Aim(s)/ Action(s), <i>resulting in</i> possible outcome(s).	3 A's	Control measures in place	Risk score		Direction of travel	Risk owner / Review frequency	Additional control measures	Additional cost resources required	Adjusted risk score (where relevant)		Timeline to progress
				Impact	Likelihood					Total	Impact	
Str4	Climate change adaptation The Council does not develop measures to safeguard its services against climate change, <i>leading to</i> unacceptable vulnerability to the impact of climate shifts and other weather-related events, <i>resulting in</i> a degradation or breakdown of service delivery and damage to property, increasing costs and impact on the Council's reputation.	C.vii.		Impact Likelihood Total	3 3 9 C3	→	Corporate Manager (New Communities) / Quarterly	Climate Change Action Plan in preparation for adoption by Cabinet.		Impact Likelihood Total		May 2010
Str5	Lack of development progress Lack of progress by developers at Cambridge East (Marshalls), <i>leading to</i> the authority being unable to deliver its housing targets, <i>resulting in</i> the Council having to meet the shortfall in the short term from developments in existing villages.	C.i. C.ii.2. E.iii. E.iv.		Impact Likelihood Total	3 3 9 C3	→	Corporate Manager (Planning & Sustainable Communities) / Quarterly			Impact Likelihood Total		N/a
Str6	Productive employee time Restructuring exercises and threat of redundancy cause staff uncertainty, anxiety or stress, <i>leading to</i> significant staff absence or reduced productivity, <i>resulting in</i> inability to provide full services.	All	Management of sickness absence policy Employee Assistance Programme Redeployment support Redundancy and Reorganisation Policy and Procedure Stress Management Policy Monthly review of sickness absence by EMT	Impact Likelihood Total	3 3 9 C3	new	HR Manager / Review frequency	Employee Engagement Strategy Staff Forum		Impact Likelihood Total		In line with timetables

Ref.	Title and Description of risk The risk event, <i>leading to</i> consequence for service/ Aim(s)/ Action(s), <i>resulting in</i> possible outcome(s).	3 A's	Control measures in place	Risk score		Direction of travel	Risk owner / Review frequency	Additional control measures	Additional cost resources required	Adjusted risk score (where relevant)		Timeline to progress
				Impact	Likelihood					Impact	Likelihood	
Str7	<p>Shared services</p> <p>(a) The Council enters into a shared services agreement with another authority/ provider/ agency, with diminished control over resources or governance, <i>leading to</i> reduced performance or increased cost to the Council, <i>resulting in</i> adverse publicity and damage to reputation.</p> <p>-----</p> <p>(b) The Council does not enter into shared services arrangements, <i>leading to</i> failure to take advantage of opportunities for service improvement and/or achieve savings, <i>resulting in</i> damage to reputation with peer authorities, inspection agencies and the public.</p>	All	<p>Business cases</p> <p>Agreed "Heads of Terms"</p> <p>Due diligence exercises</p> <p>Shared service agreements</p>	Impact	3	new	Chief Executive / Review frequency			Impact	3	N/a
			Likelihood	3								
				Total	9					Total	9	
					C3							
Str8	<p>Medium Term Financial Strategy (MTFS)</p> <p>Risks concerning the financial projections include:</p> <ul style="list-style-type: none"> not achieving delivery of savings to meet targets; the RSG settlement is tighter than anticipated; pay and inflation exceed assumptions; employer's pension contributions increases exceed projections; impact of successful equal pay claims exceeds available reserves; changes in demand for some service areas could lead to pressures in the related budgets; unforeseen redundancy costs, <i>leading to</i> reserves going below the minimum acceptable level during the period of the MTFS, <i>resulting in</i> cuts in some services, public dissatisfaction, audit and inspection criticism. 	A.v.	<p>Revised MTFS incorporates updated assumptions.</p> <p>Implement plans to deliver the Council's programme in line with the latest GF and HRA savings targets.</p> <p>EMT/SMT review progress in achieving budget targets.</p> <p>Explore opportunities for shared services.</p> <p>Treasury management reports to portfolio holder</p> <p>Monitor pay and inflation factors, the pay and grading review, the effect of the current economic climate on demand led services and budgets.</p> <p>Integrated business monitoring process.</p>	Impact	4	↓ (from 15, A3)	Executive Director (Corporate Services) / Monthly			Impact	2	Reports to Cabinet and Council in February 2010 on the robustness of the estimates and the adequacy of reserves.
			Likelihood	2								
				Total	8					Total	8	
					B4		Monthly					
							Monthly					
							Monthly					
							Monthly					
							Quarterly					
							Monthly					
							Monthly					

