

# Notice of Meeting

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## Governance and Audit Committee

**Monday, 28th March, 2011 at 6.00pm**  
in Council Chamber Council Offices  
Market Street Newbury

Date of despatch of Agenda: Friday, 18 March 2011

For further information about this Agenda, or to inspect any background documents referred to in Part I reports, please contact Moira Fraser on (01635) 519045  
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[www.westberks.gov.uk](http://www.westberks.gov.uk)



**Agenda - Governance and Audit Committee to be held on Monday, 28 March 2011**  
(continued)

**To:** Councillors Jeff Beck (Chairman), Paul Bryant, David Holtby, Tony Linden, Julian Swift-Hook (Vice-Chairman), Tony Vickers and Quentin Webb

**Substitutes:** Councillors Brian Bedwell, Adrian Edwards and Keith Woodhams

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# Agenda

<b>Part I</b>	<b>Page No.</b>
1. <b>Apologies</b> To receive apologies for inability to attend the meeting (if any).	
2. <b>Minutes</b> To approve as a correct record the Minutes of the meeting of this Committee held on 14 February 2011.	1 - 2
3. <b>Declarations of Interest</b> To receive any Declarations of Interest from Members.	
4. <b>International Financial Report Standards - Accounting Policies and Prior Year Comparators (GA2212)</b>	3 - 28
5. <b>Anti Fraud and Corruption Strategy 2011-12 (GAC1905)</b>	29 - 46
6. <b>Internal Audit Plan 2011-14 (GAC2268)</b>	47 - 82
7. <b>Review of Internal Audit (GAC2269)</b>	83 - 96

Andy Day  
Head of Policy and Communication

West Berkshire Council is committed to equality of opportunity. We will treat everyone with respect, regardless of race, disability, gender, age, religion or sexual orientation.

If you require this information in a different format, such as audio tape, or in another language, please ask an English speaker to contact Moira Fraser on telephone (01635) 519045, who will be able to help.



Note: These Minutes will remain DRAFT until approved at the next meeting of the Committee

**GOVERNANCE AND AUDIT COMMITTEE**

**MINUTES OF THE MEETING HELD ON  
MONDAY, 14 FEBRUARY 2011**

**Councillors Present:** Jeff Beck (Chairman), Adrian Edwards (Substitute) (In place of Paul Bryant), David Holtby, Tony Linden, Julian Swift-Hook (Vice-Chairman) and Quentin Webb

**Also Present:** Andy Day (Head of Policy and Communication) and Ian Priestley (Assurance Manager - Finance), Moira Fraser (Democratic Services Manager)

**Apologies for inability to attend the meeting:** Councillor Paul Bryant

**PART I**

**31. Minutes**

The Minutes of the meeting held on 15<sup>th</sup> November 2010 were approved as a true and correct record and signed by the Chairman.

**32. Declarations of Interest**

There were no declarations of interest received.

**33. Internal Audit Interim Report for 2010/11 (GAC 2114)**

Ian Priestley updated the Committee on the outcomes of the work performed by Internal Audit during 2010-11.

The Internal Audit found that the Council's main financial systems were very sound and well controlled. Ian also informed Members that audits on other systems were all assessed as satisfactory or better. The one area of concern related to two follow up audits in Property Services where the absence of a working asset management database hampered implementation of the agreed recommendations.

**RESOLVED** that Members note the contents of the report and consider whether the actions identified in the report were adequate.

**34. Council Governance (C2199)**

Andy Day updated the Committee on the proposed changes in the Council's current scrutiny structures with effect from 01 April 2011 and as a consequence, the amendments to the previously approved timetable of meetings.

He also updated the Council in relation to the Localism Bill and to the timetable for the introduction of any new governance structures (Committee System).

Andy proposed that the Council's current scrutiny structure be amended to contain the once Overview and Scrutiny Management Commission with effect from the 01 April 2011.

Until the Localism Bill becomes legislation no further work will be undertaken on the possible structures associated with the Committee based decision making model.

**GOVERNANCE AND AUDIT COMMITTEE - 14 FEBRUARY 2011 - MINUTES**

**RESOLVED that**

- (1) That the Council's current scrutiny governance structures be amended from one Overview and Scrutiny Management Commission and five Select Committees to one Overview and Scrutiny Management Commission with effect from 1 April 2011.
- (2) That the previously approved timetable of meetings for 2011/12 be amended to reflect the changes to the Council's scrutiny structures.
- (3) That the Council notes the position in relation to the timetable for the introduction of any new governance structures (Committee system).

**35. Amendments to the Constitution - Changes to the Terms of Reference of the Standards Committee and Governance and Audit Committee (C2195)**

Moira Fraser updated the Committee on the Terms of Reference for the Standards Committee and the Governance and Audit Committee amendments which were in line with the recommendations of an Internal Audit of the management of the Council's Constitution.

It was proposed that the Terms of Reference of the Standards Committee be extended to include the recommendation of improvements to the relevant sections of the Constitution covering Councillor conduct and ethical standards. It was also proposed that Part 7 of the Council's Constitution be amended and that any corresponding references to the Governance and Audit Committee and the Standards Committee be delegated to the Monitoring Officer to amend.

**RESOLVED that:**

- (1) **The Terms of Reference of the Standards Committee be extended as set out in paragraph 2.1 and Appendix B to the report.**
- (2) **Part 7 of the Council's Constitution be amended as set out in paragraph 1.6 and 1.7 of this report.**
- (3) Any further corresponding changes to references in the Constitution to the Governance and Audit Committee and the Standards Committee be delegated to the Monitoring Officer to amend (e.g. Part 1 Summary and Explanation).

*(The meeting commenced at 6.00 pm and closed at 7.19 pm)*

**CHAIRMAN** .....

**Date of Signature** .....

<b>Title of Report:</b>	<b>International Financial Reporting Standards - accounting policies and prior year comparators</b>
<b>Report to be considered by:</b>	Governance and Audit Committee
<b>Date of Meeting:</b>	28 March 2011
<b>Forward Plan Ref:</b>	GAC2212

**Purpose of Report:** To approve the accounting policies for the 2010-11 financial statements and the restated prior year comparator figures.

**Recommended Action:** To agree the accounting policies for the 2010-11 financial statements, and to approve the restated 2009-10 financial statements

**Reason for decision to be taken:** The implementation of International Financial Reporting Standards (IFRS) in 2010-11. The 2010-11 financial statements will be significantly different, in format and detail, from the 2009-10 statements. This paper will enable members to review some of the changes in advance of the publication of the financial statements in the Summer 2011.

**Other options considered:**

**Key background documentation:** IFRS

The proposals will also help achieve the following Council Plan Theme: <input checked="" type="checkbox"/> <b>CPT13 - Value for Money</b>
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Portfolio Member Details	
<b>Name &amp; Telephone No.:</b>	Councillor Keith Chopping - (0118) 983 2057
<b>E-mail Address:</b>	kchopping@westberks.gov.uk
<b>Date Portfolio Member agreed report:</b>	Agreed 28 February 2011

Contact Officer Details	
<b>Name:</b>	Joseph Holmes
<b>Job Title:</b>	Chief Accountant
<b>Tel. No.:</b>	01635 519474
<b>E-mail Address:</b>	jholmes@westberks.gov.uk

## Implications

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**Policy:** n/a  
**Financial:** No cost implications within the report; all the information contained within this is of a financial nature  
**Personnel:** n/a  
**Legal/Procurement:** n/a  
**Property:** n/a  
**Risk Management:**  
**Equalities Impact Assessment:** Not Required

Is this item subject to call-in?	Yes: <input type="checkbox"/>	No: <input checked="" type="checkbox"/>
If not subject to call-in please put a cross in the appropriate box:		
The item is due to be referred to Council for final approval	<input type="checkbox"/>	
Delays in implementation could have serious financial implications for the Council	<input checked="" type="checkbox"/>	
Delays in implementation could compromise the Council's position	<input type="checkbox"/>	
Considered or reviewed by Overview and Scrutiny Commission or associated Task Groups within preceding six months	<input type="checkbox"/>	
Item is Urgent Key Decision	<input type="checkbox"/>	

## Executive Summary

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### 1. Introduction

- 1.1 Local authorities are required to prepare their 2010/11 accounts using International Financial Reporting Standards (IFRS), as interpreted for the Public sector in the Code of Practice on Local Authority Accounting 2010/11 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.2 The first time adoption of IFRS requires the restatement of the balance sheet on the first day of the comparator year that is 1<sup>st</sup> April 2009. It further requires that all statements for the comparator year are restated as though they had been produced under IFRS. This has meant that the Council must restate its primary financial statements for the 2009-10 financial year to allow comparison with 2010-11 figures.
- 1.3 The adoption of IFRS has also caused some changes to the accounting policies used by the Council. These have been attached in appendix B.

### 2. Proposals

- 2.1 The committee is being asked to approve the restated accounts and therefore the new opening balances to the current year accounts and the changes to the Council's accounting policies. This is to ensure members have time to scrutinise and understand the changes under IFRS before the current year's statements are presented to the committee in Summer 2011.

### 3. Conclusion

- 3.1 The restated balances and the changes to the accounting policies under IFRS are being presented to the committee for approval now to ensure that there is time for effective scrutiny of the financial statements during summer 2011.

# Executive Report

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## 1. Introduction

- 1.1 To comply with the Government's requirement to complete annual financial reporting in accordance with IFRS, changes are required to the Council's financial statements.
- 1.2 This report has two elements for approval by members:
  - (1) The restatement of the 2009-10 approved and audited primary financial statements
  - (2) The revision of the Council's accounting policies
- 1.3 By approving these in March 2011 it will allow greater time for discussion and scrutiny of the 2010-11 figures later in the year. This report also shows members the layout and format of the financial statements in advance of their production for 2010-11.

## 2. Restatement of Financial Statements

- 2.1 The CIPFA code gives guidance on the figures to include within the financial statements and how they should be presented. First time adoption requires restatement of the balance sheet as at 1<sup>st</sup> April 2009, (this is the closing balance of 2008/09), the first day of the comparator period. All the statements in the 2009/10 statement of accounts have been restated and adapted into the new statements.
- 2.2 The restated statements can be seen at appendix A. The main differences are highlighted below

### ***Comprehensive Income and Expenditure Account:***

- 2.3 The total cost of services amount has changed due to the cost of the staff benefit accrual which has been charged to central services and due to the change in policy on government grants deferred.
- 2.4 Also as a result of IFRS the amount for taxation and non specific grant income has changed because all grants both revenue and capital must be shown immediately as income on the I&E statement. The money that was in the balance sheet under current liabilities re capital grants is now showing on the income and expenditure account and has been reversed through the movement between reserves and is now an unusable reserve on the balance sheet.
- 2.5 After the surplus or deficit for provision of services line on the I&E there are further new lines which used to be the now defunct Statement of Total Recognised Gains and Losses.

### ***Balance Sheet:***

- 2.6 During the financial year 2009/10 an exercise was carried out to look at all assets to ensure they met the criteria under IFRS, also to ensure that all investment properties are valued at fair value rather than replacement cost and to identify our



assets available for sale. A number of assets were changed between operational and investment properties and a couple of assets were removed from the register.

- 2.7 There has also been a change in the way that non-operational assets are shown. Assets held for sale have been stripped from non-operational assets and moved to current assets.
- 2.8 There is a new classification on the balance sheet under current assets which is cash and cash equivalents, this line combines imprests, cash at bank or overdrawn and investments under three months.
- 2.9 Government grants deferred used to show under long term liabilities and have now been moved into the capital adjustment account in unusable reserves.
- 2.10 Reserves have been split into usable (which are shown separately in total equity), those which are available to the council to spend and unusable where the reserve is set aside for a specific purpose and is not available to spend.

***Movement in Reserves Statement:***

- 2.11 This is a new statement that has to be included in the primary statements and shows the movement in the year on the different reserves held by the authority.

***Statement of the Movement on the General Fund Balance:***

- 2.12 This statement has been removed under IFRS.

***Cashflow Statement:***

- 2.13 The cashflow statement is presented using the direct method.

***Notes to the Statements:***

- 2.14 The notes to the statements are similar to those under SORP (Statement of recommended practice) but with more detailed disclosures. Under IFRS there is a requirement to show segmental reporting in the notes. Segmental reporting aims to enable the user of the financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environment in which it operates. It also shows what was reported to management and the year end changes needed to produce the I&E account.

**3. Accounting Policy Changes**

- 3.1 The adoption of IFRS has resulted in a number of changes to the accounting policies
- 3.2 Appendix B highlights the various changes to accounting policies
  - (1) **Employee Costs** – the current policy has been expanded to include the Accumulated Absence Accrual and how we measure the accrual. Under IFRS, the Council needs to complete an accrual on the assumption that the Council ceases activity on the 31<sup>st</sup> March 2011, and work out the notional cost of accumulated staff absences, namely

accrued annual leave. There is no net cost to taxpayers as a result of this accrual.

- (2) **Cash and Cash Equivalents** – This is a new policy for 2010-11
- (3) **Non-Current Assets** – In line with IAS 16 there has been a change to the classification of some assts and also a change to the valuation used for some classifications. The rules around the componentisation of assets have changed which has led to an additional paragraph showing our policy on componentisation.
- (4) **Investment Property** – There has been a change in the classification of investment properties.
- (5) **Government and Non-Government Grants** – Under the code, grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately as income on the comprehensive income and expenditure statement. The exception to this is where there is a condition attached that has not been satisfied. This is a departure from SORP in that capital grants were amortised to the Income and expenditure over the life of the funded asset.
- (6) **Redundancy policy** – this is a new policy to be included for 2010-11

#### **4. Conclusion**

- 4.1 Members are being asked to approve the restated statement of accounts, showing the new opening balances for the current year and the main changes to our accounting policies.

