

# Agenda



Listening Learning Leading

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Date: 19 September 2014

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## A MEETING OF THE

# Audit and Corporate Governance Committee

WILL BE HELD ON MONDAY 29 SEPTEMBER 2014 AT 6.00 PM

COUNCIL CHAMBER, COUNCIL OFFICES, CROWMARSH GIFFORD

### Members of the Committee:

Ms Kristina Crabbe (Chairman)

Mr Philip Cross (Vice-  
Chairman)  
Mr David Bretherton  
Mr John Cotton

Mrs Margaret Davies  
Mr Neville F Harris  
Mr Paul Harrison

Mr Michael Welply

### Substitutes

*Mr Roger Bell  
Mr Bernard Cooper  
Mrs Pat Dawe  
Mr Leo Docherty*

*Mrs Eleanor Hards  
Mr Stephen Harrod  
Dr Christopher Hood  
Mrs Denise Macdonald*

*Ms Anne Purse  
Mr Robert Simister  
Mr David Turner*

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**1 Apologies**

**2 Declaration of disclosable pecuniary interest**

**3 Minutes of the previous meeting**

Minutes of the meeting on 1 July 2014 (previously published).

**4 Comments and complaints 2013/14** (Pages 5 - 18)

Purpose: to provide the committee with information and statistics about the complaints received during 2012/13.

**5 Treasury management outturn 2013/14** (Pages 19 - 38)

Purpose: to fulfil the legislative requirements to ensure the adequate monitoring and reporting of the treasury management activities. It reports the performance of the treasury management function (the management of the council's investments) for the financial year 2013/14. This complies with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Practice on Treasury Management (revised) 2009.

**6 Internal audit activity report** (Pages 39 - 50)

**Purpose:** to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action has been or will be taken where necessary (**report attached**)

**7 Internal audit management report** (Pages 51 - 64)

**Purpose:** to report on management issues, summarise the second quarter progress of the internal audit team against the 2013/14 audit plan and to summarise the priorities and planned audit work for the remainder of quarter 3. (**report attached**)

**8 External auditor's annual governance report**

Purpose: to consider the issues raised by Ernst & Young, the council's external auditors, as part of its audit of the council's statement of accounts before it gives its opinion. **TO FOLLOW**

**9 Statement of accounts 2013/14**

Purpose: to approve the statement of accounts 2013/14. **TO FOLLOW**

**10 Annual governance statement 2013/14** (Pages 65 - 84)

Purpose: to approve the annual governance statement.

If committee members have questions on the Annual Governance Statement, it would help if they were submitted to the clerk by the morning of the meeting in order to get a response beforehand. Otherwise we may not be able to answer the question at the meeting.

**11 Letter of representation to the council's external auditor**

Purpose: to consider and agree the letter of representation. **TO FOLLOW**

MARGARET REED

Head of Legal and Democratic Services

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# Audit and Corporate Governance Committee



Report of: Chief Executive

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To: Audit and Corporate Governance Committee

Date: 29 September 2014

## Review of complaints received during 2013/14

### Purpose of report

1. The purpose of this report is to provide the committee with information and statistics about the complaints received during 2013/14.

### Strategic objectives

2. By analysing complaints we can identify any trends and introduce service improvements, where necessary, thereby supporting the corporate priority to put residents at the heart of service delivery and seek to provide an excellent customer experience.

### Background

#### THE COMPLAINTS PROCEDURE

3. The main benefits of having a council-wide procedure for dealing with complaints are that:
  - members of the public know what to do if they have a complaint and how we will deal with it
  - staff can be confident about what to do when they get a complaint
  - everyone is treated fairly and equally
  - by analysing complaints we can improve our services.

- A good complaints procedure gives us the opportunity to show that we want to be open and honest; that we care about providing a good service and that we value feedback on problems that need attention. Our procedure has two stages:

**Stage one**

The head of service responds, or arranges for a member of their team to respond on their behalf, within 20 calendar days of receipt of the complaint. All complaints are logged on our complaints database, which generates daily automatic reminder emails from two working days prior to the target date and continues to do so until details of the response have been entered.

**Stage two**

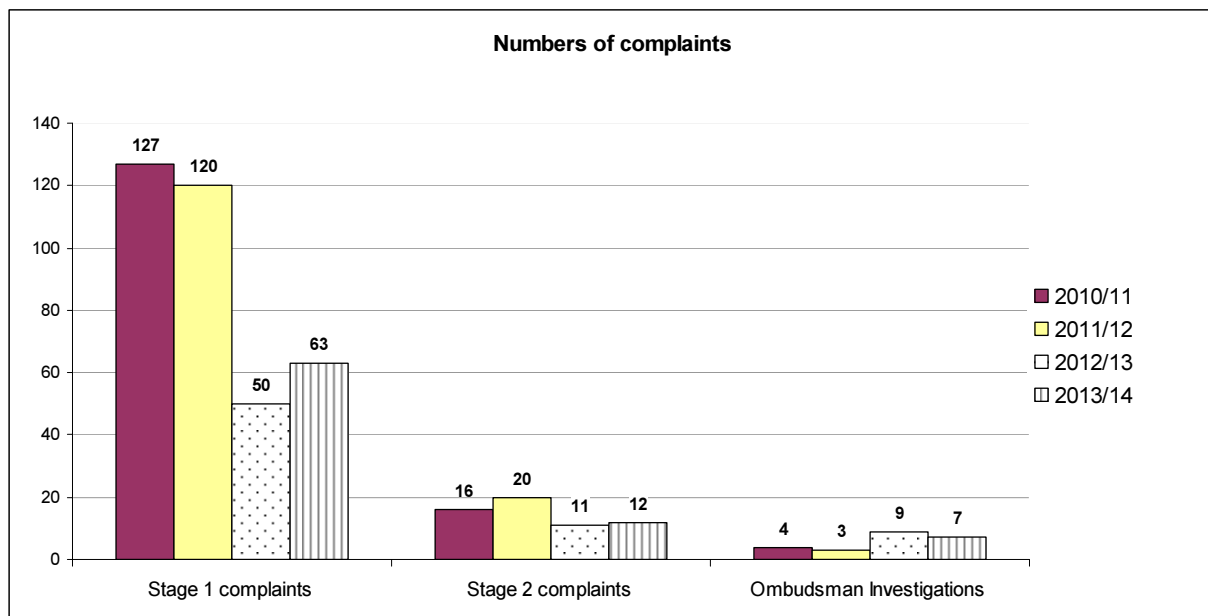
A member of the strategic management board, who is not responsible for the delivery of the service the complaint relates to, responds within 20 calendar days of receipt of the request to escalate the complaint to stage two. Again, the complaints database generates daily automatic reminder emails from two working days prior to the target date.

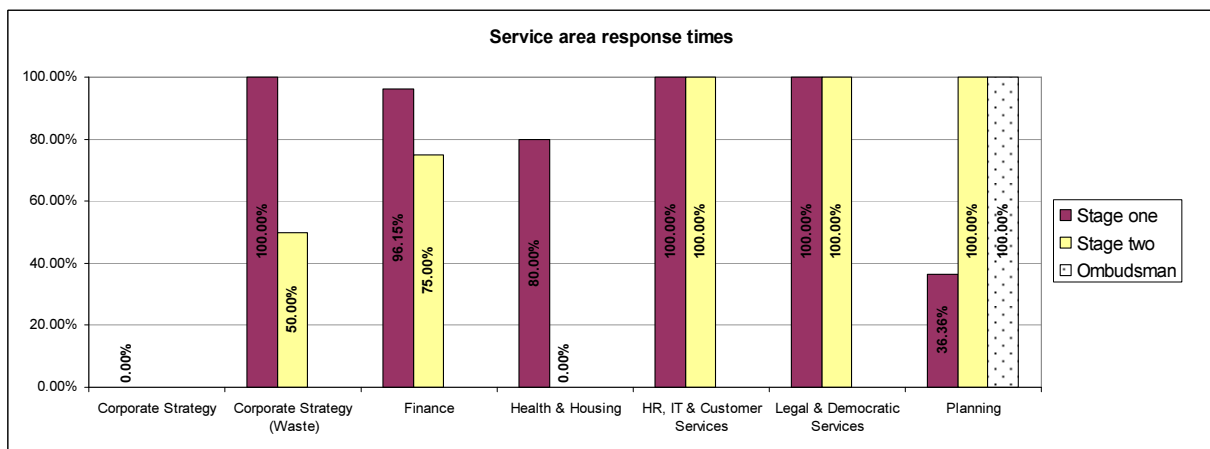
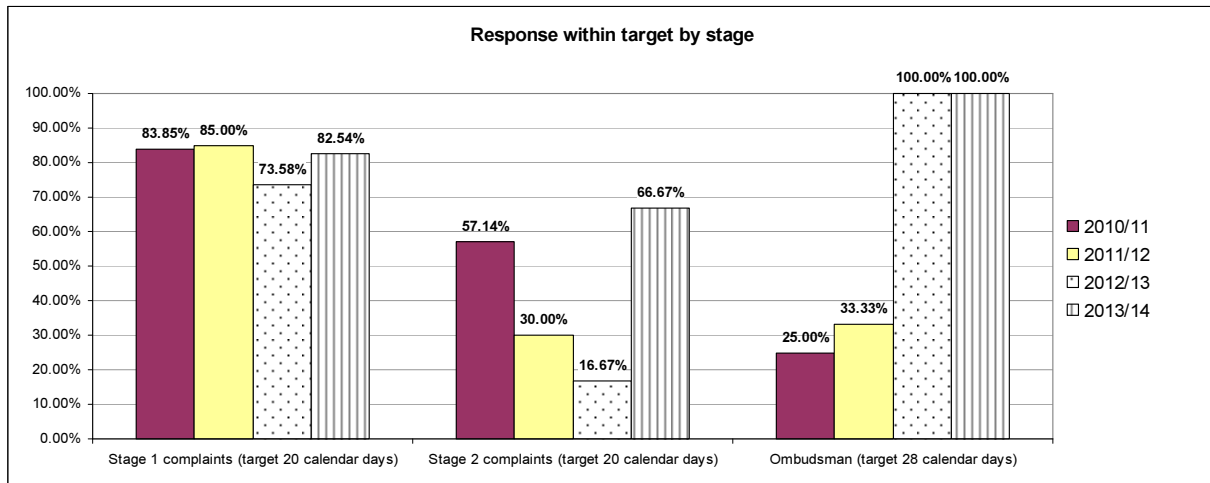
If, having followed our complaints procedure, the complainant remains dissatisfied; s/he has the right to ask the Local Government Ombudsman (LGO) to investigate their complaint.

**COMPLAINTS STATISTICS**

- Complaint statistics are reported in the March and September Board Reports each year, which is available to councillors via a web link in In Focus. The Board Report is also available to the public on our website.

**Statistics**





### Summary of complaint details

- 6. The number of complaints received at stage one has increased from 50 last year to 63 this year. The increase is spread evenly across the service teams.
- 7. Finance, waste and planning received the highest number of complaints.

Finance: 26 complaints received this year compared to 23 last year mainly around bailiff action and inaccuracy/delay in dealing with benefit payments.

Whilst no changes in practice were required as a result of these complaints, one complaint resulted in us making a compensation payment. The complainant had previously requested her housing benefit be paid directly to her landlord. When she made a new claim she stated that she did not want the benefit paid to her landlord and did not want her landlord to know about the progress of her claim. Capita only updated the claim for a period of two months and did not apply it to the subsequent benefit period. This resulted in housing benefit being paid directly to the landlord. When the complainant contacted the council to rectify the problem she was given conflicting information.

In view of the above officers offered the complainant £100 as compensation, which she accepted.

**Waste:** 13 complaints received this year compared to 15 last year mainly about missed collections. None resulted in the need for a change in practice.

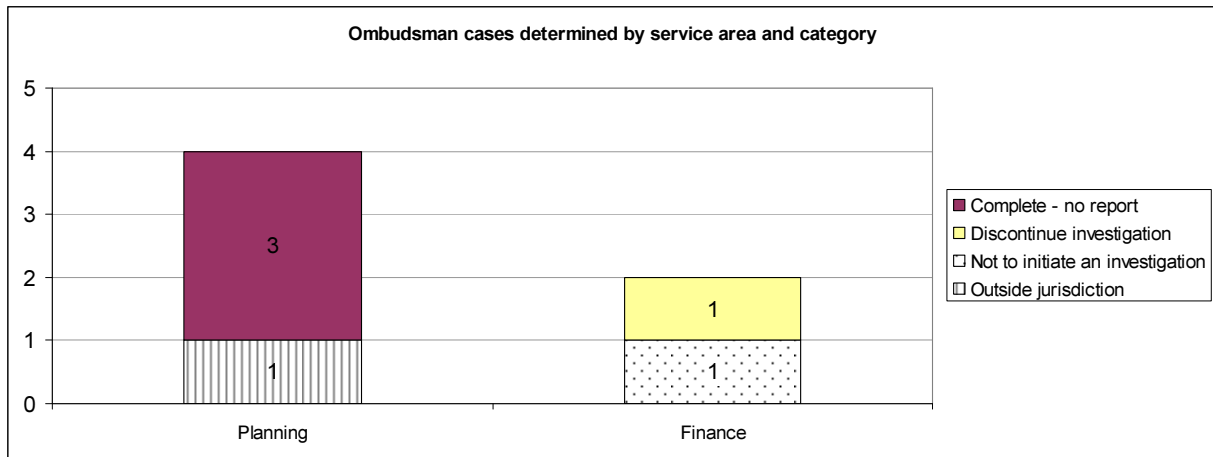
**Planning:** 11 complaints received compared to eight last year mainly about the lack of enforcement action. None resulted in the need for a change in practice.

8. The percentage of stage one and stage two complaints dealt with within target has increased compared to last year; in particular, the response time for stage two complaints has improved significantly, increasing to 66.67 per cent.

### **LGO investigations**

9. The LGO again changed its business processes during the course of 2013/14 and was therefore unable to provide a consistent set of data for the entire year. In addition, it will not enter into detailed correspondence about its figures. We have therefore taken the data below from our own records.
10. During 2013/14 the LGO received seven complaints and enquiries about this council. This compares very favourably with the other Oxfordshire district councils, which had a cumulative average of 19.5.
11. Not all enquiries received by the LGO require us to make a formal response. This can be for a number of reasons including:
- the LGO can reach a decision from seeing copies of the responses sent at the different stages of our complaints procedure
  - the complaint is outside the LGO's jurisdiction and a response from us is therefore unnecessary
  - the complainant has an alternative right of appeal and the LGO is therefore unable to investigate the complaint
  - having contacted the LGO the complainant decided not to pursue their complaint.
12. Of the seven enquiries the LGO received during 2013/14, only one required a response. We sent that response seven days after receipt, well inside the target of 28 calendar days set by the LGO.
13. During 2013/14 the LGO determined seven complaints, compared to ten during 2012/13. The following table provides details by service area of those complaints.





14. A summary of these complaints is attached at appendix one.

### Financial implications

14. There are no financial implications arising directly from this report.

### Legal implications

15. There are no legal implications arising from this report.

### Risks

16. Having a formal complaints procedure allows us to analyse complaints and improve services where necessary; it also gives members of the public clarity about what to do if they have a complaint, and how we will deal with it. If we did not have a formal procedure, we would be unable to carry out such analysis, with the risk that we would fail to make service improvements.

### Other implications

17. There are no human resources, sustainability, equality or diversity implications arising directly from this report.

### Conclusion

18. This report sets out the statistical data for complaints received during 2013/14.

### Background papers

None

## APPENDIX ONE

## OMBUDSMAN DECISIONS – 1 APRIL 2013 TO 31 MARCH 2014

**1. Ombudsman decision – complete – no report****Decision date – 27 June 2013****Ombudsman main subject area – planning and development****Complaint**

That the council took insufficient action to deal with noise nuisance from a neighbouring business.