Ref.	Title and Description of risk The risk event, <i>leading to</i> consequence for service/ Aim(s)/ Action(s), <i>resulting in</i> possible outcome(s).	3 A's	Control measures in place	Risk score		Direction of travel	Risk owner / Review frequency	Additional control measures	Additional cost resources required	Adjusted risk score (where relevant)		Timeline to progress
				Impact	Likelihood					Total	Impact	
Str9	LAA actions Failure to meet LAA targets, <i>leading to</i> desired outcomes for residents of the District not being achieved, and/or poor CAA assessment, <i>resulting in</i> possible reduction in funding (e.g. Reward Grant) and low public satisfaction.	All		Impact Likelihood Total	3 2 6 C4	→	Chief Executive / Quarterly			Impact Likelihood Total		N/a
Str 10	Embedding values Values not effectively embedded within Council <i>leading to</i> no real change in culture and behaviour, <i>resulting in</i> adverse comment by the Audit Commission, poor public and partner perception of the Council, low morale.	A.i. A.ii. A.iii. A.iv.		Impact Likelihood Total	3 2 6 C5	→	Corporate Manager (Planning and Sustainable Communities) / Quarterly			Impact Likelihood Total		N/a

3 A's (Aims, Approaches, Actions)

Use this column to cross reference risks to:

- (a) the relevant Aims, Approaches and/or Actions adopted by Council on 27 November 2008 with effect from 1 April 2009 (e.g. A v, or E ii 2, etc); and
 (b) the twelve Council Actions for 2010/11 approved by Council on 26 November 2009.

Impact

- 5 Extreme
 4 High
 3 Medium
 2 Low
 1 Insignificant

Likelihood

- 5 Almost certain
 4 Likely
 3 Possible
 2 Unlikely
 1 Rare

Direction of Travel

- ↓ Score reduced from last review (give the previous Total score in the brackets)
 → Score equal to last review
 ↑ Score increased from last review (give the previous Total score in the brackets)
 new Risk included in the risk register for the first time

- Notes: 1. The "Ref." will be a unique risk reference, retained by the risk throughout the period of its inclusion in the risk register.
 2. Criteria and guidelines for assessing Impact and Likelihood are available on In-Site under Corporate Information > Risk Management and are provided on the following page for information.
 3. The "Total" risk score is obtained by multiplying the Impact score by the Likelihood score.
 4. The "Adjusted risk score" would result from re-evaluation of the Impact and Likelihood, taking the additional control measures into account.
 5. The dotted line (- - - - -) shows the Council's risk tolerance line.
 6. The "Timeline to progress" is the date (Month Year) by which it is planned that the risk will be mitigated to below the line.

Criteria and guidelines for assessing Impact and likelihood

Impact	Giving rise to one or more of the following:							Score
	Service disruption	People	Financial loss (including claim or fine)	Environment	Statutory service/legal obligations	Management	Reputation	
Extreme	Serious disruption to services (loss of services for more than 7 days)	Loss of life	Financial loss over £500k	Major regional / national environmental damage	<ul style="list-style-type: none"> Central government intervention; or Multiple civil or criminal suits 	Could lead to resignation of Leader or Chief Executive	Extensive adverse coverage in national press and/or television	5
High	Major disruption to services (loss of services for up to 7 days)	Extensive multiple injuries	Financial loss between £251k - £500k	Major local environmental damage	<ul style="list-style-type: none"> Strong regulatory sanctions; or Litigation 	Could lead to resignation of Member or Executive Director	Adverse coverage in national press and/or television	4
Medium	Noticeable disruption to services (loss of services for up to 48 hours)	Serious injury (medical treatment required)	Financial loss between £51k - £250k	Moderate environmental damage	<ul style="list-style-type: none"> Regulatory sanctions, interventions, public interest reports; or Litigation 	Disciplinary / capability procedures invoked	Extensive adverse front page local press coverage	3
Low	Some disruption to internal services; no impact on customers	Minor injury (first aid)	Financial loss of between £6k - £50k	Minor environmental damage	<ul style="list-style-type: none"> Minor regulatory consequences; or Litigation 	Formal HR procedure invoked	Some local press coverage; or, adverse internal comment	2
Insignificant	Insignificant disruption to internal services; no impact on customers	No injuries	Financial loss of up to £5k	Insignificant environmental damage	<ul style="list-style-type: none"> No regulatory consequences; or Litigation 	Informal HR procedure invoked	No reputational damage	1