#### **Appendices**

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Appendix A – Restated Financial Statements  
Appendix B – Accounting polices

#### **Consultees**

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**Local Stakeholders:** N/A

**Officers Consulted:** Jane Milone (HR Manager – Policy, information & Development), Lesley Flannigan (Finance Manager – Financial Reporting), Val Bettcher (Financial Accountant), Corporate Board

**Trade Union:** N/A

income and expenditure

Restated 31/03/2010		2010/11	2010/11	2010/11
Net Expenditure £000's	note	Expenditure £000's	Income £000's	Net Expenditure £000's
<b>Net Expenditure on Continuing Services</b>				
39,872	Adult social care			
19,476	Central Services			
30,692	Cultural, Environmental, regulatory and Planning Services			
37,142	Education and Children's Services			
16,488	Highways and Transport Services			
2,534	Housing Services			
<b>146,204</b>	<b>Net Cost of Services</b>	<b>1</b>	<b>0</b>	<b>0</b>
(585)	(Gain) / loss on the disposal of fixed assets			
3,191	Precepts to Parishes			
126	Precepts & Levies			
(176)	(Surpluses)/deficits on trading undertakings			
55	Contribution of Housing Capital receipts to government pool			
<b>2,611</b>	<b>Other Operating Expenditure</b>			<b>0</b>
(292)	Interest Receivable			
5,829	Pension Interest cost and Expected return on Pension Assets			
1,519	Interest Payable and similar charges			
<b>7,056</b>	<b>Financing and Investment Income and Expenditure</b>			<b>0</b>
<b>155,871</b>	<b>Net Operating Expenditure</b>			<b>0</b>
(79,017)	Income from Council Tax			
(12,710)	Non Ring Fenced Government Grants			
(23,418)	Contribution from Non-Domestic Rate Pool			
(15,671)	Capital Grants and Contributions			
<b>(130,816)</b>	<b>Taxation and Non Specific Grant Income</b>			<b>0</b>
<b>25,055</b>	<b>Surplus or Deficit on Provision of Services</b>			<b>0</b>
(22,882)	Surplus or deficit on revaluation of Fixed Assets			
78,700	Actuarial gains / losses on pension assets / liabilities			
0	Restated Collection fund			
<b>55,818</b>	<b>Other Comprehensive Income &amp; Expenditure</b>			<b>0</b>
<b>80,873</b>	<b>Total Comprehensive Income &amp; Expenditure</b>			<b>0</b>



## Cash Flow

<b>Restated</b>				
2009/10			2010/11	2010/11
£'000		notes	£'000	£'000
	<b>Operating Activities</b>			
96,643	Taxation			
228,246	grants			
107	Rents			
1,600	sale of goods and rendering of service			
310	interest received			
1,349	other receipts from operating activities			
328,255	<b>cash inflows generated from operating activities</b>			
(124,164)	Cash paid to and on behalf of employees			
(34,220)	housing benefit paid out			
(16,073)	precepts paid			
(55)	Payments to the Capital Receipts Pool			
(115,226)	Cash paid to suppliers of goods and services			
(1,519)	Interest paid			
(23,266)	Other payments for operating activities			
(314,523)	<b>cash outflows from operating activities</b>			
13,732	<b>Net cashflows from operating activities</b>			
	<b>Investing activities</b>			
(58,527)	Purchase of property plant and equipment			
(77,300)	Purchase of short and long term investments			
(115,885)	Other payments for investing activities			
914	Proceeds from the sale of property, plant and equipment, investment properties and intangible assets			
83,300	Proceeds from the short and long term investments			
115,885	other receipts from investing activities			
(51,613)	<b>net cash flows from investing activities</b>			
	<b>Financing activities</b>			
40,019	cash receipts of short and long term borrowing			
951	other receipts from financing activities			
(1,446)	repayments of short and long term borrowing			
(417)	other payments for financing activities			
39,107	<b>Net cashflows from financing activities</b>			
1,226	<b>Net increase/decrease in cash and cash equivalents</b>			
(5,386)	<b>Cash and cash equivalents at the beginning of the reporting period</b>			
(4,160)	<b>Cash and cash equivalents at the end of the reporting period</b>			

movement in reserves

<b>Movement in Reserves Statement</b>								
This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'Surplus or (deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. these are different from the statutory amounts required to be charged to the General Fund Balance. The Net Increase/Decrease before Transfers to Earmarked Reserves line show the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from								
	(a)	(b)	(e)			(f)	(g)	(h)
	General Fund Balance £000's	Earmarked GF Reserves £000's	Capital Receipts Reserve £000's	Deferred Credit £000's	Working Balances £000's	Total Usable Reserves £000's	Unusable Reserves £000's	Total Authority Reserves £000's
<b>Balance at 31 March 2009</b>	6,841	16,552	593	39	2,256	26,281	231,567	257,848
Surplus or (deficit) on provision of services (accounting basis)	(25,055)	0	0	0	0	(25,055)	0	(25,055)
Other Comprehensive Expenditure and Income	(55,818)	0	0	0	0	(55,818)	0	(55,818)
<b>Total Comprehensive Expenditure and Income</b>	<b>(80,873)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(80,873)</b>	<b>0</b>	<b>(80,873)</b>
Adjustments between accounting basis & funding basis under regulations	83,814	0	0	0	0	83,814	(83,814)	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>2,941</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,941</b>	<b>(83,814)</b>	<b>(80,873)</b>
Transfers to / from Earmarked Reserves	(2,666)	3,009	13	(13)	(1,043)	(700)	700	0
<b>Increase / Decrease in Year</b>	<b>275</b>	<b>3,009</b>	<b>13</b>	<b>(13)</b>	<b>(1,043)</b>	<b>3,297</b>	<b>(83,114)</b>	<b>(79,817)</b>
<b>Balance at 31 March 2010</b>	<b>7,116</b>	<b>19,561</b>	<b>606</b>	<b>26</b>	<b>1,213</b>	<b>28,522</b>	<b>148,453</b>	<b>176,975</b>
Surplus or (deficit) on provision of services (accounting basis)	0	0	0	0	0	0	0	0
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	0
<b>Total Comprehensive Expenditure and Income</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>
Adjustments between accounting basis & funding basis under regulations	0	0	0	0	0	0	0	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</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>
Transfers to / from Earmarked Reserves	0	0	0	0	0	0	0	0
<b>Increase / Decrease in Year</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>Balance at 31 March 2011</b>	<b>7,116</b>	<b>19,561</b>	<b>606</b>	<b>26</b>	<b>1,213</b>	<b>28,522</b>	<b>148,453</b>	<b>176,975</b>

adj movement in reserves

	General Fund Balance	Capital Receipts Reserve	Total Usable Reserves	Movement in Unusable Reserves	Total Authority Reserves
	£000's	£000's	£000's	£000's	£000's
<b>Adjustments in respect of usable and unusable reserves</b>					
Charges for depreciation and impairment of long term assets	28,729		28,729	(28,729)	0
Revaluation surpluses / losses on Property Plant and Equipment	(22,882)		(22,882)	22,882	0
Capital grants and contributions	(15,101)		(15,101)	15,101	0
Government Grants deferred account	1,786	0	1,786	(1,786)	0
Revenue expenditure funded from capital under statute	2,727	0	2,727	(2,727)	0
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(585)	914	329	(329)	0
Repayment of PWLB debt	(1,477)	0	(1,477)	1,477	0
					0
Statutory provision for the financing of capital investment	(405)	0	(405)	405	0
Direct revenue financing of capital expenditure	(61)	0	(61)	61	0
					0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	(859)	(859)	859	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	55	(55)	0	0	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note xxx)	78,700		78,700	(78,700)	0
Employer's pensions contributions and direct payments to pensioners payable in the year	5,601		5,601	(5,601)	0
Unusable account in respect of accumulated compensated absences	6,727		6,727	(6,727)	0
<b>Total Adjustments between accounting basis and funding basis under regulations</b>	<b>83,814</b>	<b>0</b>	<b>83,814</b>	<b>(83,814)</b>	<b>0</b>

Segmental Reporting

IFRS Council											
Service Information											
For the year ended 31 March 2010							COM	CXD	CYP	ENV	MTR
	Children & Young People	Adult Social Services	Environment	Chief Executive	Below the line items	Total					
	£000s	£000s	£000s	£000s	£000s	£000s					
Fees, charges & other service income	(6,779)	(612)	(548)	(5,600)	0	(13,539)					
Government grants	(14,140)	(44,403)	(134,360)	(4,282)	0	(197,185)					
<b>Total Income</b>	<b>(20,919)</b>	<b>(45,015)</b>	<b>(134,908)</b>	<b>(9,882)</b>	<b>0</b>	<b>(210,724)</b>					
Employee expenses	18,353	4,600	17,017	9,025	0	48,995					
Other operating expenses	44,536	45,374	139,396	29,014	4,479	262,799					
Support Service Recharges	3,396	1,791	2,964	2,903	757	11,811					
<b>Total operating expenses</b>	<b>66,285</b>	<b>51,765</b>	<b>159,377</b>	<b>40,942</b>	<b>5,236</b>	<b>323,605</b>					
<b>Net Cost of Services</b>	<b>45,366</b>	<b>6,750</b>	<b>24,469</b>	<b>31,060</b>	<b>5,236</b>	<b>112,881</b>					
<b>Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement</b>											
						£000s					
Cost of Services in Service Analysis						146,204					
Add services not included in main analysis						0					
Add amounts not included in the analysis but included in the Comprehensive Income and Expenditure Statement						33,323					
Remove amounts included in the analysis but not included in the Comprehensive Income and Expenditure Statement						0					
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>						<b>146,204</b>					
						<b>K</b>					
<b>Reconciliation to Subjective Analysis (Single Entity)</b>											
	Service Analysis	Services not in analysis	Amounts not included in the analysis but included in the Comprehensive Income and Expenditure Statement	Amounts included in the analysis but not included in the Comprehensive Income and Expenditure Statement	Allocation of support service recharges	Net Cost of Services	Corporate Amounts	Total			
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s			
Fees, charges & other service income	(13,539)	0	0	0	(479)	(14,018)	(176)	(14,194)			
Surplus or deficit on associates and joint ventures	0	0	0	0	0	0	0	0			
Interest and investment income	0	0	0	0	0	0	(292)	(292)			
Income from council tax	0	0	0	0	0	0	(79,017)	(79,017)			
Government grants and contributions	(197,185)	0	0	0	0	(197,185)	(51,799)	(248,984)			
<b>Total Income</b>	<b>(210,724)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(479)</b>	<b>(211,203)</b>	<b>(131,284)</b>	<b>(342,487)</b>			
Employee expenses	48,995	0	5,601	0	8,600	63,196	5,829	69,025			
Other service expenses	262,799	0	101	0	3,211	266,111	0	266,111			
Support Service recharges	11,811	0	0	0	(11,332)	479	0	479			
Depreciation, amortisation and impairment	0	0	27,621	0	0	27,621	0	27,621			
Interest Payments	0	0	0	0	0	0	1,519	1,519			
Precepts & Levies	0	0	0	0	0	0	3,317	3,317			
Payments to Housing Capital Receipts Pool	0	0	0	0	0	0	55	55			
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	0	(585)	(585)			
<b>Total operating expenses</b>	<b>323,605</b>	<b>0</b>	<b>33,323</b>	<b>0</b>	<b>479</b>	<b>357,407</b>	<b>10,135</b>	<b>367,542</b>			
<b>Surplus or deficit on the provision of services</b>	<b>112,881</b>	<b>0</b>	<b>33,323</b>	<b>0</b>	<b>0</b>	<b>146,204</b>	<b>(121,149)</b>	<b>25,055</b>			
						<b>K</b>		<b>C</b>			



# Statement of Accounting Policies

The purpose of the Statement of Accounting Policies is to explain the basis of measurement that has been used in the preparation of the financial statements. The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year end 31<sup>st</sup> March 2011.

The Financial Statements for 2010/11 have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: 2010/11 issued by The Chartered Institute of Public Finance and Accountancy (CIPFA) and where appropriate the International Accounting Standards (IAS). The Accounting convention adopted is principally historical cost modified by fair value for particular categories of assets and liabilities.

There are no instances in the Statement of Accounts where the fundamental accounting concepts have not been followed.

## **(1) Employee Costs**

The cost of salaries and wages has been included in the Accounts based on 12 months and 52 pay weeks.

In line with IAS 19 an accrual has been made for leave and flexible hours owing at year end. The accrual is based on a sample of leave owing and then averaged out to give a total for the whole authority. No adjustment has been made for other employee costs.

## **(2) Retirement Benefits**

Employees of the council are members of two separate pension schemes:

- The Teacher's Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).
- The Local Government Pensions Scheme is administered by The Royal Borough of Windsor and Maidenhead.

Both schemes provided defined benefits to members (retirement lump sums and pension), earned as employees worked for the council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the

education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

## **The Local Government Pension Scheme**

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Berkshire pension scheme attributes to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices using a discount rate. (The discount rate is the yield on the Merrill Lynch Non Gilt Sterling AA over 15 year Corporate Bond index, with an adjustment to reflect the liabilities relative to the duration of the index.)
- The assets of the Berkshire pension fund attributable to the council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - Property – market value.
- The change in the net pensions liability is analysed into seven components:
  - current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account.

- Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account.
- gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses
- Contributions paid to the Berkshire pension fund – cash paid as employer’s contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied in the Local Government Pension Scheme.

### **(3) Accruals of Income and Expenditure**

All revenue and capital income and expenditure relating to the financial year is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed, where there is a gap between the date supplies are received and their consumption; they are carried as inventory on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress in the balance sheet
- Interest payable on borrowing and receivable on investment is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract
- Where income and expenditure have been recognised in the accounts but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

An exception to this rule is the periodic costs such as gas and electricity, they are included in the accounts on a payments basis where appropriate payments have been made and are not considered material to the accounts.

#### **(4) Cash and Cash Equivalents**

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

West Berkshire's policy is to include cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

#### **(5) Inventories**

Inventories are shown in the Balance Sheet on a cost basis, which is compliant with IAS2, this recommends valuation at the lower of cost or net realisable value.

#### **(6) Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the service in accordance with the costing principles of the CIPFA Best Value Accounting code of Practice (BVACOP). The full cost of overheads and support services are shared between users in proportion to the benefits received.

The costs of the Corporate and Democratic Core have been separately identified and are not borne by the revenue services. This category is defined by the BVACOP and accounted for, within the Central Services heading of the net cost of services in the Income and Expenditure Account.

#### **(7) Interest**

Internal interest has been credited to certain reserves at the year-end based on the average level of balances during the year. The balance of the interest received (after the amount credited to reserves) has been credited to the general fund.

#### **(8) Debtors and Bad Debts**

Provisions for bad debts have been established in respect of general debtors in accordance with the CIPFA code of practice. The level of the provision has been set to provide adequate cover based upon an aged debt profile as at 31<sup>st</sup> March 2011.

#### **(9) Investment**

Investments are shown in the Balance Sheet at cost.

#### **(10) Provisions**

Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (eg from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

#### **(11) Reserves**

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts to the General Fund. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits these do not represent usable resources

for the council. Both usable and unusable reserves are explained in the relevant notes below.

## **(12) Non-Current Assets**

Only assets with a value of £5,000 or more are counted as non-current assets.

Where a non-current asset yields economic benefit to the authority, all expenditure on, the acquisition, creation and enhancement of said asset is capitalised on an accruals basis. This excludes expenditure on routine repairs and maintenance of non-current assets, which is charged direct to service revenue accounts.

Non-current assets are initially valued at cost, comprising all expenditure that is directly attributable to that asset, on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS).

CIPFA guidance allows authorities to choose whether to depreciate its assets at either the mid point through the year or at the end of the year. West Berkshire assets have been depreciated at the end of the year.

Non-current assets are classified into the groupings required by the Code of Practice on Local Authority Accounting and shown in the Balance Sheet using the following headings:

- Land and Buildings, shown at fair value
- Plant and Equipment, shown at fair value
- Infrastructure Assets, shown at depreciated historical cost
- Community Assets, shown at depreciated historical cost
- Investment Properties, shown at market value
- Assets under construction shown at historical cost
- Assets held for sale at fair value

Assets included in the Balance Sheet at fair value are revalued as a minimum every five years, except for Investment properties which are revalued annually. From 2007/08 all increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains.

The revaluation reserve contains revaluation gains recognised since 1<sup>st</sup> April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

If an impairment loss was identified on a non-current asset it would be charged to the Income and Expenditure Account. If there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss would be transferred from the Revaluation Reserve to the Capital Adjustment Account.

When an asset is sold, the value of the asset in the Balance Sheet is written off to the Income and Expenditure account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure account as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the usable capital receipts reserve and can only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the reserve from the General Fund Balance in the Movement in Reserves Statement.

Where an item of property plant or equipment is made up of components that have different asset lives, IAS 16 allows the components to be recognised as separate assets. West Berkshire Council will componentise assets where components are either 10% of the assets value or has a value of more than £250,000. These assets should be recognised either at the time of purchase or on revaluation.

### **(13) Investment Property**

Only properties that the authority holds solely to earn rental income or capital appreciation are classed as investment properties. These properties are not used by the council in its daily business. Initially investment properties are valued at cost and are then revalued annually.

### **(14) Depreciation**

In accordance with International Accounting Standard 16 depreciation is provided for on all fixed assets with a finite useful life.

All assets with the exception of freehold land, community assets, investment properties and assets under construction are depreciated,

Depreciation is calculated on the following basis:

- Dwellings and other buildings – straight line allocation over the life of the property as estimated by the valuer.
- Vehicles, plant and equipment - straight line allocation over the life of the asset, mainly 10 years.
- IT assets are depreciated over 5 years.
- Infrastructure – straight line allocation, between 10 and 40 years.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment Account.