**Background**

There is a garage to the rear of Mr A's property that had planning permission for use as a repair garage. In 2011 officers received complaints that a car wash and valet business was operating from the site. Officers visited the site in February 2011 and concluded that the car wash and valet business represented a change of use that did not have planning permission; however, they decided not to take action as there was no evidence of planning harm.

In April 2011 Mr A complained about the noise and extended operating hours of the valeting service and officers carried out a further site visit. They concluded that, in view of the complaints, the garage owner should submit a retrospective planning application. An environmental protection officer (EPO) advised the owner that the application would need to be accompanied by an acoustic report.

Mr A also submitted a complaint to the environmental protection team about the noise from the business. Officers asked Mr A to keep diary sheets to record evidence of the noise and notified the owner of the business that a complaint had been received. Mr A submitted diary sheets but officers considered that they did not contain sufficient evidence to take action. Officers then installed noise monitoring equipment in Mr A's property for a two week period but concluded that the recordings did not provide evidence that the noise amounted to a statutory nuisance. The EPO contacted Mr A to explain the results and invited him to contact her again should the noise increase.

The owner of the garage submitted a planning application in October 2011; he advised that the delay was due to him seeking various quotes from acoustics companies and that he had struggled to find a company that could carry out the work within a reasonable timescale. The company he appointed then took a number of months to compile its report. On checking the application, the planning registration team found that the owner had not submitted a location plan, block plan or floor plans. The case officer and the registration team continued to chase the owner for these plans and, during this period, the case officer considered whether to take enforcement action. However, at that stage, officers had not established there was a problem with noise and disturbance from the car wash and concluded that action was not appropriate. In reaching that conclusion they took into account:

- Mr A's concerns
- the fact that the owner had a fall back position and it was likely that the lawful use of the site as a petrol filling station and vehicle repair workshop could cause at least as much, if not more, noise and disturbance than the car wash
- officers seek to support small business and employment uses and prefer to work with them proactively to resolve breaches of planning control through negotiation and, where appropriate, the submission of a planning application.

A valid application was received in February 2012.

The case officer set out his assessment of the application in a delegated decision report in April 2012. He considered Mr A's objections and consulted the EPO who had investigated Mr A's noise complaint.

In its report, the acoustics company concluded that the erection of a 2.8 metre high acoustic fence would reduce noise levels at the façade of Mr A's home to 4 db(A) below the background level. However, officers had concerns about the visual impact of a 2.8 metre fence and asked the company to assess the impact of reducing the height of the fence to two metres. The company confirmed that this reduction would increase noise levels by 4 db(A) above the level from a 2.8 metre high fence. The resulting noise level at the face of Mr A's home would therefore be equal to the background level of 45 db(A). However, the fence was designed primarily to protect the garden area, which is closes to the car valet business, and it is important to note that the reduction in noise level in Mr A's rear garden nearer to the acoustic fence would be significantly more than that at the façade to his home.

When assessing the likelihood of noise to cause complaints, BS 4142 (1997) "Method for rating industrial noise affecting mixed residential and industrial areas", states that noise of 5 db(A) above background is of marginal significance. A noise level of 10 db below background can be taken as a positive indication that complaints are unlikely. The proposed reduction in noise levels arising from a two metre high fence falls between these two values.

For new installations officers usually request a target noise level from new plant/equipment of 5db(A) below the background level. However, in some circumstances where there is already consent for a business which generates noise, they will accept a level equal to the background level, as would occur in this case with an acoustic fence height of two metres.

The EPO visited the site and considered the acoustic report; she concluded that the business would not cause harmful levels of noise provided a two metre acoustic fence was erected on the boundary with Mr A's property. The case officer concluded that the business would not result in significantly adverse impacts on neighbouring properties, particularly as the site had permission for a repairs garage that the officer considered would cause similar levels of noise. Planning permission was granted, under the head of planning's delegated powers, on 23 April 2012 subject to conditions including to agree the opening hours of the business with officers and that the owner should submit details of the acoustic fence within two months of when planning permission was granted and erect it within four months.

Officers agreed with the owner that the opening hours should be 9am to 6pm Monday to Friday, 9am to 5pm on Saturday and 10am to 4pm on Sunday and no use should take place on bank or public holidays.

The owner failed to submit details of the fence and, in November 2012, an officer wrote to him to warn him that he was in breach of the condition and that the officer would consider serving a breach of condition notice if details were not submitted within 14 days. The owner subsequently submitted the details and the EPO concluded that the fence would provide adequate noise mitigation from the car wash. Officers discharged the condition in December 2012 and the fence was erected in February 2013.

In July 2012 Mr A complained that the business was breaching the conditions restricting its opening hours. An enforcement officer made number of visits, including at weekends and bank holidays. He also visited Mr A, asked him to keep diary sheets and explained he would continue to make unannounced visits to the site. The officer only witnessed one breach on August bank holiday and, in September 2012, requested a meeting with the owners to discuss the breach. The owner agreed to a meeting in December 2012.

The enforcement officer visited Mr A again in March 2013 when Mr A provided a further diary sheet. On discussion with Mr A, and on examining the diary sheet, it was clear that Mr A was noting the time he saw people on site rather than when the business was open and washing cars. Officers concluded not to take any action as Mr A's evidence showed activity on site rather than cars being washed and valeted in excess of its opening hours and that any breach had not been at anti social hours. Officers reminded the owners of the opening hours and warned that they could serve a breach of condition notice if there was evidence of further breaches on bank holidays.

Mr A also complained that the fence had not reduced noise. Officers said that the fence was intended to reduce noise in the garden and would offer limited protection in the house.

### **Ombudsman's conclusions**

The ombudsman's investigator concluded that there was no evidence of fault by the council causing injustice to Mr A in how officers investigated his complaints of noise from a car wash and valet business or how it dealt with the retrospective planning application and the discharge of conditions of that application.

## **2. Ombudsman decision – complete – no report**

**Decision date – 7 January 2014**

**Ombudsman main subject area – planning and development**

### **Complaint**

That the council failed to take enforcement action against a neighbour who had built a large extension without planning permission.

## Background

There was a brick wall approximately 1.4 metres high along the boundary between Mrs B's property and her neighbour; there was also a wooden trellis approximately 1.8 metres high along the top of the wall. There was no extension in the 'infill' courtyard area of the neighbouring property. The neighbours subsequently built an extension to cover the infill. The roofline was approximately two metres high, sloping upwards to a ridge.

In May 2013 the trellis and extension were removed and the brick wall raised by a further 15 courses of bricks to approximately 2.5 metres high, forming the side elevation to a new extension at the neighbour's property.

Class A of the Town and Country Planning (General Permitted Development) Order 1995 states that developments may be made from the boundary wall of an unlisted property up to three metres out and up to three metres high (rising to a maximum of four metres). In May 2013 the wall height was increased to 2.23 metres; therefore, the first three metre length of the new wall was classed as permitted development.

Section 171B (enforcement time limits) of the Town and Country Planning Act 1990 states that any unauthorised building development is immune from enforcement action after four years, beginning with when such development was substantially complete. As the old extension was built c1997 it became immune from enforcement action four years later, i.e. c2001.

As the old extension effectively gained planning permission in 2001 any similar sized replacement does not require planning permission and only work that exceeds the size of the previous extension requires separate planning permission. The extension built in May 2013 is higher than the old extension and therefore the extra elevation (approximately 11 inches or the equivalent of three courses of bricks) does require fresh planning permission. Although the brick wall itself had been increased in height by 15 new courses of bricks, all but the top three courses were deemed to be a replacement of the old extension.

The net result of the above is that the only area of the wall which officers could take enforcement action against was the top three courses of bricks and a portion of the roof running from three metres out from the boundary wall to its connection with the far wall.

An enforcement officer considered taking enforcement action; the remedy would have been for the neighbours to remove the area of wall and roof that was in breach and either leave the wall/roof exposed allowing the elements into a living room (which would have rendered much of the downstairs uninhabitable) or replaced it with a lower wall and roof to match the previous extension design (which would have looked unsightly, damaging the visual amenity for the owners and neighbours). The enforcement officer also weighed up the reasonableness of such enforcement action and the high probability that, if the neighbours appealed, the appeal would be upheld. The enforcement officer therefore concluded that enforcement was not justified. In addition, if the neighbours submitted a planning application to regularise the breach, it was likely to be successful.

### **Ombudsman's conclusions**

The ombudsman's investigator concluded that there was no evidence of fault in the way officers reached the decision not to take enforcement action.

### **3. Ombudsman decision – complete – no report**

**Decision date – 14 June 2013**

**Ombudsman main subject area – planning and development**

#### **Complaint**

That the council failed to properly consider the impact of the neighbour's side and rear extension on Mrs C when it granted planning permission. In particular the council did not visit Mrs C's home to assess whether the development would overshadow her property and did not take into account the impact on her bed and breakfast business.

#### **Background**

Mrs C runs a bed and breakfast from her detached property. The neighbour was given planning permission, under the head of planning's delegated powers, to replace an existing side extension to his property with a side and rear extension. The new extension came closer to Mrs C's boundary.

Mrs C objected to the application. A planning officer visited the site when Mrs C was not at home; the officer therefore assessed the application from the front garden of her property, the street and the site itself.

In his delegated report the officer stated that there was a gap of around six metres between Mrs C's property and the new extension with mature vegetation around four metres high on the shared boundary. In his view the vegetation provided a good screen. The ground floor windows to Mrs C's property were already overshadowed by the vegetation and her car port and so the officer's view was that the extension would have an acceptable impact on Mrs C's property. The officer clarified that he accepted the new extension would have an impact on the light to Mrs C's property but it was not so much as to warrant refusing the application.

Mrs C claims that the officer should have assessed the impact from inside her dwelling and taken into account that some of the windows on her ground floor are guest bedrooms and her guest dining room.

#### **Ombudsman's conclusion**

The ombudsman's investigator concluded that there was no fault in how officers considered the impact of the neighbour's extension on Mrs C's amenity.

### **4. Ombudsman decision – discontinue investigation**

**Decision date – 30 September 2013**

**Ombudsman main subject area – benefits and tax**

## Complaint

That the council failed to bill Ms D for her business rates for over two years.

## Background

There was a delay after Ms D moved into the property in her receiving business rate bills. Shortly after she moved in Ms D contacted Capita to let them know she had moved in; she says she was told she would not be liable for business rates until an inspector visited. The inspector visited two and a half months later. The inspector left an occupation form, which Ms D completed and returned; however, Capita has no record of receiving it.

As Capita did not receive Ms D's completed form they did not raise a new account and continued to invoice the former tenants of the shop. The legislation in place at the time stated that an empty property with a rateable value of £9,000 did not attract a charge; demands were therefore being issued to the registered office of the former occupiers of the property showing that nothing was due. As no recovery action was necessary during that time, and the former tenants did not return or question anything, coupled with the fact that Capita did not receive the occupation form that would have generated a new account, no amendments were made to the database.

The legislation changed from 1 April 2011 and an empty rate charge became due and payable. Capita therefore issued bills in the previous occupier's names and, because no payments were made, carried out a check of the companies house register in May 2011; this revealed that the company concerned had been dissolved in July 2010. Capita then issued bills to the town council, as landlords of the property, who subsequently advised that Ms D had taken over responsibility for the property from 16 March 2009. Capita therefore raised an account and issued demands in July 2011 for the period 16 March 2009 to 31 March 2012.

By the time the demands were issued we could only grant small business rate relief from 1 April 2010 because, once 30 September 2010 has passed, we were no longer able to make awards for the previous financial year. However, under appeal, officers agreed that, due to the circumstance surrounding the late billing of Ms D's account, she should not be penalised and subsequently granted relief back to 16 March 2009. In addition, officers agreed a payment arrangement with Ms D to pay off the arrears, set at £30 per week.

Ms D asked for the arrears to be written off. Offices were unable to agree to this as, whilst they accepted the demands were issued much later than expected, and officers did not follow-up on the visit to Ms D's premises in April 2009, having paid business rates previously Ms D was aware they were due. In addition, the fact that an inspector visited the premises should have alerted Ms D to the fact that she would receive demands. There was also nothing to prevent Ms D contacting the business rates team at any time after having completed the occupation form; at that point it would have become immediately apparent that Capita had not received the form. However, to assist Ms D and to try and ensure she did not suffer any severe financial hardship, our revenues and benefits client manager agreed to reduce Ms D's weekly payments to £25 and to remove the court costs from her account.

### **Ombudsman's conclusions**

The ombudsman looks to put a complainant back in the position they would have been in had the fault not occurred. As Ms D would always have had to pay business rates the ombudsman's investigator could see no reason why the rates should be waived or financial compensation paid. She accepted that Ms D believed she would not be liable until the inspector visited, which was not correct, but stated that, in any event the inspector visited in April 2009 so Ms D would have realised from that point there was liability.

The investigator concluded that there was no outstanding injustice to Ms D.

## **5. Ombudsman decision – not to initiate an investigation**

**Decision date – 25 July 2013**

**Ombudsman main subject area – benefits and tax**

### **Complaint**

That there was fault by the council in the way it dealt with council tax matters.

### **Background**

Mr E disputed officers' decision on which property was his sole or main residence for council tax purposes. He appealed to the Valuation Tribunal against that decision; he also subsequently appealed to the High Court. Additionally, Mr E complained to the Investigatory Powers Tribunal that officers had carried out excessive surveillance.

Mr E further complained about officers' failure to award a sole occupancy discount and the delay sending a revised bill with a second home discount. The Valuation Tribunal is the appropriate body to consider such matters and the ombudsman's investigator considered it reasonable for Mr E to use his right of appeal as soon as the dispute was not resolved to his satisfaction.

Mr E criticised the council tax information on our website. Officers advised that they would consider his comments when next reviewing the website. The ombudsman's investigator considered she could not achieve more for Mr E by investigating this part of his complaint.

Mr E claimed he had suffered considerable financial loss, expense, trouble and inconvenience. He considered officers had not reached the right decision on his council tax liability. Mr E had used his right of appeal to the Valuation Tribunal, which is the appropriate body to rule on whether officers reached the right decisions; the ombudsman cannot overrule those decisions and substitute her own.

### **Ombudsman's conclusions**

The ombudsman could not investigate the parts of Mr E's complaint about his council tax liability or officers' surveillance because he had appealed to a tribunal. The ombudsman did not investigate the remaining parts of Mr E's complaint because it could not achieve the outcome he was seeking on his council tax disputes.



## 6. Ombudsman decision – outside jurisdiction

Decision date – 10 April 2013

Ombudsman main subject area – planning and development

### Complaint

That the council failed to follow due process and wrongly rejected his planning application.

### Background

Mr F applied for planning permission to demolish an existing building and erect two new dwellings in its place. The planning case officer assessed the application and prepared a report recommending approval. However, contrary to that recommendation, the planning committee refused planning permission. Mr F was concerned that the planning committee was biased and its decision was not based on material planning considerations. He appealed to the planning inspectorate and the planning inspector allowed the appeal and granted planning permission.

The whole process from Mr F applying for planning permission to the inspector granting his appeal took 11 months. Mr F sought compensation from the council for the additional time and expense he incurred in appealing the council's decision; he calculated those expenses exceeded £9,000. Mr F stated that, although the planning inspector granted planning permission, he did not award costs against the council.

The planning committee was not bound to follow the case officer's advice. Councillors are entitled to express their views and reach their own decisions on the merits of the case. Officers were therefore not prepared to contribute towards Mr E's expenses.

### Ombudsman's conclusions

Section 26(6)(b) of the Local Government Act states that the ombudsman shall not investigate a matter where the person aggrieved has, or had, a right of appeal to a government minister. This is the case even though the appeal may not provide a complete remedy. The planning inspector acts on behalf of a government minister.