Likelihood	Guidelines	Score
Almost certain	<ul style="list-style-type: none"> Is expected to occur in most circumstances (more than 90%), or More than 90% likely to occur in the next 12 months 	5
Likely	<ul style="list-style-type: none"> Will probably occur at some time, or in some circumstances (66% - 90%), or 66% to 90% likely to occur in the next 12 months 	4
Possible	<ul style="list-style-type: none"> Fairly likely to occur at some time, or in some circumstances (36% - 65%), or 36% to 65% likely to occur in the next 12 months 	3
Unlikely	<ul style="list-style-type: none"> Is unlikely to occur, but could, at some time (11% - 35%), or 11% to 35% likely to occur in the next 12 months 	2
Rare	<ul style="list-style-type: none"> May only occur in exceptional circumstances (up to 10%), or Up to 10% likely to occur in the next 12 months 	1

This page is left blank intentionally.

**Appendix B
Strategic Risk Matrix
March 2010**



			IMPACT				
			Insignificant	Low	Medium	High	Extreme
			1	2	3	4	5
LIKELIHOOD	Almost certain	5					
	Likely	4					
	Possible	3			3. Illegal traveller encampments/developments 4. Climate change adaptation 5. Lack of development progress 6. Productive employee time 7. Shared services	2. Equalities	1. Housing services budgeting & staffing
	Unlikely	2			9. LAA actions 10. Embedding values	8. Medium Term Financial Strategy	
	Rare	1					

Risk Tolerance Line - - - - -

Managing the risk

Above the risk tolerance line (i.e. a score of 12 – 25):

- Requires active management (consider termination of the activity or project);
- Contingency plans – robust plans in place to detect any deviation from expectations;
- May require some mitigation to reduce likelihood (if cost effective).

Below the risk tolerance line (i.e. a score of 1 – 10):

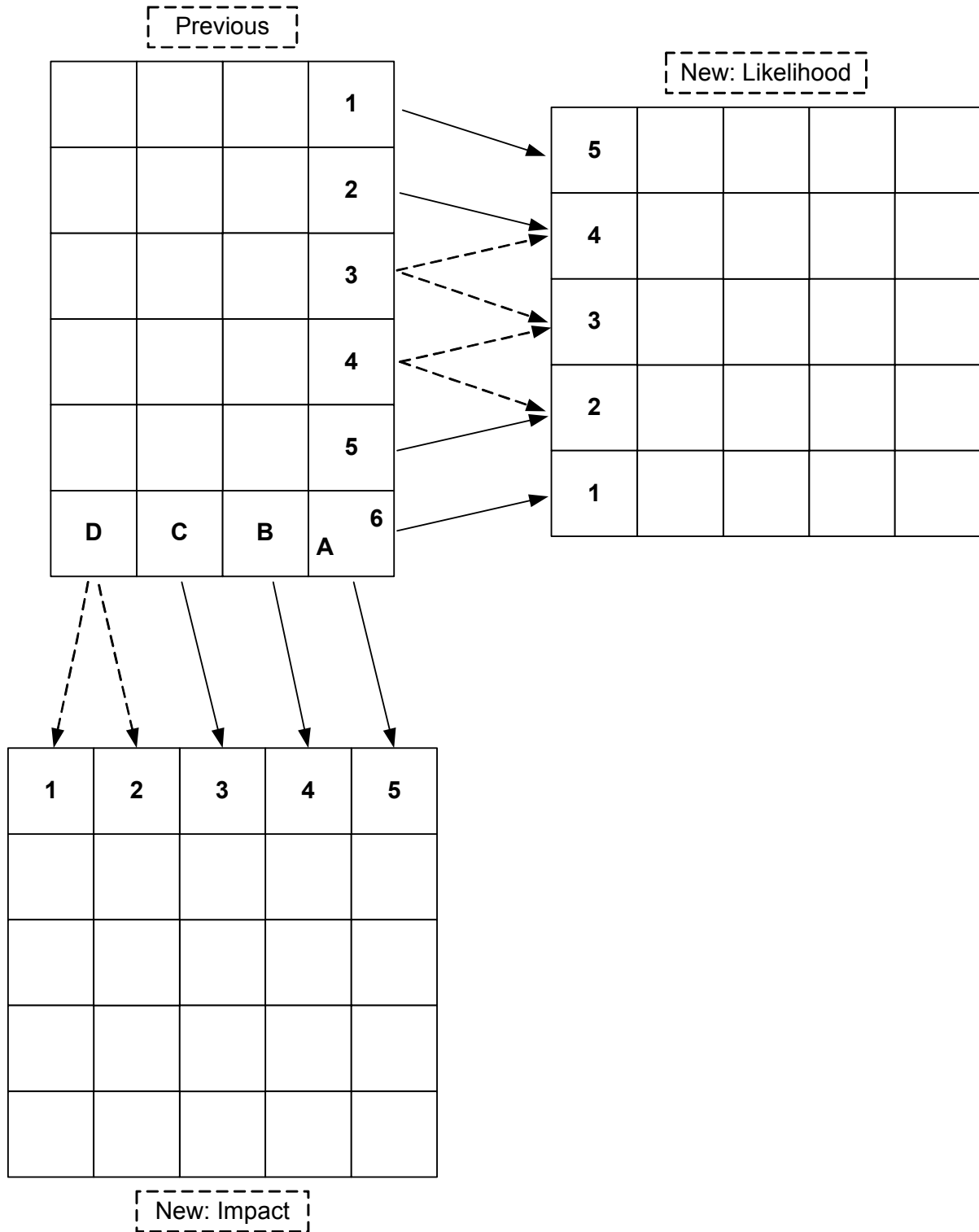
- Reassess quarterly to ensure no change to underlying risk or control measures.

