

A meeting of the **CORPORATE GOVERNANCE PANEL** will be held in **CIVIC SUITE 0.1A, PATHFINDER HOUSE, ST MARY'S STREET, HUNTINGDON, CAMBS, PE29 3TN** on **TUESDAY, 25 SEPTEMBER 2012** at **6:30 PM** and you are requested to attend for the transaction of the following business:-

**Contact  
(01480)**

### **APOLOGIES**

**1. MINUTES (Pages 1 - 8)**

To approve as a correct record the Minutes of the meeting of the Panel held on 26th June 2012.

**Miss H Ali  
388006**

**2. MEMBERS' INTERESTS**

To receive from Members declarations as to disclosable pecuniary, non-disclosable pecuniary or non-pecuniary interests in relation to any Agenda item. See Notes below.

**3. ANNUAL REPORT ON THE FREEDOM OF INFORMATION ACT, ENVIRONMENTAL INFORMATION REGULATIONS AND DATA PROTECTION ACT (Pages 9 - 16)**

To receive a joint report from the Heads of Information Management and Legal and Democratic Services on the Freedom of Information Act, Environmental Information Regulations and Data Protection Act.

**D Horrex / Mrs B  
Morris  
388179 / 388022**

**4. AUDITORS REPORT - FINAL ACCOUNTS 2010/11 (Pages 17 - 48)**

To receive a report from the Head of Financial Services on the ISA 260 report issued by the External Auditor.

**S Couper  
388103**

**5. INTERNAL AUDIT SERVICE: ANNUAL REPORT FOR THE YEAR ENDING 31ST AUGUST 2012 (Pages 49 - 62)**

To consider a report by the Audit and Risk Manager on the Internal Audit Service.

**D Harwood  
388115**

**6. REVIEW OF THE EFFECTIVENESS OF THE INTERNAL AUDIT SERVICE (Pages 63 - 70)**

To consider a report by the Audit and Risk Manager detailing the outcome of a review of the effectiveness of the Internal Audit Service.

**D Harwood  
388115**

7. **REVIEW OF THE EFFECTIVENESS OF THE CORPORATE GOVERNANCE PANEL** (Pages 71 - 74)
- To consider a report by the Head of Financial Services detailing the outcome of a review of the effectiveness of the Corporate Governance Panel.
- D Harwood  
388115**
8. **RISK REGISTER** (Pages 75 - 84)
- To consider a report by the Audit and Risk Manager on changes made to the Risk Register between the period 14th March to 31st August 2012 inclusive.
- D Harwood  
388115**
9. **COMPLAINTS** (Pages 85 - 86)
- To receive a report from the Head of Legal and Democratic Services on lessons learnt from the complaints received from the Local Government Ombudsman.
- A Roberts  
388015**
10. **GOVERNANCE STATEMENT** (Pages 87 - 106)
- To consider a report by the Head of Legal and Democratic Services seeking endorsement of the Council's Governance Statement for 2011/12.
- H Thackray  
388035**
11. **APPROVAL FOR PUBLICATION OF THE 2011/12 ACCOUNTS**
- To consider a report by the Head of Financial Services setting out the process to enable the Council's accounts for 2011/12 to be published – **TO FOLLOW**.
- S Couper  
388103**
12. **TRAINING OF PANEL MEMBERS** (Pages 107 - 108)
- To consider a report by the Head of Financial Services outlining the Panel's work programme over the next year and providing Members with an opportunity to identify any training requirements that they might have.
- D Harwood  
388115**
13. **EXCLUSION OF PRESS AND PUBLIC**
- To resolve:-
- that the public be excluded from the meeting because the business to be transacted contains exempt information relating to any action to be taken in connection with the prevention, investigation or prosecution of crime, relates to the financial or business affairs of any particular person (including the authority holding that information) and is likely to reveal the identity of an individual.
14. **HOUSING BENEFIT - INTRODUCTION OF RISK BASED VERIFICATION** (Pages 109 - 124)
- To receive a report from the Head of Customer Services on the introduction of risk based verification in housing benefits for 2012/13.
- Mrs A Burns  
388122**

**15. CODE OF PROCUREMENT : TENDER AND QUOTATION REVIEW**  
(Pages 125 - 130)

To receive a report from the Head of Financial Services on the Council's compliance with the Code of Procurement.

**D Harwood**  
**388115**

**16. LESSONS LEARNT - 2010/11 ACCOUNTS** (Pages 131 - 148)

To receive a report from the Managing Director (Resources).

**T Parker**  
**388100**

Dated this 18 day of September  
2012



Head of Paid Service

**Notes**

**A. Disclosable Pecuniary Interests**

(1) *Members are required to declare any disclosable pecuniary interests and unless you have obtained dispensation, cannot discuss or vote on the matter at the meeting and must also leave the room whilst the matter is being debated or voted on.*

(2) *A Member has a disclosable pecuniary interest if it*

*(a) relates to you, or*

*(b) is an interest of -*

*(i) your spouse or civil partner; or*

*(ii) a person with whom you are living as husband and wife; or*

*(iii) a person with whom you are living as if you were civil partners*

*and you are aware that the other person has the interest.*

(3) *Disclosable pecuniary interests includes -*

*(a) any employment or profession carried out for profit or gain;*

*(b) any financial benefit received by the Member in respect of expenses incurred carrying out his or her duties as a Member (except from the Council);*

*(c) any current contracts with the Council;*

*(d) any beneficial interest in land/property within the Council's area;*

*(e) any licence for a month or longer to occupy land in the Council's area;*

*(f) any tenancy where the Council is landlord and the Member (or person in (2)(b) above) has a beneficial interest; or*

*(g) a beneficial interest (above the specified level) in the shares of any body which has a place of business or land in the Council's area.*

**B. Other Interests**

(4) *If a Member has a non-disclosable pecuniary interest or a non-pecuniary interest then you are required to declare that interest, but may remain to discuss and vote.*

(5) *A Member has a non-disclosable pecuniary interest or a non-pecuniary interest where -*

- (a) a decision in relation to the business being considered might reasonably be regarded as affecting the well-being or financial standing of you or a member of your family or a person with whom you have a close association to a greater extent than it would affect the majority of the council tax payers, rate payers or inhabitants of the ward or electoral area for which you have been elected or otherwise of the authority's administrative area, or
- (b) it relates to or is likely to affect any of the descriptions referred to above, but in respect of a member of your family (other than specified in (2)(b) above) or a person with whom you have a close association

and that interest is not a disclosable pecuniary interest.

**Please contact Miss H Ali, Democratic Services Officer, Tel No: 01480 388006 / e-mail: Habbiba.Ali@huntingdonshire.gov.uk if you have a general query on any Agenda Item, wish to tender your apologies for absence from the meeting, or would like information on any decision taken by the Panel.**

**Specific enquiries with regard to items on the Agenda should be directed towards the Contact Officer.**

**Members of the public are welcome to attend this meeting as observers except during consideration of confidential or exempt items of business.**

Agenda and enclosures can be viewed on the District Council's website –  
[www.huntingdonshire.gov.uk](http://www.huntingdonshire.gov.uk) (under *Councils and Democracy*).

**If you would like a translation of Agenda/Minutes/Reports  
or would like a large text version or an audio version  
please contact the Democratic Services Manager and  
we will try to accommodate your needs.**

***Emergency Procedure***

*In the event of the fire alarm being sounded and on the instruction of the Meeting Administrator, all attendees are requested to vacate the building via the closest emergency exit.*

# Agenda Item 1

## HUNTINGDONSHIRE DISTRICT COUNCIL

MINUTES of the meeting of the CORPORATE GOVERNANCE PANEL held in Civic Suite 0.1A, Pathfinder House, St Mary's Street, Huntingdon, PE29 3TN on Tuesday, 26 June 2012.

PRESENT: Councillor E R Butler – Chairman.

Councillors M G Baker, K J Churchill,  
G J Harlock, P G Mitchell and R J West.

#### **4. MINUTES**

The Minutes of the meetings of the Panel held on 28th March and 16th May 2012 were approved as a correct record and signed by the Chairman.

#### **5. MEMBERS' INTERESTS**

Councillors K J Churchill and R J West declared personal interests by virtue of their membership of Cambridgeshire County Council.

#### **6. INSPECTION BY THE INTERCEPTION OF COMMUNICATIONS COMMISSIONER**

With the aid of a joint report by the Head of Legal and Democratic Services and Fraud Manager (a copy of which is appended in the Minute Book) the Panel were acquainted with the outcome of an inspection by the Interception of Communications Commissioner which was undertaken on 13th March 2012.

In introducing the report, the Fraud Manager reported upon the conclusions reached by the Commissioner that the Council's use of the Regulation of Investigatory Powers Act was of a satisfactory level. He then drew the Panel's attention to areas which had been identified for improvement, together with the actions taken in response to the proposed recommendations. Whereupon, it was

RESOLVED

- (a) that the content of the Interception of Communication Commissioner Office's report be noted;
- (b) that the actions taken and proposed by the Council in response to the Interception of Communication Commissioner Office's recommendations be endorsed by the Panel; and
- (c) that the Council's use of powers under the Regulation of Investigatory Powers Act be noted and the adopted approach of using the powers appropriately, but sparingly, be endorsed.

## **7. INTERNAL AUDIT SERVICE - INTERNAL AUDIT PLAN**

Consideration was given to the content of a report by the Audit and Risk Manager (a copy of which is appended in the Minute Book) which provided Members with an opportunity to comment upon the Internal Audit and Assurance Plan for the twelve month period commencing 1st August 2012.

The Audit and Risk Manager drew the Panel's attention to a number of new areas which had been included within the Plan which included Local Government Shared Services contract management, the Localism Act, the Community Infrastructure Levy and the Corporate Office. In discussing the resources required to deliver the Plan, Members were informed that additional resource support would be provided externally through Deloitte's to cover the anticipated time spent by a member of the Internal Audit Team on Employee Liaison Advisory Group (ELAG) duties over the course of the year.

The Panel has discussed a number of matters including the Council's computer audit arrangements, the yearly inspections undertaken, the level of support which had been provided by Deloitte's over the previous year and the methodology used to calculate the number of days spent for each audit activity. In response to a question raised by Councillor G J Harlock, the Audit and Risk Manager undertook to circulate details of the level of computer audit fees to Panel Members outside of the meeting.

RESOLVED

that the content of the report now submitted be noted.

## **8. ANTI-FRAUD AND CORRUPTION MEASURES**

*(Councillor J A Gray, Executive Councillor for Resources was in attendance for this item).*

A report by the Audit and Risk Manager was submitted (a copy of which is appended in the Minute Book) which outlined the aims of the new Local Government Fraud Strategy which had been launched by the National Fraud Authority in April 2012.

The Panel were advised that the Strategy aimed to encourage local authorities to adopt a tougher approach to tackling fraud. Members' attention has been drawn to the likely fraud losses which had been projected for Huntingdonshire in relation to Council Tax, procurement and payroll fraud. The Audit and Risk Manager reported that he had reviewed these figures and reassured Members that the losses were significantly lower than projected.

A discussion then ensued on procurement fraud. Members were advised of the difficulties faced by Officers in identifying such cases and this has further been acknowledged by the Office of Fair Trading. Members have noted that a challenge remains within the Internal Audit Team to ensure that appropriate controls were in place within the Council to help identify such cases.

Following a question raised by a Member on the work of the Fraud

Team, the Fraud Manager reported that half the Team's work was attributable to investigating benefit fraud with the remaining half being spent on other initiatives such as tenancy fraud and investigations into rent deposit schemes.

Owing to their wish to gain a better understanding of the fraud risks faced by the Council, the Panel endorsed a suggestion made by the Chairman to establish a Working Group for this purpose. Arising from which, comment was made upon the need to ensure that there were adequately resourced fraud resources available in the future. Having welcomed the Panel's approach, the Executive Councillor for Resources made comment that this work would help to inform the Council's future priorities. Whereupon, it was

#### RESOLVED

- (a) that the aims of the Local Government Fraud Strategy be supported by the Panel;
- (b) that reports on the approaches to countering fraud be submitted to future meetings of the Panel;
- (c) that it be noted that a review of service bribery risks has been undertaken; and
- (d) that a Working Group be established comprising Councillors E R Butler, K J Churchill and P G Mitchell to investigate the fraud risks faced by the Council and the resources available in the future to undertake this work.

### **9. FINAL ACCOUNTS 2011/12 AND AUDIT OF 2010/11 ACCOUNTS**

*(Councillor J A Gray, Executive Councillor for Resources, was in attendance for consideration of this item).*

With reference to a report by the Head of Financial Services (a copy of which is appended in the Minute Book) the Panel received an update on the 2010/11 accounts which were yet to be approved for publication. Members were advised that it was anticipated the accounts would be finalised by 4th July 2012.

The Panel were advised that there currently was one matter outstanding which required some attention before the 2010/11 accounts were passed on to the external auditors for review. An explanation has been delivered to the Panel on the reasons for the delay, where it was reported that a number of lessons had been learnt from the process. These lessons have been taken into account during the completion of the 2011/12 financial statements. Assurances have however been delivered that the 2011/12 accounts would be ready for audit by 30th June 2012.

Nevertheless, Members continued to place on records their concerns over the delay in the publication of the 2010/11 accounts and questioned whether external specialist support had continued to be provided for these accounts. Additionally, a brief update was delivered on the appointment of the replacement Accountancy Manager, in light of the fact that the current post holder would soon

be leaving the authority. In response to a question, it was confirmed that external specialist support would not be required in the future.

The Panel has requested a report to be submitted to a future Panel meeting on the lessons learnt, together with the additional costs incurred by the Council which are attributable to the delay with the publication of the 2010/11 accounts. A suggestion was made to hold a special meeting of the Panel for this purpose and this approach was welcomed by the Executive Councillor for Resources. The Chairman would determine how best to proceed with the review pending the finalisation of the 2010/11 accounts.

In response to a question raised by Councillor G J Harlock, the external auditors confirmed that they would be submitting their own report on the 2010/11 accounts which would be submitted at a future meeting.

RESOLVED

that the content of the report now submitted be noted by the Panel.

#### **10. FINAL ACCOUNTS 2011-12 - ACCOUNTING POLICIES**

*(Councillor J A Gray, Executive Councillor for Resources was in attendance for consideration of this item).*

The Chairman announced that he proposed to admit the following urgent item in accordance with Section 100B (3) (b) of the Local Government Act 1972 (as amended by the Local Government (Access to Information) Act 1985) given there is a need to approve changes to the accounting policies by 30th June 2012 to enable the 2011/12 accounts to be passed on to the external auditors.

With the aid of a report by the Head of Financial Services (a copy of which is appended in the Minute Book) the Panel gave consideration to changes which had been proposed to the accounting policies. Given that the changes were only of a minor nature, the Panel

RESOLVED

that the changes proposed to the accounting policies as indicated within the report now submitted be endorsed by the Panel.

#### **11. EXTERNAL AUDIT PLAN 2011/12**

*(Mr C Everest and Mr C McLaughlin, PricewaterhouseCoopers LLP were in attendance for consideration of this item).*

The Panel received and noted a report by the external auditors (a copy of which is appended in the Minute Book) detailing the draft External Audit Plan for 2011/12.

In his opening remarks, Mr C Everest of PricewaterhouseCoopers LLP delivered assurances that they had taken on board the lessons learnt from the 2010/11 accounts process and indicated that priority



would be accorded to finalising the 2010/11 accounts prior to commencing any work on the following year's accounts. He then drew the Panel's attention to the key audit risk areas identified for the year and highlighted the approach that would be undertaken to complete these audits.

In response to a question, the Panel received clarification on how the Value for Money Conclusion had been evidenced by the auditors. Attention then was drawn to the level of audit fees for the 2011/12 year, which at £116,801, complied with the standards set by the Audit Commission and represented a slight reduction in comparison to the previous year.

Members' views on fraud were then sought by the external auditors where it was concluded that any areas to bring to the attention of the external auditors would arise from the Working Group's investigations into fraud (Minute No. 12/08 above). Whereupon, it was

RESOLVED

that the content of the draft External Plan for 2011/12 be noted.

**12. INTERNAL AUDIT SERVICE - TERMS OF REFERENCE AND INTERNAL AUDIT STRATEGY**

The Panel received and noted a report by the Audit and Risk Manager (a copy of which is appended in the Minute Book) which outlined recent developments arising from the Chartered Institute of Public Finance and Accountancy and the Institute of Internal Auditors relating to the development of national Public Sector Internal Audit Standards which are due to be published by the end of 2012. Panel Members were informed that a review of the Internal Audit Service's Terms of Reference and Internal Audit Strategy had therefore been delayed pending the receipts of these Standards.

RESOLVED

that the report now submitted be noted.

**13. NEW STANDARDS REGIME**

The Panel considered a report by the Head of Legal and Democratic Services and Monitoring Officer (a copy of which is appended in the Minute Book) detailing the provisions of the Localism Act 2011 in respect of Standards and the Code of Conduct.

The Head of Legal and Democratic Services and Monitoring Officer reported that draft regulations had been published on 10th June 2012, with an implementation date of 1st July 2012. Consideration was then given to the implications of the regulations upon the Council which would result in the existing national Code of Conduct ceasing on 30th June 2012. This would require the adoption of a new Code of Conduct by 1st July 2012, or as soon as possible thereafter.

Members then considered a number of proposed new model Codes of Conduct, whilst having taken into account the views of the

Standards Committee. In so doing, the Panel expressed their support for the proposed Code of Conduct recommended by the Standards Committee. The Head of Legal and Democratic Services tabled an updated version of the Code (a copy of which is also appended in the Minute Book) which had been amended since the Standards Committee meeting.

Members then discussed a number of other matters relating to the registration and disclosure of Members' Interests, the appointment of a new Standards Committee; including independent persons and Parish Council representatives, arrangements for responding to complaints and whether a Member should withdraw from a meeting room during consideration of any item of business in which he/she may have a disclosable pecuniary interest. Having regard to the arrangements for responding to complaints, comment was made that consideration should be given to enabling individuals to have some right of appeal on any decisions which are made against them.

Given that the changes require amendments to be made to the Council's Constitution, the Panel

#### RECOMMEND

that the Council

- (a) adopt the Code of Conduct as tabled at the meeting as the new Code for Huntingdonshire;
- (b) authorise the Head of Legal and Democratic Services and Monitoring Officer to establish and maintain a new Register of Members' Interests in compliance with the requirements of the Localism Act 2011 and the Council's Code of Conduct and ensure it is available for public inspection in accordance with the Act;
- (c) authorise the Head of Legal and Democratic Services and Monitoring Officer to establish and maintain new Registers of Interest for each Parish Council in Huntingdonshire in compliance with the Localism Act 2011 and the Code of Conduct adopted by the respective Parish Councils and ensure that they are available for public inspection in accordance with the Act;
- (d) appoint a Standards Committee comprising seven elected Members of the District Council based on appropriate political proportionality and to include one Member who is a Member of the Executive (as currently constituted);
- (e) invite Parish Councils to nominate two Parish Councillors to be co-opted as non-voting members of the Committee;
- (f) authorise the Head of Legal and Democratic Services and Monitoring Officer to commence the

- process for the appointment of at least two independent persons (one permanent and one able to act in reserve) and to undertake a review of the role and remuneration of the position;
- (g) establish a Selection Panel comprising three Members of the Standards Committee to short list and interview candidates for the position of independent persons and to recommend an appointment to Council;
  - (h) authorise the Head of Legal and Democratic Services and Monitoring Officer to pursue, if appropriate, the possibility of a joint recruitment exercise with Cambridgeshire Authorities to appoint independent persons;
  - (i) authorise the Head of Legal and Democratic Services and Monitoring Officer, after consultation with the Chairmen of the Standards Committee and Corporate Governance Panel, to finalise the protocol for the discharge of functions in relation to allegations that a Member of Huntingdonshire District Council or Parish Council in the District failed to comply with the adopted Code of Conduct;
  - (j) appoint the Head of Legal and Democratic Services and Monitoring Officer as the Proper Officer to receive complaints of failure to comply with the Code of Conduct and authorise him/her to determine allegations in accordance with the agreed protocol;
  - (k) authorise the Head of Legal and Democratic Services and Monitoring Officer, after consultation with the Chairmen of the Standards Committee and Corporate Governance Panel, to make any appropriate variations to the Constitution consequent upon the changes to the District Council's Standards arrangements; and
  - (l) amend the Council's Procedure Rules (Standing Orders) to require that a Member must withdraw from a meeting room during the consideration of any item of business in which he/she has a disclosable pecuniary interest.