The act does provide the ombudsman with discretion to consider complaints where there is an alternative remedy, but this discretion no longer applies where a complainant has exercised their right of appeal. In this case Mr F had the right of appeal to the planning inspectorate and he exercised that right.

The ombudsman's investigator concluded that Mr F's concerns were not separable from the decision on the planning application and therefore did not investigate the complaint.

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# **Report to: Cabinet Council**

## **Audit and Corporate Governance Committee**

Report of: Head of Finance

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Cabinet Member responsible: David Dodds

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To: Audit and Corporate Governance Committee on: 29 September 2014

To: Cabinet on: 09 October 2014

To: Council on: 16 October 2014

## **Treasury management outturn 2013/14**

That Audit and Corporate Governance Committee:

1. notes the treasury management outturn report 2013/14,
2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy, and
3. make any comments and recommendations to cabinet as necessary.

That Cabinet:

Considers any comments from Audit and Corporate Governance Committee and recommends Council to:

1. approve the treasury management outturn report for 2013/14;
2. approve the actual 2013/14 prudential indicators within the report.

## **Purpose of report**

1. The report fulfils the legislative requirements to ensure the adequate monitoring and reporting of the treasury management activities and that the council's prudential indicators are reported to council at the end of the year. The report provides details of the treasury activities for the financial year 2013/14.
2. This complies with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Practice on Treasury Management (revised) 2009.

## **Strategic objectives**

3. Effective treasury management is required in order to meet our strategic objective of managing our business effectively. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure resources are available to deliver our services and meet the council's other strategic objectives.

## **Background**

4. The council's treasury activities are strictly regulated by legislation. The CIPFA Prudential Code and CIPFA Treasury Management Code of Practice require a report to be provided to council at the end of the financial year. The report covers the treasury activity for 2013/14.
5. The 2013/14 treasury management strategy was approved by council on 21 February 2013. This report provides details on the treasury activity and performance for 2013/14 against prudential indicators and benchmarks set for the year. Full council is required to approve this report.
6. An update on the economic conditions and interest rate forecasts is contained in appendix 'A'.

## **Icelandic bank default – Kaupthing Singer & Friedlander**

7. The Council invested £2.5 million in July 2007 with the failed Icelandic bank Kaupthing Singer and Friedlander Ltd (KSF). The Council has received £2,144,488 to date in respect of the claim for £2.6 million (£2.5 million investment plus interest).
8. As a wholesale depositor, the Council is treated as an unsecured creditor in the administration process and ranks equally with all other unsecured creditors. The administrators intend to make further payments at regular intervals. The latest creditors' report now indicates that the estimated total amount to be recovered should be in the range of 84p to 86.5p in the pound. In total terms this would mean receiving between £2,209,901 and £2,275,671.

## **Treasury activities in 2013/14**

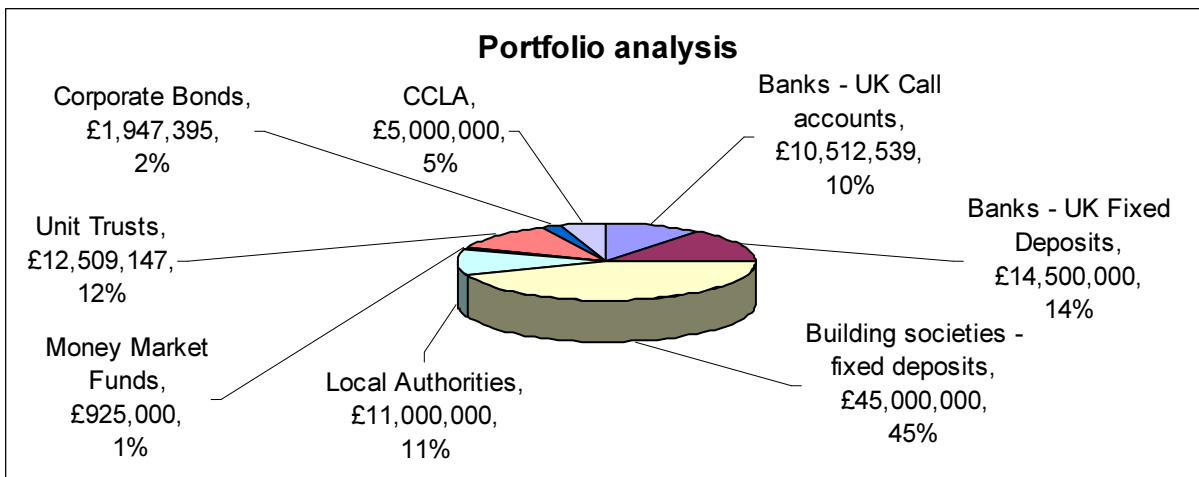
### **Council investments as at 31 March 2014**

9. The Council continues to invest with regard for security, liquidity and yield, in that order. The Council's investments, analysed by age as at the end of 2013/14, is shown in table 1 below.

<b>Table 1: maturity structure of investments as at 31 March 2014:</b>		
	<b>Total £000</b>	<b>% holding</b>
<b>Cash deposits:</b>		
Call account	10,513	10%
Notice account	-	0%
Up to 1 month	-	0%
2 month	4,000	4%
3 month	6,500	6%
4 month	9,000	9%
5-6 Month	11,000	11%
7-12 Month	23,000	23%
1 -2 Year	5,000	5%
2-7 Year	12,000	12%
Kaupthing Singer & Friedlander	222	0%
<b>Total cash deposits</b>	<b>81,235</b>	<b>80%</b>
<b>CCLA pooled property fund</b>	5,000	5%
<b>Equities</b>	12,509	12%
<b>Corporate bonds</b>	1,947	1%
<b>Money market funds</b>	925	1%
<b>Overall total</b>	<b>101,617</b>	<b>100%</b>

*Note: £101.617 million does not represent uncommitted resource the council has at its disposal. This amount includes council tax receipts held prior to forwarding to Oxfordshire County Council and Thames Valley Police, business rate receipts prior to payment to the government and committed capital and revenue balances. Details of the council's uncommitted balances are provided in the annual budget and council tax setting report.*

10. A significant proportion of the portfolio is held in the form of fixed interest rate cash deposits. These provide some certainty over the investment return. The chart below shows in percentage terms how the portfolio is spread across the investment types:



**Investment income**

11. The total interest earned on investments during 2013/14 was £2.2 million, compared to the original estimate of £1.9 million, as shown in table 2 below:

**Table 2: Investment interest earned by investment type**

Investment type	Interest earned		
	Annual Budget £000	Actual £000	Variation £000
Call accounts	223	213	(10)
Cash deposits < 1yr	770	958	188
Cash deposits > 1yr	80	172	92
MMF	15	26	11
Corporate Bonds	259	184	(75)
Equities	300	410	110
Transferred debt	0	1	1
CCLA	300	269	(31)
	1,947	2,233	286

12. The variation in investment earnings of £286,000 above the original estimate for 2013/14 is due to a number of reasons:

- Interest received on unit trusts was £110,000 higher than forecast due to the overall increase in the value during the year.
- Interest earned on corporate bonds was £75,000 lower due to maturities that were not reinvested in corporate bonds
- Interest earned on cash deposits was £280,000 higher than forecast due to longer dated investments combined with higher interest rates achieved.
- Interest earned on CCLA was £31,000 lower due to fluctuations in the price of units held.

13. The actual average interest rate of return achieved for the year was 1.73 per cent.

**Movement in the value of investments**

14. Table 3 below shows the movement in value of the Council’s investments at the end of the year.

<b>Table 3: Investment portfolio values and movements.</b>	<b>2012/13 £m's</b>	<b>2013/14 £m's</b>	<b>Movement in Investments</b>
<b>Cost Values (£m's)</b>			
Bank & Building Society deposits	87.56	81.94	(5.62)
CCLA	5.00	5.00	0.00
Equities	13.43	12.51	(0.92)
Corporate Bonds	4.16	1.95	(2.21)
	110.15	101.40	(8.76)

The value of investment deposits fluctuates throughout the year due to cash flow and spending patterns.

**Performance measurement**

15. A list of investments as at 31 March 2014 is shown in appendix B. All investments were with approved counterparties. The average level of investments held was £122 million and the average return on these investments is shown below in table 4. This shows in summary the performance of the council’s investments against the benchmarks set out in the Treasury Management Strategy. These benchmarks are used to assess and monitor the council’s investment performance for each type of investment.

<b>Table 4: Investment returns achieved against benchmark</b>				
	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.39%	1.39%	1.00%	3 Month LIBID
Equities	5.18%	4.95%	(0.23%)	FTSE All Shares Index
Property related investments*	12.20%	14.20%	2.00%	IPD balanced property unit trust index
Corporate Bonds	0.50%	5.68%	5.18%	BoE base rate

\*source CCLA Local Authorities Property Fund Report March 2014

Note: the benchmark return for unit trusts reflects the movement in capital value. All other benchmarks reflect earnings of investment income. The total actual return for the whole investment portfolio was 1.73 per cent.

16. Bank and building society deposits decreased by £5.62 million during the year from £87.56 million as at 1 April 2013 to £81.94 million by 31 March 2014.

17. Returns on internally managed cash deposits are benchmarked against the three month LIBID rate, which was an average of 0.39 per cent for 2013/14. The performance for the year of 1.39 per cent exceeded the benchmark by 1.00 per cent.

18. It remained difficult to place investments because of continued financial uncertainty. Some good rates were achieved which contributed to the increase in investment income during the year. The government’s Funding for Lending Scheme (FLS) was introduced in August 2012. As a result interest rates at which banks and building

societies accepted deposits from local authorities dropped sharply. After this, investments were primarily held in call accounts which offered a better return than the market rates for deposits.

19. Local authority market rates for cash deposits have historically been around the same level as the three month LIBID rate. However, actual rates achieved are dictated by changeable factors, such as cash flow and the market demand for funds. For the purposes of providing comparative performance indicators, the market average rates of interest are shown in table 5.

<b>Table 5: Cumulative performance against benchmark &amp; industry average</b>		<b>Cumulative % returns</b>
<b>Actual</b>		<b>1.39</b>
Benchmark - 3 Month LIBID		0.39
Variance - (Under)/Over benchmark		1.00
Industry average*		0.26
Variance - (Under)/Over Ind Average		1.13

\*Source: Capita Asset Services - weighted average of 5 fund managers results covering 22 funds.

### Equities

20. The council's holdings with the Legal & General (L&G) UK 100 Index Trust were purchased in 2000/01 at an initial cost of £10 million. This is an authorised unit trust incorporated in the United Kingdom and regulated by the FSA. The trust's objective is to track the capital performance of the UK equity market as represented by the FTSE 100 index.
21. The unit trusts are accounted for in the Council's financial statements at fair value<sup>1</sup>. The market value in April 2013 of £13.43 million rose significantly between April and May 2013, at which point the value exceeded the trigger point of £14m, when a disposal of £2m was made. Table 6 below shows the movement in capital value:

<sup>1</sup> Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. In some cases this will be the amount paid for purchasing the investment. This may not always be the case, where there have been substantial transaction costs (as in an investment fund), or where interest payable does not reflect market rates or obligations (as in corporate bonds).



<b>Table 6: Unit Trusts - Movement in capital</b>		
	£	£
Market Value as at 31.3.14		12,509,146
Less:		
Dividends received in year	226,086	
Accrued dividends	183,568	
		(409,654)
Add:		
Disposal in year		2,000,000
Amended market value as at 31.3.14		14,099,492
Market value as at 1.4.13		13,434,098
Increase in Market Value in year		665,394

22. The value quoted in the statement of accounts includes adjustments for accrued interest. In order to assess the true unit trust performance an adjustment must be made to amend the market value<sup>2</sup>. Table 7 below shows the unit trust performance without the accounting adjustments required for the statement of accounts:

23. Unit trusts fluctuated quite a lot throughout the year, as volatility in the markets has driven investors to move to safer havens such as gilts.

<b>Table 7: Unit Trust performance 1.4.13 - 31.3.14</b>	
Increase in FTSE all share was	5.18%
Increase in Market Value	4.95%
Under-performance	(0.22%)
	£
Market Value 1.4.13	13,434,098
Plus 5.18% FTSE increase	695,886
Benchmark Market Value at 31.3.14	14,129,984
Market Value (amended at 31.3.14)	14,099,492
<b>Under performance 1.4.13 to 31.3.14</b>	<b>(30,492)</b>

24. Dividends received of £0.5 million were reinvested to acquire additional fund units. The unit trusts are benchmarked against the FTSE All Shares Index, which represents 98-99 per cent of the UK market capitalisation. The index shows the performance of all eligible companies listed on the London Stock Exchange main market and today covers 630 constituents with a combined value of nearly £1.8 trillion. It is recognised as the main benchmark for unit trusts.

<sup>2</sup> Market value: this is the price that would be paid on a specific date.

## Corporate Bonds

25. The Council's corporate bonds are also accounted for in the financial statements at fair value. The opening carrying value<sup>3</sup> for 1 April 2013 was £4.1 million. The closing carrying value at 31 March 2014 was £1.9 million. The Halifax 11.5% bond matured during the year. The carrying values and market values for the corporate bonds are shown in table 8 below:

Table 8: Corporate bond values					
Bonds	Original cost £000's	Nominal Value £000's	Carrying Value as at 1.4.13 £000's	Carrying Value as at 1.4.14 £000's	Market value at 1.4.14
Santander 11.50%	422	270	323	311	321
RBS 9.625%	1,973	1,500	1,631	1,589	1,626
Halifax 11.5%	2,942	2,000	2,114	0	0
	5,337	3,770	4,068	1,900	1,947

26. The weighted average return on the Council's corporate bonds for 2013/14 was 5.90 per cent, this significantly exceeded the benchmark return.

27. The corporate bonds mature on dates between 2015 and 2017. Annual interest earned will remain the same for the whole period a bond is held. Table 9 below shows the redemption yield of the bonds if held until the redemption date.

Table 9: corporate bond redemption yields if held to maturity								
Bank	Interest rate %	Original cost £000	Nominal value £000	Interest to date	Interest due	Redemption value £000	Redemption date	Redemption yield
Santander	11.50%	422	270	322	105	697	04/01/2017	5.59%
RBS	9.63%	1,973	1,500	1,632	280	3,412	22/06/2015	6.20%

## Money market funds (MMFs)

28. Money market funds are commercially run pooled investments. They work rather like unit trusts, but whereas the latter are based upon shares in companies, MMFs rely on loans to companies. As their pooled funds have a high total value, better rates of return can be obtained. Legislation allows authorities to access only those MMFs with the highest possible credit rating (AAA).

29. Access and liquidity, together with high security, have meant these funds have been used throughout the year. The Council currently invests in three MMFs and the amount held in each at the 31 March 2014 is shown below:

<sup>3</sup> Carrying value: the accounting treatment of investments will depend on the financial asset category within which they are deemed to be. For some categories the amount carried in the balance sheet will be either written up or down over the term of the investment. This is done to reflect things such as transaction costs or deferred interest payments and is required to spread the effect equally over the life of the investment. The adjusted value is the carrying value.

<b>Table 10: Money market funds</b>	
	<b>31/03/2014</b>
	<b>£000</b>
Deutsche Bank	265
Blackrock	490
Goldman Sachs	170
	<b>925</b>

**Other investments**

**PENSION FUND CONTRIBUTIONS**

- 30. The Council made two contributions of £5 million to the Oxfordshire County Council pension fund, one in April 2005, the other in April 2008. The Council made these payments to reduce the ongoing contributions to the fund. Based on historical performance statistics, the return earned by the pension fund has been better than that achieved by the Council. The pension fund is able to invest far larger amounts than we do and therefore can attract higher rates of return.
- 31. The value of the pension fund assets and liabilities is based on a series of actuarial assumptions. From 1 January 2013, the expected return and interest cost will be replaced with a single net interest cost, which will effectively set the expected rate of return equal to the pensions discount rate provided in the International Accounting Standard (IAS19). Based on the actuarial valuation as at the 31 March 2013, the long term rate of return per annum expected on the funds assets was 4.4 per cent (4.3 per cent as at 31 March 2013).