[Note: The score is obtained by multiplying the Impact by the Likelihood (e.g. Impact: High; Likelihood: Possible would result in a score of 12 - i.e. 4 x 3).]

This page is left blank intentionally.

Appendix C

Diagram showing how the previous risk matrix maps to the new risk matrix against the updated Impact and Likelihood criteria



This page is left blank intentionally.

Statement of responsibilities of auditors and of audited bodies

Local government, March 2010

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

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

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

Contents

Introduction	2
Introduction to responsibilities	2
Responsibilities in relation to the financial statements	3
Electronic publication of the financial statements	6
Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources	7
Specific powers and duties of auditors	10
Reporting the results of audit work	10
Ad hoc requests for auditors' views	11
Grant claims and returns – certification	12
Access to information, data security and confidentiality	12

Introduction

1 The Audit Commission (the Commission) is responsible for appointing auditors and determining their terms of appointment, as well as for preparing a Code of Audit Practice (the Code), which prescribes the way auditors are to carry out their functions. The Commission has prepared a Code for the audits of local government bodies and a Code for the audit of local NHS bodies. From time to time, the Commission issues guidance to auditors under section 3(8) of the Audit Commission Act 1998 (the Act) and Paragraph 7(3) of Schedule 1 to the Act. This statement sets out guidance on general responsibilities relevant to audits of local government bodies and so supports the Code. A separate statement has been prepared for the audits of NHS bodies.

2 This statement serves as the formal terms of engagement between the Audit Commission's appointed auditors and local government bodies.ⁱ It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. Throughout this statement, the term 'audited body' covers both the members and senior officers of the body.

3 The responsibilities of auditors are derived from statute (principally the Audit Commission Act 1998) and from the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that because auditors must not prejudice their independence of the audited body, the role of the appointed auditor does not include providing financial or legal advice or consultancy to the audited body.

4 Auditors may wish to refer to this statement in audit planning documents, annual audit letters, reports and other audit outputs.

Introduction to responsibilities

5 Those responsible for the conduct of public business and for spending public money are accountable for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

i This statement covers the audits of local government bodies. These include the various bodies that provide public services locally, including local authorities (and their pension funds, if applicable), fire authorities, police authorities, local councils, local probation boards and trusts and integrated transport authorities and passenger transport executives.