Where assets have been componentised, components can be depreciated over different asset lives, but they will always be in the same asset class.

### **(15) Revenue Expenditure Funded from Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non current asset has been charged as expenditure to the relevant service revenue account in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged to the General Fund Balance on the Statement of Movement in Reserves, so there is no impact on the level of council tax.

### **(16) Charges to Revenue for non current assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year.

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the revaluation reserve against which they can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance).

Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction with the capital adjustment account for the difference between the two.

### **(17) Capital Financing**

The Prudential Code Framework places the emphasis for capital expenditure on affordability. Local authorities themselves decide how much they can afford to borrow, the costs of this borrowing being met from the revenue budget.

Where ever possible the Council aims to fund any necessary capital investment from external sources of funding i.e. grants, developers' contributions and capital receipts. The level of investment required over and above the level of external funding available must then be weighed up against



the revenue cost of repaying loans to fund capital expenditure from external sources

In establishing its Prudential Framework the Council has determined that it can support an annual Capital programme of approximately £15 million. Every year a borrowing limits and annual investment strategy is produced, this is approved by Full Council.

### **(18) Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings this means that the amount presented in the Balance Sheet is the outstanding principal repayable and the interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

However the stock issued by the council in 2010/11 is carried at a lower amortised cost than the outstanding principal and interest is charged at a marginally higher effective rate of interest than the rate payable to stockholders as a material amount of costs incurred in its issue is being financed over the life of the stock.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the General Fund Balance.

### **(19) Financial Assets**

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

## **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of likelihood, arising from a past event, that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

## **Available-for-sale Assets**

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg, dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Capital Adjustment Account and the gain/loss is recognised in the Surplus or Deficit on the Provision of Services. The exception is where impairments losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event, that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

### **Instruments Entered into Before 1 April 2006**

The council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed.

#### **(20) Deferred Capital Receipts**

Deferred Capital Receipts are amounts derived from the sales of assets, which will be received in instalments over agreed periods of time. They arise principally from mortgages and sales of council houses.

#### **(21) Capital Receipts**

Capital receipts from the disposal of assets are held in the Capital Receipts Unapplied Account until such time as they are used to finance other capital expenditure or to repay debt.

Under the Local Government and Housing Act 1989 a Specific proportion of each capital receipt must be set aside or "reserved"; normally only the usable element is available to the Council.

#### **(22) Borrowing**

The loan debt held by Berkshire County Council (BCC) when it was abolished due to local government reorganisation as at the 31<sup>st</sup> March 1998 amounted to approximately £220m. The portfolio of debt consisted entirely of Public Works Loans Board (PWLB) loans, of which some £40m was deemed to be West Berkshire's liability as part of the disaggregation process. At that time it was agreed by all the Berkshire authorities that the total debt would be administered by Reading Borough Council as part of their role as Designated Authority overseeing the closure of the BCC accounts

The Prudential Code presented the opportunity for this Council and other Berkshire authorities to take back the direct management of the remaining part of the ex BCC loan debt. The transfer took place with effect from 1<sup>st</sup> December 2005 and at that time £28.92m of Public Works Loan Board debt was transferred to West Berkshire Council.

The level of Investment required to fund the capital programme currently over and above the level of external funding available is borrowed from the Public Works Loans Board.

### **(23) Trusts**

The Authority has direct involvement with the Corn Exchange Theatre. The council acts as a major funding source and has a non controlling interest on the Board of Trustees.

The Corn Exchange is not a regulated Company as defined under the Local Authority's (Companies) Order 1995.

### **(24) Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants, both capital and revenue, and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution. There must also be reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied the grant or contribution is moved to the relevant service revenue account.

Where capital grants have been credited to the comprehensive Income and Expenditure Statement they are reversed out of the General Fund through the Movement in Reserves statement.

### **(25) VAT**

Income and expenditure in the Council's accounts excludes any amounts related to VAT. VAT is reconciled and accounted for to HM Revenues and Customs on a monthly basis.

### **(26) Leases**

The Council has acquired a number of assets, mainly vehicles and equipment by means of operating leases. In accordance with current accounting procedures the leased assets are not stated in the Balance Sheet. Rentals are charged to revenue in accordance with the terms of the lease. The Council did not enter into any finance lease agreements during the year.

### **(27) Post Balance Sheet Events**

Post Balance Sheet Events are included in the notes to the core Financial Statements as they occur and represent significant transactions / events which are known to have taken place since the balance sheet date.

### **(28) Contingent Liabilities**

Contingent Liabilities are disclosed in the notes to the core Financial Statements and cover known liabilities where the actual cost of the liability is not known.

### **(29) Group Accounts**

The SORP 2004 requires Councils to consider all their interests and to prepare a full set of group accounts where they have material interests in subsidiaries, associates or joint ventures. West Berkshire Council currently has no interests, which necessitates the production of Group Accounts.

### **(30) Private Finance Initiative (PFI)**

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the council under a contract are generally charged to revenue to reflect the value of services received in each financial year.

### **Prepayments**

A prepayment for services receivable under the contract arises when assets are transferred to the control of the PFI contractor, usually at the start of the scheme. The difference between the value of the asset at the date of transfer and any residual value that might accrue to the authority at the end of the contract is treated as a contribution made to the contractor and is accounted for as a prepayment. The prepayment is written down (charged) to the respective revenue account over the life of the contract to show the full value of services received in each year. However, as the charge is a notional one, it is reversed out in the General Fund to remove any impact on council tax or rents.

Dowry payments, made at the start of the contract, which result in lower unitary payments over the life of the contract these are accounted for by setting up the contribution (dowry) as a prepayment for services receivable and writing the balance down to revenue over the life of the contract as services are received to reflect their real cost.

### **Reversionary Interests**

The council has passed control of certain land and buildings over to the PFI contractor, but this property will return to the council at the end of the scheme (reversionary interests). An assessment has been made of the net present value that these assets will have at the end of the scheme (unenhanced) and a reversionary interest asset has been created in the council's Balance Sheet.

As the asset is stated initially at net present value, over the life of the scheme, the discount will need to be unwound by earmarking (decreasing) part of the unitary payment to ensure the reversionary interest is recorded at current prices when the interests revert to the council.

## **Residual Interests**

Where assets created or enhanced under the PFI scheme are to pass to the council at the end of the scheme at a cost less than fair value (including nil) (residual interests), an amount equal to the difference between the fair value and the payment to be made at the end of the contract is built up as a long-term debtor over the contract life by reducing the amount of the unitary payment charged to the revenue.

## **PFI Credits**

Government grants received for PFI schemes, in excess of current levels of expenditure, are carried forward as an earmarked reserve to fund future contract expenditure.

## **(31) Landfill allowance**

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. From 1 April 2005 central government introduced a trading scheme, which allocates tradable landfill allowances.

These allowances are recognised as current assets in the Council's Balance Sheet at market value. As waste is sent to landfill a liability is incurred to hold allowances equal to the landfill usage that is recognised as a current liability in the Council's Balance Sheet. Unused allowances at the end of the year are shown on the Balance Sheet, as an earmarked reserve, at a weighted average value.

## **(32) Redundancy Policy**

It is West Berkshire council's policy to minimise the impact of organisational change on its employees and to redeploy employees whenever possible.

Therefore redundancies and redundancy payments only occur when absolutely necessary and in consultation with Trade unions.

When redundancy payments are applicable it will be as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date in circumstances where the statutory definition of redundancy applies (ERA1996, s139). These payments are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment on the grounds of redundancy of an officer or group of officers.

West Berkshire's policy is not to offer enhanced pension payments on Termination of employment on the grounds of redundancy or efficiency.

# Agenda Item 5.

<b>Title of Report:</b>	<b>Anti Fraud and Corruption Strategy 2011-12</b>
<b>Report to be considered by:</b>	Governance and Audit Committee
<b>Date of Meeting:</b>	28 March 2011
<b>Forward Plan Ref:</b>	

**Purpose of Report:** To review the Anti Fraud and Corruption Strategy for the coming year 2011-12

**Recommended Action:** Review and approve the Strategy

**Reason for decision to be taken:** To minimise the risk of and incidence of fraud and corruption

**Other options considered:** none

**Key background documentation:** none

The proposals will also help achieve the following Council Plan Themes:

- CPT13 - Value for Money**
- CPT14 - Effective People**
- CPT16 - Excellent Performance Management**

The proposals contained in this report will help to achieve the above Council Plan Priorities and Themes by:

Ensuring strong governance

<b>Portfolio Member Details</b>	
<b>Name &amp; Telephone No.:</b>	Councillor Keith Chopping - (0118) 983 2057
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<b>Date Portfolio Member agreed report:</b>	2 <sup>nd</sup> March 2011

<b>Contact Officer Details</b>	
<b>Name:</b>	Ian Priestley
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## Implications

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**Policy:** none  
**Financial:** none  
**Personnel:** none  
**Legal/Procurement:** none  
**Property:** none  
**Risk Management:** The strategy aims to minimise the risk of fraud and corruption occurring  
**Equalities Impact Assessment:** No impact anticipated

Is this item subject to call-in?	Yes: <input checked="" type="checkbox"/>	No: <input type="checkbox"/>
If not subject to call-in please put a cross in the appropriate box:		
The item is due to be referred to Council for final approval	<input type="checkbox"/>	
Delays in implementation could have serious financial implications for the Council	<input type="checkbox"/>	
Delays in implementation could compromise the Council's position	<input type="checkbox"/>	
Considered or reviewed by Overview and Scrutiny Commission or associated Task Groups within preceding six months	<input type="checkbox"/>	
Item is Urgent Key Decision	<input type="checkbox"/>	



# Executive Summary

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## 1. Introduction

- 1.1 The purpose of this report is to review and update the Anti Fraud Strategy, that was introduced in 2009-10, to combat the incidence of fraud and corruption.
- 1.2 The Strategy, appendix A, sets out the key elements of the measures that the Council takes to combat fraud.

## 2. Proposals

- 2.1 The Fraud Strategy should be approved by the Council.

## 3. Conclusion

- 3.1 The Council's anti fraud strategy remains up to date and effective.
- 3.2 The Council needs to remain alert to the ongoing incidence of fraud particularly in the area of Benefits and Single Person Discounts.
- 3.3 The Council needs to remain vigilant to new threats of fraud. A good example of this is the recent supplier frauds that have hit councils. Fortunately staff at West Berkshire Council have been alert and have so far blocked such frauds. Other councils have not been so alert and have lost significant sums.

# Executive Report

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## 1. Introduction

- 1.1 The Anti-fraud and Corruption Strategy forms part of the governance arrangements of the Council. Its purpose is to minimise the risk of fraud occurring. By minimising the losses through fraud it ensures that the resources available are used for the purposes they were intended for i.e. to support the delivery of the Council's objectives as set out in the Council Plan. A copy of the Strategy is at Appendix A.
- 1.2 The Council maintains high standards of probity and has a good reputation for protecting the public purse. Sound systems of public accountability are vital to effective management and in maintaining public confidence. The Council is committed to protecting the public funds entrusted to it. Although the Council has good policies and procedures they can be ignored, and fraud can happen. The minimisation of losses to fraud and corruption is essential to ensure that resources are used for their intended purpose to provide services to the citizens of West Berkshire.
- 1.3 The public is entitled to expect the Council to conduct its affairs with integrity, honesty and openness, and to demand the highest standards of conduct from those working for it. This Anti-Fraud and Corruption Strategy outlines the Council's commitment to creating an anti-fraud culture, and maintaining high ethical standards in its administration of public funds.
- 1.4 The Strategy is based on best practice set out in the CIPFA Anti Fraud Guide and is designed to sit above a number of related policies and procedures. The Strategy is designed to prevent, detect and deter fraud and to take effective action against any attempted or actual fraudulent act affecting the Council. The Strategy also satisfies the legislative requirements to have effective arrangements for tackling fraud, and conforms with professional guidance laid down in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government.
- 1.5 The Strategy is designed to link with the Council's objectives set out in the Council Plan. Fraud and Corruption inevitably takes resources away from these objectives. By putting in effective measures to prevent fraud the Council can minimise losses and minimise the cost of investigating cases of fraud and corruption.
- 1.6 The Strategy is designed to sit above a number of existing Council policies and procedures to ensure that these are compatible and work together to minimise the risk of fraud and corruption occurring. These include:
- (1) The Anti Fraud and Corruption Policy
  - (2) The Whistleblowing Policy (Confidential Reporting Code)
  - (3) Anti Money Laundering Policy
  - (4) Officer Code of Conduct
  - (5) Disciplinary Code

- (6) Contract and Financial Rules of Procedure
- (7) Recruitment Procedures
- (8) Risk Strategy
- (9) Internal Audit Strategy
- (10) Housing Benefits Anti Fraud Strategy.

## **2. Bribery Act 2010**

2.1 The Bribery Act will come into force on 1<sup>st</sup> April 2011. The Act will:

- (1) Introduce a corporate offence of failure to prevent bribery by persons working on behalf of a business. A business can avoid conviction if it can show that it has adequate procedures in place to prevent bribery.
- (2) Make it a criminal offence to give, promise or offer a bribe and to request, agree to receive or accept a bribe either at home or abroad. The measures cover bribery of a foreign public official.
- (3) Increase the maximum penalty for bribery from seven to 10 years imprisonment, with an unlimited fine.

2.2 The Ministry of Justice is currently consulting on likely guidance for organisations about how to prevent bribery and as to how an organisation may be able to show that it has adequate bribery prevention procedures in place to constitute a defence to prosecution. Once this is available the Council will need to review its procedures to ensure compliance.

## **3. New threats**

3.1 The range of threats of fraud is constantly changing. The latest examples involve fraudsters faking supplier documentation. In one case fraudsters provided new, fabricated, bank account details in an attempt to have BACS payments, from the Council to a supplier, diverted. In another case fraudsters faked a contract novation relating to a software supplier with the aim of diverting payment from the legitimate supplier.

3.2 A number of Council's have been caught by this type of fraud and lost significant sums as a result. Fortunately this Council was aware of the risk and alert officers were able to prevent the frauds occurring.

3.3 What these two cases do demonstrate is the need for the Council continuously review its systems and procedures to ensure that the risk of fraud is minimised.

## **4. Anti Fraud work**

4.1 The National Fraud Initiative (NFI)

- (1) The NFI is a national data matching exercise previously undertaken by the Audit Commission every two years. It is unclear whether this will continue following the abolition of the Audit Commission. It is designed

to help participating bodies identify possible cases of fraud and detect and correct any under/over payments from public monies. Participation in the NFI was a legal requirement

- (2) Internal Audit review the matched data with colleagues in other services to investigate possible instances of fraud.
- (3) Over the years that this process has been in place the cost of staff time has far exceeded the value of fraud identified.

#### 4.2 Benefits Anti Fraud Team

- (1) The Benefits and Exchequer Service have a small team the investigates cases of Benefit Fraud. This team is very successful in identifying fraud and has carried out a number of successful prosecutions of fraudsters.
- (2) The Government is presently consulting on centralising the Benefits anti fraud teams under Department for Works and Pensions.
- (3) The Benefits and Exchequer Service also have a Discount Review Officer who has been very successful in identifying cases of wrongly claimed Council Tax Single Persons Discount.

#### 4.3 Internal Audit

- (1) Internal Audit carry out a range of audits each year that are designed to review procedures and controls in systems where there is felt to be a risk of fraud.
- (2) For example Internal Audit provided advice to the payments team in Benefits and Exchequer Services that allowed the payments team to identify a number of attempted payment frauds, noted above.

### 5. Recommendation

- 5.1 The Strategy has been brought to the Governance and Audit Committee for review and adoption by the Council.