**LAND AND PROPERTY**

- 32. The Council holds a portfolio of investment property which includes land, industrial estates, depots, garages and shops that are used on a commercial basis. These assets had a net book value of £15.9 million at 31 March 2014 (£15.9 million at 31 March 2013) and generated income (net of any direct service costs) of £1.1 million in 2013/14 (£1.0million in 2012/13).
- 33. The Economy, Leisure and Property (ELP) team manages investment property, ensuring that rent is collected and rent reviews are implemented. The performance of the investment property is assessed annually by ELP to determine if assets should be retained or disposed of and agree any actions to improve or enhance the value of the investment property holdings.

**Treasury management limits on activity**

- 30. The council is required by the Prudential Code to report on the limits set each year in the Treasury Management Strategy. The purpose of these limits is to ensure that the activity of the treasury function remains within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. During the year none of these limits were exceeded. These limits are shown in appendix C.

**LIQUIDITY AND YIELD**

31. The benchmarks for liquidity are set to ensure that sufficient funds can be accessed at short notice. These are targets and not limits. The weighted average life (WAL) in days sets a benchmark for how long investments should be made and the maximum benchmark is a target set to ensure that investments are not made for too long. For example the amount to be maintained for liquidity was £10m and the actual of £11m was above the benchmark. The actual for the WAL of 333.5 days was within the range set (within which we set a benchmark of 182 days). The reason that the actual was above the benchmark is that during the year the council lent out some longer term investments to another local authority to spread the investment portfolio and access better returns.
32. The year end position against the original benchmarks approved in February 2013 is shown below:

<b>Table 11: Risk-liquidity against benchmark</b>		
	<b>2013/14 Benchmark £m</b>	<b>2013/14 Actual £m</b>
Bank overdraft	0.5	0
Short term deposits - minimum available within 1 week	10	11
	<b>2013/14 Benchmark £m</b>	<b>2013/14 Actual £m</b>
Weighted average life (days)	182.5	333.5

**Debt activity during 2013/14**

33. During 2013/14 there has been no need for the Council to borrow. The Council will continue to take a prudent approach to its debt strategy. The prudential indicators and limits set out in appendix C provide the scope and flexibility for the Council to borrow in the short-term up to the maximum limits, if such a need arose within the cash flow management activities of the authority, for the achievement of its service objectives.

**Financial implications**

34. The investments made in 2013/14 ensured that the council earned interest of £2.2 million. Although there was talk of a rise in interest rates a year ago, the reduction in inflationary pressures has meant that interest rates have remained at their historic low. The current outlook for growth in the UK economy means that there may start to be an increase in rates towards the end of 2014/15, but any increases (if they occur) are likely to be gradual and in small steps.
35. From 2014, income is anticipated to remain stable with no real increase until market rates maintain a sustained rise. This will be reflected in the council's 2015/16 budget and its medium term financial plan.

**Legal implications**

36. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, the DCLG Local Government Investment Guidance provides

assurance that the council's investments are, and will continue to be, within its legal powers.

## Conclusion

37. As at 31 March 2014, the Council's financial investments had a cost value of approximately £102 million. As a result of proactive management of investments held, and despite the low interest rates, during 2013/14 investments generated £2.233 million in investment income, which was £286,000 above the £1.947 million original budgeted estimate.
38. The financial year 2013/14 continued to provide a challenge to treasury management. Concerns for counterparty risk continue to present the council with a difficult environment to invest in. The main implications of these factors were:
- low investment returns and difficulty to forecast;
  - increased counterparty risk – reduced choice of counterparties
  - interest rate exposure risk – due to investments held in short-term maturity periods.
39. Despite the continued uncertainty the overall investment performance was above the industry average for 2013/14. Investments were made in the year that provided a good return whilst maintaining security and liquidity.

## Background papers

- Chartered Institute of Public Finance and Accounting (CIPFA) code of practice for treasury management in the public sector.
- CIPFA treasury management in the public services code of practice and cross sectoral guidance notes
- Treasury Management Strategy 2013/14 – Council 21 February 2013.

## Appendices

- A – Economic update and interest rates
- B – List of investments as at 31 March 2014
- C – Prudential indicators
- D – Glossary of terms

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## **Economic Update and interest rates as at July 2014**

### **Economic update and interest rates as at July 2014**

- A1. The UK returned to strong growth during 2013/14 and indications are this will continue through 2014/15.
- A2. Inflation has fallen sharply and expectations are that inflation will continue to be subdued. However, real incomes are still having an affect on households as wages have not risen with inflation. The squeeze on households' income will remain a critical factor in the economy over the next few years. The slow recovery has meant that social security payments remain high and tax income is low.
- A3. Deflation is now a threat in the Eurozone. The ECB took some action in June 2014 to loosen monetary policy in order to promote growth.
- A4. The government's Funding for Lending Scheme (FLS) has been introduced to improve access to mortgages at lower rates. This has reduced lenders need to borrow and money market rates have fallen considerably as a result. There will be a need to increase interest rates and reverse the government bond purchases at some stage, but it is unlikely that the latter will happen in the next 12 to 24 months.
- A5. Investor demand in UK gilts as a 'safe haven' continues to keep yield increases down. Long term rates will eventually rise, mainly due to the fact that high volumes of gilts have been issued already in the UK and also in other major western countries.
- A6. Following comments from the MPC and Mark Carney, along with the prospect of good economic recovery in 2014, interest rates are forecast to rise from 2015.
- A7. Concerns over investment counterparty risk remain because of the volatile economic conditions. However the council's current treasury management policy manages this risk down to a low level.

### **Interest rates**

- A8. The Bank of England Inflation report upgraded its growth predictions to 3.4% in 2014 and 2.9% in 2015.
- A9. Bank rate remained unchanged at 0.5% throughout 2013/14. The earlier forecast of a rate rise in Q4 of 2016 has been revised to Q1 in 2015. This follows comments from the MPC and the fact economic recovery is likely to be robust.
- A10. Investment rates have remained flat with a range between 0.5 per cent to around 1.0 per cent for up to a year's maturity. This has dropped significantly as banks and building societies were offered further cheap cash supply via the FLS. The short term rates from one month to six months offer very little differential with six month rates ranging between 0.37 per cent and 0.55 per cent.

A11. Capita Asset Services' forecast of the expected movement in medium term interest rates: Agenda Item 5

	NOW	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
BANK RATE	0.50	0.50	0.50	0.75	0.75	1.00	1.00
3 month LIBID	0.50	0.50	0.60	0.80	0.80	1.10	1.10
6 month LIBID	0.58	0.60	0.80	0.90	1.00	1.15	1.20
12 month LIBID	0.80	0.80	1.00	1.00	1.20	1.30	1.40
5 yr PWLB	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10 yr PWLB	3.50	3.70	3.70	3.80	3.90	4.00	4.00
25 yr PWLB	4.10	4.40	4.40	4.50	4.60	4.70	4.70
50 yr PWLB	4.10	4.40	4.40	4.50	4.60	4.70	4.70
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
BANK RATE	1.25	1.25	1.50	1.75	2.00	2.00	2.00
3 month LIBID	1.30	1.40	1.60	1.90	2.10	2.25	2.25
6 month LIBID	1.40	1.50	1.80	2.00	2.20	2.30	2.30
12 month LIBID	1.70	1.80	2.10	2.20	2.30	2.40	2.40
5 yr PWLB	3.20	3.30	3.30	3.40	3.50	3.60	3.60
10 yr PWLB	4.10	4.20	4.20	4.30	4.40	4.40	4.40
25 yr PWLB	4.80	4.80	4.90	4.90	4.90	5.00	5.00
50 yr PWLB	4.80	4.80	4.90	4.90	4.90	5.00	5.00



Counterparty	Deposit type	Maturity Date	Principal	Rate
Kingston upon Hull City Council	Fixed	Jun-15	1,000,000	1.90%
Barclays Bank plc	Fixed	Dec-14	2,000,000	3.75%
HSBC	Fixed	Feb-17	2,000,000	1.90%
West Bromwich Building Society	Fixed	May-14	2,000,000	1.05%
Skipton Building Society	Fixed	May-14	2,000,000	0.86%
West Bromwich Building Society	Fixed	Jun-14	3,000,000	0.95%
Bank of Scotland	Fixed	Jul-14	5,000,000	1.01%
West Bromwich Building Society	Fixed	Jul-14	1,000,000	0.93%
National Counties Building Society	Fixed	Jun-14	1,500,000	1.00%
Kingston upon Hull City Council	Fixed	Aug-20	3,500,000	2.70%
Kingston upon Hull City Council	Fixed	Aug-20	1,500,000	2.70%
National Counties Building Society	Fixed	Jun-14	2,000,000	1.00%
West Bromwich Building Society	Fixed	Sep-14	3,000,000	1.05%
National Counties Building Society	Fixed	Jul-14	2,000,000	1.00%
Blaenau Gwent County Borough Council	Fixed	Apr-16	3,000,000	1.38%
West Bromwich Building Society	Fixed	Oct-14	2,000,000	1.00%
Manchester Building Society	Fixed	Jul-14	1,000,000	0.90%
National Counties Building Society	Fixed	Aug-14	2,000,000	0.95%
Progressive Building Society	Fixed	Aug-14	1,000,000	0.85%
Progressive Building Society	Fixed	Aug-14	1,000,000	0.85%
Progressive Building Society	Fixed	Sep-14	2,000,000	0.92%
Close Brothers	Fixed	Nov-14	2,500,000	1.15%
Furness Building Society	Fixed	Sep-14	2,000,000	0.85%
Newcastle Building Society	Fixed	Oct-14	2,000,000	0.85%
Furness Building Society	Fixed	Sep-14	2,000,000	0.88%
Progressive Building Society	Fixed	Oct-14	1,000,000	0.85%
Close Brothers	Fixed	Dec-14	3,000,000	1.00%
Skipton Building Society	Fixed	Dec-14	2,000,000	0.88%
National Counties Building Society	Fixed	Nov-14	2,500,000	1.00%
Manchester Building Society	Fixed	Oct-14	2,000,000	0.90%
Kingston upon Hull City Council	Fixed	Jan-21	2,000,000	2.50%
Manchester Building Society	Fixed	Oct-14	2,000,000	0.90%
Newcastle Building Society	Fixed	Jan-15	2,000,000	0.90%
Newcastle Building Society	Fixed	Jan-15	2,000,000	0.90%
Santander	Call		10,030,219	0.90%
Royal Bank of Scotland	Call		2,320	0.85%
Royal Bank of Scotland	Call		480,000	0.80%
Goldman Sachs	MMF		170,000	Variable
Deutsche Bank	MMF		265,000	Variable
Blackrock	MMF		490,000	Variable
L&G Equities	Unit trust		12,509,147	Variable
Royal Bank of Scotland	Corporate bond		1,626,000	9.63%
Santander	Corporate bond		321,395	11.50%
CCLA - property fund	Property fund		5,000,000	4.65%
<b>GRAND TOTAL</b>			<b>101,394,080</b>	

<b>Prudential indicators as at 31 March 2014</b>		
	<b>2013/14 Original estimate £m</b>	<b>31.03.2014 Position £m</b>
<b>Authorised limit for external debt</b>		
Borrowing	5	0
Other long term liabilities	5	0
	<b>10</b>	<b>0</b>
<b>Operational boundary for external debt</b>		
Borrowing	2	0
Other long term liabilities	3	0
	<b>5</b>	<b>0</b>
<b>Investments</b>		
<b>Interest rate exposures</b>		
Limits on fixed interest rates	100	100
Limits on variable interest rates	30	30
<b>Maximum principal sums invested &gt; 364 days</b>		
Upper limit for principal sums invested > 364 days	70	17
Limit to be placed on investments to maturity		
1 - 2 years	70	5
2 - 5 years	50	10
5 years +	50	2
<b>Investment portfolio spread</b>		
Supranational bonds	15	0
Gilts	15	0
Equities*	10	13
Corporate bonds	10	4
Money market funds	20	4
Pooled bond fund	5	0
Property - direct investments	30	16
Property related pooled funds	10	5
External fund manager	20	0
Cash and certificates of deposit	85%	80%
Debt management account deposit facility	100%	0%

\*Limit at time of purchase - Equities include accumulated dividends

GLOSSARY OF TERMS

<b>Basis Point (BP)</b>	1/100th of 1%, i.e. 0.01%
<b>Base Rate</b>	Minimum lending rate of a bank or financial institution in the UK.
<b>Benchmark</b>	A measure against which the investment policy or performance of a fund manager can be compared.
<b>Bill of Exchange</b>	A non-interest-bearing written order used primarily in international trade that binds one party to pay a fixed sum of money to another party at a predetermined future date.
<b>Callable Deposit</b>	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
<b>[Cash] Fund Management</b>	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
<b>Certificate of Deposit (CD)</b>	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.
<b>Commercial Paper</b>	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
<b>Corporate Bond</b>	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
<b>Counterparty</b>	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)
<b>Credit Default Swap (CDS)</b>	A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.

<b>Capital Financing Requirement (CFR)</b>	The amount the council has to borrow to fund its capital commitments.
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy.
<b>CLG</b>	[Department for] Communities and Local Government.
<b>Derivative</b>	A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
<b>Debt Management Account Deposit Facility (DMADF)</b>	Deposit Account offered by the Debt Management Office, guaranteed by the UK government
<b>European Central Bank (ECB)</b>	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.
<b>European and Monetary Union (EMU)</b>	The Economic and Monetary Union (EMU) is an umbrella term for the group of policies aimed at converging the economies of all member states of the European Union.
<b>Equity</b>	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital appreciation. Equity values can decrease as well as increase.
<b>Forward Deal</b>	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
<b>Forward Deposits</b>	Same as forward dealing (above).
<b>Fiscal Policy</b>	The government policy on taxation and welfare payments.
<b>GDP</b>	Gross Domestic Product.
<b>[UK] Gilt</b>	Registered UK government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
<b>LIBID</b>	London inter-bank bid rate
<b>LIBOR</b>	London inter-bank offered rate.

<b>Money Market Fund</b>	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however in a MMF.
<b>Monetary Policy Committee (MPC)</b>	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
<b>Other Bond Funds</b>	Pooled funds investing in a wide range of bonds.
<b>PWLB</b>	Public Works Loan Board.
<b>QE</b>	Quantitative Easing.
<b>Retail Price Index</b>	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.
<b>Sovereign Issues (excl UK Gilts)</b>	Bonds issued or guaranteed by nation states, but excluding UK government bonds.
<b>Supranational Bonds</b>	Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.
<b>Treasury Bill</b>	Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.

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# Audit and Corporate Governance Committee



Report of Audit Manager

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To: Audit and Corporate Governance Committee

DATE: 29 September 2014

## Internal audit activity report quarter two 2014/15

### Recommendation

That members note the content of the report.

### Purpose of report

1. The purpose of this report is to summarise the outcomes of recent internal audit activity for the committee to consider. The committee is asked to review the report and the main issues arising, and seek assurance that action has been or will be taken where necessary.

### Background

2. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the councils' objectives. It assists the councils by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary.
3. After each audit assignment, internal audit has a duty to report to management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses.

4. Assurance ratings given by internal audit indicate the following:

**Full Assurance:** There is a sound system of internal control designed to meet the system objectives and the controls are being consistently applied.

**Satisfactory Assurance:** There is basically a sound system of internal control although there are some minor weaknesses and/or there is evidence that the level of non-compliance may put some minor system objectives at risk.