6 In discharging this accountability, public bodies are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal.ⁱ They are also required to report on their arrangements in their statement on internal control.ⁱⁱ

7 It is the responsibility of the audited body to ensure that proper arrangements are in place, but certain individuals may also have specific responsibilities. Local authorities have designated statutory officers, each of whom has a specific role in relation to accountability and control. For local authorities, these include:

- the head of paid service, usually the chief executive, responsible to the full council for the corporate and overall strategic management of the authority;
- the monitoring officer, who is responsible for reporting to the authority any actual or potential breaches of the law or any maladministration and for ensuring that procedures for recording and reporting key decisions are operating effectively; and
- an officer with responsibility for the proper administration of the authority's financial affairs.

8 In carrying out their work, auditors will:

- plan and manage the audit in a timely, professional and efficient manner;
- plan to complete work within agreed deadlines;
- maintain close liaison with the audited body; and
- provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.

9 In meeting their responsibilities, auditors obtain representations from management, both orally and in writing, on specific aspects of the audit.

10 The following paragraphs summarise the specific responsibilities of auditors and of audited bodies in relation to the responsibilities of auditors described in the Code.

Responsibilities in relation to the financial statements

11 The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- put in place, and review the effectiveness of, its system of internal control, including arrangements to ensure the regularity and lawfulness of transactions;ⁱⁱⁱ

i The various local government bodies covered by this statement are constituted differently and their governance arrangements will vary accordingly.

ii Known as Annual Governance Statement for local authorities.

iii For example, Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended, requires local authorities and other specified bodies to 'conduct a review at least once in a year of the effectiveness of its system of internal control'.

- maintain proper accounting records; and
- prepare financial statements that give a true and fair view of the financial position of the body and its expenditure and income and that they are in accordance with applicable laws, regulations and accounting policies.

12 A local authority that is the administering authority for a local authority pension fund must prepare pension fund financial statements and an annual report for each financial year. The financial statements must give a true and fair view of:

- the financial transactions of its pension fund during the year; and
- the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

13 The audited body is also responsible for preparing and publishing with its financial statements a statement on internal control and, where required to do so, a remuneration report.ⁱ Local authorities and other specified bodies also prepare a whole of government accounts return. Although not required to do so, some local government bodies publish other information, such as an annual report, alongside the financial statements.

14 In preparing their financial statements, audited bodies are responsible for:

- preparing realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- assigning responsibilities clearly to staff with the appropriate expertise and experience;
- providing necessary resources to enable delivery of the plan;
- maintaining adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements;
- ensuring that senior management monitors, supervises and reviews work to meet agreed standards and deadlines; and
- ensuring that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor. Specifically, the responsible financial officer must sign, date and certify the financial statements before they are approved by the body.

15 If draft financial statements and working papers of appropriate quality are not available at the agreed start date of the audit, the auditor is unable to meet the planned audit timetable and the start date of the audit will be delayed. The audit fee is calculated on the basis that the draft financial statements, and detailed working papers, are provided to an agreed timetable and are of an acceptable standard. If information is not provided

ⁱ Local authorities prepare an Annual Governance Statement which includes a statement on internal control. Regulation 4(4) of the Accounts and Audit Regulations 2003, as amended, requires that a statement on internal control is included with an authority's accounts.

to this timetable, or is provided to an unacceptable standard, the auditor will incur additional costs in carrying out any extra work that is necessary. The Commission will charge an additional fee if the additional work is substantial.

16 In carrying out their responsibilities in relation to the financial statements, auditors have regard to the concept of materiality.

17 Subject to the concept of materiality, auditors provide reasonable assurance that the financial statements:

- are free from material misstatement, whether caused by fraud or other irregularity or error;
- comply with statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

18 Subject to the concept of materiality, auditors of local probation boards also provide reasonable assurance on the regularity of expenditure and income. In carrying out an audit, auditors do not perform detailed tests of all transactions. Therefore the audit process should not be relied upon to disclose all unlawful transactions or events that may have occurred or might occur.

19 Auditors plan and perform their audit on the basis of their assessment of risk. Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

20 Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. However, they do not provide assurance to audited bodies on the operational effectiveness of specific systems and controls or their wider system of internal control. Where auditors identify any weaknesses in such systems and controls, they draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

21 Auditors review whether the statement on internal control has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information the auditor is aware of. In doing so, auditors take into account the knowledge of the audited body gained through their work in relation to the financial statements and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. They also have regard to the work of other regulators, to the extent that it is relevant to auditors' responsibilities. Auditors are not required to consider whether the statement on internal control covers all risks and controls, and auditors are not required to express a formal opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

22 Auditors also review for consistency other information that is published by the audited body alongside the financial statements, such as an annual report. If auditors have concerns about the consistency of any such information they will report them to those charged with governance.