### Appendices

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Appendix A – Draft Anti Fraud and Corruption Strategy 2011-12

### Consultees

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#### Local Stakeholders:

**Officers Consulted:** Corporate Board

**Trade Union:**

**DRAFT**

**West Berkshire Council**

**Anti Fraud and Corruption Strategy**

**March 2011**

## 1. INTRODUCTION

1.1 Good Corporate Governance requires that the authority must demonstrate clearly that it is firmly committed to dealing with fraud and corruption and will deal equally with perpetrators from inside (Members and employees) and outside the Council. In addition there will be no distinction made in investigation and action between cases that generate financial benefits and those that do not. This Strategy, however, will not compromise the Council's Equal Opportunities Policy or the requirements of the Human Rights Act 1998.

1.2 This Strategy embodies best practice, as outlined the CIPFA Anti Fraud Guide, and contains a series of measures designed to frustrate any attempted fraudulent or corrupt act and the steps to be taken if such action occurs. For ease of understanding it is separated into six areas as below:-

Culture	Section 2
Prevention	Section 3
Deterrence	Section 4
Detection and Investigation	Section 5
Training	Section 6

1.3 The Council is also aware of the high degree of external scrutiny of its affairs by a variety of bodies such as External Audit and Inspection, other Government Inspection bodies, the Local Government Ombudsman, HM Revenue and Customs. These bodies are important in highlighting any areas where improvements can be made.

1.4 The Strategy links closely with the Council's strategic objectives set out in the Council Plan. The Council Plan sets out a range of ambitious objectives that need significant resources to deliver them. Losses due to fraud and corruption will inevitably divert resources away from these objectives. Consequently the Council takes a zero tolerance approach to tackling fraud and corruption.

1.5 Fraud and corruption are defined by the Audit Commission as:-

*Fraud – “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”.*

*In addition, fraud can also be defined as “the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to mislead or misrepresent”.*

*Corruption – “the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person”.*

*In addition, this policy statement also covers “the failure to disclose an interest in order to gain financial or other pecuniary benefit.”*

1.6 Fraud Act 2006

The Fraud Act 2006 came into effect on 15 January 2007. The Act creates a new general offence of fraud with three ways of committing it:

- Fraud by false representation (dishonest representation) to gain or cause loss or risk of loss (eg phishing) (chip and pin)
- Fraud by failing to disclose information (where there is a legal duty, eg under written or oral contracts – eg heart condition & health insurance)
- Fraud by abuse of position – (eg power of attorney over an elderly relative)

It also creates new offences:

- Obtaining services dishonestly (eg climbing over a fence to watch a football match)
- Possessing, making and supplying articles for use in frauds (eg program or data held on file, draft letters for advance fee frauds)
- Fraudulent trading applicable to non-corporate traders. (extends Companies Acts to sole traders etc)

## **2. CULTURE**

- 2.1 The culture of the Council has always been one of openness and integrity. This culture therefore supports the opposition to fraud and corruption, supported by the Council's Confidential Reporting Code (Whistleblowing), and the Officer and Member Codes of Conduct.
- 2.2 The prevention/detection of fraud/corruption and the protection of the public purse are responsibilities of everyone, both internal and external to the organisation.
- 2.3 The Council's elected Members and employees play an important role in creating and maintaining this culture. They are positively encouraged to raise concerns regarding fraud and corruption, immaterial of seniority, rank or status, in the knowledge that such concerns will wherever possible be treated in confidence. The public also has a role to play in this process and should inform the Council if they feel that fraud/corruption may have occurred.
- 2.4 Concerns must be raised when Members, employees or the public reasonably believe that one or more of the following has occurred, is in the process of occurring, or is likely to occur:
- A criminal offence
  - A failure to comply with a statutory or legal obligation
  - Improper or unauthorised use of public or other official funds
  - A miscarriage of justice
  - Maladministration, misconduct or malpractice
  - Endangering an individual's health and/or safety
  - Damage to the environment
  - Deliberate concealment of any of the above

- 2.5 The Council will ensure that any allegations received in any way, including by anonymous letters or telephone calls, will be taken seriously and investigated in an appropriate manner. The Standards Committee specifically excluded investigation of anonymous complaints against Members.
- 2.6 The Council will deal firmly with those who defraud the Council or who are corrupt, or where there has been financial malpractice. There is, of course, a need to ensure that any investigation process is not misused and, therefore, any abuse (such as employees/Members raising malicious allegations) may be dealt with as a disciplinary matter (employees) or through Group procedures (Members), or through the Standards Committee.
- 2.7 When fraud and corruption has occurred due to a breakdown in the Council's systems or procedures, Corporate Directors / Heads of Service will ensure that appropriate improvements in systems of control are implemented in order to prevent a re-occurrence.
- 2.8 A key aim of this Strategy is to work towards reducing the losses to the Council caused by Fraud and Corruption.

### **3. PREVENTION**

#### **3.1 Policies and Procedures**

- 3.1.1 The Council maintains a range of related policies and procedures that are designed to minimise the risk of Fraud and Corruption occurring. This Strategy is designed to ensure that all of these policies and procedures are compatible and effective. These include:
- The Whistleblowing Policy (Confidential Reporting Code)
  - Anti Money Laundering Policy
  - Officer Code of Conduct
  - Disciplinary Code
  - Contract and Financial Rules of Procedure
  - Recruitment Procedures
  - Risk Strategy
  - Internal Audit Strategy
  - Housing Benefits Anti Fraud Strategy.

#### **ELECTED MEMBERS**

#### **3.2 The Role of Elected Members**

- 3.2.1 As elected representatives, all Members of the Council have a duty to the Citizens of the District to protect the Council and public money from any acts of fraud and corruption.



- 3.2.2 This is done through the Anti-Fraud and Corruption Strategy, compliance with the adopted Code of Conduct for Members, the Council’s Constitution, including Financial and Contract Rules of Procedure, and relevant legislation.
- 3.2.3 Elected Members sign and confirm that they have read and understood the Code of Conduct for Members when they take office. Conduct and ethical matters are specifically brought to the attention of Members during induction and include the declaration and registration of interests. The Head of Legal and Electoral Services advises Members of new legislative or procedural requirements and assists in their application of the Code when they are acting as Members of the Council.
- 3.2.4 The Executive will own the Anti Fraud and Corruption Strategy and ensure that it is refreshed annually.
- 3.2.5 The Governance and Audit Committee will monitor and review the implementation of the Strategy.
- 3.2.6 The Standards Committee is responsible for enforcing and dealing with complaints against Councillors insofar as they relate to breaches of the Code of Conduct.

## **EMPLOYEES**

### **3.3 The Role of the s151 officer**

- 3.3.1 The Head of Finance has the statutory responsibilities defined by s151 of the Local Government Act 1972. These responsibilities outline that every local authority in England & Wales should:

*“make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for the administration of those affairs”.*

- 3.3.2 Proper administration encompasses all aspects of local authority financial management including:
- Compliance with the statutory requirements for accounting and internal audit;
  - Ensuring the Authority’s responsibility for ensuring proper administration of it’s financial affairs;
  - The proper exercise of a wide range of delegated powers both formal and informal;
  - The responsibility for managing the financial affairs of the local authority in all it’s dealings; and
  - The recognition of the fiduciary responsibility owed to local tax payers.
- 3.3.3 Under these statutory responsibilities the Head of Finance contributes to the anti-fraud and corruption framework of the Council.

### **3.4 The Role of Managers**

- 3.4.1 Managers at all levels are responsible for the communication and implementation of this strategy in their work area. They are also responsible for ensuring that their employees are aware of the Council's HR policies and procedures, the Council's Financial and Contract Rules of Procedure and that the requirements of each are being met in their everyday business activities. In addition, managers must make their employees aware of the requirements of the Officers Code of Conduct within the Constitution through the induction process.
- 3.4.2 Managers are expected to create an environment in which their staff feel able to approach them with any concerns they may have about suspected irregularities. Where they are unsure of the procedures they must refer to the Council's Confidential Reporting Code (Whistleblowing).
- 3.4.3 Special arrangements will apply where employees are responsible for cash handling or are in charge of financial systems and systems that generate payments, for example payroll or the cash management system. Managers must ensure that relevant training is provided for all employees.
- 3.4.4 The Council recognises that a key preventative measure in dealing with fraud and corruption is for managers to take effective steps at the recruitment stage to establish, as far as possible, the honesty and integrity of potential employees, whether for permanent, temporary or casual posts and agency staff. The Council's formal recruitment procedure contains appropriate safeguards in the form of written references, the verification of qualifications held and employment history. As in other public bodies Criminal Records Bureau (CRB) checks are undertaken for employees working with or who may have contact with children or vulnerable clients.

### **3.5 Responsibilities of Employees**

- 3.5.1 Each employee is governed in their work by the Council's Financial and Contract Rules of Procedure, and other policies on conduct (Health and Safety and IT Security policy). Included in the Council policies are guidelines on Gifts and Hospitality, and codes of conduct associated with professional and personal conduct and conflict of interest. These are issued to all employees when they join the Council or are available to all on the Intranet.
- 3.5.2 In addition to paragraph 3.4.1, employees are responsible for ensuring that they follow the instructions given to them by management, particularly in relation to the safekeeping of the assets of the Authority. These will be included in induction training and service procedure.
- 3.5.3 Employees are expected always to be aware of the possibility that fraud, corruption and theft may exist in the workplace and be able to share their concerns with management. If for any reason, they feel unable to speak to their manager they must refer the matter to one of those named below.
- 3.5.4 Concerns must be raised, in the first instance, directly with the Line Manager/Head teacher or if necessary, anonymously (letter, telephone) and via other routes, by the Council's Confidential Reporting Code (Whistleblowing) , eg: -

- Heads of Service, Corporate Directors, the Chief Executive or the Council's Monitoring Officer, who will report such concerns to the Head of Finance
- Directly to the Head of Finance / Chief Internal Auditor
- External Auditor, who depending upon the nature of the concern will liaise with the Head of Finance
- Trade Union Representative

### **3.6 Conflicts of Interest**

3.6.1 Both elected Members and employees must ensure that they avoid situations where there is a potential for a conflict of interest. Such situations can arise with externalisation of services, internal tendering, planning and land issues etc. Effective role separation will ensure decisions made are seen to be based upon impartial advice and avoid questions about improper disclosure of confidential information.

### **3.7 Official Guidance**

3.7.1 In addition to the Council's Financial and Contract Rules of Procedure, Service Units will have their own procedures to prevent and deter fraud. There will also be audit reports, which recommend methods to minimise risks and losses to the Authority. Managers and employees must be made aware of these various sources of guidance and alter their working practices accordingly.

### **3.8 Role of Internal Audit**

3.8.1 Internal Audit plays a vital preventative role in trying to ensure that systems and procedures are in place to prevent and deter fraud and corruption. Internal Audit investigates all employee cases of suspected financial irregularity, fraud or corruption, except Benefit fraud investigations (see below), in accordance with agreed procedures. Within the Financial Procedure Rules in the Constitution, representatives of Internal Audit are empowered to, and will:

- enter at all reasonable times any Council premises or land
- carry out unannounced visits to Council Offices to carry out spot checks
- have access to all records, documentation and correspondence relating to any financial and other transactions as considered necessary
- have access to records belonging to third parties such as contractors when required
- require and receive such explanations as are regarded necessary concerning any matter under examination
- require any employee of the Council to account for cash, stores or any other Council property under his/her control or possession

3.8.2 Internal Audit will normally take the lead in investigating any non Housing Benefit cases of fraud and corruption. The Internal Audit Strategy sets out a

proactive approach to reducing the risk of Fraud and Corruption. The Chief Internal Auditor acts as the “Head of Internal Audit” and has access to the necessary records and staff to be able to deal with any investigations.

3.8.3 Internal Audit liaises with management to recommend changes in procedures to reduce risks and prevent losses to the Authority.

### **3.9 The Role of the Benefits Investigation Team**

3.9.1 The Benefits Investigation Team is responsible for all of the benefit fraud investigations, in accordance with legislation and agreed codes of conduct. In cases where employees are involved they will work with Internal Audit, HR and appropriate senior management to ensure that correct procedures are followed and that this policy is adhered to.

### **3.10 The Role of the External Auditor**

3.10.1 Independent external audit is an essential safeguard of the stewardship of public money. This is currently carried out by the KPMG through specific reviews that are designed to test (amongst other things) the adequacy of the Council’s financial systems and arrangements for preventing and detecting fraud and corruption. It is not the external auditors’ function to prevent fraud and irregularities, but the integrity of public funds is at all times a matter of general concern. External auditors are always alert to the possibility of fraud and irregularity, and will act without undue delay if grounds for suspicion come to their notice. The external auditor has a responsibility to review the Council’s arrangements for preventing and detecting fraud and irregularities, and arrangements designed to limit the opportunity for corrupt practices.

3.10.2 Where External Audit is required to undertake an investigation they will operate within legislation and their codes of conduct.

### **3.11 Co-operation with Others**

3.11.1 Internal Audit has arranged, and in compliance of the Data Protection Act, to develop and encourage the exchange of information on national and local fraud and corruption activity in relation to Local Authorities, with external agencies such as:

- Police
- County, Unitary and District Groups
- Audit Commission
- Department of Work and Pensions
- Government Departments
- National Anti-Fraud Network

### **3.12 The Role of the Public**

3.12.1 This policy, although primarily aimed at those within or associated with the Council, enables concerns raised by the public to be investigated, as appropriate, by the relevant person in a proper manner.

## **4 DETERRENCE**

#### **4.1 Housing and Council Tax Benefit Administration**

- 4.1.1 Benefits administration is recognised nationally as being complex and difficult to administer. This results in the scheme being prone to error and abuse. The Authority is committed to tackling poverty but it must also ensure that the administration of housing and council tax benefit is secure, fair and provides prompt help to those who need it. Equally, it must also be vigilant in tackling fraud and error to ensure value for taxpayers' money.
- 4.1.2 The Benefits & Exchequer Service operates within the Government's policies and guidelines and the National Performance Standards Framework, which aims to improve the quality and accuracy of benefit determinations and both prevent and reduce the incidence of fraud.

#### **4.2 Prosecution**

- 4.2.1 To support this policy the Council has a policy to prosecute in all appropriate circumstances. This policy encompasses the public, elected Members and employees. It is designed to clarify and ensure consistency in the Council's action in specific cases and to deter others from committing offences against the Authority.

#### **4.3 Disciplinary Action**

- 4.3.1 Theft, fraud and corruption are serious offences against the Authority and employees will face disciplinary action if there is evidence that they have been involved in these activities, including Benefit fraud. Disciplinary action will be taken in addition to, or instead of, criminal proceedings depending on the circumstances of each individual case but in a consistent manner.
- 4.3.2 Members will face appropriate action under this policy if they are found to have been involved in theft, fraud and corruption against the Authority. Action will be taken in addition to, or instead of criminal proceedings, depending on the circumstances of each individual case but in a consistent manner. If the matter is a breach of the Code of Conduct for Members then it will also be referred to the Standards Committee. The relevant Group Leader will also be informed.

#### **4.4 Publicity**

- 4.4.1 The Council's Public Relations Unit (PR) will optimise the publicity opportunities associated with anti-fraud and corruption activity within the Council. PR will also try to ensure that the results of any action taken, including prosecutions, are also reported in the press.
- 4.4.2 In all cases (both Member and Officer) where the Council has suffered a financial loss then the Council will seek to recover the loss and advertise this fact.
- 4.4.3 All anti-fraud and corruption activities, including the update of this policy, will be publicised in order to make the employees and the public aware of the Council's commitment to taking action on fraud and corruption, when it occurs.

## **5 DETECTION AND INVESTIGATION**

- 5.1 Internal Audit plays an important role in the detection of fraud and corruption. Included in their audit plan are reviews of system controls including financial controls and specific fraud and corruption tests and spot checks.
- 5.2 In addition to Internal Audit, there are numerous systems and management controls in place to deter fraud and corruption but it is often the vigilance of employees and Members of the public that aids detection.
- 5.3 In some cases frauds are discovered by chance or “tip-off” and arrangements are in place to enable such information to be properly dealt with.
- 5.4 All suspected irregularities are required to be reported (verbally or in writing) either by the person with whom the initial concern is raised or by the originator as per paragraph 3.4.4 (the Council’s Confidential Reporting (Whistleblowing) Code. This is essential to the strategy and:
- Ensures the consistent treatment of information regarding fraud and corruption; and
  - Facilitates a proper and thorough investigation by an experienced audit team or appropriate officer, in accordance with agreed procedures.
- 5.5 This process will apply to all the following areas:
- a) fraud/corruption by elected Members
  - b) internal fraud/corruption
  - c) other fraud/corruption by Council employees
  - d) fraud by contractors or their employees
  - e) external fraud (the public)
- 5.6 Cases under d) and e) would normally be referred directly to the Audit Commission or Police. Cases under (a) in respect to the Code of Conduct for Members will be referred to the Standards Committee for initial assessment in addition to the Audit Commission and/or the Police.
- 5.7 Any decision to refer a matter to the Police will be taken by the Monitoring Officer in consultation with the Heads of HR and Finance.
- 5.8 Depending on the nature of an allegation under b) to e), the Head of Finance will normally work closely with the Corporate Director / Head of Service concerned to ensure that all allegations are thoroughly investigated and reported upon.
- 5.9 The Council’s Disciplinary Procedures will be used to facilitate a thorough investigation of any allegations of improper behaviour by employees. The processes as outlined in paragraph 4.3.2 will cover Members.

## **6. AWARENESS AND TRAINING**

- 6.1 The Council recognises that the continuing success of this strategy and its general credibility will depend in part on the effectiveness of training and

awareness for Members and employees. The policy is an integral part of the induction programme and there is specialist training for certain elected Members and employees.

- 6.2 Regular awareness by managers' briefings, leaflets and information cards will ensure that the policy is kept current. Full copies of the Anti-Fraud and Corruption and Confidential Reporting policies are available on the intranet.
- 6.3 In addition external fraud alerts are circulated to all appropriate staff and will in future appear on the Intranet.

## **7. CONCLUSION**

- 7.1 The Council has always prided itself on setting and maintaining high standards and a culture of openness and integrity. This strategy fully supports the Council's desire to maintain an honest authority, free from fraud and corruption.
- 7.2 The Council has in place a network of systems and procedures to assist it in dealing with fraud and corruption when it occurs. It is determined that these arrangements will keep pace with any future developments in both preventative and detection techniques regarding fraudulent or corrupt activity that may affect its operation.
- 7.3 The Council will maintain a continuous review of all these systems and procedures through Internal Audit.
- 7.4 This policy statement will be reviewed on a regular basis, with a maximum of two years between each review.

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# Agenda Item 6.

<b>Title of Report:</b>	<b>Internal Audit Plan 2011-14</b>
<b>Report to be considered by:</b>	Governance and Audit Committee
<b>Date of Meeting:</b>	28 March 2011
<b>Forward Plan Ref:</b>	

**Purpose of Report:** To outline an Internal Audit Strategy for the next three years

**Recommended Action:** Review and approve the proposed plan

**Reason for decision to be taken:** to ensure that adequate assurance is provided that the Council's Internal Framework remains robust.

**Other options considered:**

**Key background documentation:**

The proposals will also help achieve the following Council Plan Theme(s):

- CPT13 - Value for Money**
- CPT14 - Effective People**
- CPT16 - Excellent Performance Management**

The proposals contained in this report will help to achieve the above Council Plan Priorities and Themes by:

Ensuring that there are robust service delivery procedures in place

<b>Portfolio Member Details</b>	
<b>Name &amp; Telephone No.:</b>	Councillor Keith Chopping - (0118) 983 2057
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<b>Date Portfolio Member agreed report:</b>	2 <sup>nd</sup> March 2011

<b>Contact Officer Details</b>	
<b>Name:</b>	Ian Priestley
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<b>Tel. No.:</b>	01635 519253
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## Implications

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**Policy:** none  
**Financial:** none  
**Personnel:** none  
**Legal/Procurement:** none  
**Property:** none  
**Risk Management:** Internal audit support the Risk Management process by focusing on high risk areas and making recommendations to improve system weaknesses and reduce levels of risk  
**Equalities Impact Assessment:** none required

Is this item subject to call-in?	Yes: <input checked="" type="checkbox"/>	No: <input type="checkbox"/>
If not subject to call-in please put a cross in the appropriate box:		
The item is due to be referred to Council for final approval	<input type="checkbox"/>	
Delays in implementation could have serious financial implications for the Council	<input type="checkbox"/>	
Delays in implementation could compromise the Council's position	<input type="checkbox"/>	
Considered or reviewed by Overview and Scrutiny Commission or associated Task Groups within preceding six months	<input type="checkbox"/>	
Item is Urgent Key Decision	<input type="checkbox"/>	

## **Executive Summary**

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### **1. Introduction**

- 1.1 This report sets out the proposed plan of work for internal audit over the next three years.
- 1.2 The report outlines the method used to compile the plan, which is based around risk.

### **2. Proposals**

- 2.1 The audit plan sets out a range of proposed audits. In addition work carried out in the previous year will be followed up. A copy of the audit plan is at appendix B.

### **3. Conclusion**

- 3.1 The work of internal audit is designed to provide the Council with assurance on the state of the Council's internal control framework. The work is also designed to highlight and remedy weaknesses identified in the Council's service delivery systems.

# Executive Report

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## 1. Introduction

1.1 The purpose of this report is to outline an Audit Strategy for the Council and to set out a programme of work for Internal Audit that will provide assurance to the Governance and Audit Committee on the operation of the Council's internal control framework and support the Committee's review of the Annual Governance Statement.

1.2 The report covers the following points:

- Audit objectives and outcomes
- How audit work is planned to ensure significant local and national issues are addressed.
- Basis for the opinion of the head of audit on the internal control framework
- Methods of providing and resourcing of the service.

## 2 Audit Objectives and Outcomes

2.1 The objectives for Internal Audit are set out in the Audit Charter which forms an appendix to the Terms of Reference of the Governance and Audit Committee. This is summarised in the definition of Internal Audit, taken from the CIPFA Code of Practice for Internal Audit 2006. The full charter is attached at **appendix A**

*Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources*

2.2 In plain English, Internal Audit is there to help Services deliver the Council Plan by identifying and helping to mitigate weaknesses in service delivery systems and procedures.

2.3 The main outcomes from the work of Internal Audit are:

- Audit reports produced at the conclusion of each audit, for the relevant Head of Service and Director.
- Monitoring reports on progress with implementation of agreed audit recommendations
- An annual assurance report and an interim update report for Management Board and Governance and Audit Committee on the outcomes of Internal Audit work

## 3 Audit Planning

3.1 The work programme for Internal Audit for the period 2011-14 is attached at **appendix B**. The plan analyses the different areas of Council activity that Internal Audit feel require auditing. The Plan is laid out by, Corporate Audits, then by Head of Service and for each audit covers:

- The key risks that the audit will cover
- The level of risk associated with the subject, as assessed by Internal Audit
- The complexity of the audit.
- The type of audit
- An initial estimate of the number of days that will be required to complete the audit, and the year in which the audit is planned

3.2 The process of putting the plan together is extensive in terms of the documents and people who are consulted. The following identifies the key drivers:

- The Council Plan. This is reviewed to ensure that audit resources are used to support the delivery of Council objectives.
- The Council's risk registers, particularly the Strategic Risk Register. This is used to highlight areas where assurance is required for controls that are in place to significantly reduce levels of risk to the Council.
- Results of previous audit, inspection and scrutiny work, by internal teams and external agencies, is considered.
- The views of stakeholders, Heads of Service, Corporate Board, Management Board are considered.
- Plans are made available to the Council's external auditor to ensure that there is no unnecessary duplication of effort.

3.3 The work programme is based on levels of risk. The risk registers are used to inform the level of risk where appropriate and this is supplemented by an audit view of risk. This takes account of:

- Results of risk self assessments (Strategic and Operational Risk Registers);
- Complexity/scale of system and processes / volume and value of transactions;
- Fraud and corruption - eg the risk of fraud or corruption occurring;
- Inherent risk - eg degree of change/instability/confidentiality of information;
- Internal Audit knowledge of the control environment based on previous audit work.

## 4 Audit approach and opinion

4.1 The work of Internal Audit forms the basis of the opinion given by the head of audit on the Council's internal control framework. The work of Internal Audit is regulated by the CIPFA Code of Practice for Internal Audit in Local Government. This sets out the standards and methods that should be applied in doing the work. At an operational level Internal Audit have a procedure manual that explains in detail how work is delivered. In addition a Audit Protocol is published to all Heads of Service setting out how the service operates. A copy of this is at **Appendix C**

4.2 There are a number key elements to the process that ensure the output from audit is fit for purpose.

- Consultation takes place at various stages of each audit with the service under review (Terms of reference, rough and formal draft and final reports and action plans are all discussed and agreed with the service under review)
- Audits are followed up to ensure that agreed actions are implemented. (Method and approach to follow up work varies depending on the nature of the issues identified in the original audit)

- All audit work is reviewed before being released. (The review process is ongoing during the course of each audit)
- An annual review of Internal Audit is now carried out by the Governance and Audit Committee.
- The External Auditor comments annually on the work of Internal Audit, the extent to which it complies with the Code of Practice and the extent to which the External Auditor can rely on the work.

4.3 The work produced by Internal Audit is designed to identify and remedy weaknesses in the internal control framework. Weaknesses that are identified are categorised according to their severity (fundamental, significant, moderate and minor).

4.4 Taken together, the above provides a sound basis for the Chief Internal Auditor to provide an annual opinion of the internal control framework of the Council.

## **5 Service provision and resourcing**

5.1 Planned vacancies include one Auditor post. This will help deliver the MVF target for the Finance Service. The Plan has been built on the assumption that this post will remain vacant for the whole year.

5.2 Resources have been reduced for the section, in order to support the need to reduce the Council's budget. The Chief Internal Auditor now has the support of 6 FTE's compared to 8 FTE's in previous years. Corporate Board take the view that this is the minimum level of resource to provide adequate assurance to the Council.

5.3 The impact of the planned vacancies is manageable in terms of levels of risk to the Council.

## **Appendices**

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Appendix A – Audit Charter

Appendix B – Audit Plan

Appendix C – Audit Protocol

## **Consultees**

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**Local Stakeholders:** N/A

**Officers Consulted:** Corporate Board

**Trade Union:** N/A

## Appendix A

### AUDIT CHARTER

#### 1 Definition and Purpose of Internal Audit

- 1.1 The CIPFA Code of Practice for Internal Audit in Local Government (2006) defined Internal Audit

Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment' as a contribution to the proper, economic, efficient and effective use of resources.

- 1.2 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2006, which state in respect of Internal Audit:
- 1.3 'A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices.'
- 1.4 The existence of an Internal Audit function does in no way diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in an efficient, secure and well ordered manner within the Authority.

#### 2 Responsibility & Objectives

- 2.1 As an independent appraisal function within the Authority, the objectives of Internal Audit are:
- To review, appraise and report on the adequacy of internal controls as a contribution to the economic, efficient and effective use of resources.
  - Ascertain the extent of compliance with procedures, policies, regulations and legislation.
  - Provide reassurance to management that their agreed policies are being carried out effectively
  - Facilitate good practice in managing risks
  - Recommend improvements in control, performance and productivity in achieving corporate objectives.
  - Review the value for money processes, best value arrangements, systems and units within the Authority.
  - Work in partnership with External Audit
  - Identify fraud as a consequence of its reviews and deter crime.

### **3 Scope and Accountability**

- 3.1 Internal Audit as a function will remain independent of the Authority's operational activities, and its auditors will undertake no operational duties. This will allow auditors to perform duties in a manner which facilitates impartial and effective professional judgements and recommendations.
- 3.2 The scope of Internal Audit allows for unrestricted coverage of the Authority's activities and access to all staff, records and assets deemed necessary in the course of the audit.
- 3.3 Accountability for the response to advice and recommendations made by Internal Audit lies with the management of the Authority. Management can accept and implement advice and recommendations provided or formally reject it. Internal Audit is not responsible for the implementation of recommendations or advice provided.
- 3.4 Internal Audit sits within the Finance Service and supports the statutory functions of the Head of Finance. However, Internal Audit is also accountable to the Governance and Audit Committee for the delivery of assurance in relation to the Council's system of internal control

### **4 Reporting**

- 4.1 All audit assignments will be the subject of a formal report written by the appropriate auditor. The report will include an 'opinion' on the adequacy of controls in the area that has been audited.
- 4.2 Every Internal Audit report issued, is subject to a follow up in order to ascertain whether actions stated by management in response to the audit report have been implemented. Internal Audit will determine if progress made in response to recommendations stated in the issued audit report is satisfactory, or if a further follow up is required.
- 4.3 Internal Audit will prepare half yearly reports for the Governance and Audit Committee and give an opinion on the Council's internal control framework.
- 4.4 Internal Audit will bring to the attention of the Governance and Audit Committee any serious matters of concern that may arise in the course of audit work

### **5 Resources**

- 5.1 Internal Audit will prepare an Audit Strategy each year that sets out the aims and objectives of the service.
- 5.2 A detailed risk based plan of work will be prepared for approval by the Governance and Audit Committee, including the resources required to carry out the work. This will set out the key areas / risks that are to be subject to audit.



# Internal Audit Work Programme - 2011-14

Key risks to be covered	Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)	Risk Assessment Category	Audit Type	Date last audited	2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010-2013 Est
<b>Corporate Audits</b>								
Income collection - spot checks	1	High	AFW	2009-10	20	20	20	60
Capital planning / programme / use of PMM	4	High	SR	2004-05	20			20
a) Theft/Fraud								
a) Ineffective project management - budgets exceeded/deadlines exceeded/outcome does not meet client needs b) Implementation and usage of PMM								
a) fraud by employees/residents								
<b>F</b>								
NFI Investigation work	2	High	AFW	2010-11	30	30	30	90
Telecommunications	3	Medium	AFW	2010-11				0
a) Inappropriate use of equipment/ineffective monitoring of personal calls resulting in unnecessary expenditure being incurred possibility of Fraud/abuse b) There isn't a consistent approach when determining a) Poor vfm b) Poor compatibility with existing systems c) failure to follow Contract Rules d) Poor implementation								
Procurement of ICT hardware and software	4	Medium	SR	Not Audited				0
<b>total</b>					<b>50</b>	<b>70</b>	<b>50</b>	<b>170</b>
<b>Chief Executive Directorate</b>								
Travel Claims	1	Medium	AFW	2010-11			10	10
<b>total</b>					<b>0</b>	<b>0</b>	<b>10</b>	<b>10</b>
<b>Corporate Director - Environment</b>								
Travel Claims	1	Medium	AFW	2010-11				0
<b>total</b>					<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Corporate Director - Community Services</b>								
Travel Claims	1	Medium	AFW	2004-5	10			10
<b>total</b>					<b>10</b>	<b>0</b>	<b>0</b>	<b>10</b>
<b>Corporate Director - Children's Services</b>								
Travel Claims	1	Medium	AFW	2010-11			10	10
<b>total</b>					<b>0</b>	<b>0</b>	<b>10</b>	<b>10</b>

# Internal Audit Work Programme - 2011-14

Key risks to be covered

Head of Finance	Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)	Risk Assessment Category	Audit Type	Date last audited	2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010-2013 Est
Insurance	2	High	SR	2002-03	15			15
Governance / Risk Management	3	High	SR	2007-08			15	15
Health and Safety	2	High	SR	2005-06		15		15
Webrisk	2	Medium	SR	2008-09				0
General Ledger (managed audit)	2	Medium	KFS	2010-11	10	10	10	30
Fixed Asset Register (managed audit)	2	Low	KFS	2010-11	10	10	10	30
Budget Monitoring	2	High	SR	2007-08		20		20
MTFS	4	High	SR	2006-07			15	15
Treasury Management (managed audit)	2	Low	KFS	2010-11	10	10	10	30
Bank Reconciliation (cover Chaps payments)	2	Medium	OR	2010-11			15	15
VAT	2	Medium	OR	2003-04		15		15
<b>Total</b>					<b>45</b>	<b>80</b>	<b>75</b>	<b>200</b>



# Internal Audit Work Programme - 2011-14

Key risks to be covered

Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)

## Head of Legal and Electoral Services

		2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010- 2013 Est
Registrars Service	a) Ineffective budgetary control, b) Insufficient control of income, c) Insufficient control of assets, d) Inappropriate expenditure				0
Legal Services	a) Ineffective budgetary control				0
Electoral Services	a) Non compliance with legislation, b) Inappropriate entries on register, c) Incorrect payments/expenditure/charges			10	10
Land Charges	a) Non compliance with legislation b) Income collection not effective				0
Contract letting	a) Non-compliance with Contract rules of Procedure b) Non compliance with EU legislation c) Corruption		15	15	30
Contract monitoring	a) Non-compliance with Contract rules of Procedure b) Contract spec not met c) Contract costs exceeded			20	20
<b>total</b>		<b>0</b>	<b>15</b>	<b>45</b>	<b>60</b>



# Internal Audit Work Programme - 2011-14

Key risks to be covered

Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)

## Head of Benefits and Exchequer

		2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010- 2013 Est
<b>F</b>	Payroll / PAYE (managed Audit)	15	15	15	45
	a) Ghost employees set up b) Inaccurate payments made c) Inaccurate deductions made				
<b>F</b>	Accounts Payable (managed audit)	15	15	15	45
	a) Inappropriate/fraudulent payments b) budgets exceeded				
<b>F</b>	Accounts Receivable (managed audit)	15	15	15	45
	a) Council's cashflow affected b) Income not maximised				
	Car Loans & Car Leasing		15		15
	a) Inaccurate payroll deductions b) Non compliance with Inland Revenue requirements				
	Cash Office			10	10
	a) Inaccurate processing of income - affecting cash flow decisions b) Fraud/theft c) Accounts could be qualified				
<b>F</b>	National Non-domestic Rates (managed audit)	15	15	15	45
	a) Non compliance with legislation b) Inaccurate calculation of contribution to pool c) Qualified accounts				
<b>F</b>	Housing Benefits (managed audit)	15	15	15	45
	a) Non compliance with legislation b) Inaccurate/inappropriate payments made c) Accounts qualified				
<b>F</b>	Council Tax (managed audit)	15	15	15	45
	a) Non compliance with legislation b) Income collection not maximised c) Accounts qualified				
	<b>Total</b>	<b>90</b>	<b>105</b>	<b>100</b>	<b>295</b>

# Internal Audit Work Programme - 2011-14

Key risks to be covered

Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)

## Head of I.T.

		2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010- 2013 Est
I.T. Strategy	a) Does not meet changing needs of the organisation b) Progress not measured/monitored - objectives not achieved				0
Software licenses	a) Non compliance with legislation (software licenses)				0
Change control Management	a) Inappropriate changes b) Changes do not meet the needs of users		15		15
Project Management (IT investment)	a) Systems do not meet business/user needs b) Escalation of costs/time to implement			20	20
Post Implementation Reviews (IT investment)	a) Systems do not meet business/user needs b) Escalation of costs/time to resolve system issues				0
Ensure continuous service (Disaster Recovery for I.T. Service)	a) Contingency plan not in place/not effective - service delivery affected	15			15
Compliance with CoCo	a) Non compliance with Government Connect requirements				0
Ensure systems security	a) Unauthorised access to data - data could be amended/destroyed/sensitive data made public	20			20
Manage problems and incidents (help desk)	a) Interruptions to service delivery b) Staff performance adversely affected		15		15
Manage data (File controls)	a) Inaccurate/lost data				0
EDI	a) Inaccurate/inappropriate electronic transactions				0
Print Unit	a) Inefficient operations b) Delivery targets not met		15		15
Business Continuity Planning	a) Flu / fire / flood / terrorism / service delivery			20	20
I.T. Asset Management	a) Loss of I.T assets - increased cost on replacement equipment			15	15
<b>total</b>		<b>35</b>	<b>45</b>	<b>55</b>	<b>135</b>

# Internal Audit Work Programme - 2011-14

Key risks to be covered

Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)

## Head of Special Projects

				2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010- 2013 Est
Denefield	a) Poor governance arrangements b) Procurement rules not adhered to c) Delays d) Poor financial control	4	High	SR	not audited		0
Brookfields	a) Poor governance arrangements b) Procurement rules not adhered to c) Delays d) Poor financial control	4	High	SR	not audited		0
London Rd	a) Poor governance arrangements b) Procurement rules not adhered to c) Delays d) Poor financial control	4	High	SR	not audited		0
<b>total</b>				<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



# Internal Audit Work Programme - 2011-14

Key risks to be covered

## Head of Adult Services

		Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)	Risk Assessment Category	Audit Type	Date last audited	2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010-2013 Est
Agency Staff	a) Inappropriate people could be appointed - risk to client b) Budgets could be exceeded c) Standards of service required not met	2	High	OR	2009-10		15	15	15
Assessment of Needs/Purchase of Care - (MH/LD)	a) Legislation is not adhered to b) Inappropriate care packages c) Budgets could be overspent	3	Medium	OR	2008-9				0
Assessment/Purchase of Care - Respite	a) Legislation is not adhered to b) Inappropriate care packages c) Budgets could be overspent	3	Medium	OR	Not audited	15			15
Day centres (4)	Establishment reviews - key risks - budgetary control/appropriateness of expenditure	1	Low	OR	2006-07				0
Carers grant	a) Budgetary control b) effectiveness of arrangement not monitored	2	Medium	OR	2009-10				0
Direct Payments	a) Non compliance with legislation b) Inaccurate payments c) Inappropriate use of bank account d) Clients needs not met	2	High	OR	2010-11	15		20	35
Residential Homes - Elderly (4)	Establishment review - key risks - budgetary control/appropriateness of expenditure	1	Low	OR	2010-11				0
Assessment of needs/Purchase of care - Home Care	a) Legislation is not adhered to b) Inappropriate care packages c) Budgets could be overspent	3	Medium	OR	2006-07	20			20
Assessment/Purchase of Care - Residential	a) Legislation is not adhered to b) Inappropriate care packages c) Budgets could be overspent	3	Medium	OR	2001-02	15			15
O/T - Equipment - pooled budget	a) Ineffective governance/communication between parties b) Effectiveness of arrangement not monitored - objectives not achieved/budgets exceeded	2	Medium	OR	Not audited	15			15
Community Care Service Transformation Programme:- RAISE/Personal Budgets	a) Legislation is not adhered to b) Inappropriate care packages c) Budgets could be overspent	4	High	ADV	2008-09	15			15
Demography (impact of free home care)	a) Poor medium term planning b) budget pressures c) service cuts	3	High	OR	Not audited		20		20
<b>total</b>						<b>60</b>	<b>55</b>	<b>35</b>	<b>150</b>

# Internal Audit Work Programme - 2011-14

Key risks to be covered

Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)

## Head of Housing and Performance

		2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010- 2013 Est
Fairer Charging	a) Non compliance with legislation/Council's policy b) Inaccurate charges calculated c) Ineffective income collection/recovery procedures	2008-09	15		15
Residents Property (Receivership)	a) Misappropriation of client property b) Inaccurate records of level/type of property held c) Non compliance with legislation	2007-08	15		15
Residents Property - (Appointeeship)	a) Misappropriation of client property b) Inaccurate records of level/type of property held c) Non compliance with legislation	2001-02	10		10
Contract Letting/Management (Care)	a) Value for money not obtained when choosing external providers b) Care provision not formalised/not monitored - escalation of costs/ care standards not met b) Service unaware of number/value of contracts	2001-02	20	20	40
Common Housing Register / Advice	a) Legislation is not adhered to b) Register not appropriately administered	2009-10			0
Homelessness	a) Legislation not adhered to b) Accommodation is not obtained promptly/cost effectively	2001-02	15		15
Renovation Grants/Disabled Facility Grants	a) Grants not awarded in accordance with legislation/Council procedures b) Records not up-to-date/accurate	2006-07	15		15
Housing Strategy	a) Strategy not in accordance with legislation b) Ineffective monitoring of progress - objectives not met	Not audited		15	15
Supporting People	a) Non-compliance with legislation b) Client needs not met/monitored c) Adherence to contract standard not reviewed/monitored	2004-05	15		15
<b>Total</b>		<b>50</b>	<b>55</b>	<b>35</b>	<b>140</b>

# Internal Audit Work Programme - 2011-14

Key risks to be covered

		Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)	Risk Assessment Category	Audit Type	Date last audited	2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010-2013 Est
<b>Head of Cultural Services</b>									
Leisure Centre Management	a) Non compliance with legislation, b) Ineffective contract monitoring and management	3	High	ADV	2009-10		20	20	20
Museums (1)	Review of key risks: Budgetary control, control of assets & cash, appropriate expenditure.	1	Low	OR	2004-05		5		5
Archaeology	a) Non compliance with legislation and government guidelines, b) Ineffective communication between services	2	Low	OR	2003-04	10			10
Tourist Information Centre	Review of key risks: Budgetary control, control of assets & cash, appropriate expenditure.	1	Low	OR	2010-11				0
Libraries Internet use	a) Inappropriate websites accessed - reputational damage/Council could be fined/complaints made from public	3	Low	OR	2005-06				0
Libraries Purchasing/stock control	a) Budgets overspent b) Inaccurate financial information for management decisions c) Stock may be misappropriated d) Purchasing arrangements are not cost effective	3	Medium	OR	2008-09				0
Libraries Income	a) Loss of stock is not reimbursed, resulting in additional expenditure b) Income collection not maximised	3	Medium	OR	2010-11				0
Shaw House	a) Facilities' use/income opportunities are not being maximised b) The facilities do not offer value for money c) Costs are not being effectively controlled	3	Medium	OR	2008-09				0
<b>total</b>						<b>10</b>	<b>5</b>	<b>20</b>	<b>35</b>

# Internal Audit Work Programme - 2011-14

Key risks to be covered

Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)	Risk Assessment Category	Audit Type	Date last audited	2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010-2013 Est
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## Head of Property and Public Protection

Commercial Rents	a) Non compliance with legislation, b) Loss of income/increased void periods, c) Misappropriation of leases	3	High	OR	2008-09	20	20
Asset management	b) Non compliance with legislation, b) Mis mgt of asset portfolio	2	Medium	SR	2005-06		15
Building Maintenance	a) Ineffective maintenance programme, b) Non compliance with legislation (internal, EU tendering policies)	3	High	OR	2008-09	20	20
Facilities Management	a) Poorly maintained facilities, compromised H&S, b) Theft of stock items, c) Ineffective out of hours service	3	Medium	OR	2003-04		20
Project Management	a) Failure to deliver major projects on budget, timely manner, to meet need of clients, b) Non compliance with legislation	4	High	SR	not audited		20
Clean and Green agenda	a) Failure to deliver change b) failure to deliver cost savings	4	Medium	SR	not audited	15	15
Waste Management and disposal PFI	a) Poor waste minimisation b) Low levels of Recycling	4	High	SR	2009-10		0
Service requests for intervention	a) Non compliance with Legislation b) Customer complaints	2	Low	OR	2002-03		0
Health and Safety	a) Non compliance with Legislation b) Service targets not achieved	2	Low	OR	2002-03		0
Food Safety and Standards Licensing Reform Income	a) Non compliance with Legislation b) Service targets not achieved	2	Low	OR	2002-03		15
	a) Non compliance with Legislation b) Ineffective income collection	2	High	OR	2005-06	15	
Taxi licensing	a) Inappropriate granting of licenses b) Ineffective income collection	2	Medium	OR	2008-09		0
Purchase/Disposal of samples	a) Inappropriate expenditure incurred b) Non compliance with disposal procedures	2	Low	OR	2002-03		0
Service requests for intervention ISO 9000 (TS)	a) Non compliance with Legislation b) Customer complaints	2	Low	OR	2002-03		0
	a) Non compliance with quality standard defined procedures	2	Low	ADV	2009-10		0
<b>total</b>						<b>40</b>	<b>125</b>

# Internal Audit Work Programme - 2011-14

Key risks to be covered

Key risks to be covered	Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)	Risk Assessment Category	Audit Type	Date last audited	2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010-2013 Est
<b>Head of Highways and Transport</b>								
Structural Maintenance / Engineering	3	Medium	OR	2002-03		15		15
a) Non compliance with legislation, b) Ineffective maintenance programme								
Traffic Management	3	Medium	OR	2004-05		15		15
a) Projects/schemes targets not met, b) Non compliance with internal policies, plans								
Highway Term Contract	2	High	OR	2004-05	20			20
a) Non compliance with H&S legislation, b) Ineffective contract monitoring, c) Non compliance with policies								
Home to School Transport / CRB checks	3	High	OR	2007-08				0
a) Employment of inappropriate individuals, b) Misallocation of free transport, c) contracts for transport								
Electrical (including Street Lighting)	2	Low	OR	Not audited			15	15
Street Naming/numbering	2	Low	OR	2004-05				0
Concessionary Fares / Bus Passes	2	Medium	OR	2010-11				0
Parking	3	High	OR	2004-05	20			20
Fleet Management		High	OR	2010-11				0
a) Non compliance with legislation, b) Loss of income c) Fraud/theft								
a) Use of vehicles b) contracts for non fleet transport								
<b>total</b>					<b>40</b>	<b>30</b>	<b>15</b>	<b>85</b>



# Internal Audit Work Programme - 2011-14

Key risks to be covered

Head of Education		Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)	Audit Type	Date last audited	2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010-2013 Est
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## Head of Education

Education Psychologist Service	a) Non compliance with legislation, b) Inappropriate/insufficient assessments of need undertaken/produced.	2	Medium	OR	Not audited	10		10
Secondary Schools (10)	Review of key risks - budgetary control, income collection, control of assets, school governance	2		S		22	16	54
Primary Schools (68)	Review of key risks - budgetary control, income collection, control of assets, school governance	1		S		125	100	325
Nursery Schools (2)	Review key risks: Compliance with legislation, accurate completion of grant claims	1		S		0	0	0
Special Schools (2)	Review key risks: Compliance with legislation, budgetary control, control of assets,	1		S		0	0	0
Formula funding / DSG	a) Non compliance with legislation, b) Ineffective budget builds	2	High	OR	2009-10			0
PLASC (80 schools)	a) Submission of incorrect returns, b) Inaccurate funding	1	High	S	2005-06		10	10
Family Support Packages for Disabled Children (to include short breaks)	a) Non compliance with legislation, b) Inappropriate packages, c) Overspends on budgets	3	High	OR	2009-10			0
Use of Family Support Worker Funding in secondary schools	a) Misutilisation of designated funding by secondary schools	2	Low	OR	Not audited		10	10
Special Needs Recruitment	a) Incorrect payments/collections, b) Entitlements not identified/obtained, c) Non compliance with legislation/standards	2	Low	OR	Not audited	15		30
School admissions policy	a) Non compliance with legislation, b) Unsuitable school offers, c) Invalid admissions data	2	High	OR	2009-10			0
Home to School Transport Entitlement	a) Employment of inappropriate individuals, b) Misallocation of free transport,	2	Low	OR	2008-09			0
Child Protection in Schools	a) Non compliance with legislation, b) Schools are not adequately supported/trained by WBC	2	High	OR	2008-09			0
Central Administration - Childcare Grant	a) Non compliance with legislation b) Inappropriate payments and awards, c) Insufficient documentary evidence	3	Medium	OR	2004-06		10	10
Nursery Provision - central review	Review key risks: Compliance with legislation, accurate completion of grant claims	1	High	OR	2010-11			0
Extended Schools / After Schools Clubs	a) Non compliance with government targets/legislation, b) Misuse of grant funds, c) Activities are not effectively monitored	3	Medium	OR	2007-08	15		15
Special Needs Assessment & Statementing	a) Non compliance with legislation, b) Incorrect assessments,	3	Medium	OR	2010-11			0
Home Tuition	a) Non compliance with legislation/standards, b) Service does not meet requirements of users.	2	Low	OR	Not audited	10		10
Resource Units (7)	Review key risks: Compliance with legislation, budgetary control, control of assets,	1	High	OR	Not audited	10		10
Adult Education	a) Non compliance with legislation, b) Non achievement of targets and standards, c) Overspends on budgets	2	Low	OR	Not audited		15	15

# Internal Audit Work Programme - 2011-14

Key risks to be covered

	Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)	Risk Assessment Category	Audit Type	Date last audited	2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010-2013 Est
Alternative Curriculum	1	Low	OR		10			10
Reintegration Service	1	Low	OR				10	10
<b>total</b>					<b>182</b>	<b>151</b>	<b>186</b>	<b>519</b>

Review of the Porch, Badgers Hill and Brideway PRU's

Review of the Key, The Oaks and Kingfisher PRU's



# Internal Audit Work Programme - 2011-14

Key risks to be covered

Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)	Risk Assessment Category	Audit Type	Date last audited	2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010-2013 Est
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## Head of Children's Services

Castlegate	Review of key risks: Budgetary control, control of assets & cash, appropriate expenditure.	1	High	OR	2010-11		0
Assessment of Need/Review process	a) Non compliance with legislation/standards, b) Inaccurate assessments, monitoring of assessments and referrals	3	Medium	OR	2005-06	20	20
Purchasing Care - Residential	a) Non compliance with legislation, b) Inappropriate packages, c) Overspends on budgets	3	High	OR	2008-09	15	15
Assessment & collection of contributions	a) Non compliance with legislation, b) Incorrect assessments, c)	3	Medium	OR	2002-03	15	15
Foster Care	a) Non compliance with legislation/standards, b) Unsuitable placements, c) Incorrect payments	3	Medium	OR	2008-09	10	10
Foster Care Recruitment	a) Non compliance with legislation, b) Ineffective training/strategies in place, c) Inappropriate people recruited, d) Insufficient staffing levels	2	Low	OR	Not audited		0
Adoption - Recruitment, Placement and Allowances	a) Non compliance with legislation, b) Ineffective training/strategies in place, c) Inappropriate people recruited, d) Inaccurate payments	3	Low	OR	Not audited		0
Carers Grant	a) Budgetary control b) effectiveness of arrangement not monitored	2	Medium	OR	Not Audited	15	15
Payment of Carers	a) Non compliance with legislation, b) Incorrect payments, c) Overspends on budget	2	Medium	OR	2007-08	10	10
Child Care Lawyers	a) Incorrect submission of charges by WB, b) Ineffective communication with Children's services, c) Cases wrongly undertaken by WB, d) Reading costs in WB figures	2	Medium	OR	2004-05	10	10
Unaccompanied Children - Asylum	a) Non compliance with legislation, b) Asylum seekers/care leavers are not adequately supported, c) Inadequate financial controls re payment of allowances/fraud.	3	Medium	OR	2004-05	15	15
Agency Staff	a) Non compliance with legislation, b) Inappropriate people recruited	2	Medium	OR	2008-09	10	10
York House - Family Resource Team	Review of key risks: Budgetary control, control of assets & cash, appropriate expenditure.	1	LOW	OR	2004-05	5	5

**total**

**20 70 35 125**

# Internal Audit Work Programme - 2011-14

Key risks to be covered

## Head of Youth Services and Commissioning

	Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)	Risk Assessment Category	Audit Type	Date last audited	2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010-2013 Est
Pooled budget Child & Adolescent mental health (section 37 contract)	3	Low	OR	Not audited			15	15
Child Protection Conferencing Processes	2	Medium	OR	2010-11				0
Utilisation of Extended Schools Funding in Schools	2	Low	OR	Not audited		10		10
School Meals Contract	3	Medium	OR	2007-08	20			20
Youth Services (6)	1	Medium	OR	2010-11				0
Area Teams (2 teams - Youth Services)	1	Low	OR					0
Adventure Dolphin & Outdoor Youth Activity	1	Low	OR	2008-09				0
Offsite Activities	1	Medium	OR	2005-06	15			15
					35	10	15	60

# Internal Audit Work Programme - 2011-14

Key risks to be covered

Complexity (Using a Risk Assessment scale of 1-4, with 1 being the least complex)

## Other Chargeable work (non service specific)

Preparation of the audit plan  
 Monitoring the audit plan  
 Liaison with Portfolio Members  
 Governance and Audit Committee updates  
 Annual Governance Statement  
 Audit Follow-ups  
 Audit Advice  
 School advice  
 External Professional Liaison

	2011-12 Days Est	2012-13 Days Est	2013-14 Days Est	TOTAL Days 2010- 2013 Est
<b>Total</b>	<b>191</b>	<b>191</b>	<b>191</b>	<b>573</b>
<b>Contingencies</b>				
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>300</b>
<b>Planned Audit Days total</b>	<b>1,003</b>	<b>1,107</b>	<b>1,053</b>	<b>3,163</b>

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## **Appendix C - INTERNAL AUDIT REPORTING PROTOCOL April 2011**

### **1 Purpose and Scope**

- 1.1 This document outlines the way internal audit will initiate, and report on work for the Council. This protocol relates only to Council Services, a separate protocol exists for Schools.
- 1.2 In terms of this protocol there are three types of audit work that will involve different approaches to reporting. These are:
  - Routine planned audits to provide assurance
  - Advisory work carried out at the request of the client
  - Unannounced audits – to check cash accounting on site.
- 1.3 A set of tables are attached which summarise the key elements of this protocol for each of the above.

### **2 Initiating work**

- 2.1 The following highlights the key stages for commencing Internal Audits
- 2.2 Terms of reference will be issued for all audits, apart from establishments and unannounced audits that will set out the scope of the work to be carried out and confirm the reporting arrangements.
- 2.3 In the case of Establishments a formal memo will be issued to outline the key areas that will be covered by the work.
- 2.4 In the case of unannounced audits the Head of Service will be informed that the audit has been carried out immediately after the conclusion of the visit. (These audits are expected to take no more than half a day.)

### **3 Reporting the results of Internal Audit work**

- 3.1 The reporting process planned work has three key stages :-  
  
Rough Draft Report (Memo in the case of unannounced cash audits);  
Draft Report / Memo;  
Final Report / Memo.
- 3.2 The rough draft will be issued to the Service Manager to check the factual accuracy, and to obtain their initial observations.
- 3.3 The formal draft will be issued once the Service Manager is satisfied with the accuracy of the report. The circulation of the formal draft report will ensure that all relevant people have had an opportunity to comment on the content of the report, prior to it being finalised.
- 3.4 We request comments/observations from all recipients, however, we treat the relevant Head of Service/Unit Manager as the main client, and as such we require the Head of Service to agree to the details, and comment on the

## Appendix C - INTERNAL AUDIT REPORTING PROTOCOL April 2011

recommendations, of the report before it is finalised. Where a recommendation is not agreed, we require the Client's reasoning for this, and this detail is included in the action plan (attached to the report) for future reference.

- 3.5 Where, during an audit, a serious problem is discovered which requires immediate attention, it may be necessary to issue an interim report. The relevant auditor will contact the Head of Service to discuss any such issues prior to an interim report being issued.
- 3.6 Internal Audit reports will normally be issued within 3 weeks of the completion of the work. The Terms of Reference for the audit should give an indication of the timescales for reporting.

### 3 Follow Up of Audit Recommendations

- 3.1 A follow up process is required in order to be able to give management/members assurance that the agreed action plans have been implemented. A follow will normally be carried out for all audits where recommendations have been made
- 3.2 A follow-up review is carried out roughly six months after the audit report was finalised. The exception to this is where an annual review is required to be undertaken in accordance with KPMG's requirements (usually the key financial systems in Benefits and Exchequer and Finance). The follow-up then forms part of the following year's review.

### 4 Timescales for receipt of Client Responses to Audit Requests for information/Responses to Audit Reports

- 4.1 This protocol sets out the timeframes by which we require a response from the Client, together with the processes to be followed where these timeframes are not met.

#### Suggestion of Timeframe protocol:-

	<b>Timeframe For Receipt of Response</b>	<b>Action where no response is received</b>
<b>Rough Draft Report</b>	Within 3 weeks of receipt (or notification of when a response will be received)	<b>Stage 1</b> - Reminder issued to the Line Manager (Head of Service copied in) specifying a response is required within two weeks otherwise the Corporate Director is to be informed.
	Within two weeks of stage 1	<b>Stage 2</b> - Corporate Director informed of lack of a response (Copied to the Line Manager and Head of Service) specifying a response is required

## Appendix C - INTERNAL AUDIT REPORTING PROTOCOL April 2011

		within two weeks otherwise this will be reported to the Corporate Board
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	<b>Timeframe For Receipt of Response</b>	<b>Action where no response is received</b>
<b>Draft Report</b>	Within 3 weeks of receipt (or notification of when a response will be received)	Stage two of the Rough draft will apply

4.2 These timeframes, together with action to be taken where no response is received will be incorporated into the standard letters/memos we issue with each report.

4.3 The auditor will use his/her judgement on each case to take into account any extenuating circumstances, and will notify the Head of Finance where there are issues with non-compliance that needs to be reported to Corporate Board. The Head of Finance will raise the matter with the relevant Director.

### 5 Reporting to the Governance and Audit Committee

The Chief Internal Auditor will provide the Committee, on a half yearly basis with a report that will summarise the results of completed audit and follow up audits. In the case of follow up audits that are unsatisfactory a note of the key issues will be provided and written update provided by the relevant Head of Service.-

5.1 A schedule listing each finalised audit, highlighting the overall opinion. A summary of the key issues will be produced for all **weak or very weak** opinions. Written comment from Internal Audit will be provided to the Committee and a written response / comment / update will be sought from the Head of Service. In addition the Head of Service will normally be asked to attend the Governance and Audit Committee to provide an update and answer Members questions on the audit.

### 6. Role of Portfolio Holders in the audit process

6.1 Portfolio Holders are involved in the audit process at their discretion and to the extent that they choose.

6.2 Portfolio Holders can choose to vary the extent of their involvement at any time. In addition if they wish they can vary their involvement on an audit by audit basis, by informing the Chief Internal Auditor.

6.3 The role of the Portfolio Holder in the audit process is to:

## Appendix C - INTERNAL AUDIT REPORTING PROTOCOL April 2011

- Feed in any issues of concern at the start of the audit so that these can be considered by the auditor in scoping the review.
  - Support the relevant Head of Service in considering weaknesses identified during the audit and action plans proposed by the auditor at the conclusion of the audit
  - Support the Head of Service in implementing agreed action plans
- 6.4 The lead auditor is responsible to the Chief Internal Auditor for managing the audit in compliance with the CIPFA Code of Practice for Internal Audit. Responsibility for the content of the resulting audit report will remain with the relevant lead auditor and the Chief Internal Auditor.
- 6.5 The Head of Finance as s151 Officer has overall responsibility for ensuring that the Internal Audit service complies with the CIPFA Code of Practice for Internal Audit



## Reporting arrangements

### 1 Audit Reviews to provide Assurance

Client	Terms of reference	Rough Draft Report	Formal Draft Report	Final Report	Follow-up details
S151 Officer (Head of Finance)	All cases		Where there are fundamental weaknesses in the service	All cases	All cases
Service / Unit Manager	All cases	All cases	All cases	All cases	All cases
Head of Service	All cases	Only where serious issues relating to the service, i.e. lots of fundamental weaknesses or issues of concern relating to the service manager. Such issues would normally be raised before the report is written	All cases	All cases	All cases
Corporate Director	All cases		Where there are fundamental weaknesses in the service	All cases (except for schools)	All cases
Chief Executive	For his service areas		Only where serious issues relating to the service, i.e. lots of fundamental weaknesses or issues of concern relating to the service manager. Such issues would normally be raised before the report is written.	Any report with fundamental weaknesses	Any report with fundamental weaknesses

## Reporting arrangements

Client	Terms of reference	Rough Draft Report	Formal Draft Report	Final Report	Follow-up details
			<b>The Chief Internal Auditor will decide on the necessity to issue a report at this level.</b>		
Relevant Portfolio Member and the Portfolio Member for Finance (in all cases)  (Include the two Councillors that are Shadowing the Finance Portfolio holder)	All cases		If the Portfolio member for the service has expressed an interest when the TOR have been issued.	All reports	All Cases
Chief Internal Auditor	All cases		All cases	All cases	All Cases

## Reporting arrangements

### 2 Advisory/VFM Reviews

(The approach will be agreed with the Client prior to commencing a review, and to be noted in the terms of reference to provide clarity of how the findings are to be reported). Advisory reviews may arise from the need for advice on key controls in systems where the Service concerned is already aware that improvement is needed or where the systems are being changed by the service area, (eg a new ICT system is being implemented).

Client	Terms of Reference	Rough Draft Report	Formal Draft Report	Final Report
Line Manager	All cases	All cases	All cases	All cases
Head of Service	All cases		All cases	All cases
Corporate Director	All cases			All cases
Chief Internal Auditor	All cases		Relevant auditor will decide on the necessity to issue a report at this level where there are serious issues relating to the service, i.e. lots of fundamental weaknesses or issues of concern relating to the service manager. Such issues would normally be raised before the report is written.	All cases

Further escalation of the advisory / VFM reviews reporting to the Chief Executive and the relevant portfolio Member will depend upon the significance of issues / number of weaknesses identified and will be determined by the relevant auditor. Due to the nature of the work an overall opinion will not be given for an advisory/VFM review. However, these reviews will follow the standard follow process for follow-ups (progress categorisation/circulation of findings).

## Reporting arrangements

### 3 Unannounced Audits

<u>Client</u>	<u>Terms of Reference</u>	<u>Rough Draft Memo</u>	<u>Formal Draft Memo</u>	<u>Final Memo</u>
Line Manager / Headteacher	None issued	All cases	All cases	All cases
Head of Service	None issued		All cases	All cases
Corporate Director	None issued			All cases
Relevant Portfolio Holder and Finance Portfolio Holder	None issued			All cases
Chief Internal Auditor	None issued		All Cases	All cases

# Agenda Item 7.

<b>Title of Report:</b>	<b>Review of Internal Audit</b>
<b>Report to be considered by:</b>	Governance and Audit Committee
<b>Date of Meeting:</b>	28 March 2011
<b>Forward Plan Ref:</b>	

**Purpose of Report:** To carry out a review of the system of internal audit

**Recommended Action:** To note the review

**Reason for decision to be taken:** To comply with the Accounts and Audit Regulations 2006

**Other options considered:**

**Key background documentation:**

The proposals will also help achieve the following Council Plan Theme(s):

- CPT13 - Value for Money**
- CPT14 - Effective People**
- CPT16 - Excellent Performance Management**

The proposals contained in this report will help to achieve the above Council Plan Priorities and Themes by:

ensuring that the Council has an effective internal audit function in place

<b>Portfolio Member Details</b>	
<b>Name &amp; Telephone No.:</b>	Councillor Keith Chopping - (0118) 983 2057
<b>E-mail Address:</b>	kchopping@westberks.gov.uk
<b>Date Portfolio Member agreed report:</b>	2 March 2011

<b>Contact Officer Details</b>	
<b>Name:</b>	Ian Priestley
<b>Job Title:</b>	Chief Internal Auditor
<b>Tel. No.:</b>	01635 519253
<b>E-mail Address:</b>	ipriestley@westberks.gov.uk

## Implications

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**Policy:** none  
**Financial:** none  
**Personnel:** none  
**Legal/Procurement:** none  
**Property:** none  
**Risk Management:** Internal Audit is a key support to the risk management processes within the Council.  
**Equalities Impact Assessment:** none required

Is this item subject to call-in?	Yes: <input checked="" type="checkbox"/>	No: <input type="checkbox"/>
If not subject to call-in please put a cross in the appropriate box:		
The item is due to be referred to Council for final approval	<input type="checkbox"/>	
Delays in implementation could have serious financial implications for the Council	<input type="checkbox"/>	
Delays in implementation could compromise the Council's position	<input type="checkbox"/>	
Considered or reviewed by Overview and Scrutiny Commission or associated Task Groups within preceding six months	<input type="checkbox"/>	
Item is Urgent Key Decision	<input type="checkbox"/>	

## **Executive Summary**

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### **1. Introduction**

- 1.1 The purpose of this report is to provide an annual review of the Internal Audit Service of the Council. This is a requirement of the Accounts and Audit Regulations, and complements the requirement for the Council to carry out an annual review of the system of internal control that is also a requirement of the Accounts and Audit regulations.
- 1.2 The review takes the form of a self assessment of the Internal Audit service by the Chief Internal Auditor, which has then been reviewed by the Finance and Governance Group.
- 1.3 A further source of review is contained in the annual audit letter from the Council's external auditor, presently KPMG. In the last letter, relating to 2009-10 audit, KPMG confirmed that in their view Internal Audit fully comply with the CIPFA Code of Practice for Internal Audit in Local Government and that KPMG were able to rely on the results of the work carried out by Internal Audit.

### **2. Proposals**

- 2.1 The service is presently meeting the requirements of the CIPFA code of practice. However, present levels of staffing are considerably less than in previous years. This means that there is very limited resilience within the service, so that the loss of further key staff would put the delivery of the service at risk.
- 2.2 One possible way of mitigating the risk is to look at opportunities for sharing resources with other local authorities. Consequently consideration is being given to setting up a shared support arrangement across Berkshire.

### **3. Conclusion**

- 3.1 Improving the resilience of the service by looking at opportunities to sharing support with other Berkshire Councils should be considered.

# Executive Report

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## 1. Introduction

- 1.1 The purpose of this report is to allow the Governance and Audit Committee to consider and comment on the effectiveness of the “System of Internal Audit” at the Council.
- 1.2 It is intended that the Committee’s comments will feed into, and support, the Annual Governance Statement for the Council.

## 2. Background

- 2.1 The Accounts and Audit Regulations 2006 required the Council to review the effectiveness of its “system of internal audit” on an annual basis and feed this into the Annual Governance Statement. This requirement caused some confusion among auditors at the time as no one understood what a “system of internal audit” was. CIPFA and the Audit Commission have produced guidance to explain what was intended by the regulation, but this guidance did not really explain the regulation. Fortunately the DCLG has now published proposals to amend the regulation to delete reference to “system” and simply refer to a review of Internal Audit. This report anticipates the amendment and provides a review of Internal Audit and is based on elements of the CIPFA guidance on who should carry out the review and what the review should cover.
- 2.2 The revised regulation requires the result of the review to be considered by the Council’s Audit Committee. CIPFA guidance indicates that the review should not be carried out by external audit or the head of internal audit, however they are best placed to do such a review. Consequently this review has been prepared by the Chief Internal Auditor and reviewed by the Finance and Governance Group.
- 2.3 The review of Internal Audit is based on an assessment of the extent to which internal audit complies with
  - the CIPFA Code of Practice for Internal Audit in Local Government (appendix A)
  - the CIPFA checklist for effectiveness measures for internal audit (appendix B)

## 3. Results of the review.

- 3.1 The results are summarised in the appendix A. The table highlights the key aspects / requirements of the work of internal audit and provides a



commentary on the extent to which Internal Audit complies with those requirements. No issues have been identified from the review.

- 3.2 In addition it is also worth noting the results of the last review of Internal Audit by KPMG for their 2009-10 Audit. KPMG confirmed that they were able to rely on the work of internal audit and that Internal Audit fully complied with the CIPFA Code of Practice for Internal Audit. This was reported to G&A at the September 2010 meeting of the Committee.

#### **4. Resourcing**

- 4.1 Although the service is presently meeting the requirements of the CIPFA code of practice, present levels of staffing are considerably less than in previous years, 10 FTE in 1998 when the Council was set up to 6.5 at present. Corporate Board have determined that the staffing of the service can not be safely reduced any further. However, with existing resources there is very limited resilience within the service, which means that the delivery of the service is could be at risk.

- 4.2 Such risks are:

- (1) An inability to provide assurance to the Council
- (2) An inability to respond to irregularities / fraud / corruption.
- (3) Additional external audit fees if KPMG are unable to rely on the work of Internal Audit.

- 4.3 The s151 Officers across Berkshire are presently discussing the possibility of developing sharing arrangements. This issue will be pursued over the coming financial year.

#### **Appendices**

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Appendix A - Assessment against the CIPFA Code of Practice for Internal Audit

Appendix B - Assessment against the CIPFA Code of Practice, characteristics of effectiveness

#### **Consultees**

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**Local Stakeholders:** N/A

**Officers Consulted:** Corporate Board

**Trade Union:** N/A

**Appendix A**  
**CIPFA Code of Practice – Standards**

2006 Code standard	Evidence of Achievement	Areas for development
<p><b>1. Scope of internal audit</b>  Terms of Reference</p>	<p>Terms of reference for Internal Audit are included in the Audit Charter which was endorsed by the Governance and Audit Committee</p>	
<p>Scope</p>	<p>Scope of audit work takes into account risk management processes and wider internal control issues.</p> <p>Resource levels reviewed and commented on in the annual Internal audit plan.</p> <p>Corporate Board recently reviewed the staffing of internal audit and confirmed that it is now at minimum level with.</p> <p>0.5 x Chief Internal Auditor  1 x Audit Manager  2 x Senior Auditor  3 x Auditor</p>	
<p>Responsibilities in respect of other organisations</p>	<p>The terms of reference do identify responsibilities in respect of other organisations.</p>	
<p>Fraud and corruption</p>	<p>Terms of reference define audit responsibilities in relation to fraud. This is backed up by the Authority's Anti-Fraud Strategy</p>	

<b>2006 Code standard</b>	<b>Evidence of Achievement</b>	<b>Areas for development</b>
<b>2. Independence</b>		
Organisational independence	The Audit Charter lays down the independence of internal audit.	
Status of head of internal audit	The Chief Internal Auditor has direct access to those charged with governance through the Governance and Audit Committee  Reports are made in auditors own names to management and to the Audit Committee by the Chief Internal Auditor.	
Independence of individual internal auditors	No conflict of interest between operational responsibilities and audit has been found.	
Declaration of interest	All staff are reminded annually of the need to declare any interests that may conflict with their duties	

<b>2006 Code standard</b>	<b>Evidence of Achievement</b>	<b>Areas for development</b>
<b>3. Ethics</b>		
Integrity Objectivity Competence Confidentiality	Staff appraisal system considers these issues; no significant points have been identified.  Staff are made aware of ethics requirements through the CIPFA Code of Practice. (reminder issued to all staff annually).	

2006 Code standard	Evidence of Achievement	Areas for development
<b>4. Audit Committee</b>		
Purpose of the Audit Committee	<p>Terms of reference have been formally approved and are regularly reviewed. They include responsibility for the review of the Annual Governance Statement.</p> <p>Governance &amp; Audit Committee approves and monitors audit strategy and plan.</p>	
Internal audit's relationship with the Audit Committee	The Chief Internal Auditor attends the meetings of the Governance and Audit Committee to report on the outcome of internal audit work, identify necessary changes to the audit plan, and present an annual report and opinion and assurance on the internal control framework.	

2006 Code standard	Evidence of Achievement	Areas for development
<b>5. Relationships</b>		
with management	<p>Managers are consulted on the audit plan and on the scope of each audit. This is reflected in terms of reference for each audit.</p> <p>Responsibilities for managers and internal audit are defined in relation to internal control, risk management and fraud and corruption matters.</p>	
with other internal auditors	Regular meetings are held with the Home Counties Chief Internal Auditors Group and the Berkshire Audit Group	
with external auditors	Good working relations established with KPMG, including consultation on plan and regular meetings.	
with other regulators and inspectors	<p>Sharing of information is undertaken with other internal review agencies.</p> <p>There is liaison with external regulators when necessary</p>	
with elected Members	The responsibilities of internal audit staff and Members, particularly those of the	

	Governance and Audit Committee are laid out in the Audit Charter, and in the Audit Reporting Protocol.	
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2006 Code standard	Evidence of Achievement	Areas for development
<b>6. Staffing, training and continuing professional development (CPD)</b>		
Training needs are identified	<p>The skills and competencies required of each post have been determined through job descriptions and people specifications.</p> <p>Actual skills and competencies have been assessed and individual training and development plans have been agreed through the appraisal process and are being delivered.</p> <p>Professional staff are required to complete CPD by their respective institutes.</p> <p>The Auditor posts are on long linked grades from D-H. A clear criteria for progression has been drawn up to ensure training and qualifications match advancement.</p> <p>An Audit Manual has been produced in house and this is used to provide guidance and ensure consistency of work.</p>	

2006 Code standard	Evidence of Achievement	Areas for development
<b>7. Audit Strategy and Planning</b>		
An effective Audit Strategy is in place	<p>An Audit Strategy accompanies the annual audit plan. The Strategy complies with the Code of Practice and has been formally endorsed by the Governance and Audit Committee as part of the planning process.</p> <p>The risk-based Audit Plan has been prepared in accordance with the Strategy.</p> <p>The Council's risk registers have been used as the basis of the plan to the extent deemed appropriate. This has been assessed by the Chief Internal Auditor.</p>	

	The plan has been endorsed by the Governance and Audit Committee.	
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2006 Code standard	Evidence of Achievement	Areas for development
<b>8. Undertaking Audit Work</b>		
Planning	Terms of reference are prepared and agreed with management for each audit	
Approach	A risk-based approach is used and an audit opinion is given for every audit.  Issues are discussed with management as they arise and at the post audit discussion.	
Recording and Assignments	Standards of working papers are specified and checked as part of the file review.  Internal audit use an industry standard audit management system (Galileo). Reports are produced for management information.  Adequate working papers supporting conclusions drawn and recommendations made are maintained and retained on Galileo.  Reports are issued to appropriate managers in accordance with the agreed reporting protocol.	

2006 Code standard	Evidence of Achievement	Areas for development
<b>9. Due professional care</b>		
Responsibilities of the individual auditor	All internal auditors are aware of their individual responsibilities for due professional care.	

Responsibilities of the Head of Internal Audit	<p>Arrangements are in place to monitor this:</p> <ul style="list-style-type: none"> <li>• Chief Internal Auditor reviews a sample of audit files and reports.</li> <li>• Appraisal and training.</li> </ul> <p>A whistle-blowing procedure is maintained through the Whistle-blowing Policy.</p> <p>Work is assigned so as to avoid potential conflicts of interest, although none have arisen to date.</p>	
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2006 Code standard	Evidence of Achievement	Areas for development
<b>10. Reporting</b>		
Reporting on audit work	<p>Audit reports give an opinion on risks and controls, using approved methodology.</p> <p>Scope of audit is set out in the audit report.</p> <p>Recommendations are prioritised according to risk. Draft reports are discussed with management and action plans agreed in response to recommendations made</p> <p>Reports are issued to appropriate managers</p> <p>Assurances are sought from managers on delivery of agreed actions.</p> <p>An escalation procedure has been defined.</p> <p>Implementation of agreed recommendations are followed up</p>	
Annual reporting	<p>An annual report to support the Annual Governance Statement is presented to the Governance &amp; Audit Committee. The report includes the opinion on the control environment and any qualifications to that opinion. The work on which the opinion is based is set out in the report.</p> <p>The report highlights significant issues and key themes arising from audit work in the</p>	

	year.  An Interim progress report is submitted to the Governance and Audit Committee.	
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<b>2006 Code standard</b>	<b>Evidence of Achievement</b>	<b>Areas for development</b>
<b>11. Performance, quality and effectiveness</b>		
Principles of performance, quality and effectiveness	Policies and procedures are defined in an audit manual. The Finance Service Plan includes performance indicators, which are reported to management	
Quality assurance of audit work	Audits are assigned according to the skills mix required and there is adequate supervision by the Audit Manager or Senior Auditor.	
Performance and effectiveness of the internal audit service	<p>Performance measures are defined in the service plan and results reported to management</p> <p>Internal quality reviews are undertaken by the Chief Internal Auditor</p> <p>Post audit questionnaires are issued with each final report.</p> <p>An annual assessment of the work of internal audit is undertaken by the external auditor (and reported to members in the annual audit letter) in terms of the reliance the externals can place on the work of internal audit. The Audit Commission, and now KPMG have always placed full reliance on the work of internal audit.</p>	



**Appendix B  
CIPFA Code of Practice - Characteristics of Effectiveness**

<b>An effective internal audit service:-</b>	<b>Evidence of achievement</b>	<b>Areas for development</b>
Understands its position in respect to the organisation's other sources of assurance and plans its work accordingly.	<p>Internal audit identifies other sources of assurance and takes these into account when preparing the Internal Audit Strategy and Plan:-</p> <ul style="list-style-type: none"> <li>• Use of risk registers to inform audit planning;</li> <li>• Has regular meetings with the external auditors</li> <li>• Has regular meetings with service managers</li> <li>• Effective liaison with Risk Management audit reports and risk registers are shared</li> </ul>	
Understands the whole organisation, its needs and objectives.	<p>The Internal Audit Strategy and plan demonstrates how audit work will provide assurance in relation to the authority's objectives and risks.</p> <p>Individual audit assignments identify risks to the achievement of those objectives.</p>	
Is seen as a catalyst for change at the heart of the organisation.	<p>Supportive role of audit for corporate developments such as corporate governance review, risk management. Major new systems implementations</p> <p>Individual assignments may be catalyst for change through the identification of improvements in control</p>	
Adds value and assist the organisation in achieving its objectives.	<p>Demonstrated through individual audit assignments and also corporate work. Post audit questionnaires give auditees the chance to comment on added value of audit.</p>	
Is involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations.	<p>Internal audit provides help and advice on request and supports specific projects identified in plan and on ad hoc basis. A resource is identified in the audit plan for general guidance and advice.</p> <p>Services are asked to inform internal audit of any planned changes to systems.</p>	

<b>An effective internal audit service:-</b>	<b>Evidence of achievement</b>	<b>Areas for development</b>
<p>Is forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.</p>	<p>When identifying risks and in formulating the plan, changes on the national agenda are considered. The Home Counties Chief Internal Auditors Group provides updates on national issues.</p> <p>The audit section maintains awareness of new developments in the services it audits through meetings, perusal of documents etc.</p> <p>The Internal Audit Strategy is updated annually and is based around the Council Plan</p>	
<p>Is innovative and challenging – shaping the values and standards of the organisation; providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy.</p>	<p>Internal audit has taken an innovative approach to its reporting arrangements by focusing on risks and helping managers to develop their own responses to the risks. The aim of this is to encourage greater ownership of the control environment amongst managers.</p>	
<p>Ensures the right resources are available – the skills mix, capacity, specialisms and qualifications/experience requirements all change constantly</p>	<p>This is reported to the Audit Committee as part of the audit plan.</p>	