**Limited Assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.

**Nil Assurance:** Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

5. Each recommendation is given one of the following risk ratings:

**High Risk:** Fundamental control weakness for senior management action

**Medium Risk:** Other control weakness for local management action

**Low Risk:** Recommended best practice to improve overall control

### Internal Audit Activity

6. Since the last audit and corporate governance committee meeting, the following audits have been completed:

#### Planned Audits

Full Assurance: 4

Satisfactory Assurance: 0

Limited Assurance: 1

Nil Assurance: 0

	Assurance Rating	No. of Recs	High Risk Recs.	No. Agreed	Medium Risk Recs.	No. Agreed	Low Risk Recs.	No. Agreed
<b>Fees and Charges 1314</b>	Full	2	0	0	0	0	2	2
<b>Contract Monitoring 1415</b>	Full	3	0	0	0	0	3	3
<b>Car Parks 1415</b>	Full	0	0	0	0	0	0	0
<b>Corporate Governance 1415</b>	Full	0	0	0	0	0	0	0
<b>Anti-Fraud and Corruption 1415</b>	Limited	6	1	1	3	3	2	2



## Follow Up Reviews

	Initial Assurance Given	No. of Recs	Implemented	Partly Implemented	Not Implemented	Ongoing
<b>Stock Control 1314</b>	<b>Satisfactory</b>	<b>6</b>	5	0	1	0
<b>Inter-council Recharges 1314</b>	<b>Satisfactory</b>	<b>5</b>	4	0	1	0
<b>Disaster Recovery 1314</b>	<b>Satisfactory</b>	<b>7</b>	3	0	3	1

7. **Appendix 1** of this report sets out the key points and findings relating to the completed audits which have received limited or nil assurance, and satisfactory or full assurance reports which members have asked to be presented to committee.
8. Members of the committee are asked to seek assurance from the internal audit report and/or respective managers that the agreed actions have been or will be undertaken where necessary.
9. A copy of each report has been sent to the appropriate head of service, the relevant strategic director, the section 151 officer and the relevant member portfolio holder. In addition to the above arrangements, reports are now published on the council intranet and committee members are alerted by e-mail when reports are published.
10. Internal audit continues to carry out a six month follow up on all non-financial audits to establish the implementation status of agreed recommendations. All key financial system recommendations are followed up as part of the annual assurance cycle.

## Outstanding Recommendations

11. At the last committee meeting, a new spreadsheet was introduced which summarised the number of outstanding recommendations within each service area. The audit manager has reviewed the process which is required to produce the statistics, and it is significantly labour-intensive with live information not being available to heads of service and services managers to assist them in managing risks and implementing their outstanding recommendations. The audit manager has met with IT services to discuss a more suitable approach to collating and making this information available to heads of service and service managers. A solution has been agreed and the format will be trialled in October, with heads of service and service managers becoming actively involved in the process from November. A revised spreadsheet supported by the new approach will be presented at the next committee meeting.

## Financial Implications

12. There are no financial implications attached to this report.

**Legal Implications**

13. None.

**Risks**

14. Identification of risk is an integral part of all audits.

ADRIANNA PARTRIDGE  
AUDIT MANAGER

## **ANTI-FRAUD AND CORRUPTION ARRANGEMENTS 2014/2015**

### **1. INTRODUCTION**

- 1.1 This report details the internal audit review of procedures, controls and the management of risk in relation to anti-fraud and corruption arrangements. The audit has been undertaken in accordance with the 2014/2015 audit plan agreed with the audit and corporate governance committee of South Oxfordshire District Council (SODC). The audit has a priority score of 18. The audit approach is provided in the audit framework in Appendix 1.
- 1.2 The following areas have been covered during the course of this review to provide assurance that:
- To ensure an adequate, up-to-date and approved anti-fraud and corruption policy and response plan, money laundering policy and whistleblowing policy is in place.
  - To ensure that supporting guidelines and procedures are in place for the policies, which include reference to the process to follow for disclosures from within the council and from outside the council.
  - To ensure that the roles and responsibilities of all the relevant parties within the policies are clarified in an effective manner i.e. the whistleblower, human resources, internal audit, section 151 officer, and monitoring officer.
  - To ensure there is an effective network for promoting the policies across the council.
  - To ensure that adequate training processes and awareness mechanisms are in place.

### **2. BACKGROUND**

- 2.1 The council has a duty to protect the public funds under its control against fraud and corruption both from within the council and from external sources. Fraud is defined as the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain. Corruption is defined as the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person.
- 2.2 Following the publication of the Nolan Report in 1997, the Local Government Act 2000, and several well publicised cases concerning fraud and corruption within local government, the council recognises the need for a policy to prevent wrongdoings. An anti-fraud and corruption policy has been drafted as part of the council's commitment to protect public funds.
- 2.3 The monitoring officer (head of legal and democratic services) has overall responsibility for the maintenance and operation of the anti-fraud and corruption policies and liaises as necessary with the chief executive, the section 151 officer (head of finance) and the internal audit manager.

- 2.4 An annual audit commission fraud survey was undertaken for the year 2013/14 and it was identified that there were housing benefits and council tax fraud cases that amounted to £313,354.40 for South Oxfordshire District Council.

### 3. PREVIOUS AUDIT REPORTS

- 3.1 Anti-fraud and corruption arrangements were last subject to an internal audit review in 2009 and 11 recommendations were raised. All recommendations were agreed. A limited assurance opinion was issued. A follow-up audit was also performed by internal audit in April 2010.
- 3.2 Following the 2010 follow-up audit, eight had been fully implemented, one was partly implemented and two have not been implemented. It should be noted that two recommendations from April 2010 follow-up audit have been revised and incorporated into this report and the other recommendation has been restated with the findings made in the current audit review (Rec 5 and 6).

### 4. 2014/2015 AUDIT ASSURANCE

- 4.1 **Limited assurance:** There are some weaknesses in the adequacy of the internal control system which put the system objectives at risk and/or the level of non-compliance puts some of the system objectives at risk.
- 4.2 Six recommendations have been raised in this review. One high risk, three medium risks and two low risks.

### 5. MAIN FINDINGS

#### 5.1 Updated anti-fraud and corruption policies

- 5.1.1 Internal audit established that there are anti-fraud and corruption policies in place. These include anti-fraud and corruption, anti-bribery, whistleblowing and money laundering. It was also noted that a formal review process is in place with exception of the money laundering policy. Internal audit also identified that the money laundering procedures have not been updated since November 2011, and an officer has not been allocated responsibility for keeping the procedures up to date. Three recommendations have been made as a result of our work in this area. (Rec 1, 2 and 3)

#### 5.2 Anti-fraud and corruption policies guidance notes

- 5.2.1 Internal audit established that there are supporting guidelines and procedures in place for the anti-fraud and corruption policy and the whistleblowing policy. The policies were reviewed and it was identified that there is no clear process of how to make external or internal disclosures to the council. The money laundering policy was also reviewed and it was identified that although the policy is in place, there are no supporting guidelines/response plans in place. Details of the policy owner and next review date are documented in the supporting guidelines.

5.2.2 There are currently three service areas within the council that are likely to undertake investigations. These include the human resources department, legal and democratic department and internal audit team. Internal audit discussed respective investigatory approaches with the human resources manager and the head of legal and democratic services, and it was concluded that there is not a standard approach to compiling investigation files, working papers and evidence. One recommendation has been made as a result of our work in this area (Rec 4) and a previous recommendation from the 2008/09 audit has been restated in this section (Rec 6).

### 5.3 **Roles and Responsibilities**

5.3.1 Internal audit established that all officers with direct accountability of the anti-fraud and corruption policies are aware of their roles and responsibilities which include reviewing and maintaining them. The roles of the relevant parties are clearly stated in an effective manner in all the anti-fraud and corruption policies. No recommendations have been made as a result of our work in this area.

### 5.4 **Promotion of Policies across the council**

5.4.1 It was identified that whilst senior management are aware of the practices and procedures in place for anti-fraud and corruption, there is insufficient evidence to show that this is being promoted to all employees. Further review of the policies identified that the councillors require signposts in their induction packs cross referencing them to the council's corporate guidelines i.e. anti-fraud and corruption policies. Internal audit also identified that the whistleblowing policy located on the council's intranet website was out of date. One recommendation has been made as a result of our work in this area. (Rec 5)

### 5.5 **Training and awareness mechanisms**

5.5.1 It was identified that there is insufficient evidence to show that the anti-fraud and corruption policies are referred to in the induction programmes for employees and councillors. A survey was conducted using 15 randomly selected staff members employed under the shared services arrangements (who remained anonymous throughout the process). Results of the survey identified that a significant number of employees had not received sufficient training or awareness of the council's anti-fraud and corruption arrangements. Results of the survey are documented in Rec 5. Through a review of the corporate training programme for 2014/2015, it was noted that a training module is not in place for fraud and corruption policies for both employees and councillors. One recommendation has been made as a result of our work in this area (Rec 5).

## 6. CATEGORISATION OF RECOMMENDATIONS

6.1 To assist management in using our reports, we have categorised our recommendations according to their level of priority as follows:

<b>High risk</b>	Fundamental control weakness for senior management action	<b>Rec 5</b>
<b>Medium risk</b>	Other control weakness for local management action	<b>Recs 2, 4 and 6</b>
<b>Low risk</b>	Recommended best practice to improve overall control	<b>Recs 1 and 3</b>

## OBSERVATIONS AND RECOMMENDATIONS

### POLICIES AND RESPONSE PLAN

#### 1. Anti-Fraud and Corruption Response Plan (Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A comprehensive anti-fraud and corruption response plan should be in place to prevent/deter inappropriate conduct, guide officers on how to report a concern and state how the council will deal with any fraud and corruption reports.</p> <p><u>Findings</u> Internal audit reviewed the anti-fraud and corruption response plan and noted that it does not clearly state:</p> <ul style="list-style-type: none"> <li>• Guidance about recovering assets;</li> <li>• Clear distinctions between internal and external disclosures.</li> </ul> <p><u>Risk</u> Staff, general public and councillors are unaware of all the necessary information for the anti-fraud and corruption response plan leading to reputational damage and potential financial losses to the council.</p>	<p>The anti-fraud and corruption response plan must be updated to clearly reflect all information required regarding:</p> <ul style="list-style-type: none"> <li>• Guidance about recovering assets;</li> <li>• Clear distinctions between internal and external disclosures.</li> </ul>	<p>Head of legal and democratic services</p>
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed</b></p> <p>Management response: Head of legal and democratic services</p>		<p>31 March 2015</p>

#### 2. Money Laundering Policy – Review (Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> A comprehensive up to date policy should be in place to prevent/deter money laundering, and to state how the council will deal with any instances of money laundering being identified.</p> <p><u>Findings</u></p>	<p>S151 officer to ensure that annual reviews are undertaken on a regular basis and other reviews around specific instances such as the issuing of new legislation and updates to the money laundering policy take place as</p>	<p>Head of finance</p>

<p>Internal audit identified that the current money laundering policy was last reviewed and updated in November 2011 and there is no evidence of the policy being reviewed on a regular basis. It was also noted that there has been a change in government legislation in October 2012 relating to money laundering that had not been updated in the current council policy.</p> <p><u>Risk</u> No regular reviews or monitoring of fraud policies bringing about incorrect or out of date information, leading to potential fraud and financial loss in the council.</p>	<p>appropriate.</p>	
<p><b>Management Response</b></p>		<p><b>Implementation Date</b></p>
<p>Recommendation is <b>Agreed</b> A full review was delayed due to the internal audit manager's period of maternity leave. This work is scheduled to be completed in the current financial year.</p> <p>Management response: Head of finance</p>		<p>31 March 2015</p>

### 3. Whistleblowing Policy

(Low Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Up to date procedures are in place and available to all staff members covering all whistleblowing processes.</p> <p><u>Findings</u> The whistleblowing policy on the council's intranet website is currently not up to date.</p> <p><u>Risk</u> Staff unaware of the current whistleblowing procedure leading to non-reporting, reputational damage and potential financial losses to the council.</p>	<p>The most recently reviewed whistleblowing policy should be uploaded on the council intranet website to ensure that all officers have up to date information of the policy and required procedures.</p>	<p>Head of legal and democratic services</p>
<p><b>Management Response</b></p>		<p><b>Implementation Date</b></p>
<p>Recommendation is <b>Agreed</b> Management response: Head of legal and democratic services</p>		<p>31 October 2014</p>

## ANTI-FRAUD AND CORRUPTION POLICIES GUIDANCE NOTES

### 4. Money Laundering Response Plan

(Medium Risk)

Rationale	Recommendation	Responsibility
<p><u>Best Practice</u> Should money laundering be suspected or identified, the council should have clear guidelines on how it</p>	<p>A comprehensive money laundering response plan needs to be implemented by the S151 officer and</p>	<p>Head of finance</p>

<p>should/will be dealt with.</p> <p><u>Findings</u> There are no response plans/guidance notes in place to support the money laundering policy.</p> <p><u>Risk</u> Officers and council members unaware of how to respond to a suspected money laundering incident, potentially leading to reputational damage, delays to an investigation being completed and potential financial losses to the council.</p>	<p>published to all staff and council members.</p>	
<p><b>Management Response</b></p>		<p><b>Implementation Date</b></p>
<p>Recommendation is <b>Agreed</b> A full review was delayed due to the internal audit manager's period of maternity leave. This work is scheduled to be completed in the current financial year.</p> <p>Management response: Head of finance</p>		<p>31 March 2015</p>

**PROMOTION OF POLICIES ACROSS THE COUNCIL**

**5. Awareness of anti-fraud and corruption arrangements and training modules.**

**(High Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> The anti-fraud and corruption culture of the council should be set at the top and promoted throughout the whole organisation to ensure it is embedded within the council.</p> <p>All members and staff should be aware of their responsibilities in accordance with the anti-fraud and corruption arrangements.</p> <p><u>Findings - awareness</u> Internal audit identified that the arrangements to ensure that there is adequate awareness of anti-fraud and corruption by officers is insufficient.</p> <p>There is no actual control in place to ensure that there is sufficient visibility of the policies (i.e. posters/leaflets/bulletins) across the council buildings.</p> <p>A survey was conducted by internal audit using a random selection of 15 anonymous members of staff in various council departments. The following results were identified in the survey:</p> <ul style="list-style-type: none"> <li>13 out of 15 participants who undertook the survey have not</li> </ul>	<p>a) The council needs to ensure that there is sufficient visibility (i.e. posters/leaflets/bulletins) across all council buildings informing staff of the anti-fraud and corruption culture throughout the workplace.</p> <p>b) An anti-fraud and corruption/money laundering training session should be developed and made available to councillors/officers, with appropriate officers identified for mandatory training.</p> <p>c) Officers and councillor's induction packs to be developed to include all fraud policies including mandatory training required and the requirement of refresher courses to be undertaken (preferable online courses).</p>	<p>Head of legal and democratic service, Head of finance, HR manager, Head of corporate strategy.</p>



<p>received any training on anti-fraud arrangements in the last five years.</p> <ul style="list-style-type: none"> <li>• Two out of the 15 participants of the survey were not sure what anti-fraud and corruption is or how it links in with their job roles.</li> <li>• Eight out of 15 participants of the survey appeared to have limited or no knowledge of the Anti-Fraud and Corruption Policies and Arrangements (including other related policies).</li> </ul> <p><u>Findings 2008/09 - training</u> There is currently no anti-fraud and corruption training module available to members and officers, and Internal Audit could not find any evidence that any member or officer had received anti-fraud and corruption training.</p> <p><u>Findings 2014/15 - training</u> a) The induction pack for council members was also reviewed and it was noted that there is currently no mention of the Anti-Fraud Policies or of any mandatory training required.</p> <p>b) The internal auditor had an opportunity to attend the staff induction training held on the 23<sup>rd</sup> June 2014. It was noted that there was no mention or reference of anti-fraud and corruption policies/procedures/practices to new staff members.</p> <p><u>Risk</u> Potential unidentified and unreported fraudulent activities taking place leading to the objectives of the strategy not being achieved and potential financial loss to the council.</p> <p>If members and staff are not aware of their responsibilities in relation to anti-fraud and corruption and do not execute them effectively, there is a risk that they do not fulfil their obligations appropriately and the objectives of the strategy will not be achieved.</p>		
<p><b>Management Response</b></p>		<p><b>Implementation Date</b></p>
<p>Recommendation is <b>Agreed</b> a) We will source template materials and adopt them for the councils needs, working with the HR and communications team. Management response: Head of legal and democratic services</p> <p>b) Regular money laundering training is given to the cashiers who handle all cash paid in at the council offices. A review will be</p>		<p>30 November 2014</p> <p>31 March 2015</p>

<p>carried out this financial year to identify other staff who may require training and training will be provided. Management response: Head of finance</p>	
<p>I don't believe a specific training session is required, but what we have done as a result of your recommendation is to add a section to the existing Freedom of Information and Data Protection Training on anti-fraud and corruption. This is a compulsory course, attended every three years. Management response: HR manager</p>	10 September 2014
<p>Training will be made mandatory. We would train councillors after each election. It is undecided whether the training will be on-line. Management response: Head of corporate strategy.</p>	30 June 2015
<p>c) The induction pack includes a section on anti-fraud and corruption as of 30 June 2014. We have also now added a note to the managers' checklist for new starters to draw attention to the anti-fraud and corruption policy. Management response: HR manager</p>	30 June 2015
<p>All fraud policies will be included within the councillor development programme. Management response: Head of corporate strategy.</p>	30 June 2015

**PREVIOUS RECOMMENDATIONS RESTATED**

**6. Standard investigations files**

**(Medium Risk)**

<b>Rationale</b>	<b>Recommendation</b>	<b>Responsibility</b>
<p><u>Best Practice</u> Investigation documentation should be handled appropriately to ensure that its integrity is upheld.</p> <p><u>Findings</u> Internal audit noted that there is an inconsistent approach to documenting investigations between internal audit, democratic services and human resources. There is also no guidance in place for the management of investigation documentation.</p> <p><u>Risk</u> If the integrity of investigation documentation is not upheld, there is a risk that any allegation of fraud and corruption can not be substantiated within a court of law.</p>	<p>A standard approach for compiling investigation files and collating and documenting evidence should be implemented.</p>	<p>Head of legal and democratic service, Head of finance, HR manager</p>
<b>Management Response</b>		<b>Implementation Date</b>
<p>Recommendation is <b>Agreed</b> A review of the different approaches will be carried out in order to develop a single approach that follows best practice.</p> <p>Management response: Head of legal and democratic service, Head of finance, HR manager</p>		<p>31 March 2015</p>

# Audit and Corporate Governance Committee



Report of Audit Manager

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To: Audit and Corporate Governance Committee

DATE: 29 September 2014

## Internal audit management report quarter two 2014/15

### Recommendation

That members note the content of the report

### Purpose of report

1. The purpose of this report is:
  - to report on management issues within internal audit;
  - to summarise the progress against the 2014/2015 audit plan up to 15 September 2014; and
  - to summarise the priorities for quarter three 2014/2015.
2. The contact officer for this report is Adrianna Partridge, Audit Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823544 and (VWHDC) 01235 547615.

### Strategic objectives

3. Managing our business effectively.

## Background

4. The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 states that the head of internal audit should prepare a risk-based audit plan, which should outline the assignments to be carried out and the broad resources required to deliver the plan.
5. The CIPFA Code also states that the audit committee should approve the annual internal audit plan and monitor progress against the plan. This Committee approved the annual internal audit plan on 17 March 2014.

## Management issues

6. Nilesh Parmar, auditor left the council on the 29 August. The recruitment process for a replacement has commenced, and interviews will be held on the 22 and 23 September. In the interim, Craig Pullen will be returning to undertake a number of key financial system audits.

## Progress against the 2014/2015 audit plan

7. Progress against the approved audit plan has been calculated for the quarter and year to date and is summarised in **appendix 1** attached.
8. Performance figures to date are as follows:

	Target	YTD	Q1 13/14	Q2 13/14	Q3 13/14	Q4 13/14
<b>Chargeable</b> (identifiable client and/or specific IA deliverable)	74%	75%	72%	77.5%		
<b>Non-Chargeable</b> (corporate, not IA deliverable)	8%	7%	7%	6.5%		
<b>Lost</b> (i.e. leave, study, sickness)	18%	18%	21%	16%		

9. As at 15 September 2014 the status of audit work against the 2014/2015 audit plan is as follows:

### Planned

Strategic, operational and financial assurance work known and approved by the Audit and Governance Committee.

2014/2015	Planned	Complete	Draft	In progress	To commence
<b>PLANNED</b>	<b>26</b>	<b>5</b>	<b>1</b>	<b>2</b>	<b>18</b>
Joint	26	5	1	2	18

Adhoc

Unplanned project work based on agreed terms of reference with the audit manager (i.e. implementation of new systems) and responsive work issued and agreed by the section 151 officer, members or senior management team (i.e. investigations).

2014/2015	Requested	Complete	Draft	In progress	To commence
<b>ADHOC</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
Joint	1	1	0	0	0
SODC	0	0	0	0	0
VWHDC	0	0	0	0	0

Follow up

Work undertaken to ensure that agreed recommendations have been implemented. The number of follow-up audits is a rolling number, all internal audit reports are followed up after six months.

2014/2015	Requested	Complete	Draft	In progress	To commence
<b>FOLLOW-UP</b>	<b>27</b>	<b>15</b>	<b>0</b>	<b>0</b>	<b>12</b>
SODC	13	7	0	0	6
VWHDC	14	8	0	0	6

**Priorities for 2014/2015 quarter three (October 2014 – December 2014)**

10. The priorities for quarter three are to:
  - Successfully appoint to the auditor position.
  - Undertake a full review of the town and parish council initiative and make recommendations to the strategic management board.
  - Undertake a full review of the risk management and business continuity management arrangements and make recommendations to the strategic management board.
  
11. Remaining 2014/2015 planned audit work can be reviewed in **appendix 2**.

**Financial implications**

12. There are no financial implications attached to this report.

**Legal implications**

13. None.

**Risk implications**

14. Identification of risk is an integral part of all audits.

ADRIANNA PARTRIDGE  
AUDIT MANAGER

System Name	Status	Audit Allocation	Total Days Used	Exception Issues	Audit Opinion	No. of Recs	High	No. Agreed	Medium	No. Agreed	Low	No. Agreed	Total Not Agreed
As at 15 September 2014													
<b>JOINT</b>													
Procurement (24 priority score) SODC VWHDC	Commence Q4	12	0.0 0.0										
Payroll (22) SODC VWHDC	In progress	32	5.0 5.0										
Housing & Council Tax Reduction Scheme (20) SODC VWHDC	Commence Q4	30	0.0 0.0										
Car Parks (20) SODC VWHDC	Completed	20	9.5 9.5		Full Full	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0
Leisure Centres (20) SODC VWHDC	Commence Q4	30	0.0 0.0										
National Non-Domestic Rate (19) SODC VWHDC	Commence Q3	20	0.0 0.0										
Council Tax (19) SODC VWHDC	Commence Q3	20	0.0 0.0										
General Ledger (19) SODC VWHDC	TOR sent	20	0.0 0.0										
Sundry Debtors (19) SODC VWHDC	Commence Q3	20	0.0 0.0										
Creditor Payments (18) SODC VWHDC	Commence Q3	20	0.0 0.0										
Pro-Active Anti-Fraud Review (18) SODC VWHDC	TOR sent	20	0.0 0.0										

<b>Travel &amp; Subsistence (18)</b> SODC VWHDC	<b>In progress</b>	20	5.0 5.0											
<b>Anti-Fraud &amp; Corruption Policies (18)</b> SODC VWHDC	<b>Completed</b>	16	9.0 9.0	3 days over due to new auditor.	<b>Limited</b> <b>Limited</b>	<b>6</b> <b>6</b>	<b>1</b> <b>1</b>	<b>1</b> <b>1</b>	<b>3</b> <b>3</b>	<b>3</b> <b>3</b>	<b>2</b> <b>2</b>	<b>2</b> <b>2</b>	<b>0</b> <b>0</b>	
<b>Capital Management and Accounting (17)</b> SODC VWHDC	<b>Commence Q3</b>	14	0.0 0.0											
<b>Contract Monitoring (17)</b> SODC VWHDC	<b>Completed</b>	20	6.5 6.5		<b>Full</b> <b>Full</b>	<b>3</b> <b>3</b>	<b>0</b> <b>0</b>	<b>0</b> <b>0</b>	<b>0</b> <b>0</b>	<b>0</b> <b>0</b>	<b>3</b> <b>3</b>	<b>2</b> <b>2</b>	<b>1</b> <b>1</b>	
<b>Bank Contract &amp; Arrangements (17)</b> SODC VWHDC	<b>Commence Q3</b>	8	0.0 0.0											
<b>Treasury Management (16)</b> SODC VWHDC	<b>TOR sent</b>	14	0.0 0.0											
<b>Land Charges (16)</b> SODC VWHDC	<b>TOR sent</b>	20	0.5 0.5											
<b>Corporate Governance (16)</b> SODC VWHDC	<b>Completed</b>	20	7.5 7.5		<b>Full</b> <b>Full</b>	<b>0</b> <b>0</b>	<b>0</b> <b>0</b>	<b>0</b> <b>0</b>	<b>0</b> <b>0</b>	<b>0</b> <b>0</b>	<b>0</b> <b>0</b>	<b>0</b> <b>0</b>	<b>0</b> <b>0</b>	
<b>Receipt of Income Arrangements (15)</b> SODC VWHDC	<b>Commence Q3</b>	18	0.0 0.0											
<b>Partnership Performance Monitoring (15)</b> SODC VWHDC	<b>Commence Q4</b>	20	0.0 0.0											
<b>Waste Management &amp; Recycling (15)</b> SODC VWHDC	<b>Commence Q3</b>	20	0.0 0.0											
<b>Project Management (15)</b> SODC VWHDC	<b>Commence Q4</b>	26	0.0 0.0											
<b>Petty Cash (14)</b> SODC VWHDC	<b>Draft out</b>	16	8.5 9.0											
<b>Temporary Accommodation (14)</b> SODC VWHDC	<b>Completed</b>	24	14.0 14.0	4 days over due to level of sample testing required.	<b>Limited</b> <b>Limited</b>	<b>9</b> <b>7</b>	<b>0</b> <b>1</b>	<b>0</b> <b>1</b>	<b>3</b> <b>2</b>	<b>3</b> <b>2</b>	<b>6</b> <b>4</b>	<b>6</b> <b>4</b>	<b>0</b> <b>0</b>	



Development Management (10)	Commence Q4	20											
SODC			0.0										
VWHDC			0.0										
<b>IA PLANNED AUDIT TOTALS</b>	-	520	131.5			34	3	3	11	11	20	18	2
				Full									
				Satisfactory									
				Limited									
				Nil									

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**FOLLOW UP AUDITS 2013/2014**

System Name	Total Days Used	Original Audit Opinion Issued	Total No. of Recs Agreed	Implemented	Partly Implemented	Not Implemented	Ongoing
<b>SODC</b>							
Brown Bins	0.5	Full	1	1	0	0	0
Environmental Health Food & Safety	0.5	Satisfactory	7	5	0	1	1
Health & Safety	0.5	Satisfactory	4	1	0	0	3
Inter Council Recharges	0.5	Satisfactory	5	4	0	1	0
Post Room	0.5	Satisfactory	8	6	0	0	2
RIPA	0.5	Full	3	1	1	0	1
Stock Control	0.5	Satisfactory	6	5	0	1	0
Disaster Recovery	0.5	Satisfactory	7	3	0	3	1
<b>VWHDC</b>							
Brown Bins	0.5	Satisfactory	3	1	2	0	0
Environmental Health Food & Safety	0.5	Limited	7	5	0	0	2
Health & Safety	0.5	Satisfactory	7	1	0	1	5
Inter Council Recharges	0.5	Satisfactory	4	3	0	1	0
Post Room	0.5	Satisfactory	3	1	0	1	1
RIPA	0.5	Satisfactory	5	1	2	0	2
Stock Control	0.5	Satisfactory	4	3	0	1	0
Disaster Recovery	0.5	Satisfactory	6	2	0	3	1

**FOLLOW UP AUDITS 2014/2015**

System Name	Total Days Used	Original Audit Opinion Issued	Total No. of Recs Agreed	Implemented	Partly Implemented	Not Implemented	Ongoing
<b>SODC</b>							
<b>VWHDC</b>							
Temporary Accommodation	0.5	Limited	7	3	0	1	3

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**UNPLANNED WORK 2014/2015**

**CONSULTANCY**

System Name	Status	Audit Allocation	Total Days Used	Requested By
<b>JOINT</b>				
Banking Services Tender	Completed	2 days	N/A	S151 Officer
<b>SODC</b>				
None				
<b>VWHDC</b>				
None				

**CONTINGENCY**

System Name	Status	Audit Allocation	Total Days Used	Requested By
<b>JOINT</b>				
None				
<b>SODC</b>				
None				
<b>VWHDC</b>				
None				

**SYSTEM DEVELOPMENT**

System Name	Status	Audit Allocation	Total Days Used	Requested By
<b>JOINT</b>				
None				
<b>SODC</b>				
None				
<b>VWHDC</b>				
None				

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# Annual Governance Statement 2013/14

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## Scope of responsibility

1. South Oxfordshire District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
2. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in exercising its functions, having regard to a combination of economy, efficiency and effectiveness.
3. In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.
4. The council has in place corporate governance arrangements, and has adopted a local code of governance. This local code of governance is consistent with the “*Delivering Good Governance in Local Government*” publication produced by the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives, which was published in 2007.
5. This statement explains how South Oxfordshire District Council has complied with its code of governance, and how the council meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011, in relation to an annual review of the effectiveness of the council’s systems of internal control, and the preparation and approval of an annual governance statement.
6. Our website at [www.southoxon.gov.uk](http://www.southoxon.gov.uk) has a copy of the local code of corporate governance within its Constitution or it can be obtained from:

Democratic Services  
South Oxfordshire District Council  
Council Offices  
Benson Lane  
Crowmarsh Gifford  
Wallingford  
OX10 8ED

Tel. 01235 540307

Email: [democratic.services@southandvale.gov.uk](mailto:democratic.services@southandvale.gov.uk)

## **The purpose of the governance framework**

7. The governance framework comprises the systems, processes, culture and values, by which the council is directed and controlled, and activities through which it accounts to, engages with and leads the community. The governance framework enables the council to monitor achievement of its strategic objectives and to consider whether those objectives have delivered appropriate, cost-effective services.
8. 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 the council's objectives, and therefore can 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 risks to the achievement of the council's 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.
9. The council has had the governance framework described below in place for the year ended 31 March 2014 and up to the date of approval of the 2013/14 statement of accounts in September 2014.

## **The governance framework**

10. The purpose of the governance framework is to do the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Full Council is responsible for directing and controlling the organisation in this manner. Full Council's responsibilities include agreeing the Constitution and key governance documents, the policy framework, key strategies, and agreeing the budget.
11. The council has executive arrangements in place consisting of a cabinet and a scrutiny committee. Cabinet is responsible for proposing the budget, policy framework and key strategies, and implementing them once approved by Council. The scrutiny function allows a committee to question and challenge the policy and performance of Cabinet and promote public debate.
12. The chief executive, who was appointed joint chief executive of this council and Vale of White Horse District Council in September 2008, advises councillors on policy and procedures to drive the aims and objectives of the council. As head of the officer staff, the chief executive oversees the employment and conditions of staff. The chief executive leads a strategic management board that is shared with Vale of White Horse District Council. The chief finance officer, the monitoring officer and heads of service are responsible for advising Cabinet and Scrutiny Committee on legislative, financial and other policy considerations to achieve the council's objectives, and are responsible for implementing councillors' decisions.
13. The governance framework for 2013/14 was based on our local code of governance. Within the framework the council aims to meet the principles of good governance in all aspects of its work, giving particular attention to the main principles:

- Focusing on the council's purpose and on outcomes for the community and creating and implementing a vision for the local area
- Councillors and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of councillors and officers to be effective
- Engaging with local people and other stakeholders to ensure robust public accountability

#### THE STRATEGIC PLANNING FRAMEWORK

14. To ensure the council does the right things, in the right way, for the right people, in a timely, inclusive, open, honest, cost-effective and accountable manner, the strategic planning framework incorporates residents' and service-providers' views as well as national and local priorities.

15. The council's vision is: 'shaping a prosperous future for South Oxfordshire'. This is supported by the Corporate Plan that sets out the council's strategic objectives and corporate priorities, these are:

- Excellent delivery of key services
- Effective management of resources
- Meeting housing need
- Building the local economy
- Support for communities

16. The four-year Corporate Plan, along with Oxfordshire-wide plans, guide decisions on how the council invests financial and staffing resources. These plans determine the types of projects the council supports through grant funding. Arising from the Corporate Plan, there are detailed service work plans, identifying how services undertake specific activities to deliver the council's priorities.

17. The council's work with partners takes place both locally to address local issues and also through some formal partnerships, which may be either service specific or more broadly strategic. Some of the key formal partnerships include:

- South and Vale Community Safety Partnership - this focuses on joint working to reduce crime and the fear of crime, and addresses broader community safety issues affecting local people. It has an annual plan that sets out the partnership's key aims and objectives for the year and is available on the council's website.
- Oxfordshire Local Enterprise Partnership – this is a body made up of representatives from business, academia and the wider public sector. The partnership's aim is to be the catalyst for realising Oxfordshire's economic and commercial potential. The partnership is responsible for delivering the Science Vale Oxford enterprise zone.

- Oxfordshire Environment Partnership – this is a partnership between the county and district councils of Oxfordshire, working together on environmental projects within the county.

18. Our other key strategies include:

- The South Oxfordshire Core Strategy is the first part of a new Local Plan for the district. It provides the strategic planning framework for South Oxfordshire and sets out the high level vision for the district. The core strategy sets out the overall amount of new development in the district and the broad locations for housing, employment, shopping and transport. It also allocates strategic sites and sets out what infrastructure is needed. The core strategy has replaced some of the Local Plan 2011, but a number of non strategic policies still remain in place. The Local Plan 2011 will eventually be replaced by the next planning document, to be known as the Local Plan: Sites and General Policies. Work has commenced on this plan and the council will work closely with local communities throughout the process. Several neighbourhood plans have also been produced by local communities in South Oxfordshire which form part of the development plan.
- equality objectives - the council has set equality objectives in line with the requirements of the Equality Act 2010 and to support the delivery of the council's Corporate Plan priorities.
- boosting the local economy - partnership working is the key theme behind South Oxfordshire District Council's plans to boost its three market towns of Henley, Thame and Wallingford. The South Oxfordshire market towns action plan brings together new ideas alongside ongoing projects, as the council continues to work with the Henley Business Partnership, 21st Century Thame and the Wallingford Partnership, as well as the three respective town councils and various local groups, to help strengthen the local economy and bring more people to the towns. The action plan is designed to support the council's objectives of building the local economy, continuing to invest to improve the viability and attractiveness of our towns, and supporting business growth.

#### PERFORMANCE MANAGEMENT FRAMEWORK

19. The council sets performance targets to achieve its strategic objectives and corporate priorities set out in the Corporate Plan. To ensure the council meet targets and achieves objectives, it has multi-year service work plans and service targets, ensuring that a *golden thread* aligns the council's top-level objectives to the work of each council officer. Separately, the council reports performance to the government in accordance with the single data list.
20. The council uses a performance management system to monitor progress against targets. This involves forecasting year-end outcomes, and undertaking action planning to get measures back on track if they are below target. Where the council is not meeting targets, the responsible head of service discusses these on a monthly basis with their strategic director, and regularly with their Cabinet member and portfolio holder. In addition, the council reviews performance at the end of the year and uses this to help set targets for the coming years.

21. The council has an individual development and performance review scheme focusing on agreement of targets linked to service work plans between managers and individuals. Throughout the year, staff have meetings with their managers to review progress and discuss and plan personal development in line with the council's objectives.
22. As the council outsources a significant number of services, it operates a formal framework for monitoring contractors' performance, and reporting these to Scrutiny Committee.

#### LEGAL FRAMEWORK

23. The council's Constitution sets out how it is managed and guides decision-making towards objectives, and includes a set of procedure rules that govern how we conduct our business. It also includes protocols covering the disclosure of interests in contracts, and the relationship between officers and councillors. In addition, the Constitution contains a code of conduct for officers. The monitoring officer is responsible for ensuring the lawfulness of decision-making and maintaining the Constitution.
24. All decisions are made in accordance with the requirements of the Constitution and the scheme of delegation, which forms part of the Constitution. The monitoring officer will report to full Council or to Cabinet if she considers that any proposal, decision or omission would give rise to unlawfulness, or to the Audit and Corporate Governance Committee if any decision or omission has given rise to maladministration.
25. In the role of monitoring officer, the head of legal and democratic services contributes to the promotion and maintenance of high standards of conduct by councillors. To this end, the council's Constitution incorporates the councillors' code of conduct.

#### FINANCIAL FRAMEWORK

26. The section 151 officer is responsible for the overall management of the financial affairs of the council. The section 151 officer determines all financial systems, procedures and supporting records of the council, after consultation with heads of service. Any new or amended financial systems, procedures or practices are agreed with the section 151 officer before implementation.
27. Full Council is responsible for approving the treasury management strategy and for setting the revenue and capital budgets.
28. The treasury management strategy governs the operation of the council's treasury function, and is reviewed at least annually or during the year if it becomes necessary to do so. This strategy includes parameters for lending and borrowing, and identifies the risks of treasury activity.
29. Both revenue and capital budgets are set by full Council in February each year. Revenue budget setting includes both the calculation of the council tax base and the surplus or deficit arising from the collection fund.
30. Cabinet has overall responsibility for the implementation of the council's financial strategies and spending plans, and is authorised to make financial decisions subject to these being consistent with the budget and policy framework and the Constitution.

31. Heads of service are responsible for ensuring the proper maintenance of financial procedures and records, and the security of assets, property, records, and data within their service area.
32. The chief executive, strategic directors and heads of service consult with the head of finance and the head of legal and democratic services on the financial and legal implications of any report that they are proposing to submit to full Council, a committee (or sub-committee), or Cabinet.

#### RISK MANAGEMENT FRAMEWORK

33. Risk management is important to the successful delivery of the council's objectives. An effective risk management system identifies and assesses risks, decides on appropriate responses and provides assurance that the chosen responses are effective. The overall responsibility for effective risk management in the council lies with the chief executive supported by the strategic management board. The council uses a standard risk management methodology which encompasses the identification, analysis, prioritisation, management and monitoring of risks.
34. Councillors have a responsibility to understand the strategic risks that the council faces, and are made aware of how these risks are being managed through reports to the Audit and Corporate Governance Committee.
35. The strategic management board is responsible for the identification, analysis and management of strategic risks and undertakes regular reviews of those risks.
36. The council has operational risk registers in place for each service area and all heads of service are responsible for ensuring that risks are identified and prioritised and entered onto the risk register. The council reviews and refreshes the operational risk registers each quarter. The council also integrated the annual refresh of its risk registers with the annual service work planning cycle, so that risk mitigation actions can be included in service work plans.
37. All line managers are responsible for implementing strategies at team level by ensuring adequate communication, training and the assessment and monitoring of risks. All officers are responsible for considering risk as part of everyday activities and provide input to the risk management process.
38. The council also has a robust approach to business continuity to ensure that priority services can continue to be delivered to our customers in the event of an unforeseen disruption.

#### **Review of effectiveness of the governance framework**

39. The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the council who have responsibility for the development and maintenance of the governance environment, the internal audit manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

40. The following highlights our review of our governance framework and sets out the assurances of committees, officers and external organisations.

#### REVIEW OF OBJECTIVES

41. The section entitled *the strategic planning framework* (paragraph 14) sets out the council's current strategic objectives as a result of a major review of the Corporate Plan in 2011/12 to ensure that the council is doing the right things in the right way and for the right people. In doing this, the council asked customers to set out their priorities for improvement. Each year the council reviews the Corporate Plan to ensure that it remains current in the years leading up to the four-yearly redrafting of the plan.

#### PERFORMANCE MANAGEMENT AND SERVICE WORK PLANNING

42. The council has a monthly board report which contains a smaller set of key performance indicators selected by the strategic management board and Cabinet.

This graphically details performance in the main areas of council activity, including:

- planning
- housing
- finance
- waste management
- benefits administration

43. The board report also includes the performance of Vale of White Horse District Council.

All charts consistently present:

- current performance
- last year's performance for comparison
- year-end target
- latest year-end prediction by officers
- a narrative supplied by the responsible officer

44. Monthly analysis of the board report demonstrates that the council is meeting the majority of key performance measures. In addition, the analysis shows a long-term, on-going trend of improvement.

45. The board report is subject to a rigorous approval process, whereby it is checked by heads of service as data owners, and then by the strategic management board. The council then publishes the report to its website and notifies all councillors. Councillors may then request the addition of any aspects of poor performance to the agenda of the next Scrutiny Committee meeting. On a quarterly basis, Cabinet members discuss the report.

46. The report has been well received by both councillors and senior management, and is constantly evolving to reflect management requirements. Many graphs are automated so that they now take data directly from the underlying systems.

47. The council has continued its approach of asking target and action owners to forecast whether they are on track to deliver year-end outcomes. For each target or action that is 'below target', the owner must provide an action to get back on track.



48. The council's approach to performance management has received critical acclaim from an independent report by the Advanced Performance Institute. The council has made significant progress over the past years and has implemented a performance management system based on clearly defined output deliverables and priorities.
49. In addition to the monthly board report, the council also produces an annual report that compares the council's performance with all other non-metropolitan district councils. This is used internally to identify any relatively weak areas requiring attention.
50. The council continues to operate a strong approach to service work planning, ensuring that targets and actions are SMART (specific, measurable, achievable, realistic and time-bound). Following the management restructure with Vale of White Horse District Council, there is now a combined approach to service work planning across the two councils. During 2013 and 2014 the council trained all managers on strategic objective-setting and briefed all staff on it. There are council-wide programme themes such as equality and sustainability. Programme managers oversee actions owned by others and thus maximise the chances of the programme meeting its targets.
51. This year, as a further enhancement to the service work planning process, more teams are using 'performance points'. A performance point is a regularly-updated notice board, displayed in a team's service area, which shows how the team is performing against key performance targets. However, there are also electronic performance points displaying real-time data. Performance points:
- are divided into three main sections – customer excellence, business management and staff investment
  - increase the visibility of targets and the progress against them
  - increase the relevance of targets to teams
  - are used at regular meetings to discuss performance
  - are used to review performance with politicians and strategic directors
52. The council has developed a streamlined service work planning process, which links the four-year corporate plan and each team's performance point. In 2012, following a review by Scrutiny Committee, the council made improvements to the system for monitoring the performance of contractors.
53. The combination of all of the approaches listed above is that the council has a strong focus on delivering priorities, managing performance against targets, and progressing actions.

## LEGAL FRAMEWORK

54. In July 2008, the Council approved the creation of a shared senior management team with Vale of White Horse District Council. In September 2008, the chief executive of South Oxfordshire District Council was appointed to the post of shared chief executive. In December 2008, strategic directors were appointed to the shared management team, in February 2009 shared heads of service were appointed, and in April 2010 service managers took up their positions. Since then, most staff have progressively moved into a role shared across the two councils. At the outset of this shared process, the council's

monitoring officer was satisfied that the procedure adopted in the recruitment process complied with all relevant legislation.

55. Section 113 of the Local Government Act 1972 allows a local authority to enter into an agreement with another local authority to place its officers at the disposal of another authority. Staff who are made available under such an arrangement are able to take binding decisions on behalf of the council at whose disposal they are placed, although they remain an employee of their original authority for employment and superannuation purposes. This legislation therefore allows officers to be shared between the two councils. Council authorised the head of legal and democratic services to enter into an agreement under section 113 of the Local Government Act 1972 for this joint arrangement. The section 113 agreement was completed on 26 September 2008 and updated on 18 February 2011.
56. In September 2008, Council agreed that all references to the chief executive, head of paid service, electoral registration officer and returning officer contained in the Constitution should apply to the shared chief executive when acting in those roles for each council with effect from 17 September 2008. Following the appointment of the strategic directors and heads of service in 2008 and 2009 respectively, a harmonised scheme of delegation to officers and harmonised contract procedure rules were introduced to meet the requirements of joint working with Vale of White Horse District Council.
57. The Constitution was reviewed twice during the year to ensure it is up to date. This included a review of the scheme of delegation. In order to ensure the efficiency of decision-making within the budget and policy framework agreed by full Council, decision-making has been delegated to Cabinet members and officers.
58. The monitoring officer did not need to use her statutory powers during the year.
59. Part 3 of the Local Government and Public Involvement in Health Act 2007 required all principal authorities to adopt either an elected mayor and cabinet or a new style 'strong' leader and cabinet. The Council adopted the strong leader model, appointing its leader for a four-year period from 2011 to 2015.
60. Lexcel is the accreditation quality mark which the Law Society has developed. This was awarded to the council's legal team, which must undergo a rigorous independent assessment each year to ensure it meets the required standards of excellence in areas such as customer care, case management and risk management.

<p><b>Action:</b> To continue to review the Constitution to meet the requirements of good governance arising from the joint working arrangements with Vale of White Horse District Council.</p>
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## FINANCIAL FRAMEWORK

### FINANCIAL REPORTING

61. The council produced budget monitoring information for both revenue and capital income and expenditure every quarter from June onwards during the 2013/14 financial year. Budget monitoring reports are available from the council's financial management system, which are profiled, to heads of service and managers every quarter, within two weeks of the end of the period. This ensures up-to-date information, for example by ensuring that all cash received up to the end of the previous period is reflected in the figures. Heads of service and service managers are able to generate their own reports from the financial system at any time.
62. From quarter two onwards, heads of service are required to submit a return to accountancy, which provides reasons for budget variances, and forecasts the end of year outturn position. These are collated into a budget monitoring report which is considered by the strategic management board before being reviewed by finance portfolio holders and circulated to other councillors. These reports highlight the key budget variances being reported by each service, allowing management to focus on them. If required, budget variances can be made during the year. By making such budget transfers in-year, the council is able to realign resources to ensure that overspends do not impact on its ability to deliver other services. This is assisted by the prudent inclusion of a contingency budget.
63. Budgetary control is subject to an internal audit review every three to four years. Otherwise, budgetary control is generally reviewed in audits of teams or service areas.
64. For all committee reports for which a decision is required, a "financial implications" section is included which details the actual, and potential, financial consequences of the decision being taken. An accountant ensures that this information is accurate and relevant.
65. In September 2013, the Audit and Corporate Governance Committee approved the council's financial statements for 2012/13, and the council's external auditors issued an unqualified audit opinion.
66. Officers keep up to date with the latest accounting developments, which enable them to be prepared for the changes in accounting practice that affect the preparation and presentation of the financial statements. The council subscribes to the Chartered Institute of Finance and Accountancy's (CIPFA) finance advisory network and accountants regularly attend these network events, enabling the council's accountants to prepare for changes to accounting requirements. Accountants that attend training courses report back to the rest of the accountancy team on the content of the course.
67. Each year's accounts and annual audit letter are available to the public and are published on the council's website. These are available in accessible formats on request. To assist the public in understanding the accounts, there is an explanatory foreword in the financial statements that explains the purpose of the accounts and

summarises the key messages arising from them. There is also a glossary of terms within the accounts to aid understanding.

#### BUDGET SETTING

68. Accountants meet with all service heads or their staff at least every quarter during the financial year to discuss performance against budget and to highlight areas of potentially significant over- or under-spend. This information is used to prepare the quarterly budget monitoring reports presented to the strategic management board, and to substantiate any in-year budget transfers or supplementary estimates required to meet changing circumstances. The in-year monitoring of budgets enables the following year's budget setting process to be based on the latest estimates of income and expenditure.
69. Every year the council sets a comprehensive and balanced budget, which provides adequate resources and there has been an absence of overspends against total budget in recent years.
70. The council's budget planning cycle is well established, starting with a base budget position produced by officers. The public are then asked to select priorities and asked for their opinion on several specific areas of council spending. Officers complete the annual budget for consideration by Cabinet in early February, before it is discussed and approved at full Council later that month. Scrutiny Committee reviews the budget during January, and also in the period between its consideration by Cabinet and full Council during February. Throughout the budget setting process the council's financial position, and budget proposals, are regularly discussed informally by cabinet and the strategic management board, which ensures that they have a good understanding of the financial situation.
71. Once the budget is set, the monitoring of income and expenditure against budget continues throughout the financial year by the strategic management board, culminating in an outturn report that reflects on the overall performance against budget for the previous year. These are based on returns provided by the heads of service.

#### MEDIUM TERM FINANCIAL PLAN

72. Supporting the annual budget-setting process, each year the council publishes a five-year medium term financial plan. This provides a forward-looking budget model that estimates the council's budget needs in future years, and indicates the required level of savings needed in future years to balance the budget. This is based on assumptions of the most likely levels of such critical factors as government grant funding, the level of investment interest, and inflation. These are subject to fluctuations.
73. By using the medium term financial plan to estimate future council income and expenditure the council was able to reduce the council tax for 2014/15. To ensure that the council can continue to focus on delivering services more efficiently during difficult economic times, it has taken a pro-active approach to identifying and delivering efficiency savings. It merged its management team with Vale of White Horse District Council and embraced "lean" business process re-engineering. This initiative, internally branded as "fit for the future", embraced all services, with the specific intention of delivering services more efficiently. These savings, along with other savings generated by service teams,

enabled the reduction in council tax for 2014/15. All the savings identified to date were reasonable, having been subject to review by the strategic management board and Cabinet.

74. The budget report presented to Cabinet included a summary of the estimated balance on key reserves at the end of the capital programme period. Assumptions underpinning the estimates of reserves were deemed reasonable by the section 151 chief finance officer.
75. The council communicates key messages from its financial planning process to staff and stakeholders. New staff undertake an induction process that includes an introduction to local government finance module. This makes staff aware of how the council's budgets are constructed and of the financial pressures the council faces. For line managers, a separate module goes into more detail on the financial planning process, and covers their responsibilities. During the budget-setting process the council holds a series of presentations for staff to explain the process and the financial pressures the council faces. The council also seeks the views of stakeholders during the budget process.

#### TREASURY MANAGEMENT STRATEGY

76. The council's treasury management strategy, which council agrees annually, sets out the council's policy on managing its investments, which ensures that it has sufficient cash to meet its needs, and that returns are maximised whilst maintaining the security of the council's assets. The strategy has regard to the Code of Practice for Treasury Management, and the CIPFA Prudential Code. Cabinet and the Audit and Corporate Governance Committee monitor performance against the strategy twice each year.
77. The council enjoys a healthy financial position. It has significant reserves that generate interest income, which it uses to support both the revenue budget and the capital programme. The council uses interest earned during the one financial year to support the following year's revenue budget. This provides a more stable platform on which to plan, and means that the prolonged low interest rates that have been experienced in recent years do not impact on in-year service delivery.
78. The Audit and Corporate Governance Committee takes responsibility for ensuring effective scrutiny of the treasury management strategy, policies and performance in accordance with the CIPFA Prudential code and CIPFA Treasury Management code.
79. All the arrangements detailed above demonstrate that Cabinet and strategic management board exercise collective responsibility for financial matters. All members of the strategic management board accept individual and collective responsibility for the stewardship of use of resources and financial accountability.

#### COMMENT ON THE ROLE OF THE CHIEF FINANCIAL OFFICER

80. The council has reviewed its financial management arrangements to ensure that they conform with the requirements of CIPFA's Application Note to Delivering Good Governance in Local Government on the *Role of the Chief Financial Officer in Public Service Organisations*.

81. The section 151 officer, or chief financial officer, has a responsibility to ensure that an effective internal audit function is resourced and maintained. The council requires its internal audit team to provide an effective service in accordance with professional standards, and internal audit officers must abide by the Institute of Internal Auditors Code of Ethics and receive suitable training and development to maintain the appropriate skills, experience and competence. The performance of internal audit is subject to quarterly review by the Audit and Corporate Governance Committee.

#### COUNCILLORS' AND SENIOR OFFICERS' DEVELOPMENT

82. Councillors are offered a comprehensive induction programme. Soon after their election, councillors are invited to an induction to sign their declarations of acceptance of office, sign up to the code of conduct and meet the service teams. Training sessions on planning and licensing law have been held with needs assessment taking place in order to provide further relevant training. Members of the Audit and Corporate Governance Committee also have a training programme.

83. The development opportunities for senior officers include support towards a nationally recognised qualification e.g. a Master of Business Administration. They can attend programmes such as *aiming to be a corporate director*. Attendees evaluate these programmes, provide feedback at the end of each session, and line managers review training during the appraisal and the formal one to one process.

84. The corporate management team has attended a leadership development programme, consisting of several workshops covering the principles of high performing teams and elements of the Mastering Management programme that had previously been delivered to service managers. This was to further improve the relationships and quality of conversations between senior managers, to ensure that they provided clear and consistent leadership for the two organisations and understood the principles of what was covered in the Mastering Management programme.

85. The council launched a management development programme (Mastering Management) for the newly appointed shared service managers, team leaders and supervisors. It includes a module on *leading impact and influence* that covered skills to influence others, work collaboratively and to have challenging and difficult conversations. Another module is on *leading performance* that covered skills to raise performance through coaching within their teams.

86. As part of the programme, the team leaders attend *action learning sets* where they discuss individual challenges and receive ideas on how to handle these situations from their colleagues. In addition, some team leaders are being mentored by a service manager. All these programmes ensure consistency of management practices across all levels of managers.

87. The council will continue to develop councillors' roles through a councillor development programme. It will be undertaken as a shared programme with Vale of White Horse District Council. The programme will result in actions to develop the effectiveness of councillors in their different roles. It will have the added objective of making decision-making in council and committee meetings more effective. The programme will

encourage councillors to engage in training to meet their needs as well as the council's needs.

88. The councils will offer senior managers, service managers, and team leaders/supervisors further opportunities to consolidate their management development through refresher and follow-up sessions. The councils offered an element of the mastering management programme (an introduction to Transactional Analysis) to all employees, to provide them with the opportunity to benefit from an understanding of how to apply this technique for interpersonal relationships. This will continue to be offered to all employees.

**Action:** To develop councillors' roles through a councillor development programme.

#### INTERNAL AUDIT AND THE INTERNAL AUDIT MANAGER

89. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives. It assists the council by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary.
90. The internal audit manager contributes to the assurance process by commenting on the effectiveness and outcome of the programme of internal audits and comments on the effectiveness of the internal control environment of the council. The internal audit services are completely harmonised with Vale of White Horse District Council.
91. The internal audit manager's overall opinion offers satisfactory assurance on the basis of internal audit's own work during 2013/14. There is basically a sound system of internal control in place, but there are some weaknesses, which may put some system objectives at risk.
92. Internal audit is committed to providing anti-fraud and corruption training. During 2013/14, the internal audit team has undertaken proactive anti fraud compliance testing to evaluate whether the control environment is sufficiently robust and to highlight areas of concern with regards to fraud and corruption issues; the compliance testing did not raise any recommendations.
93. No suspicion of fraud and corruption by officers, councillors or partners/contractors was reported to the audit manager in 2013/14. The audit manager also reviewed the entries in the gifts and hospitality register and had no concerns.
94. Internal audit provides assurance that it has complied with the CIPFA Code and a formal quality assurance programme continues to be in place. Internal audit completed a self-assessment against the code in 2012/13 to identify areas for further improvement and no actions were identified. The next self-assessment will be completed in 2015/16.

**Action:** To assess the need for anti-fraud and corruption training for councillors and officers in 2014/15.

**RISK MANAGEMENT**

95. The council harmonised its risk management approach with Vale of White Horse District Council and this allowed the council to enhance its approach to risk management by incorporating recommendations made by internal audit. The council revised its risk management strategy to incorporate the harmonised approach and to create a joint strategy for both councils.
96. The risk management approach ensures that all risks are linked to strategic objectives, the likelihood and impact are assessed, the gross and net risks are identified and responsibility for mitigating actions is assigned to appropriate officers. The council has designated risk champions for all service areas who refresh the operational risk registers quarterly, which heads of service review. Any mitigating actions required for operational risks are included in service work plans where appropriate. The process requires the strategic management board to regularly review the strategic risk registers and also requires a report to the Audit and Corporate Governance Committee summarising the contents of operational risk registers.
97. The council has a strategic risk register, owned by the strategic management board, with clear links between risks and strategic objectives. The process requires the strategic management board to review the strategic risk register. Responsibility for implementing the required mitigating actions is assigned to a strategic director or the chief executive.
98. Risk management is included in the induction package given to new employees. Guidance documents and procedures are available to all staff via a designated risk management area on the council's intranet. The council's designated risk champions receive training.
99. The strategic management board has identified dependence on partnerships as a strategic risk and included this in the strategic risk register. The council's partnership manager has included partnership risks within the service team's operational risk register.
100. Risk management has been incorporated into the council's approach to writing report synopses where officers are required to detail the risks that the council faces in making its decision.

**ANTI-FRAUD, BRIBERY, MONEY LAUNDERING AND WHISTLEBLOWING**

101. Internal audit's rolling audit plan includes areas such as gifts and hospitality and the register of interests. A pro-active anti-fraud review is completed each year, and testing will identify if existing management controls are sufficient. The council raised the profile of the anti-fraud, bribery and corruption policy and the whistleblowing policy by increasing their visibility through inclusion on the council's website and the inclusion of anti-fraud and corruption arrangements in induction packages for new employees.
102. The council actively participates in the national anti-fraud initiative; publicises successful cases against fraud; has effective working arrangements; and shares intelligence with relevant partner organisations e.g. the Police, Department for Work and Pensions, and the Housing Benefit Matching Service. The council has a good record of



prosecuting fraudsters and administering penalties and cautions. It undertakes active recovery of fraudulent overpayments and ensures policies are applied consistently.

103. The internal control arrangements in place include the council's Constitution, the provision of an internal audit service, the presence of an active Audit and Corporate Governance Committee, transparent governance reporting through an assurance framework, and compliance with relevant laws and regulations.
104. The risk of money laundering to the council remains low. However, the council has an anti-money laundering policy and procedure and has designated the section 151 officer to be the council's anti-money laundering reporting officer.
105. In 2011, the council reviewed the anti-money laundering policy making it a joint policy with Vale of White Horse District Council. At the same time as updating the anti-fraud and corruption policy was updated to build in the requirements of the Bribery Act. During 2014/15 the anti-fraud, bribery and corruption policy, whistleblowing policy and anti-money laundering policy will be reviewed and updated.

**Action:** To review the anti-fraud, bribery and corruption policy, whistleblowing policy and anti-money laundering policy in 2014/15.

#### BUSINESS CONTINUITY

106. The council started a full review of our business continuity arrangements during 2009/10 to take into account the management restructure and the decision to rationalise the business continuity arrangements with Vale of White Horse District Council. The council produced a joint business continuity strategy with Vale of White Horse, together with business continuity plans supported by the disaster recovery plan and a joint crisis management plan. Each service has a plan administrator who reviews the business continuity plans every quarter and we update the crisis management plan when required. The council has a joint disaster recovery site with Vale of White Horse District Council. As part of the procurement process, contract specifications include a requirement for potential suppliers to provide the council with details of their business continuity arrangements.

**Action:** To review the disaster recovery and business continuity arrangements in light of changes to office accommodation and new IT infrastructure in 2014/15.

#### AUDIT AND CORPORATE GOVERNANCE COMMITTEE

107. The Audit and Corporate Governance Committee undertakes the core functions of an audit committee as set out in CIPFA's Audit Committees – Practical Guidance for Local Authorities (2005).
108. In May 2012 the full Council agreed that the Audit and Corporate Governance Committee should take on aspects of the role of the former standards committee in dealing with code of conduct complaints against district, town and parish councillors. The committee agreed procedures for dealing with code of conduct complaints at its meeting in July 2012.

## SCRUTINY COMMITTEE

109. The Scrutiny Committee continues to help develop council policy and reviews performance in meeting council objectives, and it holds Cabinet accountable for its decisions.

## COUNCILLORS' CODE OF CONDUCT

110. A new code of conduct came into effect on 1 July 2012. In May 2012 the Council decided that it would not have a standards committee but that the Audit and Corporate Governance Committee would assume responsibility for dealing with code of conduct complaints. As the need arises, officers have delivered briefings and advice on the code to district and parish and town councillors as well as to parish and town clerks.

111. In order to comply with the new legislation, the council agreed the appointment of two independent persons in 2012. The monitoring officer decides what action to take on complaints in consultation with the independent persons. The monitoring officer did not refer any complaints to the Audit and Corporate Governance Committee and has not sent any complaints for investigation.

<p><b>Action:</b> To continue to seek good practice emerging from the standards of conduct framework.</p>
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## EXTERNAL SOURCES OF ASSURANCE ON THE GOVERNANCE FRAMEWORK

112. Issues raised by our external auditor, and other external inspectors are used to identify improvement areas in our governance arrangements. Ernst & Young was appointed as the council's external auditor from 1 September 2012.

113. The council prepares its accounts under International Financial Reporting Standards and Ernst & Young issued an unqualified opinion on the council's 2012/13 financial statements in September 2013.

- CERTIFICATION OF ANNUAL CLAIMS

114. In January 2014, the Audit and Corporate Governance Committee considered the annual certification report 2012/13 from the council's external auditor, Ernst & Young. This looked at the sums the council claimed from the government in grants and subsidies and checked whether the council had correctly accounted for these in its returns to government. The committee noted that Ernst & Young had not issued qualification letters in relation to the housing and council tax benefits subsidy claim and the national non-domestic rates return. This was good news, highlighting the first unqualified benefits subsidy claim in several years indicating an improvement in processes.

- LOCAL GOVERNMENT OMBUDSMAN

115. The Local Government Ombudsman provides summary information on complaints about the council to enable it to incorporate any feedback into service improvement.

116. At its meeting in September 2013, the Audit and Corporate Governance Committee considered the Ombudsman’s letter for the period 1 April 2012 to 31 March 2013. During 2012/13 the Local Government Ombudsman determined ten complaints and found no evidence of maladministration by the council.

117. The number of complaints received by the council under its own complaints procedure reduced from 120 to 50 in 2013/14, with complaints reducing across all services apart from the waste service, which increased from ten to 15.

**Significant governance issues**

118. The council proposes over the coming year to take steps to address the matters set out in the action boxes above to further enhance our governance arrangements. We, the undersigned, 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.

Signature		Date	
	David Buckle, Chief Executive		
Signature		Date	
	Anna Badcock, Deputy Leader of the Council		

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