23 At the conclusion of the audit of the accounts, auditors give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its expenditure and income for the year in question;
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
- for probation boards, on the regularity of their expenditure and income; and
- for certain bodies, on whether the part of the remuneration report to be audited has been properly prepared.

24 In the case of local authorities and other specified bodies, auditors also give their opinion on whether the whole of government accounts return has been properly prepared.

25 Auditors of local authorities that are the administering authorities for a local authority pension fund include a separate opinion on the pension fund accounts within their report on the financial statements. They also issue a separate opinion on the financial statements contained in the pension fund annual report.

Electronic publication of the financial statements

26 Where the audited body wishes to publish its financial statements electronically, it is responsible for ensuring that the publication presents accurately the financial statements and the auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods. Similarly, where the audited body wishes to distribute electronic copies of the financial statements, and the auditor's report on those financial statements, to its stakeholders, it is responsible for ensuring that these are presented accurately.

27 The auditor's report on the financial statements should not be reproduced or referred to electronically without the auditor's prior written agreement. This enables the auditor to review the process by which the financial statements to be published electronically are derived from the financial information contained in the manually signed financial statements, check that the proposed electronic version is identical in content with the manually signed financial statements and check that the conversion of the manually signed financial statements into an electronic format has not distorted the overall presentation of the financial information.

28 The examination of the controls over the electronic publication of audited financial statements is beyond the scope of auditors' responsibilities in relation to the financial statements and the auditor cannot be held responsible for changes made to audited information after the initial publication of the financial statements and the auditor's report.

Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

29 It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and demonstrating the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help it deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

30 The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

31 Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In doing so they are required to have regard to criteria specified by the Audit Commission.ⁱ In meeting this responsibility auditors review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements.

ⁱ These criteria are published on the Commission's website.

32 In planning this work, auditors consider and assess the significant risks of giving a wrong conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of these risks with the audited body.

33 When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code;
- other business risks that apply specifically to individual audited bodies;
- the audited body's own assessment of the risks it faces; and
- the arrangements put in place by the body to manage and address its risks.

34 In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of other statutory inspectorates; and
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

35 Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

36 In reviewing the audited body's arrangements for the use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors must avoid giving any perception that they have any role in the decision-making arrangements of the audited body.

37 Auditors do not provide assurance to audited bodies on the operational effectiveness of specific aspects of their arrangements for the use of resources. Neither can they be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

38 In reviewing audited bodies' arrangements for producing relevant and reliable data and information to support decision making and manage performance, auditors may review the data supporting specific performance information. Audited bodies are responsible for applying appropriate data quality standards, collecting data that is fit for purpose and, where applicable, conforms to prescribed definitions. Audited bodies are also responsible for satisfying themselves that performance information is reliable and accurate.

39 Where auditors identify significant misstatements or errors in specific performance information or the underlying data, they draw them to the attention of the audited body, but they do not provide assurance to audited bodies on the accuracy or reliability of performance information or the underlying data.

40 Audit work in relation to the audited body's arrangements to ensure it promotes and demonstrates the principles and values of good governance and does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Neither is it the auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they are alert to the possibility and act promptly if grounds for suspicion come to their notice.

41 The reviews arising from national studies developed by the Commission, and the extent to which auditors are expected to apply them at relevant bodies, are prescribed by the Commission and are notified to audited bodies each year by the Commission in its annual work programme and by auditors in their audit planning documents. When carrying out national studies, auditors are required to follow the methodologies and, for certain studies, use comparative data provided by the Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Commission.

42 At the conclusion of the audit, auditors report their value for money conclusion on:

- the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- whether significant matters have come to their attention which prevent them from concluding that the audited body has put in place proper arrangements.

Specific powers and duties of auditors

43 Auditors have specific powers and duties under the Audit Commission Act 1998 (the Act) in relation to matters of legality and, for local authorities, electors' rights.