#### **14. COMPLAINTS**

The Panel received and noted a report by the Head of Legal and Democratic Services (a copy of which is appended in the Minute Book) containing an analysis of the Council's internal complaints and a summary of complaints concerning the District Council which had been determined by the Local Government Ombudsman in 2011/12.

The Panel was also acquainted with a revised Compliments,

Complaints and Lessons Learned Policy, which took into account feedback which had been received from two external assessments in relation to Customer Service Excellence and the Equality Framework for Local Government. Having queried whether any information was available on the lessons which had been learnt, it was agreed that a report dealing with complaints to the Ombudsman would be submitted to the Panel's next meeting.

#### RESOLVED

- (a) that the content of the report now submitted be noted;
- (b) that the Compliments, Complaints and Lessons Learned Policy attached as Appendix B to the report now submitted be approved; and
- (c) that a report on the lessons learnt from the cases referred to the Ombudsman be submitted to the Panel's September 2012 meeting.

#### **15. TRAINING OF PANEL MEMBERS**

The Panel considered a report by the Head of Financial Services (a copy of which is appended in the Minute Book) regarding suggestions for training for Members based on the anticipated work programme for the Panel in 2012. In so doing, it was agreed that any future training requirements would be addressed by Members of the Panel on a meeting by meeting basis.

Chairman

## Annual report on the Freedom of Information (FOI) Act, Environmental Information Regulations (EIR) and Data Protection Act (DPA)

### (Report by Head of Information Management and Head of Legal & Democratic Services)

#### 1 Background

- 1.1 Since January 2005, the public has had the right to access information held by the Council under the Freedom of Information Act. The Freedom of Information Act (FOI) works alongside the Environmental Information Regulations (EIR) which came into force in 2004. IMD are responsible for managing the process for dealing with FOI and EIR requests.
- 1.2 Under the Data Protection Act 1998 (DPA), living individuals have a right to access their own personal data (broadly information about them). The DPA also controls how Data Controllers, such as Councils, are allowed to process data, including personal data. Legal and Democratic Services are responsible for dealing with SAR (Subject Access Requests) under the Data Protection Act.

#### 2 Purpose

- 2.1 The purpose of this report is to:
- Analyse the requests for information/personal data received by the Council under FOI, EIR and DPA and report this to Corporate Governance Panel
  - Highlight any issues that have been encountered and make recommendations to Corporate Governance Panel.

#### 3 FOI and EIR Requests received

- 3.1 The table below shows a comparison of the number of requests received by the different Cambridgeshire Councils.

Council	Total number of requests since 1/1/2005	Requests in 2011
Cambridgeshire County	3679	957
Huntingdonshire District	2031	519
Cambridge City	1879	533
Fenland District	1569	408
South Cambridgeshire District	1491	425
East Cambridgeshire District	1839(excluding figures from 2005)	872

- 3.2 The break down of the 519 FOI/EIR requests received by HDC in 2011 is shown in the Appendix.

EIR applies to any environmental information which is held by the Council. DPA applies to personal data held. FOI applies to all other information.

94% of requests were completed within the regulatory 20 working day period. The target was 90%. 28 requests were not responded to within the target of 20 days. See table below for the statistics of late requests per service department.

<b>Department</b>	<b>Late Responses</b>
Admin	3
Com & Env Health	0
Finance	6
HR & Payroll	1
IMD	5
Legal	3
Planning	2
Multiple	8

- 3.3 Demand continues to grow significantly. There has been a significant 12% increase in the number of requests received in 2011 compared with 2010. See Appendix for more information.
- 3.4 Processing FOI/EIR requests involves IMD logging the request and then asking the relevant departments for information to answer the request within 15 working days. So far all services are generally achieving the 15 working day timescale. IMD meets with any service which is consistently failing to achieve the 15 working day timescale to consider how they could meet this requirement.
- 3.5 It should be noted it continues to be important the Council responds to FOI and EIR requests even though departments may have reduced staff resources.

#### **4 Types of FOI/EIR requests**

- 4.1 The most frequent requests were for:
- No next of kin
  - Contracts
  - NNDR information
  - Planning Preliminary Enquiry files
- 4.2 The majority of people requesting information continues to be members of the public but there have been a number of requests from companies and the media.

#### **5 Publishing more information**

- 5.1 As mentioned in previous reports, to reduce the number of FOI and EIR requests, the Council continues to make information more accessible, i.e. publish documentation on the website.
- 5.2 The Coalition Government is encouraging Councils to publish information, for example publishing expenditure over £500. IMD is working with departments to satisfy the requirements highlighted by the Data Transparency Report which went to COMT. The deadline for this is end of July 2012 and there has been an encouraging response so far.

#### **6 Reviews of FOI/EIR requests**

- 6.1 During 2011 there have been 8 complaints, asking the Council to review the response to a FOI/EIR request, as well as 2 complaints from the Information Commissioner. All these have been dealt with successfully. This is in line with numbers of complaints from previous years and we always expect some FOI applicants to seek to challenge the Council's position.

## 7 Data Protection

- 7.1 As a Data Controller the Council is obliged to notify the Information Commissioner annually of the nature and purposes for which they process data and ensure they operate within the 8 principles governing such processing. Broadly these are that personal information must be:
- Fairly and lawfully processed
  - Processed for limited purposes
  - Adequate, relevant and not excessive
  - Adequate and up to date
  - Kept for no longer than necessary
  - Processed in line with the data subjects rights
  - Secure
  - Not transferred to other countries without adequate protection.
- 7.2 The Information Commissioner is appointed as Regulator to ensure compliance. The current purposes are published by the Information Commissioner and accessible to the public via the internet. The Council makes policies available to members, officers and the public which set out how it will process information.
- 7.3 This is a developing area of law and the regulator's powers are growing under recent amendments to the Act e.g. The Information Commissioner can now issue monetary penalty notices up to £500,000 for serious contravention of data protection principles of a kind likely to cause substantial damage or substantial distress. These must have been by deliberate act of the Data Controller where it ought to have known of the risk and failed to take reasonable steps to prevent it. The Council need to be vigilant and maintain robust processes and ensure staff are properly trained to comply with legal requirements.
- 7.4 Living individuals are entitled to know in advance what their personal data is to be used for by any data controller and that it will be processed lawfully. The Council is required as a data controller to notify the Information Commissioner annually of their name address and contact details. They must give a general description of the purposes for which they process personal data including the types of people and information affected and with whom this might be shared. This information is then recorded and published by the Information Commissioner in a register available over the Internet to the general public. It provides a primary start point for anyone wanting to check what personal data the Council may process. In addition the Council when they collect personal data normally have to inform the individual concerned what it may be used for. To do this, Council forms should include a fair processing notice or privacy statement describing those purposes. All departments are **recommended** to review their standard forms involving personal data collection to ensure they refer to the Council's Internet fair processing notice / privacy statement. This has the advantage that it is easier to keep forms up to date and is a logical place for the public to look for reference. It allows more detailed and layered information particularly on specific topics e.g. anti fraud measures for which the Council might use data. There is also the bonus that the privacy statement in the forms should be shorter because diligent readers can be referred to a fuller notice on the Council's website. If an electronic form is involved, it can be hyperlinked on a phrase like 'data protection' or 'privacy'.
- 7.5 The Council has also received a number of Subject Access Requests during the year, all of which were met within the statutory time limit. 13 requests were received for access to personal data. 7 of these were from individuals requesting their own personal data; 1 from a third party requesting lawful authority for disclosure and 5 were from police forces conducting missing persons/murder enquiries. Individuals usually want to see their housing, housing benefit or council tax files. 1 complaint was received and this is still on going.

- 7.6 It should be noted that unlike requests received under FOI and EIR, under a DPA Subject Access Request unlimited amounts of personal data can be required for a maximum fee of £10.00 once the individual concerned has satisfactorily proved their identity. Unlike FOI/EIR there is no provision in the DPA to treat someone as vexatious with respect to accessing their personal data.

## **8 Training and Liaison Group**

- 8.1 There is a continuing need to make Officers and Members aware of the FOI/EIR/DPA legislation.
- 8.2 FOI/EIR/DPA training has been included in the essential training for all Officers as part of their Personal Development Plan. Training is a standing item on the Information Governance Liaison Group.
- 8.3 Interactive online training has been setup to give self-service training for Officers and Members, although it appears take up of online training has continued to be slow, it is part of the essential training for all staff. A new online DPA training package should improve monitoring capacity. A FOI/EIR course is available on the [e-learning zone](#).
- 8.4 Additional training materials are available via the Council's intranet for both FOI and Data Protection. This includes short video films supplied by the Information Commissioner of which "Tick Tock" has been well received at several departmental meetings arranged/delivered by the Corporate Systems and Information Manager.
- 8.5 There is an Information Governance Liaison Group which regularly meets to talk about all topics associated with Information Governance including Freedom of Information Act and Data Protection. The terms of reference have been revised for this Liaison Group and these are attached in the appendix.

## **9 Resource and risks**

- 9.1 All FOI and EIR requests are managed by IMD. This involves the Corporate Systems and Information Manager, the IMD Support team and Departmental FOI Champions. In 2011 IMD alone spent over 850 hours dealing with FOI/EIR requests.
- 9.2 Demand for service related to Data Protection including fair processing notices, training and requests for disclosure of personal data also continues to increase, and the law can be expected to develop much further.
- 9.3 At present the current level of service is being maintained, but if an increased demand from the public is stimulated by the Coalition Government's transparency agenda, or resources are reduced, the risk of performance dropping can only increase.

## **10 Recommendations**

**It is recommended that Corporate Governance Panel:**

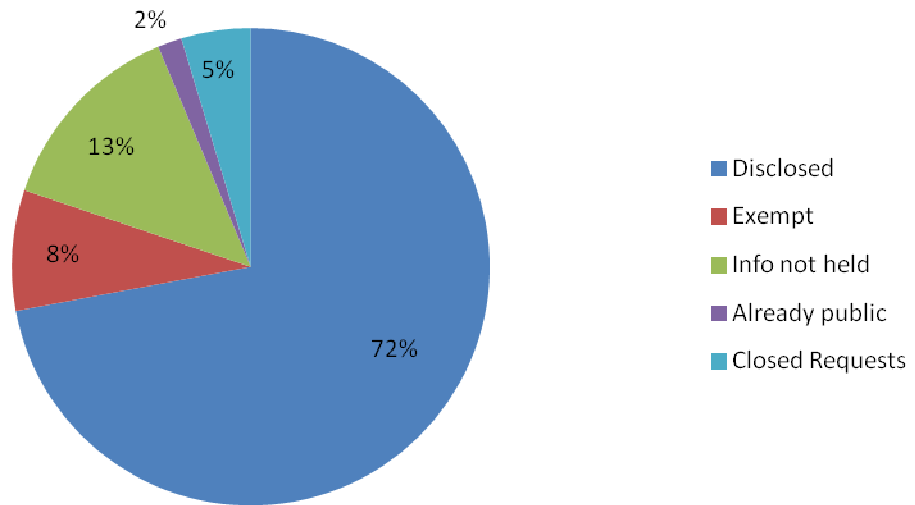
- **Note the contents of this report.**

**Contact Officers:** Dan Horrex – Corporate Systems and Information Manager  
☎ 01480 388179  
Barbara Morris - Data Protection Officer  
☎ 01480 388022

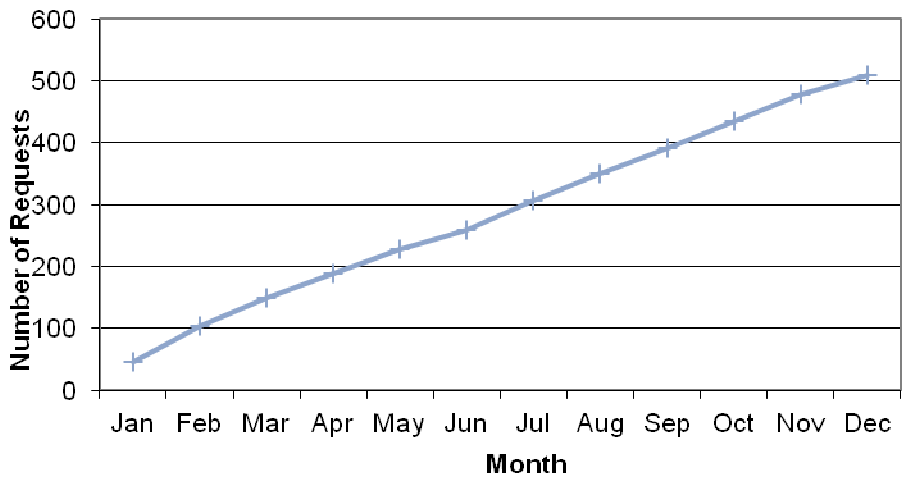
## **Appendix**



**Figure 1 - Breakdown of FOI Requests**



**Fig 2 Cumulative Total Number of FOI & EIR Requests received each Month**



**Figure 3 Number of FOI/EIR requests per department (if more than 20 requests)**

Department	Number of responses
<b>Planning services</b>	63
<b>Environmental and Community Health Services</b>	56
<b>Council Tax</b>	39
<b>Operations</b>	38
<b>Legal</b>	35
<b>Financial Services</b>	29
<b>FOI Team</b>	28
<b>HR &amp; Payroll</b>	28
<b>Administration</b>	27
<b>IMD</b>	24

### **INFORMATION GOVERNANCE LIAISON GROUP TERMS OF REFERENCE**

1. The Group's remit is to cover the areas of Governance dealing with data protection, Freedom of Information and Environmental Information Regulations and RIPA, Records Management, Information Security and any other information governance topic. This Group does not cover wider corporate governance issues.
2. The Group will help the organisation comply with its legal obligations within the remit of the Group.
3. The Group believe that information is a key business asset and they will endeavour to ensure that it is handled in a way which will help the organisation to achieve its corporate aims, priorities and objectives.
4. Definition of Information Governance – information governance is the specification of decision rights and an accountability framework to encourage desirable behaviour in the valuation, creation, storage, use, archival and deletion of information. It includes the process, roles, standards and measures that ensure the effective and efficient use of information in enabling an organisation to achieve its goals.
5. The Group will include a cross section of Officers nominated by Heads of Service covering all areas of service within the Council who will act as conduits providing updates on the Groups work to their teams and ensuring a cohesive approach to information governance within HDC.
6. The Group will identify and recommend training and development to the senior management team to ensure HDC complies with its information duties.
7. The Group will build up good relations and trust with all people that it deals with.
8. The Group will ensure that everyone in the organisation understands the importance of information rights and their own responsibility for delivering them.
9. The Group will review processes and procedures relating to data security, records management and compliance with legislation within its remit and will make recommendations to Senior Management Team via the Head of Democratic & Legal Services on any issues identified.
10. The Group will circulate relevant and succinct updates to HDC staff when relevant and necessary.
11. The Group will meet four times annually in order to deal with business.

12. Minutes of meeting of the Group will be kept and will be open to inspection.

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**AUDITORS REPORT - FINAL ACCOUNTS 2010/11**  
**(Report by the Head of Financial Services)**

**1. INTRODUCTION**

- 1.1 At the end of each audit the external auditor issues an ISA260 report for the panel to consider. It ensures that the Panel are made aware of any concerns the auditors have, provides their view on “economy, efficiency and effectiveness” and explains any “uncorrected misstatements”.

**2 AUDIT REPORT ON THE 2010/11 ACCOUNTS**

- 2.1 A separate report on your agenda deals with the lessons learnt from the delayed approval of the 2010/11 accounts. These accounts were approved by the auditor on the 13 July 2012 and at that time members received a copy of the accounts and a copy of the ISA 260 report (copy at Annex A). The Panel now have the opportunity to consider any items in the ISA 260 report that are not dealt with elsewhere.

**2.2 Items Resolved** (pages 10 to 17)

Whilst there are a significant number of items referred to, the important point is that they were identified and corrected during the course of the audit thus providing a set of accounts that form a sound, IFRS compliant, base for the 2011/12 accounts. The provision for bad debts has been thoroughly reviewed for the 2011/12 accounts.

**2.3 Economy, efficiency and effectiveness** (page 18 and 19)

The auditors record their concern at the delay in the accounts but are otherwise ***satisfied that, in all significant respects, Huntingdonshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.***

**2.4 Uncorrected misstatements** (page 21)

There are two items:

- The auditors identified expenditure of £5k that related to 2010/11 but had not been paid by the year end and had not been included (accrued) in the accounts as due. **IF** this were a recurrent error it might proportionately increase to £281k. Auditors typically report items of this nature in this way but do not expect the Council to make any adjustment. If they had serious concerns they would extend their sample testing which might then identify a sum that was material and so require adjustment.
- An capital adjustment of £92k (between balance sheet items) was made in 2010/11 rather than in the IFRS restatement of the accounts for 1 April 2009. The sum is not material and the position at 31 March 2011 is correct.

## **4 RECOMMENDATIONS**

4.1 It is recommended that the Panel receive the ISA 260 report for 2010/11.

### **ACCESS TO INFORMATION ACT 1985**

Final Accounts and Working Papers held in the Accountancy Section

#### **Contact Officers:**

Steve Couper, Head of Financial Services ☎ 01480 388103

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*Government and Public Sector*  
***Huntingdonshire***  
***District Council***

Report to those charged with  
governance (ISA 260 (UK&I))

2010/11 Audit

July 2012





Corporate Governance Panel  
Huntingdonshire District Council  
Pathfinder House  
St Mary's Street  
Huntingdon  
PE29 3TN

10 July 2012

Dear Sirs

We are pleased to enclose our report to the Corporate Governance Panel in respect of our audit of Huntingdonshire District Council ("the Council") for the year ended 31 March 2011, the primary purpose of which is to communicate the significant findings arising from our audit.

This document supersedes our draft ISA 260 report which was issued to the Corporate Governance Panel on 7 December 2012, and should be considered as our final report to the Corporate Governance Panel.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Corporate Governance Panel in February 2011. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in the section 'Audit Approach' on page 6.

We have encountered many significant issues during the completion of our audit which has meant that the original submission deadline of 30 September 2011 has been missed. We have set out the significant difficulties experienced during the audit of the financial statements on page 10.

We thank the management and staff of the Council for their co-operation and assistance during the course of our work.

Yours faithfully

PricewaterhouseCoopers LLP

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## ***Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies***

*In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

# Executive summary

## The purpose of this report

Under the Auditing Practices Board’s International Standard on Auditing (UK and Ireland) 260 (ISA (UK&I) 260) - “Communication of audit matters with those charged with governance” we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of Huntingdonshire District Council (‘the Council’). As agreed with you, we consider that “those charged with governance”, at the Council, are the Corporate Governance Panel.

This letter contains the significant matters we wish to report to you arising from all aspects of our audit work in accordance with ISA (UK&I) 260.

Our audit work during the year was performed in accordance with the plan that we presented to you in February 2011. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

We have set out below what we consider to be the most significant matters that we have discussed with you in the course of our work.

## Significant matters

We have set out below what we consider to be the most significant matters that we have discussed with management during the course of our work and which are included in this report:

- Preparation of IFRS based financial statements;
- Quality of working papers provided to audit; and
- Capital accounting.

Further details of the above matters have been included in the “*significant audit and accounting matters*” section on page 10.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of their standing guidance.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Council throughout our work.

# Audit approach

Our audit scope and approach was set out in our 2010/11 audit plan. We have set out below the key audit risks identified within the audit plan together with our comments on the results of the work performed.

Risks	Audit approach
<p><b>Significant Risks</b></p> <p><b>Revenue and expenditure recognition</b> We are required by International Standards on Auditing (ISAs) to specifically consider the risk of material misstatement in relation to revenue and expenditure recognition. There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported income and expenditure position.</p> <p>Due to their nature, we do not consider the receipt of council tax, national non domestic rates or revenue support grant to be a significant risk and these income streams will therefore be excluded from this category.</p>	<p>We have understood and evaluated controls relating to income and expenditure recognition and have examined the selection and application of the Council’s accounting policies and focussed our work on the risk of material misstatement of those components of income and expenditure which involve management estimation.</p> <p>We have carried out cut off testing on income and expenditure at year end to ensure that expenditure has been recorded in the correct financial year. Our work on income and expenditure recognition has not identified any material misstatements. Identified misstatements are listed in Appendix 1.</p> <p>We have also carried out the required certification work in respect of the Housing and Council Tax Benefit Subsidy for the year. No material misstatement was identified from this work. Full details of the findings from this work were reported in our Certification Report in February 2012.</p>
<p><b>Management Override of Control</b> The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standard on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls. Our audit is designed to provide reasonable assurance that the 2010/11 Accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.</p>	<p>We have reviewed the appropriateness of journals processed during and at the end of the year. We did not identify any exceptions in the completion of this work. We do however note that currently journals are not subject to review and authorisation by a suitable member of the finance department. We recommend that management review the process for journal authorisation and put in place appropriate procedures to confirm that adjustments made to the ledger are correct.</p> <p>We have reviewed the reasonableness of management estimations and considered if they may be subject to bias, taking account of the Clarity ISA requirements on estimates. We have tested the proper cut-off of transactions at the year end and carried out work to identify material unrecorded liabilities. Please refer to details of management estimates reviewed in the section “Significant audit and accounting matters”. Our work on income and expenditure recognition, which also provides assurance in relation to management override of control, has not identified any material misstatements. Identified misstatements are listed in Appendix 1.</p>

<p><b>2010/11 – first year of reporting under IFRS</b>                  The transition to IFRS involves both new and considerably revised financial statements and an increase in the depth of disclosures required in the notes to the accounts. There is a risk of material errors in the restatements and reclassifications required in preparing the accounts in their new format and of material omissions of information required to be disclosed by the new Code of Practice on Local Council Accounting. In particular:</p> <p><b>Leases</b>                  IFRS requires building and land elements of leases to be analysed separately, increasing the possibility that the land element may need to be classified separately as an operating lease. The lease accounting rules have also been extended to cover arrangements that have the substance of a lease even though they do not have the legal form of a lease. There is a risk that relevant agreements might not be identified and classified correctly and that income and expenses relating to the agreements might be accounted for inappropriately.</p> <p><b>Component Accounting</b>                  The new Code requires the separate depreciation of components of an item of Property, Plant and Equipment whose cost is significant in relation to the total cost of the item and which have a shorter useful life than the item as a whole. Where items have been insufficiently broken down into their component parts, there is a risk that depreciation charges might be materially understated.</p> <p><b>Accruals for Employee Benefits</b>                  The new Code has more rigorous requirements for the accrual of employee benefits earned during a year but untaken by the year-end (particularly leave entitlements and flexitime) and for the disclosure of termination benefits.</p>	<p>Our audit work in this area has involved:</p> <ul style="list-style-type: none"> <li>• Understanding the Council’s approach to restating prior year balances to accounting under an IFRS basis;</li> <li>• Testing significant restatements made on transition from UK Generally Accepted Accounting Practice (UK GAAP) to accounting under IFRS; and</li> <li>• Reviewing the Council’s accounts against the disclosure checklist.</li> <li>• Having an independent ‘hot review’ of the accounts.</li> </ul> <p>Management has encountered difficulties in restating the financial statements and our audit work in this area has resulted in a number of adjustments to the financial statements, of a numeric, presentational and disclosure nature.</p> <p>We have performed detailed testing to establish the completeness of the work performed by the Council including a review of minutes and significant contracts. We have also performed testing of classification and accounting entries.</p> <p><b>Leases</b>                  We have understood and evaluated the accounting policies adopted by the Council for leases against the Code requirements.</p> <p>We have performed testing to establish the completeness of leases and lease type arrangements including minute review and review of contracts.</p> <p>We have also performed testing of lease classification and accounting entries. Our work has resulted in significant adjustments to the financial statements which we have set out within the <i>significant audit and accounting matters</i> on page 10.</p> <p><b>Component Accounting</b>                  We have performed testing around component depreciation and the employee benefit accrual calculations, considering the methods used to calculate the accounting entries and ensuring that these were in line with Code guidance. We have not identified any material misstatement in our review of this work. We have set out our findings in the accounting estimates section of this report on page 16.</p> <p><b>Other</b>                  In addition to the above we also identified that the Council had incorrectly classified an asset valued at £250k as held for sale at 31 March 2010, although the criteria for recognition had not been met. This was corrected and included as property, plant and equipment on the balance sheet at 31 March 2010.</p>
<p><b>Property, Plant and Equipment</b>                  The accounting for property, plant and equipment is complex and can often result in various aspects</p>	<p>We have experienced considerable difficulties in auditing the Council’s accounting for on property, plant and</p>

<p>of the financial statements being misstated due to the entries required under capital accounting. We understand that this has previously been an area of audit focus. In particular:</p> <p><b>Valuations</b></p> <p>Valuations may have not been performed on a systematic basis meaning that some assets may not have been included within the scope of previous reviews. In relation to the Council’s five leisure centres in particular:</p> <ul style="list-style-type: none"> <li>- Errors were noted in the completeness, consistency and comparability of both the professional valuations and the Council’s own adjustments resulting in the accounting entries being reversed from the financial statements.</li> <li>- Instructions to the valuer resulted in a different methodology being used to value land and buildings when compared to previous reviews, making the information incomparable. This also resulted in components of assets not being included in the review.</li> </ul> <p>There is a risk that valuations may not be performed correctly resulting in the carrying values in the financial statements being materially misstated.</p> <p><b>Depreciation:</b></p> <p>We are aware that accounting entries for the difference in historic cost depreciation and carrying value depreciation for revalued assets have not been processed since the opening of the revaluation reserve and capital adjustment account in 2007/08. There is a risk that these reserves and the depreciation charges in the comprehensive income and expenditure statement may be materially misstated.</p>	<p>equipment. The key issues have been summarised below:</p> <p><b>Valuations</b></p> <p>We have considered the Council’s arrangements for the valuation of property , plant and equipment to ensure that:</p> <ul style="list-style-type: none"> <li>- the valuer has been given appropriate instructions in order to undertake the review;</li> <li>- all relevant assets have been included in the scope of the review;</li> <li>- accounting entries have been undertaken correctly within the financial statements</li> </ul> <p>Although the Council encountered some difficulties in obtaining the correct information from the valuers, we concluded that the values attributed to the Council’s land and buildings are not materially misstated. Further information has been provided within our review of accounting estimates on page 16.</p> <p>We have identified several issues with the accounting entries for revaluations and impairments. Further information has been provided within our review of accounting estimates on page 16.</p> <p><b>Depreciation/Amortisation</b></p> <p>We have identified several issues in relation to depreciation/amortisation including:</p> <ul style="list-style-type: none"> <li>• Inconsistent use of useful economic lives.</li> <li>• Inconsistent application of depreciation/amortisation policy to additions and disposals.</li> <li>• Incorrect calculation of the difference in historic cost depreciation and carrying value depreciation for revalued assets.</li> </ul> <p>The results of our audit work have resulted in a number of material adjustments to the financial statements.</p> <p>For further information on the difficulties experienced during the course of the audit refer to the significant audit and accounting matters section on page 10.</p>
<b>Elevated Risks</b>	
<p><b>Payroll</b></p> <p>Review of the internal audit reports on payroll has identified that there are significant control deficiencies in the design and operation of payroll controls particularly in relation to starters and leavers. This increases the inherent risk surrounding the appropriate processing of staff costs and the completeness of staff establishment.</p>	<p>We have performed detailed testing on payroll costs to ensure that the figures included in the accounts are not materially misstated. Our audit work has not identified any material misstatement.</p>
<b>VfM Conclusion related risks</b>	
<p><b>Increased pressures on budgets</b></p> <p>Local government bodies are expected to make significant efficiency savings over the next three years as a result of the Comprehensive Spending Review 2010 and the local government financial</p>	<p>Our audit work has included:</p> <ul style="list-style-type: none"> <li>• Evaluating the Council’s budget monitoring processes and in-year reporting to the Cabinet;</li> <li>• Undertaking testing on cut-off procedures and</li> </ul>

settlement. There is a risk that savings plans may not be robust or based on sustainable solutions which could result in short term actions to ensure that spending targets are met. In addition, it will be important for councils to be able to demonstrate that they are allocating resources to areas of priority within their tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. There is a risk that the Council will not be able to demonstrate its achievements in this area.

unrecorded liabilities at the year end to ensure all significant transactions are appropriately recognised and recorded in the correct period; and

- Consulting with officers regarding the savings efficiency plans in place and considering the arrangements in place to make these plans robust.

We have set out on page 20 the findings from our work to address this risk and our overall conclusion on the adequacy of the Council’s arrangements.



# *Significant audit and accounting matters*

ISA (UK&I) 260 requires us to communicate to you relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action. We have provided updates on progress with our audit to each meeting of the Corporate Governance Panel and this report represents the finalisation of our audit for 2010/11.

## **Accounts**

We have completed our audit, subject to the following outstanding matters:

- Approval of the financial statements and letter of representation; and
- Completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the financial statements and their approval by those charged with governance we expect to issue an unqualified audit opinion. Although we are able to issue our opinion on the financial statements and value for money we will be unable to issue the audit certificate until our work on the Council's Whole of Government Accounts (WGA) return can be completed.

## **Accounting issues**

We are required to report to you our view on significant qualitative aspects of the Council's accounting practices, including its accounting policies, accounting estimates and financial statement disclosures. We identified the following matters during the course of our audit work:

- Preparation of the financial statements;
- Capital Accounting; and
- Leases

In the section below we will highlight the key issues identified in each of these areas and set out for you the significant adjustments made to the accounts.

## **Preparation of the financial statements**

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the "Code") requires that the Council's accounts be produced in accordance with International Financial Reporting Standards (IFRS). 2010/11 is the first year in which the Council has been required to produce IFRS compliant accounts and up to two prior year comparative information as well. This is one of the most fundamental changes to financial reporting that impacts Local Government accounting in recent memory.

The Council met the 30 June 2011 statutory deadline to produce a draft set of financial statements (although these had not been signed off by the section 151 officer as ready for audit at this date). However, the Council was not able to provide us with a comprehensive set of supporting working papers at the start of our audit and the accounts themselves contained a number of material errors. The accounts were also missing a number of mandatory disclosures and the accounting policies included in the draft accounts were not sufficiently detailed to meet the Code requirements.

There are a number of reasons for the issues that have arisen, including:

- The Council's capital accountant being absent on the grounds of ill health, and then taking voluntary redundancy and other finance staff not being able to easily interpret and understand elements of the capital accounting and capital financing information provided to them. As a result the Council has had to make numerous changes to its fixed asset register during the audit process.



- The Council underestimated the level of resource required to do the IFRS restatements and produce the 2010/11 financial statements and the restated 2009/10 and 2008/09 information. We carried out a review of progress in February and March 2012 and fed the results of that work back to the Managing Director (Resources) and the Head of Finance in April 2012. We received reassurances that they had adequately covered all the elements of IFRS and that once we understood how the Council worked we would see that they had done sufficient work.
- The Council's internal quality assurance process and review of the draft accounts did not identify the degree of non compliance with the Code or the poor quality of the working papers to be provided for audit in support of the accounts.
- The appointment of new auditors at the same time as the introduction of IFRS was and is seen by the Council as a contributing factor. The Council feels that as we had little existing knowledge of them and their accounting that we asked more questions than an incumbent auditor would have and that we challenged a number of existing accounting treatments which previous auditors had accepted. As IFRS changed the basis for accounting for many of the capital assets we contend that many of these treatments would have needed to be reviewed this year in any event.

These issues resulted in significant delays in issuing the financial statements and consequently the completion of the audit. Failings in the Council's processes for producing the draft financial statements have been discussed at the Corporate Governance Panel meetings in September 2011, December 2011, March 2012 and June 2012. As agreed at the Corporate Governance Panel in March 2012 we will hold a debrief meeting with management at the end of the audit to identify lessons learned to ensure that the 2011/12 audit is completed in accordance with the statutory timetable.

It is however worth noting that despite the difficulties in obtaining information to support the draft accounts, our audit findings have not significantly changed the Council's reported general fund position. This is primarily however as a result of the technical accounting adjustments required to be made to the total comprehensive income and expenditure to comply with the Council's funding regulations.

### Capital Accounting

As set out above there are a number of reasons for the poor quality of the information provided to us to support the capital accounting undertaken by the Council. The initial version of the Fixed Asset Register (the FAR) provided to us was cumbersome and contained a number of material errors. During the audit we have received multiple incremental versions of the FAR as management sought to untangle the accounting entries and process adjusting journals to ensure the FAR supported the accounts. We received and audited more than a dozen different versions of the FAR before the Council employed an external consultant to prepare a new FAR that includes all required figures for the calculation of the revaluation reserve, impairments and the adjustments required at the year end in relation to the leisure centres.

We have been able to gain reasonable assurance that the revised balances associated with property, plant and equipment are not materially misstated. The movements in the year end balances since the first draft of the accounts have been shown in the table below:

01 April 2009 £'000	31 March 2010 £'000		31 March 2011 £'000
		<b>Non-Current Assets</b>	
-1,942	-2,042	Property, Plant and Equipment	-1,445
2,190	2,887	Investment Property	3,596
-256	-219	Intangible Assets	91
		<b>Current Assets</b>	
0	-250	Assets Held for Sale	0

172

376

**Total Capital Assets**

2,242

The most significant capital accounting related issues identified during the audit process are discussed below.

#### Classification of non-current assets

Our review of the classification of non-current assets identified that assets had been incorrectly classified between property, plant and equipment, intangibles and investment property. All significant misclassifications have been corrected within the financial statements, however management should monitor whether properties throughout the course of the year change in classification as this directly impacts the recognition and subsequent measurement of such assets. If incorrectly accounted for this has the potential to have a material impact on the financial statements.

#### Revaluations and impairments

Our review of the financial statements identified that the Council had not accounted for the revaluation of property plant and equipment assets appropriately. We should note that the overall valuation of Council's property, plant and equipment is not materially misstated, although we did note misstatement in the valuation of investment properties as identified within the accounting estimates section below.

Management's classification of whether a change in valuation constituted a revaluation gain, a revaluation loss or impairment was not supported in the first draft of the financial statements. Subsequent review of the valuations and confirmation from the valuers identified that none of the revaluation losses constituted impairments.

In particular we identified that management had grossed up the revaluation gains and losses in the Comprehensive Income and Expenditure Statement (CIES) (and therefore the Capital Adjustment Account (CAA)) and in the Revaluation Reserve rather than the net positions. In particular the componentisation of the leisure centres meant the Council incorrectly recognised a £4.72 million revaluation loss and a £4.28 million gain in the first version of the accounts, with a net loss of £440k.

Movements in the revaluation reserve have been shown below:

	2010/11	2009/10	2008/09
	£'000	£'000	£'000
Revaluation Reserve - per draft 1	11,430	6,866	8,348
Revaluation Reserve - per the final accounts	6,481	5,976	6,947
<b>Movement</b>	<b>4,949</b>	<b>890</b>	<b>1,401</b>

Movements in the revaluation reserve in 2009/10 and 2008/09 were largely due to revaluations for investment properties not being transferred to the capital adjustment account when the assets were reclassified.

We have performed testing on the final revaluation adjustments and have not identified any material misstatement.

#### Leisure Centres - Valuation

Our review of leases identified that the five leisure centres included on the Council's balance sheet are held under management agreements. These agreements indicate that the assets are jointly controlled assets between the Council and Cambridgeshire County Council.

We discussed the treatment of accounting for jointly controlled assets with management in August 2011. Management determined the required percentage shares for the calculation of the proportion of the assets the Council are required to exclude from their financial statements at the balance sheet date based on the capital contributions by both the Council and the County for 1 April 2009, 31 March 2010 and 31 March 2011. We confirmed the capital contributions feeding into this calculation by reference to management accounting showing capital contributions over the period. We reviewed the calculation sheet provided by management and did not find any exceptions. The reduction in asset values for each financial year have been summarised below:

- 1 April 2009: - Decrease in asset value of £1,331k;
- 31 March 2010: - Decrease in asset value of £2,142k; and
- 31 March 2011: - Decrease in asset value of £2,047k.

### Depreciation

We have undertaken our review of depreciation and amortisation charges and are satisfied that they are not materially misstated. We identified as part of our early review of the IFRS implementation in March 2011, however, that the Council had not been undertaking accounting entries for the difference in historic cost depreciation and carrying value depreciation for revalued assets since the opening of the revaluation reserve and capital adjustment account in 2007/08. Our initial review of the draft financial statements identified that the Council had recalculated the adjustment for historic vs. current value depreciation. The initial calculations had this transfer as £1.5 million for 2009/10 and £55k for 2010/11. The variance in these two figures given the level of revaluations in the year did not seem correct. We challenged management on the calculation and identified that this had been incorrectly calculated. Management were requested to reperform the calculation and resubmit for our review. We are currently re-reviewing the Council's revised calculations for this. On initial review we have identified that the adjustment between reserves has been amended as follows:

- 31 March 2010 – original transfer between the general fund and the revaluation reserves was £1,434k. This has been revised to £235k.
- 31 March 2011 – original transfer between the general fund and the revaluation reserves was -£55k. This has been revised to £309k.

### Intangible assets

As can be seen from the above summary the adjustments made to intangible assets are not material to the financial statements, however in ensuring that the Council have a suitably accurate fixed asset register going forward, management opted to amend for the issues identified by us during the course of our audit work. In summary the issues identified by us were as follows:

- £160k of hardware components of IMD projects had been inappropriately capitalised as intangibles when they should be PPE. This had an impact on the previous two balance sheet dates which management opted to amend.
- £711k of disposals were noted in the current year. On review we identified that these assets were still in use. Management had assumed that as they had reached nil net book value they should be written out of the fixed asset register. We requested that management perform an assessment of Useful economic lives and ascertained what the potential misstatement within the financial statements would be. This assessment which we reviewed identified a £253k adjustment which management opted to amend in the current year.

### Assets held for sale

We performed a review of the Council's assessment of assets held for sale. The Council disclosed no such assets as of 1 April 2009. Work performed on disposals recognised during 2009/10 identified that these were not significant at £189k and as such the risk of material misstatement was low. No further work was performed on this balance.

The Council disclosed one asset totalling £250k as held for sale at 31 March 2010. Our review of the asset against the recognition criteria identified that it was not being actively marketed at 31 March 2010 and as such should not be recognised as such asset and remain within PPE. Management amended for this error. We reviewed disposals in 2010/11 and did not identify any significant items requiring further investigation.

### Leases

IFRS contains more judgement in the determination of the correct accounting for a lease as either an operating or finance lease. During our interim visit we identified that the Council had performed a high level review of their leases against the Code criteria based largely on discussion, considering their knowledge of the leases and professional judgement. Specific review of the conditions within the leases had not been performed, nor had the calculation of minimum lease payments been calculated. We requested that management revisited their leases

classification and completed the required assessment against the Code criteria, providing evidence to support their assumptions.

Our work on the Council's lease arrangements during the final audit identified that while management had reviewed a proportion of their operating and finance leases they had not sufficiently documented the work to demonstrate compliance with the criteria set out in the Code. In some cases arrangements had not been reviewed at all resulting in the Council obtaining additional resource to complete this task in relation to lessor leases. We have set out the two most significant issues below:

*The Council has two investment property sites where they have head-lease sub-lease arrangements. These relate to Phoenix Court and Highlode.*

We identified that the Council leases from developers two sites, Phoenix Court and Highlode. These sites contain on them several industrial units which the Council then lease out on short term leases. The Council's assessment determined that the two sites were finance leases while the rentals of individual industrial units were operating leases. We reviewed the assessment performed by management and did not find any significant error.

We noted, however, that the Council did not include the finance leases on their balance sheet within investment properties. This was because the external valuers valued the head and sub lease arrangement together at a value of less than £10k. We confirmed through our review of the leases that the Council is required to pay rental for the sites regardless of whether the units are being sub let. The lease terms are not identical to the sub-leases granted by the Council and as such should be measured gross on the balance sheet. The Council therefore obtained from their valuers an assessment of the property values at each of the three balance sheet dates.

As the properties are investment properties and as such are revalued at each balance sheet date and are not subject to depreciation it was noted that throughout and at the end of the lease the asset may vary significantly from the liability that is gradually winding down. The adjustments processed in the accounts are shown below:

<b>Summary</b>	<b>01/04/2009</b>	<b>0910</b>	<b>31/03/2010</b>	<b>1011</b>	<b>31/03/2011</b>
Investment properties valuation	1691	-32	1659	-24	1635
l/t liability	-573	38	-535	10	-525
Capital Adjustment Account (CAA)	-207	-24	-231	-14	-245
Revaluation to I and E and then CAA	-911	32	-879	24	-855
Short-term liability		-14	-14	4	-10

*The Council's assessment assumed that all land was under operating leases without performing an assessment under the lease criteria set out by IFRS.*

The Council made the assumption that all land leases were operating leases without fully considering the requirements of IFRS. IFRS removes the presumption that land leases are automatically categorised as operating leases. We identified that there were four significant land leases included in the financial statements at 1 April 2009 at value of £2.1 million.

Management obtained revised valuations for the land which identified that the present value of the minimum lease payments was comparable to the fair value of the assets. Management's initial assessment based solely on this criteria was to exclude the assets from the financial statements. We requested that management performed a full assessment against the Code criteria as the impact on the financial statements if considered to be a finance lease would be material.

Management's revised assessment determined that the land leases were still operating leases and as such the land should remain within the Council financial statements. We reviewed this assessment in conjunction with the lease documentation and determined that it was appropriate to retain the values in the balance sheet.

### **Misstatements and significant audit adjustments**

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. These misstatements are described in Appendix 1 to this report.

### **Significant accounting principles and policies**

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Corporate Governance Panel to represent to us that they have considered the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements.

### **Judgments and accounting estimates**

The clarity ISAs (International Standards on Auditing), applicable for the first time this year, introduced an increased emphasis on what auditors need to do on accounting estimates. For each estimate we need to assess the level of risk that they may be misstated and tailor our audit procedures to address the risk, depending on the nature of the estimate. The following significant judgments or accounting estimates were used in the preparation of the financial statements:

- **Estimated economic useful lives of property, plant and equipment assets:** Our audit work has not highlighted any material misstatement in relation to depreciation. We have however noted the following:
  - The Council does not depreciate additions and enhancements in the year of acquisition. We challenged management on their accounting policy and asked them to produce a schedule to demonstrate that the charge is not significant to the amount disclosed in the financial statement. Our review of this identified that for 2009/10 and 2010/11 the additional depreciation charge would be £123k and £145k respectively and as such this methodology is deemed reasonable.
  - Management does not maintain a schedule detailing the useful economic lives for each asset on the fixed asset register. Our review of asset lives did not identify any significant issues however we have raised this with management for them to review in the future.
  - Our review of componentisation has been documented below.

**Estimated economic useful lives of intangible assets:** Our review of amortisation identified that useful economic lives in relation to intangible assets were inappropriately applied resulting in a decrease in the amortisation charged in the comprehensive income and expenditure account and an increase in the net book value of the assets on the balance sheet. The value of this adjustment was £253k.

- **Calculation of pension fund assets and liability:** Management has utilised the information provided from the actuary which is the fundamental basis of this estimation. We have performed additional work to ensure accurate disclosure within the Financial Statements, the fundamental assumptions are reasonable and the asset allocation is reasonable. We are satisfied that the Financial Statements are not materially misstated.
- **Classification of leases as operating or finance leases:** We have reviewed the procedures management has used to determine the type of leases they have. Having considered the issues noted above which have been rectified by the Council we are satisfied that there are no material classification errors in the disclosure of leases.
- **Valuation and impairment of property, plant and equipment:** The Council's accounting policy, consistent with the requirements of the Code of practice on Local Authority Accounting, is for property, plant and equipment (PPE) to be included in the financial statements at current fair value. The Council achieves this by arranging for periodic, professional valuations at least every five years and in the intervening years has regard to the movement in property prices and any other factors that may indicate a significant difference between values in the financial statements and current values



indicating the need for additional steps to ensure that values in the financial statements are not materially misstated.

In accordance with its accounting policy, the Council has revalued a proportion of its PPE assets in accordance with its cyclical programme. For assets not valued during 2010/11, a review of fair values as at 1 April 2011 has resulted in no changes to property valuations being processed within the 2010/11 financial statements. In estimating the fair value to be included in the 2010/11 financial statements, management has utilised the expertise of an external valuer.

In response to the requirements of the International Standards on Auditing, we have reviewed the methodology used by management and engaged our internal valuation team to:

- Review the assumptions applied in forming the valuation in the 2010/11 financial statements;
- Assess whether the valuation method is consistent with the Code requirements; and
- Confirm that the external valuers have the appropriate qualifications for completing the valuations.

Based on the work we have undertaken, we have no issues to raise in this report in this regard.

- **Valuation and impairment of investment property:** We noted a fair value adjustment of £840k on investment properties during the period. This relates to St Ives Enterprise Centre which was constructed by the Council during the period and revalued when completed. No other assets of this type have been brought into service during the period; therefore no further write downs are expected. Work on the reliability of the fixed asset revaluations has been conducted per the link above. As part of this review and in conjunction with our review of investment properties we noted that no other investment properties were revalued.

The Code of practice on Local Authority Accounting requires the use of the fair value model for investment properties. The fair value must reflect market conditions at the balance sheet date and thus annual revaluations are necessary unless the Council can demonstrate that the carrying value is not materially different from the fair value at that date. We identified that the Council had not undertaken an exercise to determine the fair value at the balance sheet date at 31 March 2010 or 31 March 2011. Management has subsequently undertaken this exercise using current market trends. We have confirmed that these are appropriate through consultation with our internal valuation experts. The results of this work resulted in an increase to the investment property values of £1,039k at 31 March 2010 and £569k at 31 March 2011. We recommend that management ensures this exercise is undertaken by a professionally qualified individual on an annual basis.

- **Valuation and impairment of other non-current assets:** Review valuations and impairment work performed by the Council and their valuers identifies that non building/land assets have not been considered for impairment. This has been considered in respect of the useful lives assigned to the assets, to determine whether the lives used are appropriate to ensure impairment in this respect would not be required.

We enquired of the Council as to whether they had carried out any kind of review on these assets to confirm whether they were still in existence/still in working conditions and identified that no such review had been performed. In applying professional scepticism we have undertaken the following procedures:

1. Assessed the useful lives of assets – some issues identified.
2. Reviewed minutes and undertaken discussions with staff as to any indication of assets which may trigger an impairment review – none noted.
3. Reviewed additions during the year.
4. Reviewed repairs and maintenance accounts.

We have reviewed the different categories of assets within vehicles, plant and equipment and assessed whether there would be any material misstatement in the value of these assets as part of the work performed on depreciation and amortization as set out above. We recommend that management perform an annual review of all categories of assets which takes into account asset lives, existence and impairment.

Having taken into account all factors we do not deem there to be a risk of material misstatement.

- **Component Accounting:** Per the Code guidance notes component accounting is to be applied this year in that assets are required to be componentised where there have been significant additions, changes, or revaluations carried out on that asset since 1 April 2010. Management decided upon the following criteria for componentisation of assets:

*The Council will separately account for components where the cost of the component is significant in relation to the overall total cost of the asset, and the useful economic life of the component is significantly different from the useful economic life of the asset. Individual components with similar useful lives and depreciation methods will be grouped.*

*For this purpose a significant component cost would be 10% of the overall total cost of the asset but with a de-minimus component threshold of £100,000.*

*The following significant components have been identified for buildings:*

- *Structure*
- *Services including plan*
- *Roof*
- *Swimming pool*
- *External (other than land)*

From review of the prior year valuers report, dated 1 April 2010, one asset was noted, Pathfinder house, which was above the threshold for componentisation, but not split by the council as required. PwC has calculated the impact of not treating the asset as a componentised asset. This identified a difference in annual depreciation of £65k which is highly immaterial.

Additionally, the leisure centres have all been valued this year and the valuers have provided componentised values for these assets for the year end. As the valuations are as at 31 March 2011 (i.e. each leisure centre is split into more categories than previously), component accounting will be applied prospectively to these assets.

We have reviewed the Fixed asset register as at 31 March 2011 to identify any assets with large additions balances (over £100k) to determine whether they have been appropriately valued and therefore componentised or not. No further assets have been identified where component accounting would be required.

- **Provision for bad debts:** The Council has recognised a provision for bad debts within the financial statements against Council Tax, National Non-Domestic Rates, sundry debtors, court costs and rent allowances. We have assessed the reasonableness of this provision and have identified no issues. As part of this review we identified £300k of debts greater than 5 years old. Although these debts have been 90% provided for we recommend that the Council considers writing these debts out of the Council's ledger completely.
- **Accruals and provisions:** We have performed audit procedures over the balances the council is disclosing within the financial statements. Our work has not identified any significant estimates.

### **Management representations**

The final draft of the representation letter that we are requesting management and those charged with governance to sign is attached in Appendix 2.

### ***Financial standing***

No issues in relation to financial standing arose from the 2010/11 audit.

### ***Audit independence***

We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Council and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

### ***Accounting systems and systems of internal control***

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.

Our work does not constitute a full test of the controls and is not designed to identify all deficiencies or issues that may exist. It should be noted that the responsibility for controls assurance rests with those charged with governance.

As part of our audit we have considered the findings of internal audit's work during the year to inform our assessment of the risks of misstatement in the financial statements. There are no issues noted in forming this assessment.

In the audit plan we planned to adopt a top-down, controls-based approach to the audit. This involved understanding and evaluating the controls used by management to ascertain how much assurance we can draw from them.

We have reported all significant matters identified during the course of our audit work in the main body of this report. We will shortly write to management setting out internal control deficiencies identified for consideration.

### ***Annual Governance Statement***

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'. The AGS is published alongside the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE 'Delivering Good Governance in Local Government' framework and whether it is misleading or inconsistent with other information known to us from our audit work. We have discussed the delay in the production of the financial statements with management and have confirmed that the final version of the AGS includes suitable references to the delay.

### ***Economy, efficiency and effectiveness***

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion is based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, auditors have not been required to reach a scored judgement in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we have



determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

The Audit Commission's guidance also requires auditors to report by exception on any other significant additional matters that come to our attention which we consider to be relevant to proper arrangements to secure economy efficiency and effectiveness in the use of resources.

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.

We have set out in the preceding sections the details of the delays encountered in the accounts production process which has resulted in the Council not being able to produce a robust set of financial statements in accordance with the statutory timetable. We have therefore included the following in our Value for money opinion which has been discussed with management:

### ***Basis for qualified conclusion***

*In considering the Authority's arrangements for securing financial resilience, we identified that the Authority has significant weaknesses in ensuring reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people as it has not been able to produce a set of financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting to the statutory timetable.*

### ***Qualified conclusion***

*On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, except for the matter reported in the 'Basis for qualified conclusion' above we are satisfied that, in all significant respects, Huntingdonshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.*

### ***Risk of fraud***

We discussed with the Corporate Governance Panel their understanding of the risk of fraud and corruption and any instances thereof when presenting our Audit Plan.

In presenting this report to the Corporate Governance Panel we seek members' confirmation that there have been no changes to their view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation (see Appendix 2).

### ***Accounting developments***

There are a number of minor updates to the CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12. As these have already been reported to you as part of our Audit Plan for 2011/12 we will not discuss them further here.

# *Appendices*

# Summary of uncorrected misstatements

We identified several errors during the course of our audit. The majority of these relate to capital accounting and have been detailed in the main body of our report. We identified minimal amendments to the financial statements for non-capital items.

## Uncorrected misstatements:

The following adjustments have not been corrected by management.

No	Description of misstatement (factual, judgemental, projected)		Statement of Comprehensive Net Expenditure £'000		Statement of Financial Position £'000	
			Dr	Cr	Dr	Cr
1	As part of our audit work on expenditure cut off we identified expenditure totalling £5k that had not been correctly accrued at the year end. When extrapolated over the untested population this resulted in a projected error of £276k, resulting in a total extrapolated error of £281k. We do not expect management to adjust for this error.  Dr Net Cost of Services Cr Accounts payable	F	281			281
2	One asset was identified as being reclassified from property, plant and equipment to investment properties during the transition to IFRS. Although the asset was transferred as of 01 April 2009 the adjustments to the revaluation reserve were not made. These have been processed by management in 2010/11 and therefore the impact shown below relates to the entries required as of 01 April 2009:  <u>Current year write back:</u> Dr Capital Adjustment Account Cr Revaluation Reserve  <u>Amend 01 April 2009 opening balances:</u> Dr Revaluation Reserve Cr Capital Adjustment Account	F			92  92	92  92
<b>Total uncorrected misstatements</b>			<b>281</b>	<b>-</b>	<b>184</b>	<b>465</b>

# Letter of representation

*To be prepared on the Council's letterhead and to be dated on the same date that the accounts are approved and signed by the Council.*

PricewaterhouseCoopers LLP  
Abacus House  
Castle Park  
Cambridge  
CB3 0AN

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of Huntingdonshire District Council (the "Council") for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice.

My responsibilities as Managing Director of Resources for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the Council. I also acknowledge that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of Huntingdonshire District Council with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

## ***Financial Statements***

I have fulfilled my responsibilities, for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used by the Council in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

All events subsequent to the date of the financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom requires adjustment or disclosure have been adjusted or disclosed.

The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is shown below:

No	Description of misstatement (factual, judgemental, projected)		Statement of Comprehensive Net Expenditure £'000		Statement of Financial Position £'000	
			Dr	Cr	Dr	Cr
1	Audit work on expenditure cut off identified expenditure totalling £5k that had not been correctly accrued at the year end. When extrapolated over the untested population this resulted in a projected error of £276k, resulting in a total extrapolated error of £281k.  Dr Net Cost of Services Cr Accounts payable	F	281			281
2	One asset was identified as being reclassified from property, plant and equipment to investment properties during the transition to IFRS. Although the asset was transferred as of 01 April 2009 the adjustments to the revaluation reserve were not made. This has been processed in 2010/11 and therefore the impact shown below relates to the entries required as of 01 April 2009:  <u>Current year write back:</u> Dr Capital Adjustment Account Cr Revaluation Reserve  <u>Amend 01 April 2009 opening balances:</u> Dr Revaluation Reserve Cr Capital Adjustment Account	F			92  92	92  92
<b>Total uncorrected misstatements</b>			<b>281</b>	<b>-</b>	<b>184</b>	<b>465</b>

The restatement made to correct a material misstatement in the prior period financial statements that affects the comparative information has been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

**Information Provided**

I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the Council's auditors) are aware of that information.

I have provided you with:

- Access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters, including minutes of the Council, Cabinet and Corporate Governance Panel and relevant management meetings;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

So far as I am aware, there is no relevant audit information of which you are unaware.

**Fraud and non-compliance with laws and regulations**

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

I have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

- Management;
- Employees who have significant roles in internal control; or
- Others where the fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Councils financial statements communicated by employees, former employees, analysts, regulators or others.

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Council conducts its business and which are central to the Council's ability to conduct its business or that could have a material effect on the financial statements.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

The pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the payment schedule/schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

### ***Related party transactions***

I confirm that we have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

### ***Employee Benefits***

I confirm that the Council has made you aware of all employee benefit schemes in which employees of the Council participate.

### ***Contractual arrangements/agreements***

All contractual arrangements (including side-letters to agreements) entered into by the Council have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

### ***Litigation and claims***

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

### ***Taxation***

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the Council's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Council or any associated company for whose taxation liabilities the Council may be responsible.

### ***Pension fund assets and liabilities***

All known assets and liabilities including contingent liabilities, as at the 31 March 2011, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2011 have been properly valued and that valuation incorporated into the financial statements.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the Council, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the financial statements have been disclosed to you.

### ***Pension fund registered status***

I confirm that the Cambridgeshire County Council Local Government Pension Scheme is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

### ***Bank accounts***

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

### ***Accounting estimates***

The Council has recognised the following accounting estimates in the financial statements:

- Provision for bad debts;
- Valuation of property, plant and equipment and investment properties;
- Accounting for leisure centres;
- Component accounting;
- Classification of leases;
- Estimated useful economic lives of property, plant and equipment and intangible assets; and
- Calculation of the pension scheme assets and liabilities.

Regarding the above accounting estimates:

- The Council has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.
- Measurement processes were consistently applied from year to year.
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures.
- Disclosures related to accounting estimates are complete and appropriate under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

### ***Additional written representations about the Statement of Accounts***

The selection and application of accounting policies are appropriate.

- The following have been recognised, measured, presented or disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Plans or intentions that may affect the carrying value or classification of assets and liabilities;
  - Liabilities, both actual and contingent;
  - Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
  - Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance.

### ***Using the work of experts***

The Council makes use of the following experts in preparing its financial statements:

- Barker Storey Matthews for the valuation of property, plant and equipment; and
- Hymans Robertson, actuary to the Local Government Pension Scheme;

I agree with the findings of the experts shown above in evaluating the valuation of properties and the pension scheme and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Council did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

### ***Leases***

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

I have disclosed all material agreements that have been undertaken by the Council in carrying on its business.

### ***Assets and liabilities***

The Council has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.



In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.

The Council has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets, except for those that are disclosed in the financial statements.

I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year end have been properly valued and that valuation incorporated into the financial statements. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the financial statements.

### ***Retirement benefits***

All retirement benefits that the Council is committed to providing, including any arrangements that are statutory, contractual or implicit in the Council's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.

All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.

The actuarial assumptions underlying the valuation of retirement benefit scheme liabilities as detailed within the pension fund section of the financial statements are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities.

### ***Provisions***

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Council's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss.

### ***Transactions with members/officers***

Except as disclosed in the financial statements, no transactions involving members, officers and others requiring disclosure in the financial statements under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom have been entered into.

Additionally there were no payments made to Ian Leatherbarrow (a former Officer of the Council) over and above what he was contractually entitled to.

### ***Items specific to Local Government***

The Council does not have plans to implement any redundancy/early retirement programmes other than those disclosed in the financial statements for which we should have made provision in the financial statements.

The Council has determined a prudent amount of revenue provision for the year under the Prudential Framework.

The Council has determined a proper application of the statutory provisions for the treatment of leases that have changed status on transition to IFRS.

---

The Council has determined a proper application of the statutory provisions for the neutralisation of the impact of accumulating compensated absences on the General Fund balance.

As minuted by the Corporate Governance Panel at its meeting on **7 December 2011**

.....

Managing Director (Resources)

For and on behalf of Huntingdonshire District Council

Date .....



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

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**INTERNAL AUDIT SERVICE  
ANNUAL REPORT FOR THE YEAR ENDING 31 AUGUST 2012**

**(Report by the Internal Audit & Risk Manager)**

**1. INTRODUCTION**

1.1 This is the annual report of the Internal Audit & Risk Manager required by the 2006 Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government.

1.2 As required by the Code, the report includes the Internal Audit & Risk Managers annual opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes.

The opinion is based upon

- the work carried out by Internal Audit during the year; and
- the assurances made available by external assessors and similar providers

1.3 The report also provides information on:

- the delivery of the annual audit plan;
- audit reports issued and issues of concern;
- implementation of agreed actions; and
- internal audit's performance.

**2. OVERALL OPINION**

**Audit Opinion**

Based upon work undertaken and understanding of the statements from external assurance providers, it is my opinion that the Council's internal control environment and systems of internal control provide **adequate** assurance over key businesses processes and financial systems.

Any system of internal control can provide only reasonable, rather than absolute assurance that assets are safeguarded, transactions are authorised and properly recorded and material errors or irregularities are either prevented or would be detected within a reasonable period of time.

**David Harwood**  
**Audit & Risk Manager**

September 2012

**Definition of Adequate** : *There are minor weaknesses in the level of control for managing the material inherent risks within the system. Some control failings have been identified from the systems valuation and testing which need to be corrected. The control failings do not put at risk achievement of the system's objectives.*

- 2.1 Over the last year it should be noted that:
- Only two 'limited' assurance opinions were issued during the year; the majority of the review resulted in 'adequate' opinions.
  - The overall number of agreed internal audit actions has reduced from 120 in 2011 to 50 in 2012.
  - The implementation rate of the actions has however decreased – both in respect of actions introduced on time and introduced late.
- 2.2 The external assurance received upon the internal control environment and systems of internal control is detailed at Annex A. These reports have not identified serious control weaknesses in controls or procedures.
- 2.3 The Internal Audit & Risk Manager has had no constraints placed upon him in respect of determining overall audit coverage, audit methodology, the delivery of the audit plan or proposing actions for improvement or forming opinions on individual audit reports issued.

### 3. DELIVERY OF AUDIT PLAN

- 3.1 The internal audit plan, approved by the Managing Director (Resources) in July 2011 contained 27 audit reviews. The audit plan is not a static document but is amended to reflect changing circumstances. 5 audits have been omitted from the approved plan, and five reviews added. Panel were informed of these changes at their March meeting. See Annex B.

#### Internal Audit Reports issued

- 3.2 A summary of the audit reports issued during the period 1 September 2011 to 31 August 2012 are listed in the table below. All the reports can be accessed by Members via the Internal Audit intranet pages.

Audit area	Level of assurance				Agreed action status		
	Substantial	Adequate	Limited	Little	Red	Amber	The risk identified has been accepted by the Manager <sup>1</sup>
<b>Key Financial Systems</b>							
Housing Benefits	✓✓				---	---	
Payroll	✓✓				---	---	
Treasury Management		✓			---	2	
<b>Other systems reviews</b>							
Register of Interests		✓			---	---	
Voluntary redundancy		✓			---	---	
Markets		✓			1	4	
Web strategy		✓			---	5	

Table continues

Audit area	Level of assurance				Agreed action status		
	Substantial	Adequate	Limited	Little	Red	Amber	The risk identified has been accepted by the Manager <sup>1</sup>
IT Staff continuity planning		✓			---	4	
One Leisure		✓			---	4	
GIS & LLPG		✓			---	3	
Mobile & Office telephone use		✓			---	3	
Countryside Services Visitor Centre		✓			---	2	
Payments in Lieu			✗		---	4	
<b>Computer Audit</b>							
Disaster Recovery, Backup & Server Room		✓			---	2	
Business Continuity Planning			✗		2	---	

<sup>1</sup> There are occasions when a risk identified during an audit is acknowledged and accepted by a Manager and they decide that no further action is required. The right hand column of this table records any such instances.

3.3 In addition to the reviews listed above, a number of reviews were conducted on areas where assurance opinions were not given due to the nature and scope of the work. These included:

- review of corporate governance arrangements to support the 2011 annual governance statement process.
- review of specific elements of the land charges system at the request of management (3 amber actions); and
- monitoring of the 'abuse' email inbox (3 amber actions).

3.4 Internal audit have also been involved in a number of other initiatives and reviews In addition to those listed above. These include

- 2010/11 final accounts process
- Consideration of NFI data output (reported to Panel in December 2011)
- Outsourcing of HR and Payroll to LGSS, including a review of all agreed audit actions prior to the date of service transfer
- Managing whistleblowing allegations received
- Community Infrastructure Levy
- Home Improvement Agency shared service
- IT protocols for shared services

Guidance has also been provided on an ad-hoc basis on a wide variety of control and fraud issues.

- 3.5 The table in para 3.2 above excludes those key financial systems that are to be reviewed under the continuous audit process.
- Council tax
  - Creditors
  - Main accounting system
  - Debtors

Key controls in these areas have been agreed with the appropriate managers and the process will be fully operational by December.

#### **4. ISSUES OF CONCERN**

##### **Data Protection**

- 4.1 The unauthorised disclosure of personal data has twice been reported to the Corporate Systems & Information Manager during the year. One occurrence was due to human error and involved disclosure by email. The second occurrence is currently being investigated. Both resulted in complaints being received from individuals whose data was released. The Council has tried to mitigate the risk of unauthorised disclosure by encrypting portable storage and media devices.
- 4.2 There has been an issue with LGSS transferring Council confidential information to the County Council computer system in order to improve their workflow/efficiency by using a single server for their everyday work. This is contrary to this Council's Security Policy but the Managing Director (Resources) considers that the efficiency benefit overrides the potential risk of the information being mis-used.

#### **5. ISSUES OF CONCERN FROM PREVIOUS REPORTS**

##### **Code of Procurement**

- 5.1 A report on compliance with the Code appears elsewhere on the agenda. The overall level of compliance appears to be high. The review has identified a number of areas where improvements can be made. Due to the values involved, this area will continue to be reviewed.

##### **Establishment Control**






- 5.2 Ensuring the accuracy of the payroll to reduce the opportunity for fraud is a key control. Reports were sent to Heads of Service listing employees within their services and requesting positive confirmation that the reports were correct. A full response was received and LGSS are currently reviewing it to identify the reasons for any discrepancies.

##### **Issues outstanding from previous years**

- 5.3 Audit reviews that have had either an assurance opinion of 'limited' or 'little' in previous years are listed in the table below together with a summary of the progress made towards implementing the agreed actions.



The right hand column of the table shows a revised assurance opinion, based upon the action that has been taken by the manager and evidence from the follow-up work that has been completed. The revised opinion is only a guide to the potential improvement that would be expected, if the audit was repeated and all other system controls remained effective.

Original level assurance	Agreed Action Status		Audit area and follow-up findings	'Potential' level of assurance
	Red	Amber		
<b>2010-11</b>				
<i>Little</i>	4	4	<b>Supermarket car park income agreements</b> 1 of the red and 3 of the amber actions have been introduced. Improvements have been made to arrangements for recording and monitoring income. Issues with the contractual agreement are delaying the introduction of the other actions.	 <i>Limited</i>
<i>Limited</i>	0	7	<b>Management of Health &amp; Safety</b> 5 of the 7 actions have been introduced. E-learning is now used for H&S training of new employees. Follow-up review showed that employees were only partially completing or not undertaking the training. Despite managers being informed, there seemed to be no increase in training having been completed.	 <i>Adequate</i>
<i>Limited</i>	0	7	<b>Car park management</b> The actions have been introduced	 <i>Adequate</i>
<i>Limited</i>	3	6	<b>Housing – Homeless families</b> The actions have been introduced	 <i>Adequate</i>
<i>Limited</i>	2	0	<b>Business Continuity Planning</b> Both actions are outstanding although a considerable amount of work has been undertaken to review and update the plan. It is expected that a report will be presented to O&S(Economic Well Being) Panel in November.	 <i>Adequate</i>

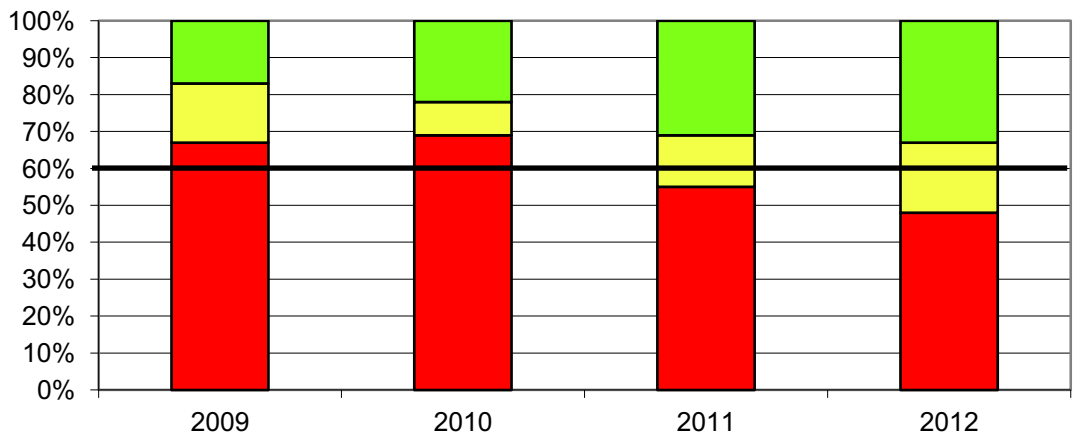
Assurance definitions are included at the end of Annex D.

## 6. IMPLEMENTATION OF AGREED ACTIONS

6.1 Management Team have set a target of 60% of agreed actions should be implemented on time, based on a rolling 12 month approach. The figures for the year ending 31 August 2012 are shown below.

Status of Action							
	Introduced on time		Introduced Late		Not introduced		TOTAL
Red Action	1		1		4		6
Amber Action	22		8		12		42
<b>Total</b>	<b>23</b>		<b>9</b>		<b>16</b>		<b>48</b>
<b>% age</b>	<b>48%</b>		<b>19%</b>		<b>33%</b>		
<b>Head of Service</b>	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	<i>Red</i>	<i>Amber</i>	
Financial Services		6	1		4	4	<b>15</b>
Law & Democratic Services		6		4			<b>10</b>
Operations	1	3		1		2	<b>7</b>
Corporate Team		1		2		2	<b>5</b>
Information Management		2		1			<b>3</b>
General Mgr, One Leisure						3	<b>3</b>
Environmental Management		1				1	<b>2</b>
Environmental Health		2					<b>2</b>
Customer Services		1					<b>1</b>
<b>Total</b>	<b>1</b>	<b>22</b>	<b>1</b>	<b>8</b>	<b>4</b>	<b>12</b>	<b>48</b>

**Status of Agreed Audit Actions @ 31 August**



■ % actions introduced on time    ■ % actions introduced, but not on time    ■ % actions not introduced

- 6.2 A sample of actions that have been reported as being completed are checked annually to see that the action introduced sufficiently addresses the risk that has been identified.
- 6.3 If during the review of actions introduced it is found that the action taken does not fully deal with the risk then the action that has been taken to address the risk identified is discussed with the appropriate manager and if necessary, changes to the database are made to reflect the actual position.
- 6.4 Six 'red' actions have not yet been implemented. They are detailed in Annex C.

## **7. INTERNAL AUDIT PERFORMANCE**

- 7.1 Information regarding the performance of internal audit is contained in Annex D.

## **8. RECOMMENDATIONS**

- 8.1 It is recommended that the Panel note the report and take into account the Audit & Risk Manager's opinion when considered the Corporate Governance statement that appears later on the agenda.

### **ACCESS TO INFORMATION ACT 1985**

Internal Audit Reports

Internal Audit Performance Management Information

**Contact Officer:** David Harwood, Internal Audit & Risk Manager

**☎ 01480 388115**

## EXTERNAL ASSURANCE RECEIVED

Date	Report from	Area covered	Assessment
January 2012	Government Procurement Service	Compliance with the Code of Connection to allow secure email access to the Government's Secure Intranet.	Authorised to remain connected. The next authorisation date is 08/09/2012.
February 2012	EMCQ Ltd	Customer Service Centre and Call Centre.	All four Centres were certified as meeting the Customer Service Excellence Standard (the national standard for excellence in customer service). Certification lasts for 3 years.
February 2012	Local Government Association	<p>The Council's approach to equality and diversity across five areas grouped under the following headings:</p> <ol style="list-style-type: none"> <li>1. Knowing your communities and equality mapping</li> <li>2. Place shaping, leadership, partnership and organisational commitment</li> <li>3. Community engagement and satisfaction</li> <li>4. Responsive services and customer care</li> <li>5. A modern and diverse workforce.</li> </ol>	Peer challenge against the Equality Framework for Local Government. The Council was assessed as "achieving" (on the scale, developing, achieving, excellent).

**EXTERNAL ASSURANCE RECEIVED**

<b>Date</b>	<b>Report from</b>	<b>Area covered</b>	<b>Assessment</b>
March 2012	Interception of Communications Commissioner's Office	Compliance with the requirements of the Regulation of Investigatory Powers Act 2000.	Overall the Council has a satisfactory level of compliance with the Act and Code of Practice.
June 2012	Local Government Ombudsman	Complaints made to the Ombudsman for 2011/12.	"I am pleased to say that I have no concerns about your authority's response times and there are no issues arising from the complaints that I want to bring to your attention".

## AMENDMENTS TO THE 2011/12 AUDIT PLAN

### Audits omitted

Internet use & monitoring	New firewall to be implemented towards latter part of audit year. Expectation that review will be included in 2012/13 audit plan.
Staff recruitment	Removed due to drop in recruitment and the likelihood of major service changes during the 2012/13 financial year.
Legal debt collection & recovery	Postponed to 2012/13 audit plan year at the request of the Head of Service because of restructuring and an unavoidable delay in filling the new post.
Repairs & maintenance of property	Following initial planning meeting, decision to postpone review taken by Internal Audit Manager due to services updating current IT systems to enable appropriate data to be recorded.
Business continuity	Review postponed due to work being undertaken across all Service areas to review and updated the business continuity plan.

### Audits added

Voluntary redundancy	Review of pay calculations and management considerations that supported voluntary redundancy of employees.
Monitoring of abuse emails	Review of action taken to deal with emails forwarded by employees to the Abuse email box.
HR & Payroll follow-up review & payments in lieu of worked hours	Due to likelihood of major service changes during 2011/12 financial year, a follow-up review of previously agreed audit actions was undertaken. This identified a number of issues, consequently a separate audit on salary payments in lieu of worked hours has commenced.
2010/11 final accounts.	Review undertaken at the request of the Corporate Governance Panel.

## OUTSTANDING 'RED' AGREED AUDIT ACTIONS

Audit	Action Agreed	Agreed Implementation Date	Head of Service' statement re current position
<p>Head of Service : Head of Financial Services</p> <p>The resolution of the first five items has taken longer than anticipated due to the necessary concerted action over the last 18 months to resolve the final accounts issues.</p>			
<p>Supermarket car park income agreements</p>	<p>The calculation of payments to supermarkets are to be made in accordance with the contract</p> <p>A procedure note explaining how the costs and income are calculated is prepared and reviewed annually.</p>	<p>28/02/2011</p>	<p>Resolution is not straightforward and will necessitate legal advice and potentially negotiation with the supermarkets. It is not in the Council's interests to lose the opportunity to manage these car parks on their behalf both from financial and traffic management perspectives.</p> <p>The main issues hinge on:</p> <ul style="list-style-type: none"> <li>• the fact that the accepted local government definition of overheads covers a wider area now than it did when these historic agreements were created, and</li> <li>• the degree of precedent that derives from the custom and practice of past calculations.</li> </ul> <p>These actions will be resolved over the next few months now that the audit of the 2011/12 accounts is virtually complete.</p>
<p>Supermarket car park income agreements</p>	<p>The Accountancy Manager will endeavour to recover over payments to the supermarkets for previous years.</p>	<p>31/07/2011</p>	<p>Preparatory work will commence shortly with a view to the first quarterly review being on the position at the end of December.</p>
<p>Main Accounting System</p>	<p>Quarterly review of Balance Sheet codes to identify and investigate any unexpected movements with adequate justification produced.</p>	<p>29/02/2012</p>	<p>Preparatory work will commence shortly with a view to the first quarterly review being on the position at the end of December.</p>

## OUTSTANDING 'RED' AGREED AUDIT ACTIONS

Audit	Action Agreed	Agreed Implementation Date	Head of Service' statement re current position
Main Accounting System	Adequate justification to support year end balance sheet codes will be produced and certified	29/02/2012	This was carried out for a range of items for the 2011/2 accounts but there was not time to extend to all relevant items. This will be done for the 2012/13 accounts.
Main Accounting System	Investigate and correct code ZK32 for £90,040.92.	29/02/2012	Much of the investigation has been carried out and it is expected that this will be resolved by the end of October.
Asset Register	The Information Manager to prepare a project/plan to include all of the Authority's assets within the CAPS Uniform system. This software system would address the residual risks (actions) 1, 2, 4, and 5. A review of the completed project plan will determine how well risk (action) 3 is addressed.	30/09/2011	A business case has been produced by IMD but it has not yet been possible for them to allocate any resources to undertaking the project.



## INTERNAL AUDIT PERFORMANCE

### External audit (PWC) view of internal audit

Target : No negative view expressed

The Council's external auditors, in their ISA 260 report issued in July 2012 in respect of the 2010/11 financial year, stated "As part of our audit we have considered the findings of internal audit's work during the year to inform our assessment of the risks of misstatement in the financial statements. There are no issues noted in forming this assessment".

### Customer Satisfaction

Target: 85% or more of customers rating service quality as good or better.  
Achieved: 12 months to August 2012 – 92% (from 12 responses)

At the conclusion of all audits, managers are requested to complete an end of audit survey form and give an opinion on the value of the audit. The options available are – very good, good, acceptable, requires improvements or unacceptable. Target information is calculated on a rolling twelve month basis rather than by financial year.

The Head of Financial Services has also undertaken his annual customer satisfaction survey with senior managers. The April 2012 figure showed 78% (60% previous year) of managers felt audit provided a good or very good service. No respondent considered the service required improvement or was unacceptable.

### Service delivery targets

Target: 80% or more of service delivery targets achieved.  
Achieved: 12 months to August 2012 – 72%

There are four elements to this target which all relate to the progress of individual audits and the reporting process:

- a) Complete audit fieldwork by the date stated on the audit brief
- b) Issue draft audit reports within 15 working days of completing fieldwork
- c) Meet with customer and receive response allowing draft report to progress to final within 15 working days of issuing draft report
- d) Issue final audit report within 5 working days of receiving full response

The performance targets for three of the four items above has been achieved. Item b) was not achieved. The expectation is for 90% of draft reports to be issued within 15 working days. Actual performance was only 45%.

## INTERNAL AUDIT PERFORMANCE

### Service Developments

A number of developments are expected during the next year. These include

- Embedding the continuous audit process including trialling automated software
- Revising the internal audit strategy and terms of reference to take account of the Public Sector Internal Audit Standards
- Reviewing the wider role of the Internal Audit Manager across the Council against the Cipfa publication “The role of the head of internal audit in public sector service organisations”
- Reviewing the performance standards against which the service reports
- The Head of Welland Internal Audit Consortium undertaking a peer review of the service, the results of which will be reported to the Panel

### Assurance definitions : for information

Substantial Assurance	✓✓	<i>There are no weaknesses in the level of internal control for managing the material inherent risks within the system. Testing shows that controls are being applied consistently and system objectives are being achieved efficiently, effectively and economically apart from any excessive controls which are identified in the report.</i>
Adequate Assurance	✓	<i>There are minor weaknesses in the level of control for managing the material inherent risks within the system. Some control failings have been identified from the systems evaluation and testing which need to be corrected. The control failings do not put at risk achievement of the system’s objectives.</i>
Limited Assurance	x	<i>There are weaknesses in the level of internal control for managing the material inherent risks within the system. Too many control failings have been identified from the systems evaluation and testing. These failings show that the system is clearly at risk of not being able to meet its objectives and significant improvements are required to improve the adequacy and effectiveness of control.</i>
Little Assurance	xx	<i>There are major, fundamental weaknesses in the level of control for managing the material inherent risks within the system. The weaknesses identified from the systems evaluation and testing are such that the system is open to substantial and significant error or abuse and is not capable of meeting its objectives.</i>

## REVIEW OF THE EFFECTIVENESS OF THE INTERNAL AUDIT SERVICE

(Report by the Internal Audit & Risk Manager)

### 1. INTRODUCTION

- 1.1 This report details the outcome of the annual review of the effectiveness of the internal audit service as required by the Accounts & Audit Regulations 2011.
- 1.2 The review is conducted against 'proper practice', namely the Cipfa Code of Audit Practice for Internal Audit in the United Kingdom. The Code contains 11 Standards (Annex A) that describe the processes that a professional internal audit service should follow and comply with. Compliance with the Standards provides assurance to the Panel that the Audit & Risk Manager's annual report and opinion is based upon sound audit practices and supported by sufficient, evidenced work to allow conclusions and opinions to be formed on individual reviews.

### 2. PREVIOUS REVIEWS

- 2.1 The last review was reported to the Panel In September 2011. That review noted the effectiveness of the Internal Audit Service and endorsed an action plan to further improve the plan. The outcomes against the action plan are shown in Annex B.

### 3. PEER REVIEW

- 3.1 One of the actions from 2011 was for an external peer review of the Service to be conducted. External consultants, endorsed by the Institute of Internal Auditors as being qualified to undertake such reviews were contacted, but the costs were considered prohibitive.
- 3.2 In April, the Audit & Risk Manager enquired of colleagues, whether they would be interested in undertaking the external review. Whilst a number showed some initial interest, the Audit & Risk Manager wished the review to consider a number of areas that fell outside of the Code 'checklist', e.g. whether the service meets the expectations of the Panel and management; perception of the value the service adds; relationships with other risk management related functions. Taking the review into these areas dissuaded many of his colleagues from continuing their interest.
- 3.3 The Head of Welland Internal Audit Consortium who initially responded to the enquiries, has agreed to undertake the peer review along the lines outlined above. Unfortunately due to other commitments, which include undertaking a similar review at Nuneaton & Bedworth BC, the review will not be able to be commenced until October. The results of the review will be reported to Panel.

**4. 2012 REVIEW**

4.1 The Cipfa Code of Practice contains a 100 point checklist which has been used as the basis for the self assessment. This review has been completed by the Internal Audit Manager.

4.2 As per the 2011 review the service was assessed as being compliant in the majority of areas. The areas of non compliance have remained the same

Checklist	Response
Obtaining assurance from partnerships (1.2.3)	Discussions took place with the Corporate Team in May. No significant partnerships were identified at that time. This area will be kept under review.
Internal audit free of non-audit duties (2.1.1)	As per the three previous reviews, the non-audit responsibilities of delivering risk management and insurance services are carried out by the Audit and Risk Management Section. There are no plans to change this. Audit reviews of these areas are commissioned from the computer audit partner.
Internal Audit Manager managed by a member of the COMT (2.3.1)	Line management is via the Head of Financial Services. The Internal Audit Manager has unfettered access across the authority, including to both Managing Directors.
Protocol between internal and external audit (5.6.1)	PWC do not require a protocol. A good working relationship has been formed with PWC. Unless PWC request a protocol this aspect of non compliance will not be reported again.

4.3 Whilst the internal audit service does not fully comply with all aspects of the Code, the areas of non compliance are not considered to be significant enough to suggest that the internal audit service is not effective.

4.4 Panel will also note that within the Internal Audit Service annual report, that a review of the 'Role of the Head of Internal Audit' is to be conducted in the next year against the Cipfa statement of the same

name. It is hoped that this may be completed before the peer review is undertaken.

- 4.5 The review has identified a small number of areas where improvements could be made to current working practices. These are listed in Annex C.

## **5. EXTERNAL AUDIT OPINION**

- 5.1 PWC have requested sight of only one internal audit report and associated working papers during the year. No concerns have been raised about this piece of work. They have made no comment to either the Managing Director (Resources) or the Head of Financial Services about the performance or capabilities of the internal audit service..

## **6. RECOMMENDATIONS**

- 6.1 It is recommended that the Panel:
- note that the internal audit service is generally effective; and
  - note the action plan that has been prepared to address the areas for improvement identified in the self assessment

### **Background Information**

Self assessment against the Cipfa Code of Audit Practice

**Contact Officer:** David Harwood, Internal Audit & Risk Manager  
**☎ 01480 388115**

**2006 Code of Practice for Internal Audit in Local Government: Standards**

## Standard

- 1 The Scope of Internal Audit – deals with formal terms of reference, coverage of the internal control environment and the audit’s role in relation to preventing fraud and corruption.
- 2 Independence – deals with overall operational independence as well as auditors own independence and impartiality.
- 3 Ethics – sets minimum standards for the performance and conduct of all internal auditors under the four main principles of integrity, objectivity, competence and confidentiality.
- 4 Audit Committees – deals with the relationship between the Audit & Risk Manager and the Corporate Governance Panel.
- 5 Relationships – sets out the principles of good relationships with management, other internal auditors, external auditors, other regulators and inspectors and elected members.
- 6 Staffing, Training and Continuous Professional Development – deals with staff resources, qualifications and training.
- 7 Audit Strategy and Planning – deals with the requirement to produce a strategy document and annual audit plan.
- 8 Undertaking Audit Work – deals with risk based auditing, the processes to be carried out in individual audit assignments, incl. planning, fieldwork and quality control.
- 9 Due Professional Care – deals with auditor competence and diligence, respecting and understanding confidentiality.
- 10 Reporting – sets out the principles of reporting on audit assignments, follow-up arrangements and providing an annual opinion on the control environment.
- 11 Performance, Quality and Effectiveness – sets out the need for an audit manual and establishing quality and performance measures.

**Cipfa Code of Audit Practice  
Areas for Improvement from 2011 effectiveness review**

<b>Code Ref.</b>	<b>Requirement</b>	<b>2011 Review : Areas for Improvement</b>	<b>Date proposed to introduced</b>	<b>Action Taken</b>
1.1.1	Do terms of reference (ToR) define the role of Internal Audit in any fraud-related or consultancy work	The ToR do not refer to consultancy work although reference is included in the audit manual, para 2.8. Whilst current audit resources are such that 'true' consultancy is unlikely to be provided, as against 'systems advice', changes will be made to the ToR.	March 2012	As agreed by the Panel in June 2012, terms of reference are not going to be revised until the national Public Sector Internal Audit Standards have been published, expected early in 2013.
1.3.2	Do the terms of reference define Internal Audit's role in fraud and corruption and consultancy work?			
1.4.2	Has the Internal Audit Manager made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	Proposal that changes are made to the Employees Code of Conduct and the Code of Financial Management to make explicit the notification requirement.	December 2011	Change to Code of Financial Management made in March 2012, para 1.12.  The change to the Employees Code of Conduct has been overlooked. Due to the Code being included within the Constitution that next opportunity to make the change will be in May 2013.
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	It is proposed that the Internal Audit Manager confirms to the Panel annually, the no constraints have been placed upon the work of internal audit.	September 2011, in annual report and onwards.	A paragraph along the lines proposed has been included in the 2011 & 2012 annual reports.

**Cipfa Code of Audit Practice  
Areas for Improvement from 2011 effectiveness review**

<b>Code Ref.</b>	<b>Requirement</b>	<b>2011 Review : Areas for Improvement</b>	<b>Date proposed to introduced</b>	<b>Action Taken</b>
3.3.2	Are internal auditors perceived as being objective and free from conflicts of interest?	The Internal Audit Manager is unaware of any manager being of the opinion that internal auditors are not objective or conflicts of interest have arisen. The end of audit survey will be amended for a 12 month period to see if there is a problem.	October 2011	Changes to the survey form were introduced on 3 November 2011. Of the 11 forms returned since that date, none have raised any concerns over auditor objectivity or conflicts of interest. The questions are to remain on the form.
5.6.1	Does the Internal Audit Manager maintain good working relationships with members?	To be discussed further with Members of the Panel.	March 2012	The Internal Audit Manager has to date attended all CGP meetings. He meets with the Chairman of the Panel as and when required to discuss Panel business. He has assisted the Panel review its own effectiveness and terms of reference.
6.2.1	Has the Internal Audit Manager defined the skills and competencies for each level of auditor?	A competency framework is in use but needs to be updated to reflect the Cipfa document : 'Excellent Internal Auditor'.	April 2012	The Excellent Internal Auditor document was used to assess competencies and associated training/development needs as part of the 2012 appraisal process.
10.3.1	Has the Internal Audit Manager defined the need for and the form of any follow-up action?	With the introduction of the SharePoint audit actions system in June 2011, there is the need to amend the follow-up action process within the audit manual, although clarification of the process to be followed has already been issued.	January 2012	The audit manual has not been amended. Auditors requested that a number of changes be introduced to the information captured by SharePoint to allow for the easier monitoring of follow-up reviews completed. This was completed in July 2012. The audit manual will be amended to take account of the new process by December 2012.



**Cipfa Code of Audit Practice  
Areas for Improvement from 2011 effectiveness review**

<b>Code Ref.</b>	<b>Requirement</b>	<b>2011 Review : Areas for Improvement</b>	<b>Date proposed to introduced</b>	<b>Action Taken</b>
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	Internal Audit Manager informs COMT of performance monthly. Quarterly performance is also reported to COMT by HoS. CGP have also referred to this matter on a number of occasions. Internal Audit Manager will include more detail in annual and interim reports to CGP.	September 2011  Incl. in Sept 2011 report	Completed. Additional information included in the Sept 2011 report.
11.1.1	Is there an audit manual?	Electronic version. It needs to be reviewed and updated to take account of current procedures and recent initiatives.	March 2012	Due to other pressures on the service, some sections only, rather than a full review has been completed. The Internal Audit Manager maintains a high level of oversight and quality review on individual audits.
11.3.5	Does the Internal Audit Manager provide evidence from his or her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?	It is proposed that the external quality assurance review be undertaken so that its results can be considered by the Panel in their consideration of the 2012 Corporate Governance Statement.	August 2012	Difficulties in sourcing a peer reviewer are explained in the main section of the report. The review is expected to commence in October 2012.

Code Ref.	Requirement	2012 Review : Areas for Improvement	Date
1.1.1	<p>Terms of reference.</p> <p>The Code asks a number of questions in relation to the terms of reference. The current terms of reference are considered to meet the Code, with the exception of defining consultancy work.</p>	<p>As agreed by the Panel in June 2012, terms of reference are not going to be revised until the national Public Sector Internal Audit Standards have been published, expected early in 2013.</p>	March 2013
1.4.2	<p>Has the Internal Audit Manager made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?</p>	<p>Changes to be made to the Employees Code of Conduct to make explicit the notification requirement.</p>	May 2013
10.3.1	<p>Has the Internal Audit Manager defined the need for and the form of any follow-up action?</p>	<p>The audit manual needs to be amended to reflect the changes that have come about through the SharePoint audit actions system. Auditors are aware of the process to be followed.</p>	December 2012
11.1.1	<p>Is there an audit manual?</p>	<p>Electronic version in place. It needs to be reviewed and updated to take account of current procedures and recent initiatives.</p>	March 2013

## REVIEW OF THE EFFECTIVENESS OF THE CORPORATE GOVERNANCE PANEL

(Report by the Internal Audit & Risk Manager)

### 1. INTRODUCTION

- 1.1 Following the Panel's previous review of their own effectiveness (conducted in Sept 2011 and March 2012) they proposed that an annual effectiveness review be undertaken prior to consideration of the annual governance statement.
- 1.2 Panel agreed that the 2012 review should be undertaken by the Panel Chairman. This report summarises the Chairman's review of the Panel's effectiveness.

### 2. CONDUCT OF THE REVIEW

- 2.1 As in previous years, the Audit & Risk Manager reviewed the set of questions/issues that had previously been used in the effectiveness review process, to ensure they remained appropriate and covered all areas of the Panel's amended terms of reference. The questions were based upon Cipfa and the National Audit Office good practice documentation supplemented by current best practice within the private sectors.
- 2.2 The Chairman of the Panel and the Audit & Risk Manager met on 4th September and considered the questions. The paragraphs below detail the items the Chairman felt should be highlighted.

### 3. OUTCOMES

- 3.1 Corporate governance is a large and complex area. The Chairman felt that stability of Panel membership was important, and this had been achieved between municipal years 2011/12 and 2012/13. He was also of the opinion that the short written report outlining the work of the Panel that was presented to Council in 2011 was well received and would like to see a similar report being submitted each year.
- 3.2 In addition to considering the questions/issues, the Chairman also reviewed progress against actions agreed from the previous effectiveness review. These are listed in Annex A.
- 3.3 After conducting the review, the Chairman felt that there were two issues that need to be brought to the Panel's attention for further consideration. These are listed below together with the Chairman's views.

Issue	Chairman's view
Do the Panel feel that they have sufficient understanding of the overall process for preparing the annual accounts?	The Chairman did not feel that he understood the procedures sufficiently well. He would like the Panel to receive a briefing on this in advance of the production of the 2012/13 accounts.
Does the Panel have a mechanism to keep it aware of topical legal and regulatory issues, or best practice developments?	The Chairman considered the report on the agenda listing forthcoming items for discussion useful, but did not feel that it was sufficient to fully address the question and keep Panel members aware of relevant items that would be emerging. He proposed that those Officer's who support the Panel provide Panel members with email notes, as and when appropriate, on emerging governance related items.

3.4 The Chairman considered the Panel did not comply with best practice in two areas that related to risk management. These are listed below.

Issue	Chairman's view
Does the Panel review the risk register at least annually?; and Does a Member of the Panel contribute to the risk management group?	<p data-bbox="815 1079 1410 1435">The Chairman felt that the Panel received sufficient information on risk management that it was not necessary to receive and consider the full risk register annually. He wished to remind Panel members that they could request a copy of the register from the Audit &amp; Risk Manager and, if they had any concerns, approach him to add an item to a future Panel agenda.</p> <p data-bbox="815 1480 1410 1843">The Internal Audit &amp; Risk Manager explained to the Chairman why the risk management group had not met in the last year. The Chairman did not believe that a nomination was necessary. He was of the opinion that if Panel input was required to a specific issue then the Audit &amp; Risk Manager would keep the Panel informed or request someone from Panel to attend.</p>

3.5 The Chairman wished to remind Panel members of one of their previous recommendations, namely that Chief Officers' Management Team be asked to ensure that any significant impact on the Council's systems of corporate governance should be properly considered when any officer or member decisions are made.

- 3.6 The informal Panel meeting (that had reviewed the annual governance statement) which had taken place immediately preceding the Chairman's review, reminded the Chairman that the Panel had not received any assurance during the annual governance review, to show that "significant impact" had been properly considered. Whilst not wishing to create another layer of bureaucracy or usurping the work of other Member Panels, the Chairman felt that in some areas the Panel remained largely reactive when it should be proactively seeking assurance on governance issues on major projects or issues. (e.g. pay review, LGSS out-sourcing, business continuity).
- 3.7 Similarly the Chairman felt that there should be a process whereby an annual review is undertaken on the effectiveness of the most significant items (e.g. LGSS out-sourcing).
- 3.8 Having considered the issue raised it is proposed that the Panel receive reports on the pay review, business continuity and the Local Plan.

#### **4. CONCLUSION**

- 4.1 Notwithstanding the issues highlighted above, after completing his review, the Chairman was of the view that the Panel was generally acting effectively and fulfilling its terms of reference.

#### **5. RECOMMENDATIONS**

- 5.1 It is recommended that the Panel:
- note the outcome of the Chairman's review of the effectiveness of the Panel
  - note that reports on the governance of the projects outlined in paragraph 3.8 are to be received; and
  - support the introduction of the actions referred to within paragraph 3.3.

#### **Background Information**

Chairman's self-assessment

**Contact Officer:** David Harwood, Internal Audit & Risk Manager  
**☎ 01480 388115**

**Agreed actions from the 2011 effectiveness review and subsequent action taken.**

<b>Ref</b>	<b>Issue</b>	<b>Proposed Action</b>	<b>Action taken</b>
2	Do the terms of reference follow the CIPFA model?	ToR to be reviewed.	Reviewed and approved by Council in May 2012.
15	Have issues that are being raised in the annual governance statement been considered by the Panel prior to the statement being presented to them?	From 2012 onwards. all Panel members will be invited to attend the discussion of the statement before it is formally presented to the Panel.	Informal meeting held on 4 September at which the statement was discussed.
18	Do you feel that the all Members' of the Council are aware of the Panel, the work that it does and the importance of good governance?	A written report be presented to Council, timed to support the Annual Governance Statement.	Short report circulated to Council in November 2011. Similar report to be circulated to Council annually.
25	Are the Panel satisfied that the annual review of the effectiveness of the system of internal audit is conducted thoroughly and the report it receives an accurate reflection of the reviews findings?	Commencing in 2012, the Chairman of the Panel and full Panel will alternatively undertake the review of effectiveness of the Panel. The 2012 review will be undertaken by the Chairman of the Panel.	Completed.
47	Does the Panel have mechanisms in place to keep it aware of topical legal and regulatory issues, or best practice developments.	A standing item be included on the Panel agenda listing reports expected to be tabled at the next meeting, allowing Panel to decide what, if any, training or information they wished to receive over those report areas.	To be referred back to the Panel by the Chairman.
69	Is the Panel satisfied that officers are acting on and monitoring actions taken to implement agreed actions, whether from internal audit, external audit or other reporting bodies?	Implementation of agreed external audit/other reporting bodies actions will be reported to Panel in future.	External audit actions to be added to the current internal audit action monitoring system.  No actions have been made to date that require adding.

## RISK REGISTER

(Report by the Audit & Risk Manager)

### 1. Purpose

- 1.1 To inform the Panel of the changes that have been made to the risk register in the period 14 March to 31 August 2012 and the current residual risk scores.

### 2. Updating of the Risk Register

- 2.1 Since the last meeting of the Panel, the register has been reviewed by Heads of Service and Activity Managers. They have also considered the effectiveness of the controls that are in place to manage those risks and updated the sources of assurance available to manage those controls.
- 2.2 The process by which the register is reviewed by Heads of Service is now well established and dovetails with the COMT quarterly performance reporting timetable. A similar review process has been introduced with Activity Managers, albeit on a six monthly basis.
- 2.3 All changes to the register are reviewed by the Audit & Risk Manager. This allows general over-sight and challenge of the risk entries and the inherent and residual scoring. The full risk register is available on the risk management intranet site.
- 2.4 This report includes six Annexes, which provide information on

#### Annex

- |   |  |
|---|--|
| 1 | Risk matrix – inherent to residual scoring: Corporate risk |
| 2 | : Operational risk   |
| 3 | Risk register amendments                                   |
| 4 | Assurance on controls for very high inherent risks         |
| 5 | Risks with no controls                                     |
| 6 | Risks with controls that are not working effectively       |

### 3. Current Register

- 3.1 Since the last report to the Panel in September 2011, one risk has been added, and six risks deleted from the register. See Annex 3.
- 3.2 The annexes 1 and 2 show the reduction in risk achieved by the controls that managers have in place for both Corporate and Operational risks. Risks with a “very high” residual risk are listed separately.

- 3.3 417 significant controls are recorded in the register as at 31 August, in respect of 143 individual risk entries, covering both corporate and operational risks. The levels of assurance are as follows.

Total No of Controls	Assurance Level			
	Substantial	Adequate	Limited	None
417	274	119	17	7
	66%	28%	4%	2%

83% of the assurances have been updated in the past six months (56% at February 2012). 1% of assurances are more than twelve months old (2% at February 2012).

- 3.4 As the risk register has become more robust, the Internal Audit Service has been able to place greater reliance on its content. This in turn has led to them reviewing and challenging both the controls listed and their assurance ratings. If this suggests that the controls or the assurance opinions are not appropriate then Heads of Service are requested to review the entries. This process helps to maintain a register that is both relevant and reliable and gives the Panel assurance that information presented to it is a fairly reflection of the current management of risk.
- 3.5 The risk management strategy requires the Cabinet to consider each of the very high residual risks to identify whether they should be further mitigated by cost-effective and affordable actions. Risk option forms have been considered by Cabinet in July for five of the six current very high residual risks. They accepted the residual risk levels.

#### 4. Recommendation

- 4.1 It is recommended that the Panel note the report.

#### ACCESS TO INFORMATION ACT 1985

Risk Register

**Contact Officer:** David Harwood, Audit & Risk Manager ☎ 01480 388115





**Inherent Risks before controls August 2012**

5		1	4	5	2
4		6	15	10	3
3	1	7	29	19	3
2	4	4	5	2	1
1					1
	1	2	3	4	5

Likelihood Impact

*Residual risk scores rely on the identified controls working effectively.*

*CGP and COMT rely on internal audit and managers' 'assurance' statements to judge whether this is the case.*

**Residual Risks after controls August 2012**

5	1				
4		2	8		1 <sup>a</sup>
3	3	15	10	3	
2	1	22	33	9	2 <sup>b</sup>
1		2	4	1	1
	1	2	3	4	5

Likelihood Impact

total **118**

**February 2012**

5	1				
4	1	2	8	1	
3	2	17	9	3	
2	1	22	34	10	3
1		2	4	1	1
	1	2	3	4	5

Likelihood Impact

Total **122**

- 4

		Feb 2012	Aug 2012	Accepted by Cabinet
	'Very High' Residual Risks			
		Likelihood X Impact		
223 a	MMI run-off	2 / 5	4 / 5	July 2012
15 b	ICT security is breached	2 / 5	2 / 5	July 2012
58 b	Information or data is lost	2 / 5	2 / 5	July 2012

**Operational**

**Summary of Risk Register Amendments  
6 March 2012 – 31 August 2012**

**Annex 3**

	<b>Additions</b>	<b>Deletions</b>
<b>Corporate</b>	<b>0</b>	<b>1</b>
<b>Operational</b>	<b>1</b>	<b>5</b>

**Corporate**

<b>Risk Ref</b>	<b>Risk Title</b>	<b>Created</b>	<b>Deleted</b>	<b>Inherent Risk Priority</b>	<b>Residual Risk Priority</b>
235	Government reduction in funding leading to unavoidable service costs.	---	06/08/12	<b>Very High</b>	<b>Very High</b>

**Operational**

<b>Risk Ref</b>	<b>Risk Title</b>	<b>Created</b>	<b>Deleted</b>	<b>Inherent Risk Priority</b>	<b>Residual Risk Priority</b>
234	Employees of the Council who act in isolation or conjunction with a colleague accept an inducement/bribe leading to them acting outside of agreed policies and procedures and bringing the Council into disrepute	01/05/12	---	<b>High</b>	<b>High</b>
188	Referrals from Occupational Therapists are not received resulting in reduced fee income.	---	24/04/12	<b>High</b>	<b>Medium</b>
151	Delivering the Web Strategy – over engineer the MyCouncil application	---	25/07/12	<b>High</b>	<b>Medium</b>
162	Pandemic flu outbreak. Significant staff absence and inability to provide full services	---	27/07/12	<b>Medium</b>	<b>Low</b>
205	Council fails to act as a community leader by not delivering schemes designed to mitigate climate change	---	16/08/12	<b>Very High</b>	<b>High</b>
221	Failure to maintain One Leisure buildings could result in disrepair and consequent injury/death to staff, customer or contractor.	---	24/08/12	<b>High</b>	<b>Medium</b>

Corporate Objective	Risk No	Inherent Risk	No of Controls	Residual Risk	Assurance Level				Area of Panel Assurance <sup>1</sup>	Assurance shortfall	Risk Type	
					Substantial	Adequate	Limited	None			Corporate	Operational
<b>A clean, 'green' and attractive place</b>												
Climate change strategy	146	Red	2	Red		2			a	X	✓	
Loss of vehicle fleet operating licence	192	Red	3	Orange		1	2					✓
Failure to deliver environmental policy/strategy	30	Red	6	Orange		4	2		a		✓	
<b>Developing communities sustainably</b>												
Changes to house prices	52	Red	2	Orange		1	1		a		✓	
<b>Housing that meets individuals' needs</b>												
Increasing Housing Benefit claims	143	Red	1	Yellow		1			g			✓
Increased homelessness	148	Red	1	Orange		1			a		✓	
<b>Safe, vibrant and inclusive communities</b>												
Reduced CCTV service	230	Red	1	Yellow		1			a			✓
<b>To improve our systems and practices</b>												
ICT security breached	15	Red	8	Red		8			g			✓
Service recovery/business continuity ineffective	6	Red	5	Yellow		3	2		g			✓
Information or data is lost	58	Red	4	Red		4	4		g			✓
Theft	140	Red	4	Orange		4			g			✓
Power loss to main servers	177	Red	6	Orange		5	1					✓
Breach of Data Protection Act	217	Red	5	Yellow		5			c			✓
Project management ineffective	48	Red	3	Orange		2	1		e			✓
Unencrypted data is sent externally	122	Red	4	Orange		2	2		g			✓
Increasing insurance premiums	126	Red	3	Orange		1	1	1				✓
Ineffective site security	32	Red	3	Orange		2	1		g			✓
Sensitive HB info e-sent via insecurely means	191	Red	1	Yellow		1						✓
Fraud occurs	75	Red	6	Yellow		1	5		g			✓

<sup>1</sup> The areas that Panel require specific assurance upon are listed at the end of this section.

## Assurance Details

## Annex 4

Corporate Objective	Risk No	Inherent Risk	No of Controls	Residual Risk	Assurance Level				Area of Panel Assurance <sup>1</sup>	Assurance shortfall		Risk Type	
					Substantial	Adequate	Limited	None		Corporate	Operational		
Loss of use of admin buildings	229		3		2		1		g			✓	
Loss of access/structure: Pathfinder House	145		3		2	1		g				✓	
Assets not properly maintained	186		3			2	1	g				✓	
Partnerships are not effective	74		2			2		k				✓	
Deadlines not met	49		4		4			k				✓	
<b>To learn and develop</b>													
Council does not invest in or develop staff	2		3		2	1						✓	
Increasing staff accidents	14		6			6		g				✓	
Serious injury or death of customers or staff	16		5			5		g				✓	
Reliance on key IT staff	25		5		3	2		g				✓	
Bailiff contract (Health & Safety)	31		3		1	2						✓	
<b>To maintain sound finances</b>													
Investment decisions not appropriate	47		4		2	2						✓	
Failure to achieve financial savings	130		2		1	1		d				✓	
Budget estimates are inaccurate	24		5			4	1	d				✓	
Reduced land charges income	153		1		1							✓	
Finance reforms in 2013	233		1			1						✓	
S106 Agreements are not monitored	208		3		1	2						✓	

- a. Delivery of the Council's corporate objectives
- b. The effectiveness of the Constitution
- c. Ability to identify, assess and respond to legislation, meeting statutory obligations
- d. Effectiveness of financial management arrangements
- e. Robustness of the performance management system
- f. The effectiveness of the risk management strategy
- g. Robust systems of internal control & the effectiveness of key controls
- h. Adequacy of the internal audit service
- j. Partnerships are efficient and effectively delivering service objectives

## Risk Register entries : No Controls

## Annex 5

Risk Ref	Risk Title	Inherent Risk Priority	Residual Risk Priority	Actions being considered	Date to be introduced
Head of Environmental Management					
154	Lack of skilled/trained staff and funds mean failure to deliver expanding environmental agenda	High	High	Identify skills required & target resource to key environmental areas and projects.	April 2012
214	Warmer, wetter winters and hotter summers with reduced rainfall resulting in an increased likelihood of subsidence and ground heave.	Low	Low	Develop a tree policy to consider the trees we currently own and how they will be managed in future.  Is there a programme in place to identify buildings susceptible to subsidence risk? Is there a schedule of regular maintenance checks to identify any damage? Is preventative work carried out where required?  All trees selected for any planting site, be it a paved street, grass verge, park, or open space is carefully chosen with regard given to its suitability to the area, based on growth habits, nutritional requirements, resistance to disease, the local landscape, future management requirements, potential for damage to adjacent properties and ultimate tree height and spread.	June 2011  May 2011  June 2011
215	Warmer summer weather and outdoor lifestyle increases the scope for outdoor activity leading to an increase in tourism and increased opportunity for leisure	Low	Low	None	

## Risk Register entries : No Controls

## Annex 5

Risk Ref	Risk Title	Inherent Risk Priority	Residual Risk Priority	Actions being considered	Date to be introduced
	Head of Planning Services				
152	Economic downturn and the related potential shortfall in anticipated developer activity due to reduced market liquidity and availability of credit undermines the delivery of new homes, new employment opportunities and community facilities.	High	High	None	
	Head of Financial Services				
223	MMI Ltd are unable to 'run-off' outstanding liabilities from reserves leading to call on Council to meet funding shortfall.	Very High	Very High	Upon receipt of annual report from MMI (which has not yet been received in respect of 2011/12) Head of Financial Services to decide on whether or not to include a provision in the accounts.	March 2013

## Risk Assurance Shortfall

## Annex 6

Risk Ref	Risk Title	Inherent Risk Priority	Residual Risk Priority	Controls considered effective	Controls not considered effective
Head of Environmental Management					
146	Failure to prepare for and adapt to climate change already occurring, resulting in wasted investment , costs of emergency action and retrofitting buildings with adaptation measures.	<b>Very High</b>	<b>Very High</b>	None	Local Climate Impact Programme on services and wider District being developed. Adaptation to climate change.



## COMPLAINTS (Report by the Head of Legal and Democratic Services)

### 1. INTRODUCTION

- 1.1 At the last meeting, during consideration of the annual report on complaints, the Panel requested a further report on the lessons learnt from cases referred to the Ombudsman. This report provides Members with this information.

### 2. OMBUDSMAN COMPLAINTS

- 2.1 As the previous report indicated, in 2011/12 two complaints to the Ombudsman resulted in local settlements. Both of the complaints referred to the same matter. The Ombudsman found that the Council had delayed seeking legal advice and had not passed on concerns about antisocial behaviour. It was recommended that the Council should pay the complainants compensation for the time and trouble they had taken to submit the complaint and to chase it and to reflect their distress that their complaints were not being listened to. With the approval of the Chairman of the Corporate Governance Panel compensation was paid to the complainants. In accordance with the requirements of the Constitution, this was reported to the Panel on 27th September 2011 (Minute No. 11/15 refers).
- 2.2 In response to the provisional findings the Council expressed the view that the kinds of matters referred to the Development Management section were not the sort of things it would be expected that Development Management Officers should refer to Environmental Health or the Community Safety Partnership. However, in the spirit of wanting to learn from the complaint, Development Management Officers were asked to obtain advice from the other departments on the kind of information on which they would act. The intention was to improve our systems by establishing clear criteria for passing information between departments.
- 2.3 In practice, the Council's Planning Enforcement Officer, has agreed with the Community Safety Team Leader that she will take the lead on such matters through her Anti-Social Behaviour Order work. Cases will be discussed on their merits as they arise. The Neighbourhoods Intervention Team Leader is involved in these meetings from an Environmental Health perspective. There has been a further complaint about the same site, which has been dealt with through the new arrangements. There have not been any other complaints that have had to be addressed in this way.

### 3. RECOMMENDATION

The Panel is:

**RECOMMENDED**

to note the contents of the report.

### BACKGROUND PAPERS

Local Government Ombudsman      LGO Statement of Reasons – 11 008 609 / 10 010 911.

**Contact Officer:** Tony Roberts      (01480) 388015

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## GOVERNANCE STATEMENT (Report by the Head of Legal & Democratic Services)

### 1. INTRODUCTION

- 1.1 In accordance with the Accounts & Audit Regulations 2011, the Council is required to review once a year the effectiveness of its system of internal control and following that review, approve its annual governance statement. The governance statement (attached) will be published alongside the annual statement of accounts.

### 2 BACKGROUND

- 2.1 The Accounts & Audit Regulations of 2003 and 2006 only required the Council to publish a statement on internal control, rather than governance.
- 2.2 The Council adopted its original Code of Corporate Governance in September 2003 and agreed that a review of its content and effectiveness should be undertaken annually.
- 2.3 The requirement to publish a governance statement in lieu of the statement on internal control has therefore not been burdensome.

### 3 REVIEW PROCESS

- 3.1 Panel held an informal meeting on 4 September, at which the degree of compliance with each undertaking in the Code of Corporate Governance was considered. Whilst the Panel made a number of comments and suggestions, the review concluded that there was a high degree of compliance.
- 3.2 Panel have previously requested that they also receive information on the four following areas:
- a. The process by which the control environment and key controls have been identified - the Council's risk management system.
  - b. The process by which assurance has been gained over controls and the key assurance providers.
  - c. The adequacy and effectiveness of the remedial action taken where there are deficits in controls, which will be led by the Corporate Governance Panel and implemented by management.
  - d. The operation of the Corporate Governance Panel and the internal audit function to current codes and standards.

- 3.3 Reports elsewhere on the agenda deal with the issues identified above. This information is also presented to Panel at various meetings throughout the year.

#### **4 REVIEW OF THE DRAFT STATEMENT**

- 4.1 Panel at their informal meeting, considered and commented upon the draft governance statement and reviewed the progress that had been made in respect of addressing the significant governance issues identified from the 2011 review.
- 4.2 Panel also highlighted two significant governance issues for consideration as part of the current governance statement:-
- the employee grade and pay review; and
  - the adequacy of the processes to support the preparation of the statutory accounts.

#### **5. CONCLUSION**

- 5.1 The system of internal control is considered to be effective.
- 2.4 The Governance Statement reflects the Council's corporate governance arrangements and their exercise during the preceding year and up to the date of authorisation. It fairly reflects how those significant governance issues previously identified have been addressed as well as identifying significant issues that need to be considered over the next 12 months.

#### **6. RECOMMENDATION**

- 6.1 The Panel is recommended to:
- a) approve the Governance Statement for 2011/12; and
  - b) authorise the Chairman of the Panel to sign the Statement on behalf of the Council. .

#### **BACKGROUND INFORMATION**

The Council's Code of Corporate Governance and August 2012 review  
The Governance Statement, September 2011  
CIPFA/SOLACE framework "Good Governance in Local Government 2007"

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## HUNTINGDONSHIRE DISTRICT COUNCIL

### GOVERNANCE STATEMENT

Huntingdonshire District Council is responsible for ensuring that –

- its business is conducted in accordance with the law and proper standards; and
- public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

In carrying out these duties, Members and employees are responsible for putting in place proper arrangements for governance of the Council's affairs and the stewardship of the resources at their disposal. To that end, the Council has approved and adopted a Code of Governance, which reflects the principles and requirements of the Chartered Institute of Public Finance and Accountancy/Society of Local Authorities Chief Executives ("CIPFA/SOLACE"). The Code is published on the Council's website at: [Huntingdonshire District Council - Code of Corporate Governance](#). Hard copies are available on request from the Policy & Performance Manager.

The Code describes the way in which the Council will carry out its functions and how it complies with the principles of openness, integrity and accountability. The Code applies to elected Members and employees alike, and they are reflected in the Council's working procedures and processes in the interests of establishing and maintaining public confidence.

The Council's Code of Governance recognises that effective governance is achieved through the following **core principles**:

- focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for Huntingdonshire.
- Members and employees working together to achieve a common purpose with clearly defined functions and roles.
- promoting the values of the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- developing the capacity and capability of Members and employees to be effective.
- engaging with local people and other stakeholders to ensure robust local public accountability.

In the Code these six core principles have a number of **supporting principles** which, in turn, have **specific requirements**. These principles and requirements apply across the work of the Council and define the Governance Framework.

## **The Governance Framework**

A Governance Framework has been in place for the year ended 31st March 2012 and up to and including the date of approval of the statement of accounts.

The Council's powers and duties of Council, Committees and Panels require the Corporate Governance Panel (among other things) to –

- ensure that the Council has a sound system of internal Audit which facilitates the effective exercise of the Council's functions including arrangements for the management of risk; and
- consider the Council's Code of Corporate Governance and approve the annual statement in that respect.

In turn the Council's Head of Legal, Democratic Services and Monitoring Officer has been given responsibility for –

- overseeing the implementation and monitoring the operation of the Code;
- reviewing the operation of the Code in practice; and
- reviewing and reporting to the Corporate Governance Panel on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.

The Council's Chief Financial Officer (Managing Director Resources) is responsible for the authority's financial management arrangements and in line with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government ( 2010)

The key elements of the systems and processes that comprise the authority's governance arrangements are as follows:

### **1. Communicating vision and purpose**

The Council has in place a Community Strategy, "Growing Our Communities", which sets out a vision, shared with partners, for Huntingdonshire, published on the Council's website at [http://www.huntingdonshire.gov.uk/sustainable\\_community\\_strategy](http://www.huntingdonshire.gov.uk/sustainable_community_strategy)

The Strategy was reviewed and re-adopted by the Council in September 2008. A more comprehensive review is currently being undertaken (Autumn of 2012). This review has been branded as 'Huntingdonshire Matters' and involves a number of

our stakeholders. In addition the Council is currently reviewing the Council's Corporate Plan . The corporate plan will consist of a suite of documents, the overarching document being the Leadership Direction document which identifies key strategic Themes and Aims (this is due to be adopted at Council in September 2012). This is supported by a Council Delivery Plan, MTP plan and Service Plans. The Council Delivery Plan is in the process of being drafted. In addition the Council's performance management framework is being reviewed and amended to reflect the changes to these suite of documents

The Council's Communications & Marketing and Consultation & Engagement Strategies are used to promote and guide communications and engagement with local residents and to ensure that the vision and supporting plans are shared with local residents and other stakeholders.

## **2. Roles & responsibilities**

The Council's Constitution provides a comprehensive explanation of the Council's administrative and managerial processes. Designed to illustrate the statutory division between executive and non-executive roles and responsibilities within the Council, the Constitution also defines the relationship between the Council and local residents by means of a series of articles, procedure rules and codes of practice.

Articles and tables list the functions of the Executive and Scrutiny Committee arrangements as defined by the Local Government Act 2000 and explain how the Council has delegated its non-executive decision making to Committees and Panels. The role of Statutory Officers is defined, together with the management structure of the authority, and the Scheme of Delegation contains a comprehensive summary of all decision making powers delegated to Officers by the executive and non-executive parts of the Council. A series of procedure rules demonstrate clearly the inter-relationship between those various elements. Changes brought about by a restructuring of Senior Management has resulted in a review of the Scheme of Delegation. This is noted in Section 4.

A Member-led cross party review of the Council's democratic arrangements was undertaken in 2008/09. This evaluated the Council's democratic performance since the adoption of the current structure, the implications of change necessitated by the Local Government and Public Involvement in Health Act 2007 and the emerging themes of strengthening local democracy in recent Government consultation documents.

The original review concluded that the existing structure had worked well since its inception and the principles of the executive/scrutiny split had become embedded in the organisation. Nevertheless, the Council agreed various changes to promote local democracy and community engagement in the process, involving –

- a new look to Council meetings with headline debates, Cabinet 'white paper' proposals, monitoring of LAA performance, public question time and evening meetings;
- The Council moved to the Executive Leader model at the start of the 2011/12 Municipal Year;
- restructuring of the role of the Deputy Leader to improve support for the Leader and other executive councillors although this position has subsequently re-assumed portfolio responsibilities ;
- a move to evening Cabinet meetings to assist executive councillors in full time employment;
- a refocusing of overview and scrutiny to enhance scrutiny of LSP priorities, partners and general well-being;
- co-option of independent persons to Overview and Scrutiny Panels to promote community engagement and widen experience;
- establishment of neighbourhood forums to promote community local democracy and community engagement;
- role descriptions for holders of special responsibility allowances, all councillors and group leaders; and
- signing of the IDeA Member Development Charter to enhance support for elected councillors.

A review of the changes to the Council's democratic structure, which had been in place since May 2009 was undertaken in September 2010 and concluded that there should be no change to the democratic structure .

In July 2012 and following a review by an Overview & Scrutiny Panel, the Cabinet approved a model Constitution for new Local Joint Committees and agreed to undertake a trial pilot in the north of the District as a potential replacement for Neighbourhood Forums.

## **Cabinet**

Chaired by the Executive Leader of the Council, the Cabinet has responsibility for all executive functions of the authority. Having moved to monthly evening meetings following the review of the democratic structure, the Cabinet is now better placed to consider reports and recommendations from Overview and Scrutiny Panels that meet earlier in the month.

- The Cabinet has six Members including the Executive Leader and Deputy Executive Leader. The description of the Deputy Executive Leader's role has changed who now has his own portfolio of responsibilities. The Council has recently been awarded the IDeA Member Development Charter.

Key decisions, defined as issues involving income/expenditure of £50,000 plus, or that affect two or more wards, are listed in a Forward Plan publicised four months in advance with executive decisions published within three days to facilitate potential call-in by scrutiny.



The arrangements for delegated decision making, the conduct of business at meetings etc. are defined in Cabinet procedure rules contained in the Council's Constitution.

### Overview & Scrutiny Panels

The Council has appointed 3 Overview and Scrutiny Panels (Social Well-Being, Environmental Well-Being, and Economic Well-Being) which discharge the functions conferred by Section 21 of the Local Government Act 2000 in relation to the matters set out in Article 6 of the constitution.

Within their terms of reference, the Overview and Scrutiny Panels will:-

- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
- make reports and/or recommendations to the full Council and/or the Cabinet and/or any Joint Committee in connection with the discharge of any functions;
- review the performance of the Council and the achievement of performance indicators and targets;
- scrutinise the performance of partnerships;
- exercise the Councillor "call for action" arrangements;
- consider any matter affecting the area or its inhabitants; and
- exercise the right of call-in, for reconsideration, of decisions made but not yet implemented by the Cabinet, an individual member of the Cabinet, a Committee of the Cabinet or a key decision made by an Officer.

An annual report of the activities of the Overview & Scrutiny Panels for 2011/12 will be submitted to the Panels in October 2012. It will then be publicised on the Council's website and sent to interested parties. A review of each Panel's effectiveness is to be undertaken in September 2012

### Corporate Governance Panel

The Council has established a Corporate Governance Panel to consider the issues of audit, governance and finance. The Panel, when undertaking a review of its own effectiveness in February 2012, considered its own terms of reference. Council adopted the changes proposed by the Panel in May 2012. The terms of reference<sup>1</sup> give the Panel responsibility for

Governance	Reviewing the Council's Code of Corporate Governance and its supporting systems, incl. Constitutional arrangements. Approving the Annual Governance Statement.
Risk Management	Ensuring the Council has effective arrangements

<sup>1</sup>

<http://modern.gov.huntsdc.gov.uk:8070/documents/s45914/Terms%20of%20Reference%20Appendix%20C.pdf>

	for the management of risk.
Internal Audit & External Audit	Ensuring there are effective arrangements for the system of internal audit and receiving and considering external audit reports.
Final Accounts	Approving the Council's statement of accounts.
Fraud & Corruption	Monitoring outcomes against the Anti-Fraud and Corruption Strategy.
Complaints & Feedback	Considering the Council's own complaints and feedback procedure, Local Government Ombudsman reports, and reviewing action taken to deal with the issues raised.

The Corporate Governance Panel has requested that effectiveness reviews of all Panels be undertaken. This work has commenced, but outcomes are not yet available

### 3. Codes of conduct defining standards of behaviour

A Members' Code of Conduct provides the statutory framework for the ethical conduct and behaviour of Members of the Council and persons appointed or co-opted to Committees. Following the abolition of the previous national Code, the Council adopted a new Code of Conduct at its meeting on 4 July 2012. Guidance has been issued to Members by the Monitoring Officer on 'disclosable pecuniary interests' and the completion of the Members' Declaration of Interests form and training is to be arranged.

Under the former Code, four complaints about standards of behaviour of District Council Members were received and dealt with during the reporting period, one of which resulted in a finding of no further action, two of which resulted in 'other action, namely apologies being given and one of which resulted in censure.

Notwithstanding the absence of a statutory model, an Employees' Code of Conduct defines the behaviour that the Council expects of its employees, with training provided as part of the induction process and regular reminders issued to both Members and employees of the need to register any new or changed interests.

A protocol for relations between Members and employees establishes the principles to be observed in the relationships at both an individual level and between executive and non-executive bodies and employees. A further protocol on community leadership by Members and Codes of Good Practice for both planning and licensing explain to Members the high standards of behaviour and conduct expected of them in carrying out their constituency and quasi-judicial decision making roles. Published on the Council's Internet and Intranet, the Codes and protocols are supplemented by training to ensure a thorough understanding and compliance with the principles and standards that they establish. In a review of the Constitution in November 2011, the Council agreed that training for members of the Development Management Panel and Licensing Committee should be mandatory.

## **Allowances**

Councillors' allowances are set by the Council based on the recommendations of an Independent Remuneration Panel as required by the legislation. Allowances can be fixed for a 4 year period with an agreed formula to deal with annual adjustments without the need for further review. Regulation 10 of the Local Authorities (Members' Allowances) (England) Regulations 2003 (SI 2003/1021) refers. The Council's allowances were approved by the Council in December 2010 to come into effect in May 2011. A further review by the Independent Remuneration Panel is therefore not required until 2014.

During the year, £375,220 was paid as allowances to 52 Members, of which £19,093.67 was travel and sundry expenses. The basic allowance is £4,235 per annum, but in addition Special Responsibility Allowances are also payable to certain Members.

The Managing Directors incurred travel and subsistence costs in the course of their duties. No taxable expenses were reimbursed. Car fuel costs were reimbursed at rates ranging between 10p & 17p per mile. In total £9700 of expenses were reimbursed.

There are no Members who are contributing towards the Local Government Pension Scheme

## **4. Review of the Constitution**

The Council's Constitution, which incorporates the Council procedure rules (Standing Orders), Code of Financial Management (financial regulations), Code of Procurement (Standing Orders as to Contracts) etc., is reviewed formally at biennial intervals by the Corporate Governance Panel, with an opportunity provided for both the executive and non-executive, as well as individual Members and employees, to reflect on its robustness and operation in practice over the previous two years. Interim changes may be made from time to time that are necessitated by legislative developments, reviews of working practices or alteration to decision making responsibilities. Any such change is communicated by updating the Constitution both electronically on the Internet and Intranet and in hard copy. Because of changes to the Senior Management Structure of the Council and the programme of early retirement/voluntary redundancy in the spring/summer 2011, the Senior Management Team agreed to defer the undertaking of the biennial review in March. Two reviews of the Constitution have subsequently been undertaken by the Corporate Governance Panel in 2011/12 with recommendations on the outcome submitted to Council in November 2011 and April 2012.

## **5. Capacity and Capability**

### **Members**

The Council has signed the IDeA Member Development Charter. An Action Plan has been completed and Charter status has been achieved. Role descriptions have been introduced for all Executive Councillors, other Councillors in receipt of special responsibility allowances, political group leaders and Ward Councillors

A training and development programme has been designed for Members that embraces the professional, organisational and behavioural knowledge and skills that they require to enable them to perform their roles both internally and within the community. Skills and needs audits are undertaken annually. Given limited resources, consideration is being given to the preparation of further personal development plans. A record of all training undertaken is maintained. Training is provided both internally by senior management and by external consultants and specialists

A Members' induction scheme is in place for new Members. Specific training is provided for Members who sit on the –

Licensing Committee/Panel  
Development Management Panel  
Standards Committee  
Overview & Scrutiny Panels  
Corporate Governance Panel.

Under the Constitution, it is now mandatory for Members of Development Management Panel and Licensing Panels to undertake specialist training, before sitting on those Panels. A mentoring scheme for new Members has been introduced

### **Employees**

In May 2012 the Council entered into a shared service arrangement with Local Government Shared Services (LGSS) to provide a full HR service to the Council and which involved the TUPE transfer of the current Council staff.

A grade and pay review is currently being undertaken and will continue into 2013. The objectives of the pay review include:-

- ensuring any new pay structure is fair and equitable
- minimising the current overlap in grades
- having a pay structure that encourages staff to stay and develop
- having an affordable system that improves job security

The Council is committed to developing the skills of employees to enable roles to be carried out effectively and enhance career progression. Skills of employees are assessed as part of the annual appraisal process and an appropriate personal

training and development plan is agreed. In addition corporate training programmes such as Management and Leadership, Equality and Diversity, and Health and Safety training are in place. The development of a workforce strategy is scheduled to be completed in the next 12 months.

## **6. Treasury Management**

Treasury Management is the process by which the Council:

- ensures it has sufficient cash to meet its day-to-day obligations
- borrows when necessary to fund capital expenditure, including borrowing in advance when rates are considered to be low
- invests any surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest.

The Council's Treasury Management Strategy provides clear objectives for the management of its borrowing and investments. It emphasises the need for effective management and the control of risk. The Strategy for 2012/13 was approved by the Council in February 2012. The Strategy, mid-year monitoring report and annual report are all considered by Overview & Scrutiny and Cabinet before going to Council to reflect their importance.

Officers also discuss relevant issues with the Treasury Management Advisory Group (4 members) on a regular but informal basis.

### **Risks associated with investments**

There are two main risks:

- needing to lend to a body that is certain to be in a position to repay at the end of the loan period
- achieving a reasonable rate of interest for the money invested.

There is a need to balance these two aspects as the more certain the repayment the lower the rate of interest and vice versa. The strategy therefore sets criteria to ensure that risks are appropriately limited.

This is done by:

- limiting investments to bodies with high credit ratings or the larger building societies
- immediately ceasing further lending to bodies whose credit rating is reduced or where there is the likelihood of this
- limiting the size of investment with individual bodies and bodies within certain countries.
- maximising the use of liquidity accounts that allow repayment the same or following day.
- setting limits for investments of more than one year and corporate bonds)

## **Risks associated with borrowing**

The risk is that borrowing will be undertaken at rates that hindsight will show are too high.

This is managed by considering:

- all available information carefully before borrowing long term.
- spreading borrowing over a variety of periods to spread the risk.
- the availability of safe investment opportunities before borrowing in advance of need

## **7. Internal Audit**

The Internal Audit Strategy was due to be reviewed in June 2012. Due to the pending introduction of the Public Sector Internal Audit Standards from April 2013, the Corporate Governance Panel agreed that the Strategy review be delayed until the Standards are published and adopted.

Internal audit work is undertaken in accordance with the CIPFA Code of Audit Practice. The Managing Director (Resources) is the Council's Chief Financial Officer and is responsible for ensuring the Council has adequate internal audit arrangements. A risk-based strategic plan detailing the risks and activities of the Council is prepared, from which the annual audit plan is drawn. Written reports are prepared for all audits: these include an opinion on the degree of risk perceived and the assurance that can be obtained from the system. An annual report is submitted to the Corporate Governance Panel by the Internal Audit & Risk Manager in which he expresses his opinion on the Council's internal control environment.

In respect of the 12 month period ending 31<sup>st</sup> August 2012, the opinion expressed was that the "Council's internal control environment and systems of internal control provide adequate assurance over key businesses processes and financial systems".

## **8. Whistleblowing and Fraud**

A Whistleblowing Policy and Procedure have been adopted, and are available on the Council's Website and Intranet. They are reviewed annually. A 'phone line and 'web form' are available for complainants' use at all times.

A dedicated Fraud Team undertakes investigation of allegedly fraudulent applications for housing and council tax benefit. This work complies with various legislative requirements. In addition the team also conduct investigations into fraudulent housing applications, council tax discounts and exemptions made by local taxation customers.

The Council's Anti-Fraud and Corruption Strategy is reviewed annually by the Corporate Governance Panel. The Panel established a small review group, which met in August 2012, to consider the Council's response to the National Fraud Authorities (NFA) "Fighting Fraud Locally" report. The NFA have recognised the innovative counter fraud work undertaken across the Council and we will be working with them to develop a regional fraud hub. The Dept of Communities & Local Government have also requested we develop a countywide tenancy fraud forum to build upon our successfully tenancy fraud arrangements.

## **9. Complaints Procedure**

Complaints, or feedback, can be made in person at the Council offices, via telephone, fax, e-mail or the Council's website. The Council has reviewed its feedback procedure in June 2012. In addition to identifying and dealing with failure in service delivery, the revised procedure will enable the Council to learn lessons from complaints that are reported to it to help service improvement. It also provides for monitoring of the sources of complaints to ensure no sectors of the community are more disadvantaged than others. The complaints management system has been in place for the full year, which facilitates the preparation of reports to the Corporate Governance Panel on complaints trends.

The number of complaints that the Council receives continues to fluctuate with complainants tending to pursue their complaints through to the final stage of the process. There is no suggestion that there are more service failures, as the number of complaints examined by the Ombudsman, which have lead to a local settlement, remains negligible and no findings of maladministration have been found during the year ending 31 March 2012. There are, nevertheless, demands on senior managers to respond to complaints. The procedure permits any member of the senior management team or the Scrutiny and Review Manager to investigate complaints at the final stage. This spreads the demand to respond, which previously fell on Directors and provides flexibility. The procedure now also includes a section on redress.

The previous Persistent and Vexatious Complainants Policy has been reviewed in December 2011. It now covers all inappropriate behaviour by complainants, including being abusive, offensive and threatening and refusing to co-operate with the complaints investigation process or refusing to accept the decision.

## **10. Regulation of Investigatory Powers Act (RIPA) and Freedom Of Information act (FOI)**

A policy has been adopted by the Council dealing with covert surveillance under the Regulation of Investigatory Powers Act 2000 and is published on the intranet. A group of officers has been established and meets on a regular basis to discuss surveillance issues and appropriate training is provided to staff and members.

The latest inspection report by the Office of the Surveillance Commissioner ("OSC") in August 2011 observes that the Council is not 'a significant user of RIPA

but it is evident that they are keen to discharge their legal responsibilities.’ Suggested amendments to the Council’s RIPA Surveillance Policy in the OSC Report were accepted by the Council’s Corporate Governance Panel and Cabinet in December 2011, at which time they also adopted a new RIPA (Communications Data) Policy.

In March 2012 the Council was also inspected by the Interception of Communication Commissioner Office (“IOCCO”). The report produced by the IOCCO in April 2012 stated that:-

*“The public authority is acquiring communications data for the correct statutory purpose and importantly no evidence was found that the Council’s powers under Part I Chapter II of RIPA had been used to investigate trivial offences. Overall the Council has a satisfactory level of compliance with the Act and Code of Practice. However, there is room to improve parts of the systems and processes for acquiring communications data.”*

The recommendations of the IOCCO were accepted and approved by Corporate governance panel in June 2012.

The Council was also inspected by the Interception of Communications Commissioner’s Office in March 2012. The Report concluded that “Overall the Council emerged satisfactorily from this first inspection.” A number of recommendations were made by the Inspector and accepted by the Council and reported, with an action programme, to Corporate governance Panel in June 2012.

Freedom of Information / Environmental Information Regulations (EIR); 463 requests were received by HDC in 2010 of which 98.2% were completed within the regulatory 20 working day period against a target of 98%.

The Council have also received 13 Subject Access Requests during the year, all of which were met within the statutory time limit. Of these 9 were from individuals requesting their own personal data; 4 from third parties requesting lawful authority for disclosure, including from police forces conducting missing persons/murder enquiries.

## **11. Risk Management**

The Council maintains a risk register which contains the significant corporate and operational risks which are likely to affect the achievement of corporate objectives. The register is reviewed and updated on a quarterly basis. The Cabinet are responsible for formally deciding the acceptability of the highest levels of residual risk or if additional mitigation is required. Amendments to the risk management strategy were approved in December 2011. The risk register is used to inform the internal audit plan. Regular reports on the risks facing the Council are reported to the Corporate Governance Panel to ensure the systems and procedures are working effectively.

## **12. Assurance Framework**



To ensure that the Council is complying with its Governance arrangements and meeting the requirements of the Code (as set out in the principles, core principles and specific requirements) an Assurance Framework in the form of an annual cycle is in place which includes:

- an annual review of governance arrangements;
- preparation of an Annual Governance Statement (AGS);
- implementation of an action plan associated with the AGS;
- a half yearly review of progress against the action plan;
- continued reference to systems and reporting as necessary to provide assurance and support for good governance; and
- the Audit Manager's annual report and comments by the external auditors and other inspections

This cycle is designed to reflect good practice in delivering a framework of assurance for Members and employees in terms of governance arrangements and to help to ensure accountability and transparency for local people and other stakeholders such as the Council's external auditors and Government inspectors.

Sources of assurance can be taken from:

- the Internal Audit Manager's annual opinion on the internal control environment;
- the risk register and assurance on the operation of key controls;
- In light of a review of the Council's Themes and Aims in July 2012, the Council's performance management framework is being revised and refreshed to reflect changing priorities.
- the consideration and monitoring by the Managing Directors of reports and decisions prepared for, and taken by, Cabinet;
- arrangements which have been made to ensure that reports to Members have due regard to the implications implicit in the report, including legal, financial and risk issues;
- reviews of the Constitution which have included variations to the Council's overview and scrutiny processes;
- the External Auditors annual report;

The Corporate Governance Panel has overall responsibility within the Council for ensuring that the assurance framework is in place and operating effectively.

### **13. Governance of Partnerships (Amended)**

The Council has developed a Partnership evaluation framework, which has been used previously to test the governance arrangements on strategic partnerships. This framework will be used, where appropriate, to review the governance

arrangements of any significant partnerships, including those emanating from the review of sustainable community strategy, 'Huntingdonshire Matters'.

#### **14. Annual Audit Letter: (November 2011)**

**This will be added when we receive PWC annual audit letter.**

The Annual Audit Letter can be found on the Councils Web site:

#### **15. Governance Issues Previously Identified**

- **Review of the Council's Corporate Plan**

- The Council's corporate plan is made up from a suite of documents, these being:
  - The Leadership Direction document.
  - The Council delivery plan
  - Medium Term plan
  - Service delivery plans

The Leadership Direction document has been developed by the Executive Leader Strategy Group and Senior Management Group and sets out the Council's Themes and Aims. This was presented to Council in July.

The Council delivery plan identifies the key activities, by service that contributes to delivering the Leadership Direction Aims. This is currently being developed by the Corporate Plan Working Group

The Medium Term Plan will be considered from September onwards

Service Delivery Plans list all divisional activity, some of which will be key activities.

- **Review of the Council's Performance Management Framework**

- A review has been undertaken to identify a basket of performance measures by which to monitor the key activities within each service area. Where possible this includes actual, historical and trend data.
- The first set of Service Quarterly Performance reports were produced, using the new basket of measures and reported to COMT in July 2012
- Where possible the same measures will be used to report progress of key activities in the Council delivery Plan.

- **Review of the Constitution and Scheme of Delegation.**

*A report reviewing the Constitution and Scheme of Delegations was submitted to Corporate Governance Panel and full Council in November 2011 that:—*

- *amended the terms of Reference for Overview and Scrutiny;*
- *prohibited any member appointed from serving on the Development Management Panel, the Licensing Committee and the Licensing and protection Panels until they had undertaken the relevant training; and*
- *gave delegated authority to the Head of Legal & Democratic Services, after consultation with the Chairman of CGP, to make any other necessary amendments to the Scheme of Delegations, relating solely to the structure and post titles and not to substantive change, following the current review.*

*A further report was submitted to Corporate Governance Panel on 28 March 2012, recommending amendments to:*

- *the terms of reference of Corporate Governance panel;*
- *the Codes of Financial Management and Procurement; and*
- *Annex iii of the Council Procedure Rules.*

*In June 2012 a report on the new Standards Regime was considered by Corporate Governance Panel, which resulted in consequential changes to the Constitution, specifically with the creation of a new standards Committee without independent members.*

- **Adequacy of Business Continuity arrangements.**

Objective; To develop a new BC Plan (first issue to be published in August 2012) which will be built by drawing on examples of “best practice” from other authorities. Progress has been made in the following areas:

- The Head of IMD has met with Business Continuity officers at both Cambridgeshire CC and South Cambridgeshire DC. SCDC, Business Continuity Plan is to be used as a template for a complete re-working of the existing HDC Service Recovery Plan.
- Re-established a team of BC Coordinators and their deputies for each service
- Established a Business Continuity Intranet site - this will continue to evolve
- Worked with each service BC coordinator to help them develop their service-specific plan which will fit within an overall corporate framework
- The revised plan was reported to COMT on the 3<sup>rd</sup> September and a review of the plan has been scheduled with O&S (Economic Well-being) for 8<sup>th</sup> November 2012.

- **Adequacy of the arrangements for timely completion of the Council’s final accounts**

- Whilst the accounts for 2010/11 were submitted to the external auditors (PWC) on time it emerged, over the period of the audit, that there were some significant issues with the treatment of balance sheet items relating to capital under the new IFRS requirements. There was no suggestion of any issues with the accounting for income and expenditure and the impact on the Council's revenue reserves. Unfortunately the resolution of some of these issues was protracted and the accounts were not finally signed by the auditors until the 13 July 2012 (government deadline 30 September 2011).
- Many of the problems with the 2010/11 accounts were unique to that year in that they related to the introduction of IFRS, staffing issues and the first year of PWC as our auditors. Indeed the resolution of the capital issues for 2010/11 provided a sound footing for subsequent years. Through more vigorous project management and some use of external experts the 2011/12 draft accounts were completed by the 30 June deadline and, whilst the audit is not yet complete, as of 5 September the indications from PWC are that they will be able to provide an unqualified opinion by 30 September.
- The processes used for 2011/12 will be further refined and there is no reason to believe that future years will not be completed on time because any indication of future difficulties will result in the prompt involvement of any necessary external expertise.

## **16. Governance Issues**

While generally satisfied with the effectiveness of corporate governance arrangements and the internal control environment, as part of continuing efforts to improve governance arrangements the Council has identified the following issues for attention in the forthcoming year –

- Review of pay systems
- To ensure statutory accounts are produced on time
- Monitoring progress on:
  - Business Continuity implementation
  - Standards Training
  - Appraisals to include KPA for officers who have key financial contribution/decision making in their duties
  - Parish Charter Protocol

During the coming year steps will be taken to address these issues to further enhance the Council's Governance arrangements. In these circumstances we are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation through the Council's Improvement Plan and as part of our next annual review.

Signed: .....

Jason Ablewhite  
Executive Leader of the Council

Signed: .....

Managing Director – Resources

I hereby confirm that the Councils Corporate Governance Panel have approved the Governance Statement

Signed: ..... Date: .....

Councillor Eric Butler  
Chairman of the District Council's Corporate Governance Panel

Pathfinder House  
St Mary's Street  
HUNTINGDON  
Cambridgeshire  
PE29 3TN  
September, 2011

**TRAINING OF PANEL MEMBERS  
(Report by the Head of Financial Services)**

**1. WORK PROGRAMME**

- 1.1 The anticipated work programme for the Panel for the next year is shown at Annex A
- 1.2 Panel are asked to consider the work programme and decide what training they would like in preparation for the next or future agendas. Normally this training would be for 30-45 minutes immediately prior to the formal meeting but there may be occasions when a separate longer session would be more appropriate.
- 1.3 Training can be provided by appropriate officers, external audit or external trainers (subject to budgetary constraints).

**2. RECOMMENDATION**

- 2.11 It is recommended that Panel consider the work programme at Annex A and determine the training to be provided prior to the December meeting.

**BACKGROUND INFORMATION**

None

**Contact Officer:** David Harwood, Audit & Risk Manager ☎ **01480 388115**

## Anticipated Work Programme

### December 2012

- Housing Benefit fraud investigation activity
- Whistleblowing : policy review & investigations
- National Fraud Initiative
- Internal audit plan
- Review of the future of the fraud service
- Review of the risk management strategy

### March 2013

- Internal Audit - Terms of reference and strategy
- Review of the Code of corporate governance
- Internal audit interim progress report
- Risk management
- Progress on annual governance statement
- Review of Council constitution
  - Code of financial management
  - Code of procurement
- External audit
  - Audit plan
  - Grant claims

### June 2013

- Draft statement of accounts
- Internal audit plan
- Review of the internal audit service
- Feedback – annual report
- Delivery of the anti-fraud & corruption framework
- External audit : Audit plan

### September 2012

- Annual governance statement
- Review of the internal audit service
- Annual internal audit report
- Effectiveness of the Panel
- Risk management
- Approval of the statement of accounts
- External audit – annual audit and inspection letter
- Countering fraud

In addition to the items listed above, reports may be submitted on an ad-hoc basis on:

- Awards of compensation
- Ombudsman reviews
- Accounting policies
- Employee's code of conduct
- Money laundering and bribery
- Review of the anti-fraud & corruption strategy



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