44 Auditors must:

- consider whether to issue a public interest report concerning any matter that comes to the auditor's attention during the course of the audit, which they judge should be considered by the audited body or brought to public attention (section 8 of the Act); and
- give electors the opportunity to raise questions about a local authority's accounts, and consider and decide upon objections received from electors in relation to the accounts (sections 15 and 16 of the Act).

45 Auditors may decide:

- that the audited body should consider formally, and respond to in public, recommendations made in an audit report (section 11(3) of the Act);
- to issue an advisory notice or to apply to the court for a declaration that an item of account is unlawful (sections 17 and 19A of the Act), if they have reason to believe that unlawful expenditure has been or is about to be incurred by an audited body; and
- to apply for judicial review with respect to a decision of an audited body or a failure of an audited body to act, which it is reasonable to believe would have an effect on the accounts of that body (section 24 of the Act).

46 Fees arising in connection with auditors' exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors, are borne by the audited body.

Reporting the results of audit work

47 Auditors provide:

- audit planning documents;
- oral and/or written reports or memoranda to officers and, where appropriate, members on the results of, or matters arising from, specific aspects of auditors' work;
- a report to those charged with governance, normally submitted to the audit committee, summarising the work of the auditor;
- an audit report, including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources;
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements; and
- an annual audit letter addressed to the audited body, which is based on the report to those charged with governance.

48 Audit reports are addressed to officers or members of the audited body, as appropriate. Auditors do not have responsibilities to officers or members in their individual capacities (other than observing the rules of natural justice in the exercise of auditors' specific powers and duties in relation to electors' rights) or to third parties that choose to place reliance upon the reports from auditors.

49 In addition, the following outputs, the need for which may arise at any point during the audit process, are issued where appropriate:

- a report under section 8 of the Act;
- recommendations under section 11(3) of the Act; and
- information to be reported to the Commission in a specified format to enable it to carry out any of its functions, including assessments of performance at relevant bodies, or to assist other bodies, such as the National Audit Office, in carrying out their functions.

50 When considering the action to be taken on audit reports, audited bodies should bear in mind the scope of the audit and responsibilities of auditors, as set out in the Code and as further explained in this statement. Matters raised by auditors are drawn from those that come to their attention during the audit. The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors' conclusions and recommendations for their wider implications before deciding whether to accept or implement them.

Ad hoc requests for auditors' views

51 There may be occasions when audited bodies seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors are as helpful as possible, but are precluded from giving a definite view in any case because auditors:

- must not prejudice their independence by being involved in the decision-making processes of the audited body;
- are not financial or legal advisers to the audited body; and
- may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.

52 In response to such requests, auditors can offer only an indication as to whether anything in the information available to them at the time of forming a view could cause them to consider exercising the specific powers conferred upon them by statute. Any response from auditors should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by auditors or others entitled to raise objection to it. It is the responsibility of the audited body to decide whether to embark on any transaction.

Grant claims and returns – certification

53 Auditors may be required by the Commission to carry out work to support certification of grants or returns. Auditors carry out this work on an agency basis on behalf of the Commission. A separate statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors covering this work can be found at www.audit-commission.gov.uk

Access to information, data security and confidentiality

54 Auditors have wide-ranging rights of access to documents and information in relation to the audit. Such rights apply not only to documents and information held by the audited body and its members and staff, including documents held in electronic form, but also to the audited body's partners and contractors, whether in the public, private or third sectors. Auditors may also require a person holding or accountable for any relevant document to give them such information and explanation as they consider necessary.

55 There are restrictions on the disclosure of information obtained in the course of the audit, subject only to specific exemptions. The Freedom of Information Act 2000 does not apply to the Commission's appointed auditors, as they have not been designated as 'public authorities' for the purposes of that legislation, although they are subject to the Environmental Information Regulations 2004. Audited bodies wishing to disclose information obtained from an auditor, which is subject to a statutory restriction on its disclosure, must seek the auditor's consent to that disclosure.

56 Auditors protect the integrity of data relating to audited bodies and individuals either received or obtained during the audit. They ensure that data is held securely and that all reasonable steps are taken to ensure compliance with statutory and other requirements relating to the collection, holding and disclosure of information.

If you require a copy of this document in large print, in Braille, on tape, or in a language other than English, please call: **0844 798 7070**

If you require a printed copy of this document, please call: **0800 50 20 30** or email: ac-orders@audit-commission.gov.uk
This document is available on our website

We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: **0844 798 3131**
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk