

AGENDA



For a meeting of the
GOVERNANCE AND AUDIT COMMITTEE
to be held on
THURSDAY, 14 MARCH 2013
at
1.00 PM
PLEASE NOTE START TIME
in the
WITHAM ROOM, COUNCIL OFFICES, ST. PETER'S HILL, GRANTHAM. NG31 6PZ
Beverly Agass, Chief Executive

Committee Members:	Councillor Jean Bevan (Vice-Chairman), Councillor Trevor Scott, Councillor Rob Shorrocks, Councillor Ian Stokes (Chairman), Councillor Jeff Thompson, Councillor Martin Wilkins and Councillor Rosemary H Woolley
Committee Support Officer:	Jo Toomey 01476 406152 E-mail: j.toomey@southkesteven.gov.uk

Members of the Committee are invited to attend the above meeting to consider the items of business listed below.

1. MEMBERSHIP

The Committee to be notified of any substitute members.

2. APOLOGIES

3. DISCLOSURE OF INTERESTS

Members are asked to disclose any interests in matters for consideration at the meeting.

4. MINUTES OF THE MEETING HELD ON 6 DECEMBER 2012

(Enclosure)

5. UPDATES FROM PREVIOUS MEETING

6. ANNUAL AUDIT AND INSPECTION PLAN

Report to be presented by external audit. (Enclosure)

7. CERTIFICATION OF GRANTS AND RETURNS 2011/12

Report to be presented by external audit. (Enclosure)

8. PROPOSED STRATEGY FOR INTERNAL AUDIT 2013/14

Report to be presented by internal audit. (Enclosure)

EXCLUSION OF THE PUBLIC

It is anticipated that, in accordance with Section 100A(4) of the Local Government Act 1972 (as amended) the public may be excluded from the meeting during consideration of the following item of business because of the likelihood that otherwise exempt information, as described in paragraph 3 of the Act (as amended) would be disclosed to the public.

9. INTERNAL AUDIT PROGRESS REPORT

Members will consider the internal audit progress report. (Enclosure)

10. INTERNAL AUDIT FOLLOW-UP REPORT

Members will review the Internal Audit follow-up report. (Enclosure)

11. RISK MANAGEMENT AND STRATEGY UPDATE

Report number HOF224 by the Head of Finance. (Enclosure)

12. ACCOUNTING POLICIES

Report number HOF228 by the Head of Finance. (Enclosure)

13. PENSION ASSUMPTIONS

Report number HOF227 by the Head of Finance. (Enclosure)

14. ANY OTHER BUSINESS, WHICH THE CHAIRMAN, BY REASONS OF SPECIAL CIRCUMSTANCES, DECIDES IS URGENT.

MINUTES

GOVERNANCE AND AUDIT COMMITTEE

THURSDAY, 6 DECEMBER 2012



COMMITTEE MEMBERS PRESENT

Councillor Jean Bevan (Vice-Chairman)
Councillor Trevor Scott
Councillor Ian Stokes (Chairman)

Councillor Jeff Thompson
Councillor Martin Wilkins
Councillor Rosemary H Woolley

OFFICERS

Strategic Director, Corporate Focus
(Daren Turner)
Head of Community Assets (Paul
Stokes)
Head of Finance (Richard Wyles)
Property Development Manager (Neil
Cucksey)
Service Manager Community Safety and
Licensing (Mark Jones)
Finance Support Manager (David Scott)
Governance and Risk Officer (Tracey
Elliot)
Principal Democracy Officer (Jo Toomey)

Paula Longden – KPMG

Rob Barnett – RSM Tenon
Chris Williams – RSM Tenon
Mark Lovell – RSM Tenon

Paula Ireland – JEMS (Emergency
Planning Officer)

36. APOLOGIES

An apology for absence was received from Councillor Shorrock. An apology for absence was also received from Tony Crawley (Audit Commission/KPMG).

37. DISCLOSURE OF INTERESTS

No interests were disclosed.

38. MINUTES OF THE MEETING HELD ON 25 SEPTEMBER 2012

The minutes of the meeting held on 25 September 2012 were approved as a correct record.

39. UPDATES FROM PREVIOUS MEETING

Repairs audit

The Head of Community Assets presented report number RIM0299, which provided an update on actions taken following the audit of the repairs service. The service carried out approximately 20,000 reactive repairs each year plus work on void properties. 97% of appointments were kept and 97% of jobs were completed on time.

Mr Paul Stokes summarised all the actions taken against each of the high risk recommendations.

- A lean review of the service took away the categorisation of calls, leaving it for operatives to go out, inspect the job and carry out the necessary work. Internal audit made a recommendation as a result of this practice and a referencing system for categorisation following diagnosis of the required repair had been set up.
- A new procedure was introduced to record and monitor the completion of work identified as a result of caretaker assessments and ensure they were carried out in a timely manner.
- Instructions were issued to relevant staff to ensure a code was issued when a Right to Repair job was raised. This would also identify when a repair fell under the scheme but was not classed as urgent.

Members were satisfied that the actions put into place addressed the recommendations raised by internal audit.

Leases audit

The Property Development Manager presented report number PD03 which provided an update on actions taken by the service in response to an audit on leases. The audit was requested following the creation of the service in January 2012 to identify any potential gaps or risks.

Actions as a result of recommendations made by internal audit included:

- Consolidating information on leases held across different council services (Property Development, Finance and Legal) to ensure consistency in records
- All consolidated information would be kept in a comprehensive database installed within the Flare system
- Consolidated information would also be shared with Hodgson and Elkington who managed leases for commercial premises on the Council's behalf
- Monthly updates were received regarding bad debts and rents that had not been received

Councillors asked a number of questions in respect of the Council's work with Hodgson and Elkington who began managing commercial leases following the resignation of the in-house commercial surveyor. This provided increased resource at a reduced cost. Ensuring Hodgson and Elkington had access to all information on commercial leases would provide a double-check to ensure prompt action around the expiration of leases. The new Flare database would also make it easier to identify leases which were due to expire.

40. ANNUAL AUDIT LETTER 2011/12

The Chairman welcomed Paula Longden to the meeting, who advised the Committee that Audit Commission staff had transferred to KPMG. She presented the letter of the District Auditor, which issued an unqualified opinion on the authority's 2011/2 financial statements (including the Statement of Accounts), concluded that the council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and certified completion of the audit. The Governance and Audit Committee and finance team were thanked for their support and co-operation.

Councillors were pleased with the letter and it was proposed, seconded and agreed that a copy should be sent to the local media.

The Committee was given an update on the changeover from the Audit Commission to KPMG. Members were assured that arrangements would remain substantially the same and that Mr Crawley would have responsibility to sign-off the accounts.

Members were advised that the Council would benefit from a 40% reduction in the scale fee. If additional work was required, an additional fee would be applied on a pro rata basis as there was no inbuilt contingency. This was highlighted as a risk to the Council following the loss of a key member of staff in the finance team and the changes in arrangements. Councillors stated that any additional work should be justifiable and agreed beforehand between officers and KPMG.

41. INTERNAL AUDIT PROGRESS REPORT

Rob Barnett from RSM Tenon presented the internal audit progress report. He advised the Committee that six reports had been finalised, while two were completed in draft and a further nine were planned. Across the six reviews 23 recommendations were raised (7 medium risk and 16 low risk) which had all been accepted by management. This equated to five green assurances and one green/amber assurance.

Councillors were advised that there had been one change to the plan: the removal of the planned audit on insurance. The six days allocated for this review had been moved into the contingency budget.

Committee members asked questions about the green waste audit which began on 3 December 2012. The audit was considering the key controls within the green waste scheme, reconciling receipt of payment to the issue of the sticker (which confirmed payment). The intention of the audit was to identify any learning opportunities from the initial rollout of the scheme that could be applied on an ongoing basis.

Councillors expressed an interest in getting involved in scoping the risk management audit.

Action Point

Rob Barnett to circulate copies of the brief for the risk management audit.

42. TREASURY MANAGEMENT MID-YEAR REVIEW

The Finance Support Manager presented report number HOF212 on the Treasury Management Activity 2012/13 – Mid Year Review and highlighted key points:

- No additional long-term borrowing had been required
- Reviews were undertaken to review redemption costs of natural maturity against new borrowing to settle outstanding debt early; no potential savings had been identified
- No loans were repaid during the reporting period
- The average size of the investment portfolio for the first half of 2012/13 was £42.8m compared to an average portfolio size of £39.6m during the same period in 2011/12
- The majority of the Council's investments were short-term (£37.7m)
- A fixed rate deposit of £1m was placed with Lloyds TSB for a period of 5 years for the Local Authority Mortgage Scheme
- All investment activity during the period was maintained within the prudential indicator limits

Councillors asked a question in respect of opportunities to provide loans for other authorities. There were opportunities for councils to lend money to other authorities however returns would likely be less than the money market rates. In response to a question from Councillors, officers advised that the Council did not have any insurance in respect of its investment portfolio because the majority of investments were short-term.

Action Point

To assist Councillors review the maturity of investments, the maturity dates should be included in the appendices to the report

43. TREASURY MANAGEMENT STRATEGY UPDATE

Decision:

The Governance and Audit Committee approves the amendments to the 2012/13 Treasury Management Strategy as detailed in report number HOF214 by the Head of Finance.

The Finance Support Manager presented report number HOF214 on revisions to the Treasury Management Strategy 2012/13. The Annual Investment Strategy, which formed part of the Treasury Management Strategy had been reviewed and a number of updates proposed. The proposed changes listed in the report looked at introducing a credit worthiness methodology to strengthen the council's approach to borrowing. Councillors were advised that the Council would combine information it received from Sector with information SKDC had identified from going to the market directly.

Referring to paragraph 54 of appendix A to the report, officers explained that there would be no amendments to the maturity structure.

The recommendation to approve the amendments to the strategy was proposed, seconded and agreed.

44. CONTRACT PROCEDURE RULES UPDATE

Decision:

The Governance and Audit Committee recommends to Council the approval of the updated Contract and Procurement Procedure Rules in relation to supporting local suppliers as detailed in report number HOF213 subject to the following amendments:

- ***Officers should seek three written quotations for all contracts up to £25,000***
- ***The removal of the sentence: "the definition of a 'local' supplier within the policy is those suppliers whose trading premises are located within Lincolnshire"***

Report number HOF213 (updating of contract and procurement procedure rules) was summarised by the Head of Finance. The proposed changes would support local suppliers bidding for work. The proposed definition of local supplier was a supplier whose registered business address was within Lincolnshire. Officers would actively seek a local quotation for all work below £25k; on receipt of quotations, normal selection procedures would apply.

Several Councillors expressed concern that currently verbal quotations were acceptable for contracts valued up to £10k and suggested this should be amended to require a written quotation for all contracts up to £10k. This was

proposed, seconded and agreed.

A number of councillors also expressed concerns about the definition of local. They felt that given the location of South Kesteven, suppliers from Nottinghamshire, Leicestershire, Rutland and Cambridgeshire could be nearer than those in other Lincolnshire. It was proposed, seconded and agreed that the sentence “the definition of a ‘local’ supplier within the policy is those suppliers whose trading premises are located within Lincolnshire” not be included.

Subject to the amendments noted above, it was proposed, seconded and agreed that the Committee recommends to Council the approval of the amendments to the Contract and Procurement Procedure Rules as presented in report HOF213.

45. BUSINESS CONTINUITY ANNUAL REPORT 2011/12

Decision:

To note the business continuity annual report for 2011/12

The Council’s Community Safety and Licensing Service Manager and a Business Continuity Officer from the Lincolnshire Joint Emergency Management Service presented the business continuity annual report for 2011/12, which included information to the end of November 2012.

They highlighted work that had been undertaken:

- Officers summarised a recent desktop exercise undertaken by the authority which considered business continuity arrangements in the event of a fire on the day before the Police and Crime Commissioner election.
- The IT team tested their business continuity arrangements by routinely testing servers and carrying out system restores
- The disaster recovery contract had been renegotiated
- Lincolnshire Chief Executives had signed up to a countywide mutual resilience agreement

Future projects were also highlighted:

- Member training was a key priority
- Aligning the flood awareness policy of Lincolnshire’s district councils
- Encouraging parishes to create their own resilience plans
- A multi-player exercise based around an incident in South Kesteven which incorporated strategic management at county headquarters and a live scenario simulated at RAF Waddington
- Produce a business continuity strategy (if needed)

In addition to a corporate business continuity plan, services were required to develop their own plans to ensure, in the event of an emergency, critical services could be delivered.

Councillors asked about contingency arrangements in the circumstance the main offices required evacuating. An example was made of Melton Borough Council who following a serious fire had shifted its base of operations to premises in Nottingham over a weekend. Officers advised that Melton Borough Council retained external office facilities in case of an emergency. If a similar event was to happen in South Kesteven there were arrangements that would see services run from the Meres Leisure Centre and the Alexandra Road depot. Officers stated they could investigate costs for retaining office facilities to help decrease disruption.

Following a question from a councillor, members were assured that all of the information stored within the Council's computer system was regularly backed up off-site.

It was proposed, seconded and agreed that the report be noted.

46. CLOSE OF MEETING

The meeting was closed at 15:47.



PRESS RELEASE

Ref: 003EP

Release Date: 8 January 2013

Audit Commission praises SKDC finance team for 2011/12

The Audit Commission has praised South Kesteven District Council's finance team in the challenging financial year of 2011/12.

In its annual audit letter it highlighted the way the council made arrangements to secure the district's economy by efficient and effective use of its resources.

Despite a reduction in local government funding of £2.4m over two years since 2009/10, the Council has responded positively to still provide value for money services in the financial squeeze through a range of cost reduction and efficiency programmes.

Initiatives have included the sharing of senior officer posts and responding to the customer consultation findings undertaken in summer 2010.

SKDC's resources and assets portfolio holder Cllr Mike Taylor said: "The Audit Commission's comments show our commitment to using every penny carefully and providing value for money services for the community.

"The report highlights that we are working as hard as ever to reduce overheads and back office costs to respond to the grant cuts."

ENDS



cutting through complexity™

External Audit Plan 2012/13

South Kesteven District Council

February 2013



**The contacts at KPMG
in connection with this
report are:**

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This document describes how we will deliver our audit work for South Kesteven District Council.

Scope of this report

We are pleased to be appointed as your external auditors for 2012/13. This document supplements our letter to the Chief Executive in August 2012 in which we set out the audit arrangements and indicative 2012/13 audit fee. It describes how we will deliver our financial statements audit work for South Kesteven District Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2012/13.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.



Section two Headlines

We have identified no financial statement risks and one key risk that we will focus on as part of our value for money conclusion work.

This is described in more detail on page 10.

The remainder of this document provides information on our:

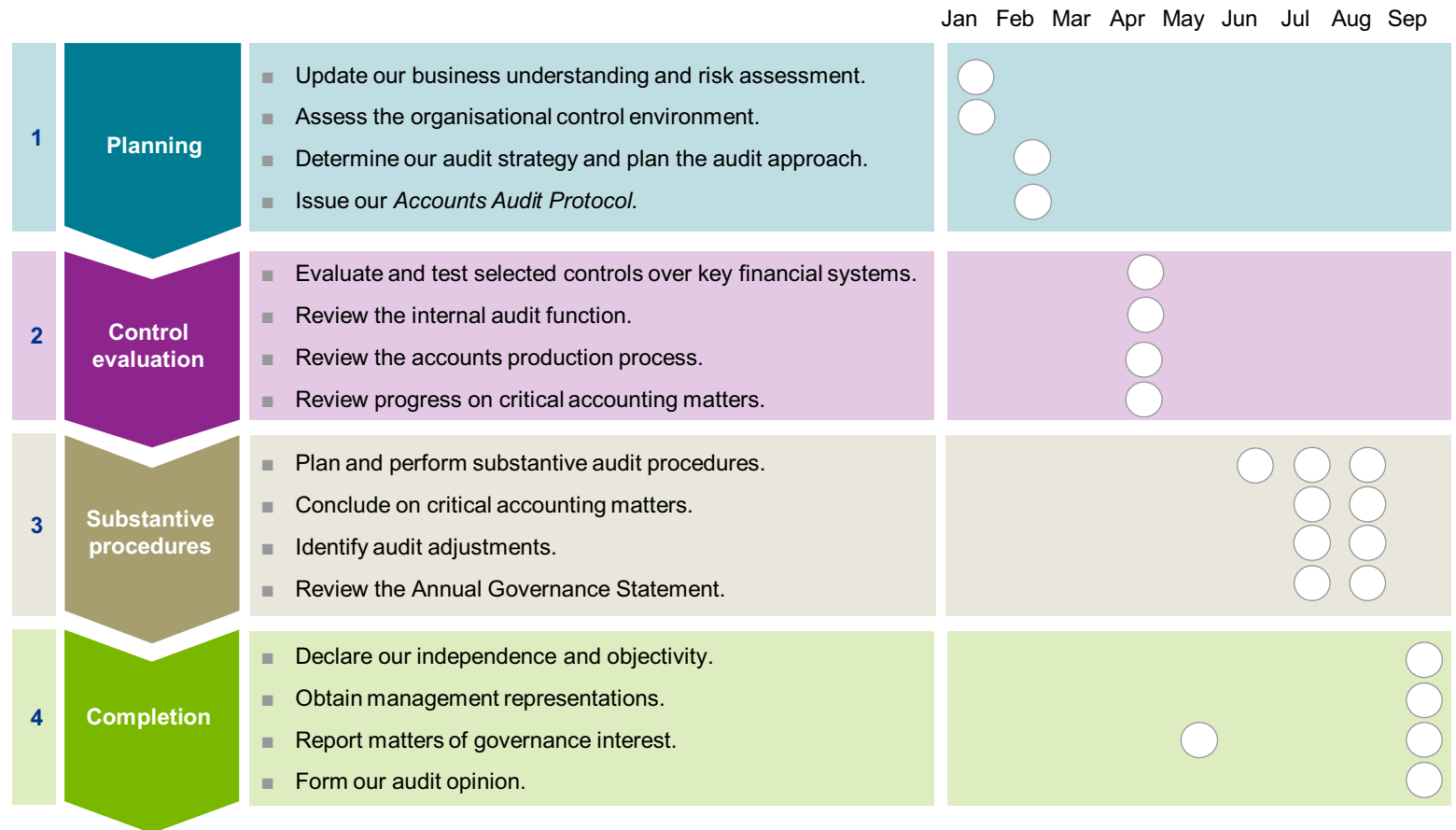
- approach to the audit of the financial statements;
- approach to VFM work; and
- audit team, proposed deliverables, timescales and fees for our work.

Area	Risk	Audit work
Savings plans	<p>The Authority currently estimates that it will need to deliver over £1.9m in savings during 2013/14 to address further reductions to local authority funding and continued cost pressures.</p> <p>The Authority will need to manage its savings plans to secure long term financial and operational sustainability.</p>	<p>In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing and review how the Authority is planning and managing its savings plans.</p>

We undertake our work on your financial statements in four key stages during 2013:

- **Planning**
(January to February).
- **Control Evaluation**
(April).
- **Substantive Procedures**
(July to August).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



During January and February 2013 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.

Our planning work takes place in January and February 2013. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We plan to meet with the finance team on a bi-monthly basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

Audit strategy and approach

The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

During April 2013 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2012/13. We work with your Internal Audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

We will present our *Interim Report* to the Governance and Audit Committee.

Our interim visit on site will be completed during March and April. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work Internal Audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We are developing a joint working protocol and will meet with the Internal Audit to discuss the principles and timetables for 2013/14.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Following our interim visit, if there are significant reporting issues arising, we will issue our *Interim Report* which will set out the findings of our planning and interim work. This will be discussed at the next available Governance and Audit Committee meeting.

During July to August 2013 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report to the Governance and Audit Committee* in September 2013.

Our final accounts visit on site has been provisionally scheduled for the period July to August. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since. We will discuss our early findings of the Authority's approach to address the key risk areas with the Head of Financial Services in June 2013, prior to reporting to the Governance and Audit Committee.

Audit adjustments

During our on site work, we plan to meet with the key contact on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Governance and Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue to the Governance and Audit Committee in September 2013.

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Governance and Audit Committee. Our deliverables are included on page 13.

Use of off-shore audit resources

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this 'off-shore' team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.



Section three

Our audit approach - other

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2. We confirm our audit team's independence and objectivity is not impaired.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Governance and Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Confirmation statement

We confirm that as of February 2013 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity



Section four VFM audit approach – key audit risks

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have identified one risk which we will consider as part of our risk assessment.

We will provide an update on how the Authority is managing this risk in our *Report to those charged with governance*.

Risk	Our audit work
<p>The Authority's 2012/13 budget was set in the context of a £2.25m reduction of government grant and increases in cost pressures and service demands. The Authority has taken the planned steps to deliver the savings required and is forecasting a balanced outturn for 2012/13.</p> <p>In setting the budget the Authority currently estimates that £1.9 m in savings will need to be achieved during 2013/14 to address the further reductions to funding. Against a backdrop of continued demand pressures it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p> <p>If there are any related liabilities at year end, these will need to be accounted for in the 2012/13 financial statements as appropriate.</p>	<p>We will critically assess the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans.</p>

Your audit team has been drawn from our specialist public sector assurance department and includes staff who were part of the South Kesteven District Council audit last year prior to transfer from the Audit Commission. Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Tony Crawley
Director

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Governance and Audit Committee and Executive Directors.”



Mike Norman
Manager

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with Tony Crawley to ensure we add value. I will liaise with the Head of Financial Services and Internal Audit.



Tina Campbell
Assistant Manager

“I will be responsible for the on-site delivery of our work. I will liaise with the finance team and Internal Audit . I will also supervise the work of our audit assistants.”



Section six Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outline audit approach. ■ Identify areas of audit focus and planned procedures. 	March 2013
Control evaluation		
Interim Report (if necessary)	<ul style="list-style-type: none"> ■ Details and resolution of control and process issues. ■ Identify improvements required prior to the issue of the draft financial statements and the year-end audit. 	June 2013
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details the resolution of key audit issues. ■ Communication of adjusted and unadjusted audit differences. ■ Performance improvement recommendations identified during our audit. ■ Commentary on the Authority's value for money arrangements. 	September 2013
Completion		
Auditor's report	<ul style="list-style-type: none"> ■ Providing an opinion on your accounts (including the Annual Governance Statement). ■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2013
Annual Audit Letter	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2013

We will be in continuous dialogue with you throughout the audit.

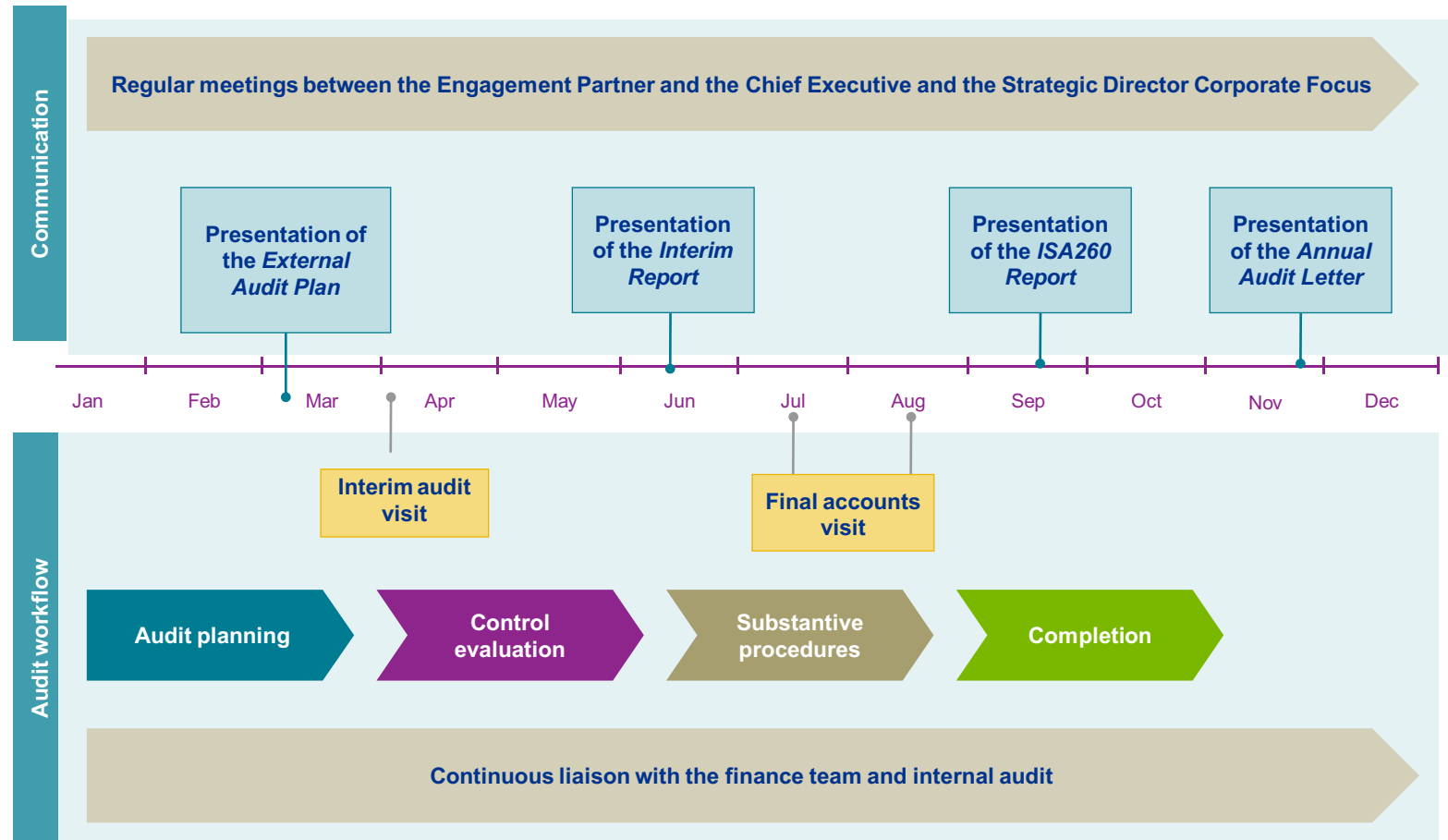
Key formal interactions with the Governance and Audit Committee are:

- March – External Audit Plan;
- June – Interim Report if necessary;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during April.
- Final accounts audit during July and August.



Key: ● Governance and Audit Committee meetings.

The main fee for 2012/13 audit of the Authority is £62,130. The fee has not changed from that set out in our *Audit Fee Letter 2012/13* issued in August 2012.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

We wrote to the Council in August 2012. In that letter we first set out the audit arrangements and indicative fees for the 2012/13 audit. We have not considered it necessary to make any changes to the indicative fees at this stage.

Element of the audit	2012/13 (planned)	2011/12 (actual)
Gross audit fee	£62,130	£105,550

Our audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements. The fee for 2012/13 is £62,130. This is a reduction of 40 percent compared to the 2011/12 fee.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2011/12;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2012/13* within your 2012/13 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;

- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses any new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Strategic Director Corporate Focus.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements).
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

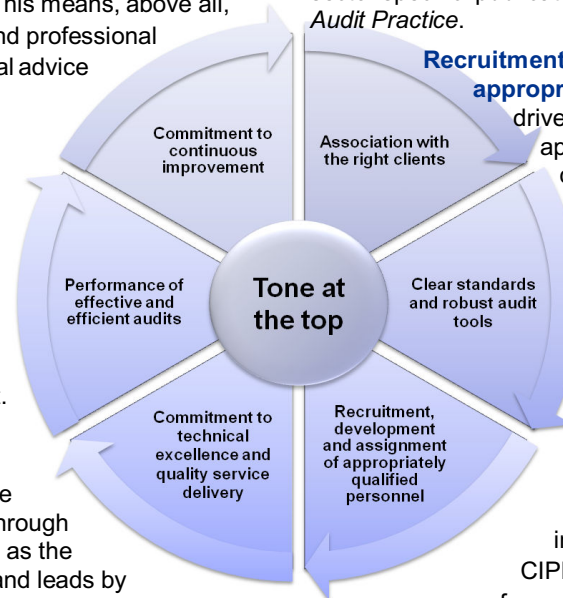
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. Tony Crawley as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced

existing audit functionality. eAudit enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable database, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel:

One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes. I

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx). The latest report dated October 2012 showed that we performed highly against all the Commission's criteria.



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Certification of grants and returns 2011/12

South Kesteven District Council

January 2013

**The contacts at KPMG
in connection with this
report are:**

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	Page
■ Headlines	2
■ Summary of certification work outcomes	3
■ Fees	5

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, who is the engagement leader to the Authority (telephone 0116 256 6067, e-mail tony.crawley@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.



Certification of grants and returns 2011/12 Headlines

Introduction and background	This report summarises the results of work on the certification of the Council's 2011/12 grant claims and returns. <ul style="list-style-type: none">■ For 2011/12 we certified four grants and returns with a total value of £82.7m.	-
Certification results	We issued unqualified certificates for all grants and returns <ul style="list-style-type: none">■ The Council has a strong track record in preparing grants and returns. In 2010/11 all claims were unqualified claims with the exception of the Housing benefit and council tax benefit subsidy claim which last year was qualified on a small number of issues. This year all matters arising were resolved satisfactorily and the claim was unqualified.	Pages 3 – 4
Audit adjustments	Adjustments were necessary to one of the Council's grants and returns as a result of our certification work this year. <ul style="list-style-type: none">■ A number of minor changes were made to the housing benefit and council tax benefit subsidy claim which reduced subsidy by £424.■ This is a significant achievement for the Council and demonstrates that it has maintained its robust arrangements for preparing claims and returns.	Pages 3 – 4
The Council's arrangements	The Council has good arrangements for preparing its grants and returns and supporting our certification work and we have made no recommendations for improvements.	Pages 3 – 4
Fees	Our overall fee for the certification of grants and returns has been contained within the original estimate.	Page 5



Certification of grants and returns 2011/12

Summary of certification work outcomes

Overall, we certified four grants and returns:

- 3 were unqualified with no amendment; and
- 1 was unqualified but required some amendment to the final figures.

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2011/12 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing benefit and council tax benefit subsidy claim	1				
National non-domestic rates return					
HRA subsidy					
Pooling of capital receipts					
		0	0	1	4



Certification of grants and returns 2011/12

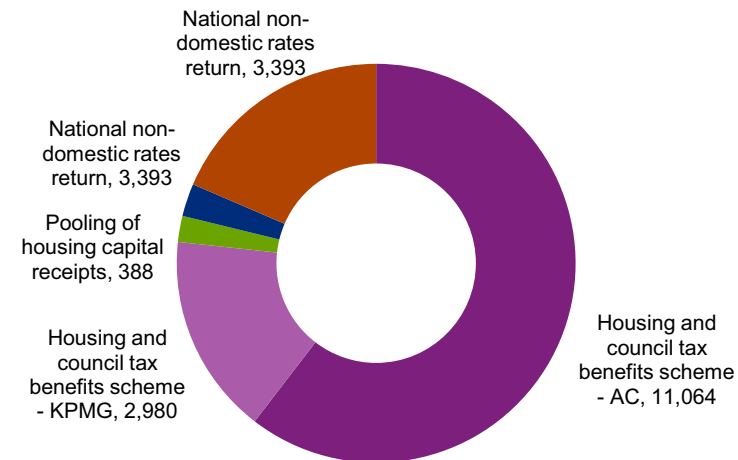
Summary of certification work outcomes

This table summarises the key issues behind the adjustment that was identified on the previous page.

Ref	Summary observations	Amendment
1	Housing and council tax benefit subsidy claim <ul style="list-style-type: none">The Council has continued to strengthen its arrangements for preparing the claim: no errors were found during the testing of individual claimant records and the certified claim was unqualified.Amendments were required to resolve validation errors within the system, the majority of which related to differences between benefit paid and benefit granted. In previous years we have qualified the claim on this basis however this year all discrepancies were resolved resulting in a net adjustment to subsidy of £424.	- £424

Our overall fee for the certification of grants and returns has been contained within the original estimate.

Breakdown of certification fees 2011/12



Breakdown of fee by grant/return		
	2011/12 (£)	2010/11 (£)
Housing benefit and council tax benefit subsidy – Audit Commission	11,064	11,047
Housing benefit and council tax benefit subsidy – KPMG	2,980	-
National non-domestic rates return	3,393	1,265
HRA subsidy	485	1,161
Pooling of capital receipts	388	422
Total fee	18,310	13,895

Our initial estimated fees for certifying 2011/12 grants and returns was £18,000. The actual fee charged was above that estimate ; the main reasons for these increases are :

- Two outstanding queries prevented the certification of the housing benefit claim at the end of October and, although resolved satisfactorily, did increase the amount of work required.
- The anticipated extensive testing we were required to undertake on the national non-domestic rates return was made more onerous due to the change in system during the certification work. This prevented the Council from providing full electronic supporting working papers.



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South Kesteven District Council

Internal Audit Strategy
2013/2014 – 2015/2016

Presented at the Governance & Audit Committee meeting of: 14th March
2013

Chris Williams
Head of Internal Audit

1 INTRODUCTION

This document sets out the approach we have taken to develop your Internal Audit Strategy for 2013/14 to 2015/16 and the detailed Annual Plan for 2013/14.

1.1 Role of Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

(Definition of Internal Audit: Chartered Institute of Internal Auditors)

From 1 April 2013, internal auditors in the public sector are required to work to the *Public Sector Internal Audit Standards (PSIAS)*, which are based on the *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors and which also adopt the institute's definition of internal auditing and code of ethics.

In line with these requirements, we perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the Council has in place, focusing in particular on how these arrangements help South Kesteven District Council to achieve its objectives. The opinion may also be used by the S151 Officer, to support their Annual Governance Statement. This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee.

2 DEVELOPING THE INTERNAL AUDIT STRATEGY

2.1 Issues influencing Internal Audit coverage

The Council's objectives are the starting point in the development of our strategy for delivery of internal audit services.

We have considered our previous work and findings on your risk management processes and consider that we can place reliance on your risk registers / assurance framework to inform the Internal Audit Strategy.

Appendix A reflects the range of potential issues that may affect the Authority. These were used to focus our conversations along with the Authorities' assurance priorities with the senior management team on where our work would be most effective.

In preparing your strategy and more detailed operational plan we have met with:

- All Heads of Service;
- Governance & Risk Officer;
- Head of Finance; and
- Strategic Directors.

The strategy is set out in Appendix A, with the more detailed annual plan for 2013/14 set out at Appendix B.

As well as assignments designed to provide assurance or advisory input around specific risks, the strategy includes:

- a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to recommendations agreed by management during the prior and current financial year and will serve to inform the adequacy of the organisation's own recommendation tracking process; and
- an audit management allocation, used at Partner and Manager level for quality control, client and External Audit liaison and for preparation for and attendance at Audit Committee.

2.2 Working with other assurance providers

We intend to meet with the Authorities' External Auditors to confirm the scope of the work in the areas of financial control to ensure they can continue to place their planned level of reliance on our work for 2013/2014.

The Audit Committee are reminded that internal audit use only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes at the Authority. We will however seek to work closely with other assurance providers, such as External Audit to ensure that duplication is minimised and a suitable breadth of assurance obtained.

3 INTERNAL AUDIT RESOURCES

3.1 Your Internal Audit Team

Your internal audit team is led by Chris Williams as Head of Internal Audit.

Your Senior Manager is Rob Barnett.

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

3.2 Internal Audit Fees

The fee for your internal audit service for 2013/14 is a composite daily rate of £315.

4 CONSIDERATIONS FOR THE AUDIT COMMITTEE

- Does the Strategy for Internal Audit (as set out at Appendix B) cover the organisation's key risks as they are recognised by the Governance & Audit Committee?
- Is the Committee satisfied that sufficient assurances are being received by the Authority to monitor the organisation's risk profile effectively, including any emerging issues / key risks (see Appendix A) not included in our annual plan?

APPENDIX A: UPDATED STRATEGY FOR INTERNAL AUDIT 2013/14 – 2015/16

Risk Based Assurance

Auditable Areas	Potential Risks to the area/system	2013/14	2014/15	2015/16
CORPORATE FOCUS				
Finance				
Corporate Governance	Scheme of Delegation, Financial Regulations and information presented to management does not enable informed decision making.	✓	✓	✓
Risk Management	The Council does not have a clear methodology in place for identifying, assessing and mitigating key risks.	✓	✓	✓
Bourne Community Access Point	Controls in place at Bourne CAP are not in line with other areas of the Council. Adequate policies and procedures have not been developed.	✓		
Insurance	Inadequate insurance arrangements are in place, leading to financial and reputational loss. Value for money is not obtained with regards to insurance services.		✓	✓
Housing Benefit	Changes to legislation have not been acted upon. Claims are not processed in line with legislation and internal policies which may lead to inaccurate payments being made and customer dissatisfaction.		✓	✓
Benefits Fraud Investigation	Failure to investigate allegations of potential fraud in line with legislation and Council policy. Sanctions are not imposed on benefit claimants who have committed an offence.	✓		
Medium Term Financial Strategy	The Financial Strategy has not been developed appropriately and is not being adhered to. The Strategy does not support the financial objectives of the Council.	✓		

Auditable Areas	Potential Risks to the area/system	2013/14	2014/15	2015/16
Pool Cars	<p>Pool cars are not being utilised by employees in line with Council policy.</p> <p>The booking system is not effective.</p>	✓		✓
Council Tax	<p>Failure to raise accurate demand notices to liable parties and apply discounts and exemptions in line with legislation and internal policies.</p> <p>The annual billing deadline is not met.</p> <p>Low collection rates.</p>		✓	
NDR	<p>All hereditaments within the District have not been identified with bills raised in a timely manner in line with legislation and internal policies.</p> <p>Reliefs and exemptions are granted inappropriately.</p>		✓	
Anti-Fraud & Corruption	<p>Failure to develop and adhere to adequate policies and procedures to ensure compliance with the Bribery Act.</p>			✓
Income Collection	<p>All income due to the Council is not identified and collected.</p> <p>Monitoring of income is not undertaken.</p>	✓		✓
Information Technology	<p>The provision of the IT service is not fit for purpose.</p>	✓	✓	✓
Service Level Agreements	<p>Service Level Agreements have not been agreed by both parties and do not protect the interest of the Council.</p>		✓	

Auditable Areas	Potential Risks to the area/system	2013/14	2014/15	2015/16
CORPORATE FOCUS				
People, Projects & Performance				
Performance Management	Failure to integrate new localised performance framework together with local measures linked to priority actions.		✓	
Absence Management	Arrangements have not been put in place to cover the move from annual to flexi hours. Potential 'problem areas' are not identified and action taken. High levels of sickness absence in areas may impact on the ability to deliver services.	✓		
Customer Services	Failure to meet customer demand. Failure to implement service review recommendations.			✓
Consultation Communications Stakeholder Contact	and – Central services are not being used in the required manner, e.g. the use of centralised advertising budgets.	✓		
CORPORATE FOCUS				
Property Development				
Leases	Leases have not been identified and granted in line with policies and procedures. Leases are issued or renewed without receiving appropriate authorisation. Expired leases or those nearing expiry date or not identified with action being taken.	✓		✓
Building Control	The merger of the service has not been assessed and monitored. Inability to deliver service standards expected in a competitive market. Failure to comply with Building Regulations which may result in compensation claims or threats to reputation.		✓	

Auditable Areas	Potential Risks to the area/system	2013/14	2014/15	2015/16
Asset Management Plan	<p>A defined Asset Management Strategy has not been documented to assist the Council in achievement of its objectives.</p> <p>Assets have not been identified and accurately recorded.</p> <p>Authorisation is not received prior to assets being written off or disposed off or loss and thefts are not reported.</p> <p>The Asset Management software is not fit for purpose.</p>	✓		
Contract Management - Ground & Tree Maintenance Contract	<p>A robust maintenance service for Grounds and Tree is not provided through the contract.</p> <p>Quality inspections are not undertaken to provide assurance over the quality of work.</p> <p>Contract monitoring is not undertaken.</p>	✓		
Car Parks (Enforcement)	<p>Car parks are not effectively managed and controlled and income is not accounted for.</p> <p>APCOA contract and enforcement procedures are not monitored.</p>	✓		✓
CORPORATE FOCUS				
Legal & Democratic Services				
Elections	<p>The electoral register is not maintained up to date.</p> <p>Legislation is not complied with during election time.</p>			✓
Members Allowances & Expenses	<p>Council Policy is not complied with and expenditure is nor monitored and controlled.</p> <p>Members Allowances are not published in line with legislation.</p>	✓		
Code of Conduct and Register of Interests	<p>The Code of Conduct has not been reviewed.</p> <p>The register of interests is not up to date and declarations are not made.</p>	✓		

Auditable Areas	Potential Risks to the area/system	2013/14	2014/15	2015/16
COMMUNITY & ENVIRONMENTAL FOCUS				
Environmental Services				
Licensing	<p>The Licensing Act is not complied with.</p> <p>Licenses are issued without the correct review and authorisation and expired licences are not promptly detected.</p> <p>Income is not monitored and collected prior to issue of licences.</p>	✓		
Community & Anti-Social Behaviour	<p>Failure to comply with current legislation – Crime and Disorder Act.</p> <p>Inability to reduce community crime and anti-social behaviour – lack of funding.</p>			✓
CCTV	<p>The use of CCTV contravenes legislation e.g. the data protection act.</p> <p>Loss of funding available impacting on the provision of the service.</p>		✓	
Waste & Recycling	<p>Potential health & safety non-compliance leading to reputational risks and insurance claims.</p> <p>Employees have not been adequately trained to perform their duties.</p> <p>Risks and hazards associated with the service have not been identified and monitored.</p> <p>Service performance is not monitored.</p>	✓		✓
Fleet Management	The Council fleet is not maintained to a suitable standard.	✓		✓
Street Cleansing	There is a failure in operational performance leading to complaints from residents.		✓	
Environmental Health – Foods Establishments	Food establishments are not monitored to ensure that they comply with food hygiene standards.			✓

Auditable Areas	Potential Risks to the area/system	2013/14	2014/15	2015/16
Disabled Facilities Grants	Grants have been awarded without the appropriate review and authorisation. Funding for grants is reduced impacting on the ability to assist in disabled adaptations.	✓		
COMMUNITY & ENVIRONMENTAL FOCUS				
COMMUNITY ASSETS				
Leisure Management Contract	Failure to deliver service due to underperformance of the contract. The contract is not monitored and action taken to improve standards should this be required.	✓		✓
Arts Centre	The Arts Centres are not utilised as they are not advertised and promoted with meaningful information being provided to the general public. Services have not been costed correctly leading to a loss of income to the Council.		✓	
Repairs and Maintenance	Repairs are not identified and undertaken in a timely manner resulting in the Council being exposed to a higher risk of potential insurance claims from members of the public.	✓		
Planned & Cyclical Maintenance & Capital Programme	Failure to deliver capital programme and monitor the associated costs. A cyclical maintenance strategy has not been developed and costs identified.		✓	
Contract Management	Competent contractors have not been appointed and contract performance is not monitored.		✓	

Auditable Areas	Potential Risks to the area/system	2013/14	2014/15	2015/16
COMMUNITY & ENVIRONMENTAL FOCUS				
Housing & Neighbourhoods				
Supporting People (including Lifeline and Care Services)	Loss of the supporting people contract.		✓	
Allocations and Lettings (including Void Management)	Lettings are not dealt with consistently and in line with policy. Void properties are not managed to ensure there are processed and re-let as soon as is possible.	✓		✓
Resident Involvement	Dissatisfied tenants through service failure and lack of consultancy with tenants. Lack of service improvements. No tenant participation and involvement.		✓	
Homelessness	Failure to meet statutory obligations under the Homelessness Act. Inability to respond to housing requests from the homeless. Lack of emergency housing.			✓
DEVELOPMENT & GROWTH FOCUS				
Development & Growth				
Economic Development	Failure to identify roles and responsibilities and allocate resources. Poor communication with external Stakeholders. Projects are unsuccessful due to poor project management and control of funding.	✓		
Planning	Planning applications are not processed in line with legislation and Council policy.	✓	✓	
Conservation	An up to date conservation register is not maintained. Laws and legislation applicable to conservation are not adhered to.		✓	

Financial Controls (including work allowing greater external audit reliance on our work)

Systems	Source of Requirement	2013/14	2014/15	2015/16
General Ledger / Main Accounting System	External audit will place reliance on our work to inform their audit.		✓	
Budgets			✓	✓
Creditors & Procurement			✓	✓
Treasury Management		✓		✓
Income and Debtors			✓	
Payroll & Expenses		✓	✓	
Cash & Banking		✓	✓	✓

Other Internal Audit Activity

Activity	Rationale	2013/14	2014/15	2015/16
Follow Up	To meet internal auditing standards and to provide management with on-going assurance regarding implementation of recommendations.	✓	✓	✓
Contingency	To allow for additional audits to be undertaken at the request of the Audit Committee or management based on changes in assurance needs as they may arise during the year.	✓	✓	✓
Audit Management	This will include: <ul style="list-style-type: none"> ▪ Annual planning ▪ Preparation for, and attendance at, Audit Committee meetings ▪ Regular liaison and progress updates ▪ Liaison with external audit ▪ Preparation of the annual internal audit opinion 	✓	✓	✓

APPENDIX B: INTERNAL AUDIT PLAN 2013/2014

Audit	Internal Audit Coverage	Internal Audit Approach	Audit Days	Proposed Timing	Audit Committee
Assurance and Advisory Work to Address Specific Risks					
Corporate Focus - Finance					
Corporate Governance	The review will focus on the Constitution Committee and consider it's effectiveness and ability to react and provide informed decision making.	Assurance	4	TBC	TBC
Risk Management	The review will consider the current risk management arrangements to develop an improvement plan that ensures that the Authority through continuous improvement maintains efficient and effective processes for the identification, assessment, monitoring and reporting of risk.	Assurance	3	TBC	TBC
Medium Term Financial Strategy	Consideration of the content of the strategy and whether the strategy supports the objectives of the Council.	Assurance	5	TBC	TBC
Pool Cars	A review of the current policy to cover whether employees utilise the service and do not use their own cars to claim mileage. The bookings system and mileage records.	Assurance	5	TBC	TBC
Information Technology	Consideration of whether the current IT service is fit for purpose and a review of end user feedback.	Assurance	7	TBC	TBC
Benefits Fraud Investigation Unit	This review will seek to ensure that the Investigation team are investigating cases of potential fraud in line with legislation and internal policies, and prosecuting where an offence has been committed.	Assurance	7	TBC	TBC
Bourne Community Access Point	Areas of consideration within this review will include Customer Service focus, the implications and effect of agile working and cash collection. (this review will include our annual review of cash collection and banking with the focus on this particular area).	Assurance	10	TBC	TBC

Audit	Internal Audit Coverage	Internal Audit Approach	Audit Days	Proposed Timing	Audit Committee
Corporate Focus – People, Projects & Performance					
Absence Management	The review will consider if arrangements have been made to cover the move from annualised to flexi hours. It will also focus on the issue of long term sickness and aim to identify potential problem areas and asses actions are in place to attempt to reduce sickness.	Assurance	5	TBC	TBC
Consultation and Communication – Stakeholder Contact.	Consideration of the use of central services to departments and the controls in place to ensure that central services and budgets are utilised e.g use of the centralised advertising and printing budget.	Assurance	5	TBC	TBC
Corporate Focus – Property Development					
Leases	This area was subject to a Red assurance opinion during the 2012/13 internal audit review and therefore a further review has been scheduled for this year to monitor progress made within the area.	Assurance	7	TBC	TBC
Asset Management Plan	This review will focus on the software in use to ensure that all assets are recorded adequately and a full and complete audit trail is available.	Assurance	6	TBC	TBC
Contract Management – Ground and Tree Maintenance	This area was subject to a Red assurance opinion during the 2012/13 internal audit review and therefore a further review has been scheduled for this year to monitor progress made within the area.	Assurance	6	TBC	TBC
Car Parks (Enforcement)	New enforcement arrangements have been introduced so this review will focus on the enforcement contract in place considering contract reporting and performance.	Assurance	7	TBC	TBC

Audit	Internal Audit Coverage	Internal Audit Approach	Audit Days	Proposed Timing	Audit Committee
Corporate Focus – Legal & Democratic Services					
Members Allowances & Expenses	To ensure that allowances and expenses are claimed in line with documented policy and procedures, and that allowances are published as required.	Assurance	5	TBC	TBC
Code of Conduct and Register of Interests	Compliance with the Code of Conduct including use of Council email. Annual return of declaration of interests.	Assurance	5	TBC	TBC
Community & Environment Focus – Environmental Services					
Licensing	Following the act reform we will perform a review of this area to ensure that the Licencing Act is being adhered to.	Assurance	6	TBC	TBC
Waste & Recycling	We will undertake a review of the service which will cover both refuse and recycling. Looking at the performance of the service alongside identification of risks and employee training.	Assurance	10	TBC	TBC
Fleet Management	A review to consider the adequacy of the Council's fleet and procedures in place to ensure that it is maintained to a suitable standard.	Assurance	6	TBC	TBC
Disabled Facilities Grants	The review will aim to provide assurance that grants are being awarded in line with policy and procedures and receive adequate authorisation.	Assurance	5	TBC	TBC
Community & Environment Focus – Community Assets					
Leisure Management Contract	The Leisure Management Contract is in place until 2014 with an option to extent until 2016; this review will be timely in ensuring that the contract performance is being monitored and is up to a suitable standard.	Assurance	5	TBC	TBC
Repairs and Maintenance	This area was subject to a Red assurance opinion during the 2012/13 internal audit review and therefore a further review has been scheduled for this year to monitor progress made within the area.	Assurance	8	TBC	TBC

Audit	Internal Audit Coverage	Internal Audit Approach	Audit Days	Proposed Timing	Audit Committee
Community & Environment Focus – Housing and Neighbourhoods					
Allocations and Lettings (including Void Management)	The review this year will consider the revised allocations policy.	Assurance	5	TBC	TBC
Development & Growth Focus – Development & Growth					
Economic Development	The area has recently undergone a restructure so we will consider how effective the structure is and if partnership working is successful. We will also compare procedures to what other Councils have introduced e.g NNDR Discounts	Assurance	5	TBC	TBC
Planning	This review will consider the planning application process and will specifically look at the appeals process and the financial impact of these appeals. We will also consider the process in place for the newly introduced pre-application decision charges.	Assurance	6	TBC	TBC
Financial Controls					
Treasury Management	The focus of this review will be on Council investments and ensuring that there is sufficient cash available to meet liabilities. Changes in HRA financing arrangements with the introduction of self financing model in April 2012.	Assurance	4	TBC	TBC
Payroll & Expenses	The use of electronic pay slips (e-slips) and assurance that employees use this service. Assurance over employee tax codes and subsistence. Electronic expenses policy.	Assurance	6	TBC	TBC
Income Collection	Following the Welfare Reform Act we will focus this review on rent collection.	Assurance	10	TBC	TBC

Audit	Internal Audit Coverage	Internal Audit Approach	Audit Days	Proposed Timing	Audit Committee
Other Internal Audit Coverage					
Contingency	For coverage of risks and changes in assurance needs as these arise during the year. To be agreed in advance with Management.	-	5	As required	n/a
Follow Up	To meet internal auditing standards and to provide management with ongoing assurance regarding implementation of recommendations.	Follow up review	12	Ongoing	Delivered to each Audit Committee
Management	This will include: <ul style="list-style-type: none"> ▪ Annual planning. ▪ Preparation for, and attendance at, Audit Committee meetings. ▪ Regular liaison and progress updates. ▪ Liaison with external audit. ▪ Preparation of the annual internal audit opinion. 	-	15	Ongoing	As used
Total (Excluding Contingency)			190		

Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report, together with any attachments, is provided pursuant to the terms of our engagement. The use of the report is solely for internal purposes by the management and Board of our client and, pursuant to the terms of the engagement, it should not be copied or disclosed to any third party or otherwise quoted or referred to, in whole or in part, without our written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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SOUTH KESTEVEN DISTRICT COUNCIL

Internal Audit Progress Report

Governance and Audit Committee Meeting – 14th March 2013

Agenda Item 9

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

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APPENDIX A: OPERATIONAL PLAN PERFORMANCE 2012/13 – CURRENT REPORTS

Detailed below is a summary of the work undertaken in 2012/13 to date, showing the levels of assurance given and the number of recommendations arising. Reports being considered at this Committee are shown in **bold and italics**. Definitions with regard to the levels of assurance and the classification of recommendations are provided overleaf.

Auditable Area	Start Date	Debrief date	Draft report issued	Responses received	Final report issued	Governance & Audit Committee	Audit approach	Audit Days	Assurance level given	Number of Recommendations Made					
										High	Medium	Low	In Total	Agreed	
Current Reports															
<i>Payroll & Expenses</i>	<i>4/11/12</i>	<i>08/11/12</i>	<i>14/11/12</i>	<i>27/11/12</i>	<i>28/11/12</i>	<i>March 2013</i>	<i>Risk Based</i>	<i>6</i>	<i>GREEN</i>	<i>0</i>	<i>0</i>	<i>5</i>	<i>5</i>	<i>5</i>	
<i>Land Charges</i>	<i>05/11/12</i>	<i>12/11/12</i>	<i>19/11/12</i>	<i>23/01/13</i>	<i>24/01/13</i>	<i>March 2013</i>	<i>Risk Based</i>	<i>4</i>	<i>GREEN</i>	<i>0</i>	<i>2</i>	<i>2</i>	<i>4</i>	<i>4</i>	
<i>Refuse Collection (inc. Bulky Waste)</i>	<i>26/11/12</i>	<i>30/11/12</i>	<i>10/12/12</i>	<i>11/02/13</i>	<i>11/02/13</i>	<i>March 2013</i>	<i>Risk Based</i>	<i>7</i>	<i>AMBER / RED</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>6</i>	<i>6</i>	
<i>Programme Management</i>	<i>26/11/12</i>	<i>10/12/12</i>	<i>12/12/12</i>	<i>29/01/13</i>	<i>30/01/13</i>	<i>March 2013</i>	<i>Risk Based</i>	<i>7</i>	<i>GREEN</i>	<i>0</i>	<i>0</i>	<i>4</i>	<i>4</i>	<i>4</i>	
<i>Green Waste</i>	<i>03/12/12</i>	<i>07/12/12</i>	<i>14/12/12</i>	<i>07/01/13</i>	<i>07/01/13</i>	<i>March 2013</i>	<i>Risk Based</i>	<i>5</i>	<i>GREEN</i>	<i>0</i>	<i>0</i>	<i>2</i>	<i>2</i>	<i>2</i>	
<i>Follow Up (3)</i>	<i>07/01/13</i>	<i>10/01/13</i>	<i>21/1/13</i>	<i>14/02/13</i>	<i>14/02/13</i>	<i>March 2013</i>	<i>Risk Based</i>	<i>5</i>	<i>ADEQUATE</i>	<i>2</i>	<i>4</i>	<i>0</i>	<i>6</i>	<i>6</i>	
<i>General Ledger/ Main Accounting System</i>	<i>04/02/13</i>	<i>0/02/13</i>	<i>11/02/13</i>	<i>11/02/13</i>	<i>11/02/13</i>	<i>March 2013</i>	<i>Risk Based</i>	<i>7</i>	<i>GREEN</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	
<i>Risk Management</i>	<i>16/01/13</i>	<i>20/01/13</i>	<i>14/02/13</i>	<i>26/02/13</i>	<i>26/02/13</i>	<i>March 2013</i>	<i>Risk Based</i>	<i>6</i>	<i>ADVISORY</i>	<i>0</i>	<i>2</i>	<i>0</i>	<i>2</i>	<i>2</i>	
Rent Collection & Arrears	13/08/12	20/08/12	29/08/12	24/09/12	25/09/12	Dec 2012	Risk Based	7	GREEN	0	0	3	3	3	
Council Tax	03/09/12	07/09/12	17/09/12	18/09/12	18/09/12	Dec 2012	Risk Based	5	GREEN	0	1	0	1	1	
Housing Benefits	03/09/12	07/09/12	17/09/12	18/09/12	18/09/12	Dec 2012	Risk Based	7	GREEN	0	1	1	2	2	
NNDR	03/09/12	17/09/12	19/09/12	15/10/12	16/10/12	Dec 2012	Risk Based	5	GREEN	0	2	2	4	4	

	Auditable Area	Start Date	Debrief date	Draft report issued	Responses received	Final report issued	Governance & Audit Committee	Audit approach	Audit Days	Assurance level given	Number of Recommendations Made					
											High	Medium	Low	In Total	Agreed	
	Cash & Banking	08/10/12	12/10/12	24/10/12	07/11/12	09/11/12	Dec 2012	Risk Based	6	GREEN	0	1	3	4	4	
	Leases	11/06/12	14/06/12	27/06/12	14/08/12	23/08/12	Sept 2012	Risk Based	6	RED	3	3	0	6	6	
	Asset Management Plan	16/07/12	20/07/12	31/07/12	28/08/12	29/08/12	Sept 2012	Risk Based	6	GREEN	0	0	2	2	2	
	Corporate Governance	23/07/12	26/07/12	30/07/12	14/08/12	29/08/12	Sept 2012	Risk Based	6	GREEN	0	1	0	1	1	
	Creditors & Procurement	30/07/12	03/08/12	08/08/12	05/09/12	06/09/12	Sept 2012	Risk Based	7	GREEN / AMBER	0	2	3	5	5	
	Follow Up (2)	14/08/12	16/08/12	29/08/12	07/09/12	10/09/12	Sept 2012	Follow Up	3	GOOD PROGRESS	0	2	0	2	2	
	Repairs	23/07/12	01/08/12	09/08/12	06/09/12	11/09/12	Sept 2012	Risk Based	7	RED	3	6	2	11	11	
	Elections	28/05/12	31/05/12	11/06/12	25/06/12	26/06/12	July 2012	Risk Based	6	GREEN	0	0	4	4	4	
	Licensing	11/06/12	15/06/12	21/06/12	04/07/12	06/07/12	July 2012	Risk Based	6	GREEN	0	1	0	1	1	
	Contract Management – Tree Ground & Maintenance	30/04/12	11/05/12	21/05/12	12/06/12	13/06/12	June 2012	Risk Based	7	RED	2	2	6	10	10	
	Follow Up (1)	08/05/12	N/A	15/05/12	30/05/12	30/05/12	June 2012	Follow Up	4	GOOD PROGRESS	0	3	0	3	3	
	Advisory Reviews	-	-	-	-	-	-	-	16	-	0	6	17	23	23	
	Management	-	-	-	-	-	-	-	5	-	-	-	-	-	-	
									Sub total	156		11	41	59	111	111

Auditable Area	Start Date	Debrief date	Draft report issued	Responses received	Final report issued	Governance & Audit Committee	Audit approach	Audit Days	Assurance level given	Number of Recommendations Made				
										High	Medium	Low	In Total	Agreed
<i>Work in progress or yet to start (including reports still in draft)</i>														
Flexible Working Arrangements	07/03/13							(6)						
Data Security	11/03/13							(7)						
Contingency	-	-	-	-	-	-	-	(11)	-	-	-	-	-	-
Management	-	-	-	-	-	-	-	(10)	-	-	-	-	-	-
								Sub total	(34)					
								Total	190					

Recommendation Categorisation

Our findings and recommendations are categorised as follows:

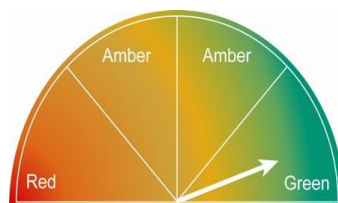
High (H): action is imperative to ensure that the objectives for the area under review are met.

Medium (M): requires action to avoid exposure to significant risks in achieving the objectives for the area under review.

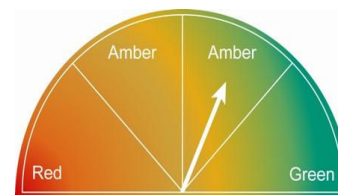
Low (L): action advised to enhance control or improve operational efficiency.

ASSURANCE OPINIONS

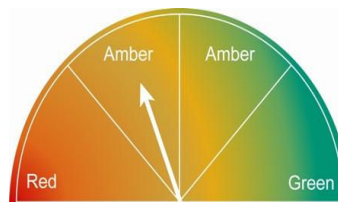
Our opinion will be graphically represented as a speedometer (see below). We have provided guidelines for each segment of the speedometer to provide the Governance & Audit Committee (or equivalent) with some context behind each of the ratings.



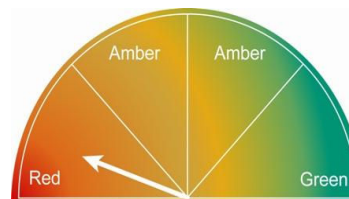
Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.



Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.



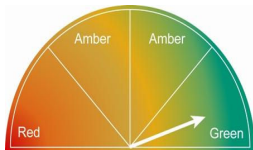
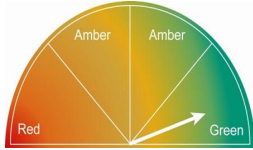
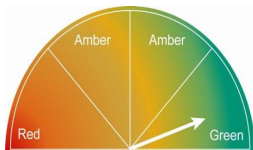
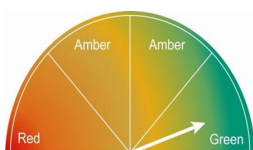
Taking account of the issues identified, whilst the Authority can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.

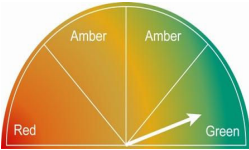


Taking account of the issues identified, the Authority cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.

The Amber assurance level is split into two so that we are able to give you a clear indication of whether we consider the assurance to be “above or below the line”. We hope this will help draw attention to those reports where we are highlighting that although not a negative opinion, the Authority does need to take action to ensure the risk is managed. Similarly the above the line amber opinion reflects that although a positive opinion, there is still room for improvement. During the year our progress reports to Governance & Audit Committee will reflect the opinions given and build up a picture of our findings so that there will be no surprises in our year end annual opinion.

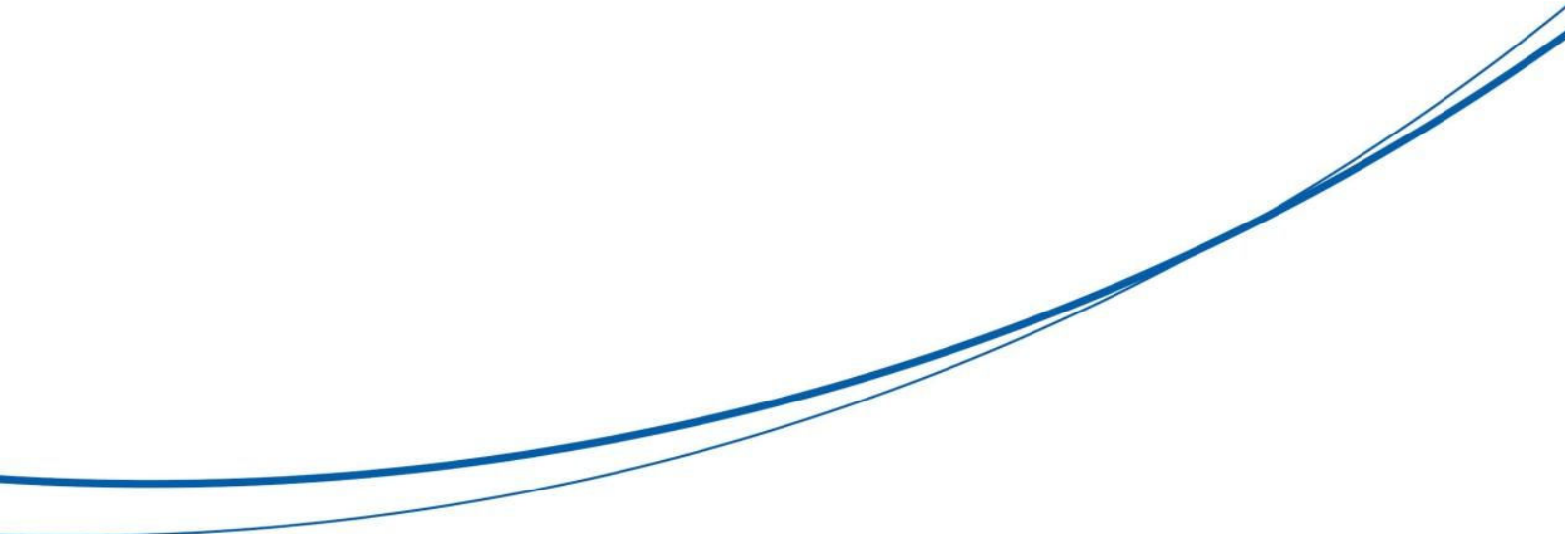
APPENDIX B: REPORTS FINALISED – SUMMARY OF KEY FINDINGS

Summary of Audit Findings	Assurance Level	No. of Recs. Made and (Accepted)	No. of Recs. Categorised As High Risk	Impl Date for Recs.	Responsible Officer (s)
<p><u>Payroll & Expenses – (19.12/13):</u></p> <p>An audit of Payroll & Expenses was undertaken as part of the approved internal audit plan and resulted in 5 ‘Low’ risk recommendations being raised and accepted by management.</p>		5(5)	0	Feb 2013	Finance Support Manager
<p><u>Land Charges – (20.12/13):</u></p> <p>An audit of Land Charges was undertaken as part of the approved internal audit plan and resulted in 2 ‘Medium’ risk and 2 ‘Low’ risk recommendations being made; all of which were accepted by management.</p> <p>The Medium risk recommendations made were in relation to:</p> <ul style="list-style-type: none"> ➤ Ensuring that the Local Land Charges Register is updated in a timely manner, once the notification has been received. ➤ Approval should be obtained and retained on file to support the decision not to chase an outstanding fee, if this is of a low value. An analysis of the income lost should be undertaken and be reported to management. 		4(4)	0	March 2013	Land Charges Officer
<p><u>Programme Management – (22.12/13):</u></p> <p>An audit of the Programme Management was undertaken as part of the approved internal audit plan and resulted in 4 ‘Low’ risk recommendations, all of which were accepted by management.</p>		4(4)	0	Latest May 2013	Various
<p><u>Green Waste – (23.12/13):</u></p> <p>An audit of Green Waste was undertaken as part of the approved internal audit plan and resulted in 2 ‘Low’ risk recommendations being raised and accepted by management.</p>		2(2)	0	April 2013	Customer Services Manager

Summary of Audit Findings	Assurance Level	No. of Recs. Made and (Accepted)	No. of Recs. Categorised As High Risk	Impl Date for Recs.	Responsible Officer (s)
<p><u>General Ledger – (26.12/13):</u></p> <p>An audit of General Ledger was undertaken as part of the approved internal audit plan and resulted in no recommendations being raised.</p>		0(0)	0	-	-
<p><u>Risk Management – (28.12/13):</u></p> <p>An audit of Risk Management was undertaken as part of the approved internal audit plan and resulted in two 'Medium' risk recommendations being raised. Both recommendations have been accepted by management.</p> <p>The Medium risk recommendations made were in relation to:</p> <ul style="list-style-type: none"> ➤ Service risks should be updated by Managers on a quarterly basis; this will align the review process with the Corporate risk process. The additional quarterly reviews (currently every six months) could be just an update being provided by the manager rather than an update meeting facilitated by the Governance & Risk Officer. ➤ The Risk Management Group should: a) review the Service Risk Register on a quarterly basis; this will align the review process with the Corporate risk process; b) monitor actions from the Service Risk Register at each meeting. 	Advisory	2(2)	0	<p>March 13</p> <p>March 13</p>	<p>Finance Support Manager (Finance & Risk)</p> <p>Finance Support Manager (Finance & Risk)</p>

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted



South Kesteven District Council
Follow Up of Previous Internal Audit Recommendations

Internal Audit Report (25.12/13)
February 2013

FINAL

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Debrief meeting:	11 January 2013	Auditors:	Chris Williams, Partner Robert Barnett, Senior Manager Alan Hetherington, Lead Internal Auditor
Officer Debriefed:	Finance Support Manager and Governance & Risk Officer		
Draft report issued:	21 January 2013		
Responses received:	14 February 2013	Client sponsor:	Richard Wyles, Head of Finance
Final report issued:	14 February 2013	Distribution:	Richard Wyles, Head of Finance David Scott, Finance Support Manager Tracey Elliott, Governance and Risk Officer



This review has been performed using RSM Tenon's bespoke internal audit methodology, **i-RIS**.

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

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

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1 EXECUTIVE SUMMARY

1.1 INTRODUCTION

As part of the approved internal audit periodic plan for 2012/13 we have undertaken a review to follow up progress made by South Kesteven District Council to implement previous internal audit recommendations.

Recommendations with dates for implementation not yet due will be followed up later in the year.

At management's request, we have only followed up those recommendations classified as High and Medium risk. Recommendations categorised as Low risk are to be followed up separately by Council staff. It was also agreed that recommendations made in 'Advisory' reviews would not be followed up.

The audits considered as part of the follow up review were:

- 01.12/13 Follow Up (Pool Cars)
- 02.12/13 Contract Management - Ground & Tree Maintenance
- 07.12/13 Corporate Governance
- 09.12/13 Creditors & Procurement
- 11.12/13 Follow Up
- 14.12/13 Council Tax
- 15.12/13 Housing Benefit
- 16.12/13 NNDR

The following reviews had no recommendations meeting the criteria for follow-up:

- 08.12/13 Asset Management Plan
- 12.12/13 Rent Collection and Arrears (including Leaseholders)

The following Advisory reviews were excluded from the follow-up:

- 06.12/13 Bookings System - Arts Centre

The 14 recommendations considered in this review comprised two 'high', and 12 'medium' recommendations.

Staff members responsible for the implementation of recommendations were interviewed to determine the status of agreed actions. Where appropriate, audit testing has been completed to assess the level of compliance with this status and the controls in place.

1.2 Conclusion

Taking account of the issues identified in the remainder of the report and in line with our definitions set out in Appendix A, in our opinion South Kesteven District Council has demonstrated adequate progress in implementing actions agreed to address internal audit recommendations.

We have reiterated recommendations where these have not yet been implemented. In addition, we have made new recommendations where appropriate; these are detailed in the action plan.

1.3 Limitations to the Scope of the Audit

This review only covered audit recommendations previously made and did not review the whole control framework of the areas listed above. Therefore, we are not providing assurance on the entire risk and control framework of those areas.

The follow-up has covered only those recommendations rated High or Medium risk.

Recommendations made as part of advisory reviews have not been followed up.

Where testing has been undertaken, our samples have been selected over the period since actions were implemented or controls enhanced.

Our work does not provide any guarantee or absolute assurance against material errors, loss or fraud.

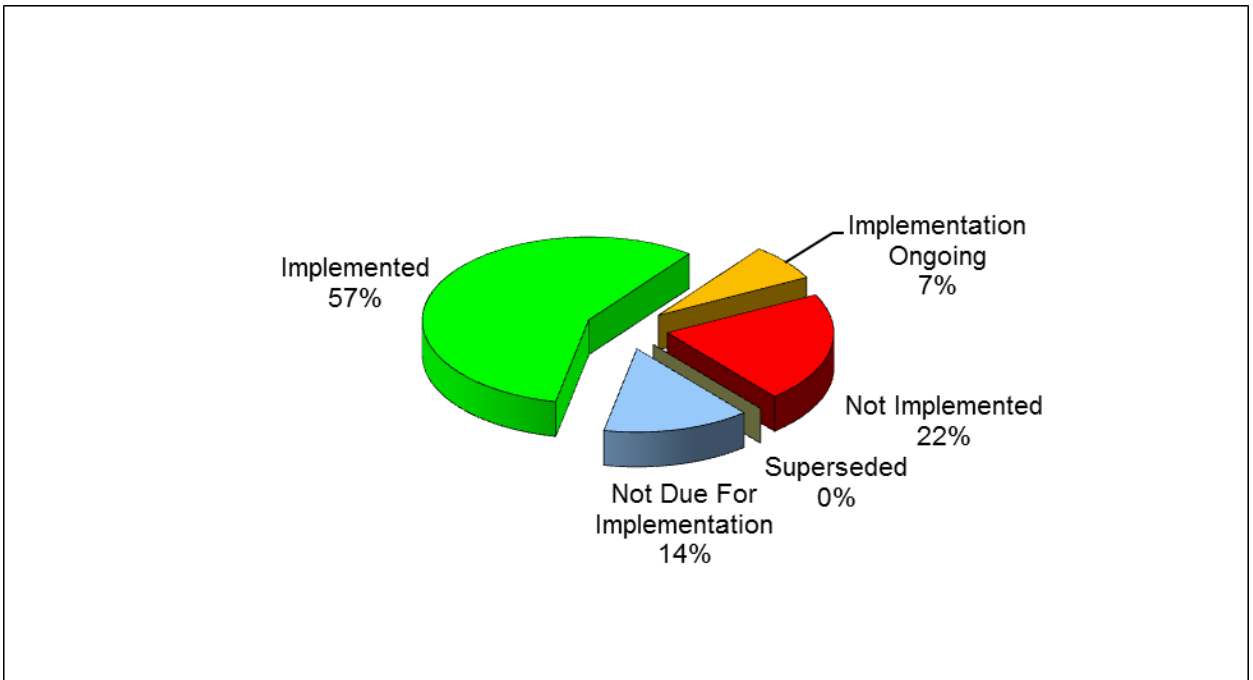
1.4 Recommendation Tracking

Recommendation tracking enhances an organisation's risk management and governance processes. It provides management with a method to record the implementation status of recommendations made by assurance providers, whilst allowing the Audit Committee to monitor actions taken by management.

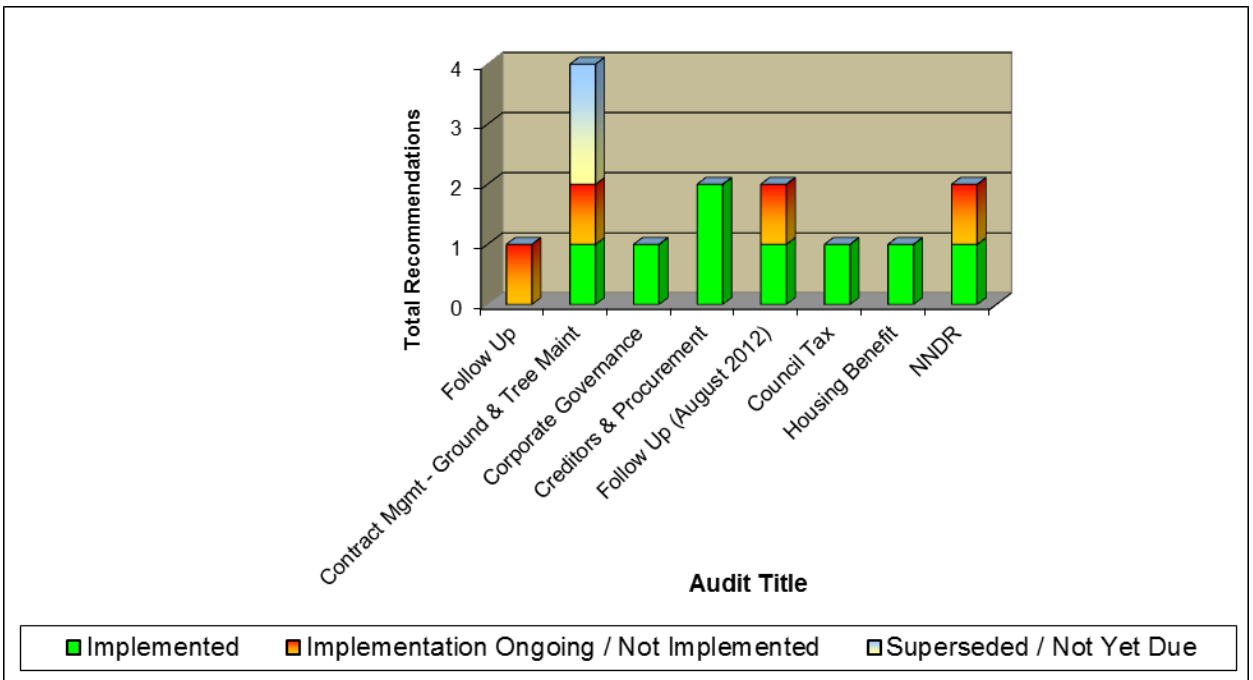
Recommendation tracking is undertaken by South Kesteven District Council's management on a regular basis, with an update provided to the Audit Committee at each meeting. As part of our Follow-up review, we have verified this information and completed audit testing to confirm the level of implementation stated and compliance with controls.

1.5 Status of Recommendations Followed UP

The pie chart below provides an overview of the status of recommendations that have been followed up as part of this review.



The bar chart below provides an overview of the status of recommendations that have been followed up as part of this review, grouped according to audit area:



2 ACTION PLAN

The priority of the recommendations made is as follows:

Priority:	High	Medium	Low	Suggestion
Description:	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.			These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Ref	Recommendation	Categorisation	Accepted Y/N	Management Comment	Implementation Date	Manager Responsible
	01.12/13 Follow Up (Pool Cars)					
3.1.1	<p>09.11/12 Follow Up</p> <p>26.09/10 Follow Up</p> <p>04.08/09 Pool Cars</p> <p>We recommend that formally documented policies regarding the use of pool cars, hire cars and personal cars are established and effectively communicated to employees.</p> <p>Policies should cover approved use of vehicles; booking procedures; drivers licence checks, disciplinary procedures for contravention of the rules and the duty of care owed by to and from employees. They should also address the issue of using personal cars and hire cars. Guidelines for use of vehicles and the responsibilities of users should form an integral part of the policy.</p> <p>Policies should be reviewed on an annual basis to take into account changing circumstances.</p>	Medium	Y	<p>A review project has been undertaken.</p> <p>The outline business case for this project went to Performance and Programme Management Board in January 2013. PPMB signed off the OBC which included automation of car booking system. A revised policy is being created. An interim process is being created to serve the new facility at Bourne Community Point.</p> <p>Pool car usage protocol is being drafted to make best use of the available fleet and influence current practice.</p>	April 2013	Property Development Manager

Ref	Recommendation	Categorisation	Accepted Y/N	Management Comment	Implementation Date	Manager Responsible
	02.12/13 Contract Management - Ground & Tree Maintenance					
3.2.1	When a service is retendered, the Council should ensure that resulting contract(s) is/are signed by all parties involved.	High	Y	Procurement Lincolnshire are actively preparing to retender this contract with multiple partners. This contract should be re-let towards the end of 2013/14. I disagree with the classification of High. A Contract performed by the parties, as intended, does not necessarily require a signature of the parties on the contract documents. However I would agree that it is desirable for the contract documents to be signed.	March 2014	Property Development Manager
3.2.3	While it may not be possible to change procedures for the remainder of the current contract, procedures should be changed so that the Contractor has to undertake the invoice preparation on a monthly basis and Grounds Maintenance staff should be responsible for checking the value each month as part of the payment authorisation process.	Medium	Y	Agreed.	February 2013	Team Leader - Operations
3.2.4	A program of scheduled inspections of work undertaken by the Contractor should be in place and followed, to ensure that there is an audit trail to evidence the monitoring that the work is being carried to an acceptable standard throughout the District.	High	Y	Agree in part with this recommendation. However the current grounds maintenance contract is an outcome based contract that was written and has been performed over the contract period as self monitoring. Random monitoring by SKDC is however required and should be carried out to a schedule.	April 2013	Team Leader - Operations

Ref	Recommendation	Categorisation	Accepted Y/N	Management Comment	Implementation Date	Manager Responsible
	11.12/13 Follow Up					
3.5.2	29.11/12 Follow Up 37.10/11 ICT Resilience The Disaster Recovery arrangements with the external support provider should be formally rehearsed on an annual basis and an appraisal of each test undertaken.	Medium	Y	We have recently renewed the existing Disaster recovery contract and this is being renewed as part of arrangements with Lincolnshire. We have a DR rehearsal planned for January and also we have arranged consultancy on DR planning.	30 June 2013	ICT Service Manager
	16.12/13 NNDR					
3.8.1	The variances identified between the VOA Listing and the NNDR system should be investigated and resolved prior to the new system implementation. If there are known reasons for the variance these should be documented to provide a full audit trail.	Medium	Y	All variances were investigated and resolved before the system migration live date of 9th October 2012. A new reconciliation process has been implemented to ensure all variances between the VOA list and the Northgate NDR System are identified and documented.	30 September 2012	Revenues & Benefits Service Manager

3 FINDINGS AND RECOMMENDATIONS

Each recommendation followed up has been categorised in line with the following:

Status	Detail
1	The entire recommendation has been fully implemented.
2	The recommendation has been partly though not yet fully implemented.
3	The recommendation has not been implemented.
4	The recommendation has been superseded and is no longer applicable.
5	The agreed date for implementing the recommendation has not yet been reached.

3.1		01.12/13 FOLLOW UP (POOL CARS)			FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible	Status	Comments / Implications / Recommendations
3.1.1	<p>09.11/12 Follow Up 26.09/10 Follow Up 04.08/09 Pool Cars</p> <p>We recommend that formally documented policies regarding the use of pool cars, hire cars and personal cars are established and effectively communicated to employees.</p> <p>Policies should cover approved use of vehicles; booking procedures; drivers licence checks, disciplinary procedures for contravention of the rules and the duty of care owed by to and from employees. They should also address the issue of using personal cars and hire cars. Guidelines for use of vehicles and the responsibilities of users should form an integral part of the policy.</p> <p>Policies should be reviewed on an annual basis to take into account changing circumstances.</p>	Medium	January 2013	Property Development Manager	2	<p>Pool car management and usage has been reviewed.</p> <p>This has resulted in a draft outline business case being prepared for an overhaul of the service.</p> <p>Four options have been included in the business case, which now have to be discussed before a decision is made on the future of the service.</p> <p>The policy is to be documented once agreement on the way the service will operate has been achieved.</p> <p>Recommendation restated.</p>

3.2 02.12/13 CONTRACT MANAGEMENT - GROUND & TREE MAINTENANCE						FINDINGS
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible	Status	Comments / Implications / Recommendations
3.2.1	When a service is retendered, the Council should ensure that resulting contract(s) is/are signed by all parties involved.	High	March 2013	Property Development Manager	5	<p>Not due to have been implemented.</p> <p>Lincolnshire Procurement is in the process of creating a tender for a Framework agreement for Ground and Tree Maintenance across Lincolnshire.</p> <p>The Council is involved with the preparation of the tender, and will utilise the agreement once it is in place.</p> <p>Current timescales indicate that the tender should be completed around October 2013.</p> <p>In the meantime, an extension to the current contract has been agreed with Veolia.</p> <p>Recommendation restated.</p>
3.2.2	<p>The Order Requests from Tenancy Services for Grounds Maintenance work required in excess of that covered by the contract should be formally signed by the requesting Officer and subject to approval at an appropriate level.</p> <p>The process for raising and payment of orders for work on graves should be reviewed to ensure that a control is put in place to ensure that Order Requests are checked with Dignity before being entered on the Cedar system.</p>	Medium	<p>June 2012</p> <p>Implemented</p>	Team Leader - Operations	1	<p>Order Requests from Tenancy Services for Grounds Maintenance are now signed.</p> <p>Forms for grave digging are now signed by staff from Dignity and Veolia.</p> <p>A check is undertaken to ensure the relevant signatures are present before being passed for payment.</p>

3.2 02.12/13 CONTRACT MANAGEMENT - GROUND & TREE MAINTENANCE						FINDINGS
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible	Status	Comments / Implications / Recommendations
3.2.3	While it may not be possible to change procedures for the remainder of the current contract, procedures should be changed so that the Contractor has to undertake the invoice preparation on a monthly basis and Grounds Maintenance staff should be responsible for checking the value each month as part of the payment authorisation process.	Medium	June 2012	Team Leader - Operations	3	Enquiries have been made with Veolia, but the method for preparing the invoice cannot be changed within the terms of the current contract, consequently, this will now have to be addressed as part of agreement of the new contract. Recommendation restated.
3.2.4	A program of scheduled inspections of work undertaken by the Contractor should be in place and followed, to ensure that there is an audit trail to evidence the monitoring that the work is being carried to an acceptable standard throughout the District.	High	March 2013	Property Development Manager	5	Not due to have been implemented. A program of scheduled inspections is to be included in the agreement when placing the new contract, which is currently estimated to be sometime between October 2013 and February 2014. Recommendation restated.

3.3 07.12/13 CORPORATE GOVERNANCE						FINDINGS
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible	Status	Comments / Implications / Recommendations
3.3.1	a) Attendance should be made a key part of the scope and emphasised when undertaking the next Governance & Audit Committee self-assessment review in light of the attendance levels of appointed members over the previous year. b) Attendance of the appointed members should be improved to ensure greater continuity.	Medium	Dec 2012	Finance Support Manager (Finance & Risk)	1	In December 2012, a review has been undertaken, with support from RSM Tenon, on the effectiveness of the Committee. Attendance at the Committee was reviewed as part of the effectiveness. The section, on attendance, in the resulting report was observed.

3.4		09.12/13 CREDITORS & PROCUREMENT				FINDINGS
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible	Status	Comments / Implications / Recommendations
3.4.1	<p>Authorisation limits established within the system should reflect the limits delegated to staff as per the Authorised Signatory List.</p> <p>Staff leaving the Council should have their access rights suspended in a timely manner.</p>	Medium	September 2012	David Scott - Finance Support Manager	1	All issues have been corrected, and the limits on the system currently reflect those of the authorised signatory list.
3.4.2	<p>a) The Council should ensure that Request For New Supplier Forms are retained as evidence to support the set-up of suppliers on the system. Evidence should be obtained from the supplier to support the bank details provided.</p> <p>b) The Council should establish whether an audit report can be produced from the system to identify all changes made to supplier details. Such a report should be produced and reviewed prior to payments being released to identify all changes made and to confirm that the change is valid and evidence has been retained to support changes.</p>	Medium	October 2012	David Scott - Finance Support Manager	1	<p>A new supplier request form is now in use.</p> <p>In order to provide a clearer audit trail, the form must now be completed by the suppliers, and now includes contact details for the supplier's payment team, making verification of subsequent changes easier.</p> <p>Completed forms are filed in Finance.</p> <p>Finance also maintains a record of contacting suppliers to verify details.</p> <p>Reports on changes can now be obtained from the CEDAR system.</p>

3.5		11.12/13 FOLLOW UP			FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible	Status	Comments / Implications / Recommendations
3.5.1	<p>29.11/12 Follow Up 29.10/11 Communication</p> <p>The Corporate Communications Strategy should be reviewed and updated on a periodic basis to reflect the Council's current aims and priorities.</p> <p>In addition performance against the strategy and action plan should be reviewed and reported to an appropriate committee on a periodic basis.</p>	Medium	31 December 2012	Reputation, Communication & Consultation Service Manager	1	<p>The Communications Strategy has been reviewed and updated.</p> <p>The draft of the new strategy is to be presented to the Engagement PDG on Friday 18 January 2013.</p>
3.5.2	<p>29.11/12 Follow Up 37.10/11 ICT Resilience</p> <p>The Disaster Recovery (DR) arrangements with the external support provider should be formally rehearsed on an annual basis and an appraisal of each test undertaken.</p>	Medium	31 January 2012	ICT Service Manager	3	<p>All backups have been reviewed checked on an individual server.</p> <p>The backup software has also been upgraded</p> <p>However, a DR rehearsal has not been carried out as part of the Lincolnshire contract (this was renewed last year).</p> <p>It is recognised that this is still an important task and it will be timetabled by the end of April 2013.</p> <p>Recommendation restated.</p>

3.6		14.12/13 COUNCIL TAX			FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible	Status	Comments / Implications / Recommendations
3.6.1	<p>a) A Statement of Declaration of Interests should be completed, signed and returned by all Northgate users annually.</p> <p>b) An effective communication process for leavers is required to enable user accounts to be deactivated in a timely manner.</p> <p>c) The User Activity Report should be run on a periodic basis; any users who have been inactive for a prolonged period of time should be investigated and action taken as required.</p>	Medium	September 2012	Revenue & Benefits Service Manager	1	<p>An exercise was undertaken in November 2012 to obtain up to date Declarations of Interest for staff with access to the Northgate system.</p> <p>As part of the Leavers process, IT are notified of staff leaving by HR. IT then pass on details to the Revenues System Support staff so they can deactivate user accounts.</p> <p>Discussions with Systems Support staff identified that the user activity report is only run when requested. A periodic run would not be a reliable control to identify staff members that have left, because of the infrequent use by users in other departments (such as Housing) who may only use the system once or twice a year.</p>

3.7		15.12/13 HOUSING BENEFIT				FINDINGS
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible	Status	Comments / Implications / Recommendations
3.7.1	<p>a) Payment Listing Reports should be signed and dated as reviewed by a member of Benefits and Finance prior to being processed for payment through BACS.</p> <p>b) The BACS Submission Reports should be signed to certify independent review against Payment Listings / Pre-Transmission BACS Reports after every payment run.</p> <p>c) Benefits, in conjunction with Finance, should review the payment process to assess where physical report production can be reduced. For example duplication of payment listing reports.</p>	Medium	September 2012	Revenue & Benefits Service Manager	1	Review of the latest three BACS payment runs found the supporting documentation to be fully completed with the appropriate signatures.

3.8		16.12/13 NNDR				FINDINGS
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible	Status	Comments / Implications / Recommendations
3.8.1	The variances identified between the VOA Listing and the NNDR system should be investigated and resolved prior to the new system implementation. If there are known reasons for the variance these should be documented to provide a full audit trail.	Medium	October 2012	Craig Scott, Revenues & Benefits Service Manager	3	<p>Following the migration from Academy to Northgate, there is an imbalance on the system, for which the Council is waiting for Northgate to investigate and correct.</p> <p>Until this is corrected, processes for actioning amendments and reconciling to VOA records are not being completed.</p> <p>Once corrected a list of variances is to be maintained, to provide explanation for variances between the NNDR system and the VOA Listings.</p> <p>Recommendation restated.</p>

3.8		16.12/13 NNDR			FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible	Status	Comments / Implications / Recommendations
3.8.2	<p>An inspection of each void property should be undertaken at least every four months in line with procedure.</p> <p>The system notes should be maintained up to date to ensure accurate records of inspections undertaken are held.</p>	Medium	September 2012	Craig Scott, Revenues & Benefits Service Manager	1	Another visiting officer has been employed to increase capacity and enable inspections to be undertaken in accordance with the visiting schedule.

APPENDIX A: DEFINITIONS FOR PROGRESS MADE

The following opinions are given on the progress made in implementing recommendations.

This opinion relates solely to the implementation of those recommendations followed up and not does not reflect an opinion on the entire control environment.

Progress in implementing recommendations	Overall number of recommendations fully implemented	Consideration of high recommendations	Consideration of medium recommendations	Consideration of low recommendations
Good	75% +	None outstanding.	None outstanding.	All low recommendations outstanding are in the process of being implemented.
Adequate	51 - 75%	None outstanding.	75% of medium recommendations made are in the process of being implemented.	75% of low recommendations made are in the process of being implemented.
Little	30 - 50%	All high recommendations outstanding are in the process of being implemented.	50% of medium recommendations made are in the process of being implemented.	50% of low recommendations made are in the process of being implemented.
Poor	< 30%	Unsatisfactory progress has been made to implement high recommendations.	Unsatisfactory progress has been made to implement medium recommendations.	Unsatisfactory progress has been made to implement low recommendations.

APPENDIX B: DATA TO SUPPORT OUR OPINION**IMPLEMENTATION STATUS BY REVIEW**

Review	Total No. of recs agreed.	Status of Recommendation					Audit work confirmed as completed or no longer necessary (1)+(4)	No of recs carried forward for follow up at next review (2)+(3)+(5)
		Not due for implementation (5)	Implemented (1)	Implementation Ongoing (2)	Not Implemented (3)	Superseded (4)		
01.12/13 Follow Up (Pool Cars)	1	0	0	1	0	0	0	1
02.12/13 Contract Management - Ground & Tree Maintenance	4	2	1	0	1	0	1	3
07.12/13 Corporate Governance	1	0	1	0	0	0	1	0
09.12/13 Creditors & Procurement	2	0	2	0	0	0	2	0
11.12/13 Follow Up	2	0	1	0	1	0	1	1
14.12/13 Council Tax	1	0	1	0	0	0	1	0
15.12/13 Housing Benefit	1	0	1	0	0	0	1	0
16.12/13 NNDR	2	0	1	0	1	0	1	1
Total	14 100%	2 14%	8 57%	1 7%	3 21%	0 0%	8 57%	6 43%

IMPLEMENTATION STATUS OF RECOMMENDATIONS BY CATEGORY

Recommendation Category	Total No. of recs agreed.	Status of Recommendation					Audit work confirmed as completed or no longer necessary (1)+(4)	No of recs carried forward for follow up at next review (2)+(3)+(5)
		Not due for implementation (5)	Implemented (1)	Implementation Ongoing (2)	Not Implemented (3)	Superseded (4)		
High	2	2	0	0	0	0	0	2
Medium	12	0	8	1	3	0	8	4
Total	14	2	8	1	3	0	8	6
	100%	14%	57%	7%	21%	0%	57%	43%

APPENDIX C: REVIEW OF COMPLETENESS**2011/12 REPORTS**

All 2011/12 Reports have been followed up.

2012/13 REPORTS FOLLOWED UP

Review	Total Number of Agreed Recommendations	Number of Recommendations Followed Up	Follow-up Report Reference
01.12/13 Follow-up (NNDR)	1	1	16.12/13
01.12/13 Follow-up (Cash & Banking)	1	1	17.12/13
01.12/13 Follow-up (Pool Cars)	1	1	This Review
02.12/13 Contract Management - Ground & Tree Maintenance	10	4*	This Review
03.12/13 Elections	4	0*	This Review
06.12/13 Bookings System - Arts Centre	5	0 (Advisory)	This Review
07.12/13 Corporate Governance	1	1	This Review
08.12/13 Asset Management Plan	2	0*	This Review
09.12/13 Creditors & Procurement	5	2*	This Review
11.12/13 Follow Up	2	2	This Review
12.12/13 Rent Collection and Arrears (including Leaseholders)	3	0*	This Review
14.12/13 Council Tax	1	1	This Review
15.12/13 Housing Benefit	2	1*	This Review
16.12/13 NNDR	4	2*	This Review

* As per the agreement with management, only those recommendations categorised as High and Medium have been followed up. Low recommendations will be followed up as part of the Council's internal recommendation tracking process.

Recommendation(s) to be followed up as part of the review of the audit area included in the Internal Audit Strategic Plan for 2012/13.

2012/13 REPORTS YET TO BE FOLLOWED UP

Review	Total Number of Agreed Recommendations	Number of Recommendations To Be Followed Up	Follow-up Report Reference
04.12/13 Licensing	1	0*	N/A
05.12/13 Leases	6	0*	N/A
10 12/13 Repairs	11	0*	N/A
13 12/13 Debtors	9	0*	N/A
17 12/13 Cash and Banking	4	0*	N/A
18 12/13 Fire Risk Implications	3	0 (Advisory)	N/A
19 12/13 Payroll and Expenses	5	0*	N/A
20 12/13 Land Charges	Only at Draft Stage	0*	N/A
21 12/13 Refuse Collection (incl. Bulky Waste)	Only at Draft Stage	0*	N/A
22 12/13 Programme Management	4	0*	N/A
23 12/13 Green Waste Charges	2	0*	N/A
24 12/13 Welham Street Car Park	Only at Draft Stage	0 (Advisory)	N/A

* As per the agreement with management, only those recommendations categorised as High and Medium have been followed up. Low recommendations will be followed up as part of the Council's internal recommendation tracking process.

Recommendation(s) to be followed up as part of the review of the audit area included in the Internal Audit Strategic Plan for 2012/13.

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: HEAD OF FINANCE

REPORT NO: HOF224

DATE: 14 March 2013

TITLE:	Risk Management and Strategy Update	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	None	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Councillor Mike Taylor Well Run Council Portfolio Holder	
CONTACT OFFICER:	David Scott Finance Support Manager (Finance and Risk) d.scott@southkesteven.gov.uk Tel: (01476) 406218	
INITIAL IMPACT ASSESSMENT:	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
Equality and Diversity	N/A	No
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS		

1. RECOMMENDATION

The Governance & Audit Committee is requested to:

- i) Endorse the actions being taken in respect of the Risk Management Advisory Review
- ii) note the latest version of the Corporate Risk Register
- iii) approve the updated Risk Management Strategy

2. PURPOSE OF THE REPORT

One of the key areas for the Committee as part of its terms of reference is to monitor and review the risk management arrangement in place and activities undertaken. This includes reviewing the Corporate Risk Register and Approval of the Council's Risk Management Strategy.

3. DETAILS OF REPORT

Risk Management Advisory Review

As part of the internal audit work plan for 2012/13 an advisory review has recently been undertaken on the effectiveness of the Risk Management arrangements in place across the Council. This is a critical success factor in the Council achieving its objectives and aids continuous development, and as far as possible, safeguard against loss or failure. The management of risk is central to good governance to ensure that direction and control is established and maintained.

Overall a positive conclusion was given on how the Council is managing risk effectively with Internal Audit noting the Council demonstrates it is a risk 'managed' organisation which is a result of adapting its risk management arrangements over the last year.

A copy of the Internal Audit report can be found at Appendix A which provides further details around the objectives of the review, findings and management comments on those areas for improvement.

Corporate Risk Registers

The Committee last reviewed the Corporate Risk Register at its meeting on 29th June 2012. In order to ensure the risk register is up to date and fit for purpose for the current environment a recent review has been undertaken in conjunction with Heads of Services and senior management to refresh existing risks to ensure they remain relevant and identify any other emerging risks. Consideration and review of the Corporate Risk Register is undertaken at the Performance and Programme Board. The resulting and updated Corporate Risk Register can be found at Appendix B. Whilst this hasn't resulted in any new risks being included there are number of updates which have been made, these are:

- **Economic/Financial Climate** – updated to include impact on collection rates / income levels following welfare reform changes.
- **Partnership Funding** – Mitigating actions have been identified and included on the latest risk register update
- **Town Centre Regeneration** – the risk and effects around the delivery around some key projects have been included along with actions required around these risks.
- **Performance of the Local Economy** – a number of additional controls have been identified including; Economic Development Strategy Action Plan, proposals to fund business support and enterprise week 2013.
- **Civil Parking Enforcement (CPE)** – CPE has now been introduced and therefore this risk has been removed off the register.

Risk Management Strategy:

Risk management, including the implementation of the strategy is a key element of the Council's overall governance arrangements. The strategy was last updated in June 2011 and in line with the Committees Terms of Reference it is good practice to review this every few years.

The review hasn't identified any fundamental changes to the existing strategy but there some areas which need updating including those identified in the recent Risk Management Advisory review in order for it to be more in line with the council's current operational processes. In the summary the changes are;

- **Types of Risk (section 5)** – Project risk has been included as part of the Councils new reporting and monitoring framework with the establishment of the Performance and Programme Management Board.
- **Risk Procedures (Appendix A)** – this has been updated to reflect the current working environment
- **Risk Management Process (Appendix B)** – a new section on Risk descriptions (section 3) has been added in order to support managers in the how they identify and managing risks. The tables within assessing the risks (section 4), has been represented to be more user friendly for officers using the strategy. Recognition of the new committee reporting template which places greater emphasis on risk identification to enhance members awareness and provide assurance (section 8)
- **Risk Categories (Appendix C)** – this remains unchanged
- **Roles and Responsibilities (Appendix D)** – this has been updated to reflect the role of the Performance and Programme Management Board.

The updated Strategy can be found at Appendix C and the next update of this strategy is likely to be undertaken in 2015 to ensure it remains fit for purpose and in line with the Councils risk management requirements.

4. OTHER OPTIONS CONSIDERED

None

5. RESOURCE IMPLICATIONS

This report has no direct impact on the Council's resources, including finance/ budget, people, land/property etc.

6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)

None

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

None

8. CRIME AND DISORDER IMPLICATIONS

None

9. COMMENT OF FINANCIAL SERVICES

These are contained within the report.

10. COMMENT OF LEGAL AND DEMOCRATIC SERVICES

Members of the Committee are responsible on behalf of the Council for monitoring actions taken by Cabinet and Management Team to identify corporate business risks and assess whether they are being effectively managed. It is essential they are kept up to date with details of the risks and how they have been mitigated.

11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER

None

12. APPENDICES:

Appendix A – Internal Audit Risk Management Advisory Review Report

Appendix B – Corporate Risk Register – March 2013

Appendix C – Risk Management Strategy March 2013 Update



RSM Tenon
Connected for Success

South Kesteven District Council
Risk Management Advisory Review

Internal Audit Report (28.12/13)

March 2013

FINAL

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Debrief meeting	16 January 2013	Auditors	Chris Williams, Partner
Draft report issued	14 February 2013		Robert Barnett, Senior Manager
Responses received	28 February 2013		Kelly Waddoups, Senior Auditor Duncan Short, Manager
Final report issued	01 March 2013	Client sponsor	Daren Turner, Strategic Director (Corporate Focus) Richard Wyles, Head of Finance David Scott, Finance Support Manager
		Distribution	Daren Turner, Strategic Director (Corporate Focus) Richard Wyles, Head of Finance David Scott, Finance Support Manager Tracey Elliott, Governance & Risk Officer



This review has been performed using RSM Tenon’s bespoke internal audit methodology, **i-RIS**.

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

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1 EXECUTIVE SUMMARY

1.1 Introduction

An advisory review of Risk Management was undertaken as part of the approved internal audit periodic plan for 2012/13.

The establishment of effective risk management arrangements is a critical success factor in all organisations if they are to achieve their objectives. Effective risk management both aids continuous improvement and, as far as possible, safeguards against loss or failure. The management of risk is central to good corporate governance to ensure that direction and control is established and maintained.

In looking at the objectives and risks as per the scope of this advisory review we looked at a number of areas of risk management activity. These were Corporate, Service and Project / Programme risk management as well as the overall strategy that brings this level of risks together.

The audit was designed to assess the controls in place to manage the following objectives and risks:

Objective	The objective of the audit is to review current risk management arrangements to develop an improvement plan that ensures that the Authority through continuous improvement maintains efficient and effective processes for the identification, assessment, monitoring and reporting of risk.
Risk	The Authority does not have a clear / robust methodology in place for identifying, assessing, prioritising, preventing or containing high priority risks. This may lead to risks not being identified or managed properly.
Risk	The Authority's risk management methodology is not consistently applied across the organisation resulting in a failure to identify and manage new 'exceptional risks' and a failure to monitor those existing 'Business as usual' risks through the accountability statements.

1.2 Conclusion

The Council still demonstrates that it is a risk 'managed' organisation; which has been as a result of adapting its risk management arrangements over the last year to incorporate project and programme risk management. Moving forward the Council has outlined its intention to align risk management more closely with the business planning process which if applied correctly should increase the value the Council receives from its risk management processes and help to achieve the Councils objectives.

The Council has an established process in place for the management of Corporate risks which has been added to, in the past year, through the involvement of the Performance and Programme Management Board (PPMB). It has also been noted that the management of project / programme risks has developed over the last 12 months by the Performance and Programme Management Office (PPMO) with support by the Council's Governance & Risk Officer.

The Councils Service risks are formally updated and reviewed every six months and it has been recommended that this be increased to a quarterly update to align with the frequency that the Corporate risks are updated and therefore ensure that any changes in the Service risk profile of the Council can be considered when reviewing the Corporate risks.

During the review, we also discussed with the officers responsible for risk management some areas within the Council's Risk Management Strategy that could be updated and we understand that these areas have been considered and incorporated as appropriate in the next iteration of the strategy.

A number of recommendations have been made for the Council to consider that support this conclusion. These can be found in Section 2.

1.3 Scope of the review

To review the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion.

Limitations to the scope of the audit:

- We did not seek to identify the risks faced by the organisation.
- The review did not consider the totality of the risks identified.
- The review did not consider whether the risks identified had been scored adequately.
- Testing was completed on a sample basis
- We did not actively seek to detect fraud or error.

It must also be noted that our work does not provide an absolute assurance that material errors, loss or fraud do not exist.

The approach taken for this audit was an advisory review.

1.4 Recommendations Summary

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Corporate Risk	0	0	0
Service Risk	0	2	0
Risk Management Strategy	0	0	0
Total	0	2	0

The recommendations address the risks within the scope of the audit as set out below:

Risk	Priority		
	High	Medium	Low
The Authority does not have a clear/robust methodology in place for identifying, assessing, prioritising, preventing or containing high priority risks. This may lead to risks not being identified or managed properly	0	2	0
The Authority's risk management methodology is not consistently applied across the organisation resulting in a failure to identify and manage new 'exceptional risks' and a failure to monitor those existing 'Business as usual' risks through the accountability statements.	0	0	0
Total	0	2	0

1.5 Additional Feedback

Good Practice Identified During the Audit

Through the audit we identified that the Council has continued to monitor its Corporate and Service risks as part of a formalised process and that changes in the Service risk profile have been reported where appropriate for consideration on the Corporate Risk Register. This demonstrates that the Council has a level of understanding between the relationship between its Corporate and Service risks.

2 ACTION PLAN

The priority of the recommendations made is as follows:

Priority	Description
High	
Medium	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Low	
Suggestion	These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
Service Risk					
1	Service risks should be updated by Managers on a quarterly basis; this will align the review process with the Corporate risk process. The additional quarterly reviews (currently every six months) could be just an update being provided by the manager rather than an update meeting facilitated by the Governance & Risk Officer.	Medium	Y	Service Managers will be asked to update their risks in the quarters between the facilitated meetings.	March 2013 Finance Support Manager (Finance & Risk)
2	The Risk Management Group should: <ul style="list-style-type: none"> review the Service Risk Register on a quarterly basis; this will align the review process with the Corporate risk process; and monitor actions from the Service Risk Register at each meeting. 	Medium	Y	This will be incorporated into future Risk Management Group agenda items.	March 2013 Finance Support Manager (Finance & Risk)

Appendix B Corporate Risk Register

March 2013



Risk Ref	Risk & Risk Category	Risk Description	Responsibility Level & Portfolio Holder	Risk Factors	Potential Effect	Controls	Residual			Actions
							Impact	Likelihood	Risk Score	
1	Economic/ Financial Climate Financial Risk	1a Failure to achieve a sustainable Medium Term Financial Plan (MTFP) in response to legislative changes, specifically localisation of council tax benefit and business rate retention	Strategic Director – Corporate Focus Head of Finance Well Run Council Portfolio Holder Good Housing Portfolio Holder	<ul style="list-style-type: none"> Proposed changes to formula grant distribution methodology (Non Domestic Rate) Localisation of council tax benefit changes Collection rates being affected by welfare reform 	<ul style="list-style-type: none"> Reduction in grant and ability to collect income due to the authority could compromise the delivery of council priorities 	<ul style="list-style-type: none"> Scenario planning in order to model potential national changes MTFP underpinning delivery of corporate plan in order to ensure priority actions are deliverable and affordable 	3	2	6	<ul style="list-style-type: none"> Continue to keep under review all existing and emerging risks and assumptions set out in the MTFP, including linkages to other key strategies and priorities Delivery of transformational programme with key actions aimed at ensuring annual balanced budget and medium term financial sustainability
2	Partnership Funding Partnership Risk	Risk that a loss of partnerships/ Service Level Agreements (SLA), income or grant funding could result in financial implications and a decline in service delivery	Strategic Director – Corporate Focus Head of Finance Strategic Partnerships Portfolio Holder	<ul style="list-style-type: none"> Ongoing projects or priority plans which have a dependency on external financial support 	<ul style="list-style-type: none"> Resource issues to deliver partnership driven projects or increase in financial pressures 	<ul style="list-style-type: none"> Keep abreast of Government plans and ensure coordinated and managed approach Ensure regular monitoring of SLA's, partnerships and funding Ensure performance information is regularly monitored, reviewed and reported. Ensure effective communication and regular liaison with 	3	2	6	<ul style="list-style-type: none"> Develop and implement governance structure utilising Bridge toolkit methodology Regularly review performance and actions of partnerships and identify risks when necessary

Risk Ref	Risk & Risk Category	Risk Description	Responsibility Level & Portfolio Holder	Risk Factors	Potential Effect	Controls	Residual			Actions
							Impact	Likelihood	Risk Score	
						partners, funding bodies and staff etc				
3	Town Centre Regeneration Economic Risk	Failure to deliver on the priorities of the organisation due to prevailing economic and market conditions	Strategic Director – Development and Growth Head of Development and Growth Grow the Economy Portfolio Holder	<ul style="list-style-type: none"> Economic uncertainty Lack of certainty with retailers No tradition as an office market location Failure to respond positively to opportunities as they arise Insufficient funding for public sector interventions Failure to secure land through Compulsory Purchase Order process 	<ul style="list-style-type: none"> Out-migration of businesses to alternative locations Lost opportunity for inward investment and growth of indigenous companies Loss of market share in retailing Difficulty in selling Grantham as a retail destination to investors and shoppers Unemployment Continued search for modern office market in the town centre Town centre congestion 	<ul style="list-style-type: none"> Ensure key projects are realistically assessed having regard to funding and local economic/ market factors Ensure views of key partners and stakeholders are sought Provide targeted support to projects Provide a framework to set out opportunities in the town centre Planning framework via Core Strategy and associated documents 	3	2	6	<ul style="list-style-type: none"> Seek funding opportunities Promote town centre through events and festivals Continue investment in public realm to improve attractiveness of the town centre Marketing opportunities for investment in Grantham and provide Development Team to assist enquiries Roll-out shop front scheme Delivery of Station Approach Delivery of Grantham Business Innovation Centre Progress of projects through corporate governance and project management
4	Performance of the Local Economy Economic Risk	Failure to identify and implement actions to support the community and businesses to minimise where possible the effects of the economic downturn.	Strategic Director – Development and Growth Head of Development and Growth Grow the Economy Portfolio Holder	<ul style="list-style-type: none"> Unable to respond adequately to the failure of a large employer or the potential of national and local industrial action 	<ul style="list-style-type: none"> Unemployment leading to increased cost pressures such as housing benefits Breakdown of supply chain Loss of revenue linked to proposed changes to Non Domestic Rate grant distribution methodology Poor perception of the viability of the District as a place to do 	<ul style="list-style-type: none"> Business relationship management Protocols in place with partner organisations Destination SK project scoped to attract new business Economic Development Strategy Action Plan Proposals to fund Business Support contract to replace 	3	2	6	<ul style="list-style-type: none"> Ensure appropriate support available to residents, local community, local businesses and the Council itself Ensure key actions and interventions of council and partners are effectively communicated and managed Ensure the vibrancy of market towns through

Risk Ref	Risk & Risk Category	Risk Description	Responsibility Level & Portfolio Holder	Risk Factors	Potential Effect	Controls	Residual			Actions
							Impact	Likelihood	Risk Score	
					business	loss of local Business Link capacity • Enterprise Week 2013				local economic initiatives
5	Business or Service Disruptions Environmental Risk Physical Risk	Failure to have robust plans and contingency arrangements in place to deal with the impacts of severe weather conditions or industrial action	All	• Failure in provision of service	<ul style="list-style-type: none"> • Staff shortages • Diminished service provision • Failure to meet customer's needs • Unable to respond to blue light services 	<ul style="list-style-type: none"> • Corporate Business Continuity Plan (BCP) • Service BCPs • Staff training and awareness • Emergency Plan • Extra guidance for industrial action circulated to key staff 	3	2	6	<ul style="list-style-type: none"> • Ensure BCPs and emergency plans are regularly reviewed and updated • Ensure action to be taken is clearly communicated to relevant staff and the local community
6	Workforce Planning Reputational Risk (Internal)	6a Failure to recruit, retain and develop staff to an adequate standard	Strategic Director – Corporate Focus Head of People, Projects & Performance Well Run Council Portfolio Holder	• Failure to develop workforce strategy and inability to harness skills analysis, resource gap analysis and development of key resources	<ul style="list-style-type: none"> • Poor service delivery • Low staff morale • High turnover 	<ul style="list-style-type: none"> • Learning & Development Plan principles now agreed to be delivered during year • Workforce plan is being developed for whole organisation • Leadership programme in place 	2	1	2	<ul style="list-style-type: none"> • Tactical response is in place and this has led to 'its all about people' programme including H&S and other generic skills • Development and delivery of a corporate learning and development training programme on the back of detailed service plans for 2012/13 • Workforce delivery plans to be established to develop staff and harness skills across the organisation

Risk Ref	Risk & Risk Category	Risk Description	Responsibility Level & Portfolio Holder	Risk Factors	Potential Effect	Controls	Residual			Actions
							Impact	Likelihood	Risk Score	
		6b Reduction in staff morale due to organisational change etc		<ul style="list-style-type: none"> Failure to manage the communication of organisational change 	<ul style="list-style-type: none"> Loss of capacity Increased levels of stress and sickness Reduced service delivery Failure to deliver priorities Industrial action 	<ul style="list-style-type: none"> The Council has developed an "Unlocking Our Potential" culture change programme to incorporate leadership, management, customer focus and performance management/delivery 	2	2	4	<ul style="list-style-type: none"> Continue to develop the culture change programme
7	Corporate Performance Management Framework Reputational Risk Customer Risk Financial Risk	Failure to integrate new localised performance framework together with local measures linked to priority actions	Strategic Director – Corporate Focus Head of People, Projects & Performance Well Run Council Portfolio Holder	<ul style="list-style-type: none"> Inability to evidence performance 	<ul style="list-style-type: none"> Missed targets Damaged reputation Poor service delivery Poor Value for Money (VFM) 	<ul style="list-style-type: none"> Establishment of Performance & Programme Management Board Establishment of Programme & Performance Management Office who monitor and report on exceptions Clear project methodology and performance measures in place 	3	1	3	<ul style="list-style-type: none"> Comprehensive review of the Performance Management Framework being linked to ensuring key priority actions are delivered
8	Reputation & Community Liaison Reputational Risk Customer Risk	Failure to keep the community informed	Strategic Director – Corporate Focus Head of People, Projects & Performance Localism Portfolio Holder	<ul style="list-style-type: none"> Increased media scrutiny Erosion in trust or confidence in the Council Failure to match social and political expectations Failure to deliver minimum standards of service to the community 	<ul style="list-style-type: none"> Loss of public trust and confidence Failure to deliver on corporate priorities due to perception of the Council Unable to deliver core services Additional processes to reassure the public 	<ul style="list-style-type: none"> Ensure effective communication with media/staff/members Monitor media coverage and establish strong relationships with media Communications Plan based on priorities/projects Partnership working with Community Focus Group on major projects to gain feedback 	3	2	6	<ul style="list-style-type: none"> Ensure effective arrangements are in place in accordance with the requirements of the Localism Bill Ensure both the Communication Plan and Consultation and Engagement Strategy are in line with our priorities and commitment to better engage with our community Establish stronger relationships with our

Risk Ref	Risk & Risk Category	Risk Description	Responsibility Level & Portfolio Holder	Risk Factors	Potential Effect	Controls	Residual			Actions
							Impact	Likelihood	Risk Score	
						<ul style="list-style-type: none"> • Consultation feedback on satisfaction with how we communicate with our residents • Regular engagement with our customers to ensure we focus on what is important to them • Our messages are published/promoted through our own magazine SKToday • Members newsletter – Members’ News • Staff newsletter – Insight • Website is closely monitored, updated and improved • Citizen’s panel being considered 				<ul style="list-style-type: none"> • parish councils to improve overall communication with them and the public in general. This will involve new ‘drop-in’ sessions across the district and a regular e-newsletter • Continue to develop Community Events to promote the council’s priorities and listen to what is important to our residents • Ensure we continually seek the views of our staff/members to improve internal communications (newsletters) • Continue to improve our website so residents can better access our services
9	ICT Infrastructure Technological Risk Customer Risk	Ability for ICT infrastructure and support systems to be adapted and configured in order to provide a resilient framework, specifically to meet the challenges of agile working and customer information databases	Strategic Director – Corporate Focus Head of Finance Well Run Council Portfolio Holder	<ul style="list-style-type: none"> • Failure to implement and sustain a robust ICT infrastructure that is resilient and flexible enough to meet the challenge of the delivery of an agile workforce • Aging ICT hardware and network which is inflexible and costly to support 	<ul style="list-style-type: none"> • Pressures on ICT platform causing difficulties to deliver quality services and creating an inflexible ICT infrastructure 	<ul style="list-style-type: none"> • ICT strategy setting out roadmap for development • Close linkages to corporate priorities • Review of service resourcing and opportunities for partnerships 	3	1	3	<ul style="list-style-type: none"> • ICT strategy approved and a plan agreed • ICT audit of systems including resilience and capacity • Formation of ICT Steering Board to oversee implementation of action plan

Risk Ref	Risk & Risk Category	Risk Description	Responsibility Level & Portfolio Holder	Risk Factors	Potential Effect	Controls	Residual			Actions
							Impact	Likelihood	Risk Score	
10	<p>Tree Stock Condition</p> <p>Economic Risk Customer Risk Reputational Risk</p>	Insufficient information relating to the current tree stock condition that is within the responsibility of South Kesteven DC and the inactivity of the incumbent contractor to undertake tree stock condition survey	<p>Strategic Director – Corporate Focus</p> <p>Head of Property Development</p> <p>Green, Clean & Healthy Portfolio Holder</p>	<ul style="list-style-type: none"> • Risk of damage to property from inappropriately sited trees • Risk of damage to property from trees that are dead, dying or dangerous • Risk of injury to public from trees that are dead, dying or dangerous 	<ul style="list-style-type: none"> • Significant insurance claims from damage caused or sustained injuries • Loss of public trust and confidence in our operations and contractor 	<ul style="list-style-type: none"> • Carry out stock condition survey of all trees within the responsibility of South Kesteven District Council • Develop a management plan to deal with the trees assessed as highest risk • Carry out felling and tree surgery works to illuminate risk as far as possible 	3	2	6	<ul style="list-style-type: none"> • Act upon the findings of the stock condition survey

Heat Map – Residual risk scores

I M P A C T	CRITICAL None or very low tolerance to the risk	4	4	8	12	16
	MAJOR Some tolerance to the risk	3	7 9 3	1 2 3 4 6 5 8 10	9	12
	MINOR Risk can be tolerated in most cases	2	6a 2	6b 4	6	8
	NEGLIGIBLE Risk can be tolerated	1	1	2	3	4
			1	2	3	4
		UNLIKELY	POSSIBLE	LIKELY	CERTAIN	
		LIKELIHOOD				



Risk Management Strategy

Contents:

- Risk Management Policy
- 1 Introduction and Background
- 2 Risk Management Objectives
- 3 What is Risk?
- 4 What is Risk Management?
- 5 Types of Risk
- 6 Risk Appetite
- 7 Embedding Risk Management
- 8 Risk Assurance
- 9 Methodology
- 10 Roles and Responsibilities

Appendices:

- A Risk Management Procedures
- B Risk Management Process
- C Risk Categories
- D Roles and Responsibilities

Part A – Risk Management Policy

The Council is committed to developing its Risk Management Strategy, framework and the necessary supporting processes as part of the Council's on-going improvement programme. This will help to improve and strengthen governance and front-line service delivery throughout the Council. The aim is to minimise the incidence and impact of risk taking activity, improve decision making and increase opportunities for innovation. The strategy implementation is achieved via the procedural guidance which should be adhered to by all staff.

The Council undertakes to promote and ensure that:

- i. The management of risk is linked to performance improvement and the achievement of its priorities and service objectives.
- ii. Members and the senior management own, lead and support risk management.
- iii. Ownership and accountability are clearly assigned for the management of risks at all levels throughout the Council.
- iv. There is a commitment to embedding risk management into the Council's culture and organisational processes at all levels including corporate, programme, project, operational and service.
- v. All Members and Officers acknowledge and embrace the importance of risk management as a process by which key risks and opportunities are identified, evaluated, managed and contribute towards good governance. This is reinforced through the delivery of on-going training programmes.
- vi. Effective monitoring and reporting mechanisms are in place to continuously review the Council's exposure to, and management of, risks and opportunities.
- vii. Open and inclusive processes are established and maintained by involving all those associated with the planning and delivery of services, including stakeholders and partners.
- viii. Best practice systems for managing risk are used throughout the Council, including mechanisms for monitoring and reviewing effectiveness against agreed standards and targets.
- ix. Accountability to stakeholders is fully demonstrated through periodic progress reports and an annual statement on the effectiveness of and the added value (benefits) from the Council's risk management strategy, framework and processes.
- x. The Council's approach is regularly benchmarked against high performing public and private sector organisations.
- xi. The Risk Management Strategy is reviewed and updated in line with the Council's developing needs and requirements.

Part B – Risk Management Procedural Guidance

1. Introduction and Background

This Strategy provides an overview of the Council's arrangements for risk management. It updates the previous Strategy (June 2011) and seeks to clarify the various roles, responsibilities and governance structures. The procedural guidance may be subject to further review and amendment as required subject to approval by the s151 Officer and the Deputy s151 Officer - the Council's risk champions.

Through priority plans and service objectives, the Council must balance the demands of service users, tax payers; involve communities in service provision; deliver, commission and regulate services; and enter into local and strategic partnerships, sometimes involving complex funding arrangements. Balancing all these competing demands and objectives means that the Council needs a framework that ensures that a pro-active approach is taken and risks are considered before decisions are taken.

Risk management is an essential part of securing the "health" of the Council because it is a crucial part of the overall arrangements for securing effective corporate governance. Risk management can make a difference and enhance performance by:

- Identifying and preventing the bad things from happening; and
- Ensuring all the good things we want to do actually happen

The Council has to comply with various statutory requirements that include issues relating to risk management. Risk management is a key element of the Council's arrangements for delivering good governance.

2. Risk Management Objectives

The purpose of this strategy is to set out how we will manage risk throughout the Council and to ensure that risks are identified at the right time to facilitate effective decision making. In particular to:

- Ensure risk management is part of strategic and operational management decision making, planning and implementation
- Manage risks in accordance with the Council's risk management strategy, recognised best practice and to enable good governance
- Take account of internal and external changes that may impact on the Council's overall risk profile
- Respond to risk in a balanced way, mindful of the risk level, risk reduction potential, cost/benefit, and relationship to resource constraints
- Raise awareness of the need for effective risk management

3. What is Risk?

Risk can be defined as anything that poses a threat to the achievement of the Council's objectives, programmes or service delivery to residents, businesses and communities. It can come from inside or outside the organisation; may involve financial loss or gain; physical damage to people or property; customer dissatisfaction; unfavourable publicity; failure of equipment; or fraud, etc. Failure to take advantage of opportunities may also have risks, eg not bidding for external funding, etc.

4. What is Risk Management?

Risk management is the management of risk in a manner consistent with the virtues of economy, efficiency and effectiveness. It is about making the most of opportunities (making the right decisions) and about achieving objectives once such decisions are made.

There is no such thing as a risk free environment, but many risks can be avoided, reduced or eliminated through good risk management – something managers do every day as part of their normal work.

There are many benefits to making sure that risk management is considered and applied at all levels in the Council:

- Allows managers to focus on issues that really matter
- Managers are focussed on doing the right things in the right way
- There are fewer surprises
- More likely to achieve business objectives
- More likely that new developments can be delivered on time and on budget
- More informed risk taking and decision making

5. Types of Risk

To aid the management of risk we have set out the following categories:

- Corporate risk
- Service risk
- Project risk

Corporate Risks are those high level and cross cutting risks which need to be taken into account in judgements about the Council's priorities, plans and objectives. It also includes those risks that may be potentially damaging to the achievement of the Council's key objectives, such as those set out in the Council's corporate plan. These are identified as part of the process of preparing the corporate plan and other related strategies, eg the Medium Term Financial Plan. Members and officers are involved in the identification, assessment and treatment of those risks. The identified risks are recorded on an electronic database and monitored by Members and Officers during the year.

All reports to Members include a risk management assessment.

Service Risks are those risks that exist at service level but are considered exceptional (or not considered business as usual) in that they have come about through a change in activities (internally/externally) that cannot be managed through normal day to day controls. They could also be the result of a failure in control that threatens the ability to maintain business as usual and jeopardises the Council's ability to achieve its objectives (thus by its nature is exceptional).

As part of the annual cycle of service plan preparation, all service plans include a risk assessment of the service area actions which are provided by Service Managers and approved by Heads of Service.

We are committed to ensuring that we comply with the necessary Health & Safety legislation to ensure the safety of our Members, workforce, visitors and contractors whilst on our premises and those who use any of our facilities.

Project Risks are those risks unique to a particular project. Some projects will have a direct effect on the Council achieving its key objectives. They are captured in a risk log, monitored monthly and reported to the Performance and Programme Management Board.

The procedures for how the different risks are managed are explained in **Appendix A**.

6. Risk Appetite

Risk management is not about being 'risk averse' – it is about being 'risk aware'. Risk is ever present and some amount of risk taking is inevitable if the Council is to achieve its objectives. Risk management is about making the most of opportunities and about achieving objectives once those decisions are made. By being risk aware the Council is in a better position to avoid threats and take advantage of opportunities. A clearly understood and articulated risk appetite assists in this 'risk awareness' and helps unlock value by better aligning decision-making and risk.

Risk appetite can be defined as the amount of risk that an organisation is willing to take on in pursuit of value, or in other words, the total impact of risk an organisation is prepared to accept in the pursuit of its strategic objectives.

Factors such as the external environment, people, business systems and policies and how key stakeholders perceive the Authority will all influence the Council's risk appetite.

7. Embedding Risk Management

The Portfolio Holder and the Senior Management Team are jointly responsible for ensuring that risk management is embedded throughout the Council.

It is the responsibility of the Heads of Service and Service Managers to ensure that within their directorate and service areas, risks are being effectively managed.

The Governance & Audit Committee is responsible for scrutinising our risk management systems.

It is important that the principles of this Strategy are communicated to partners and that the arrangements for managing risk are clearly understood.

The Finance & Risk Team will provide advice and assurance on a day to day basis.

8. Risk Assurance

We will obtain assurance that our risk management processes are working effectively by:

- Examination and review providing general review of the function
- Following the procedures set out in **Appendix A**

9. Methodology

We use the methodology set out in **Appendices B and C** when undertaking risk assessments.

10. Roles and Responsibilities

All Officers and Members have a key responsibility to ensure that risk management is effective across the whole of the authority's operations. Specific roles and responsibilities are set out in **Appendix D**.

Appendix A - Risk Procedures

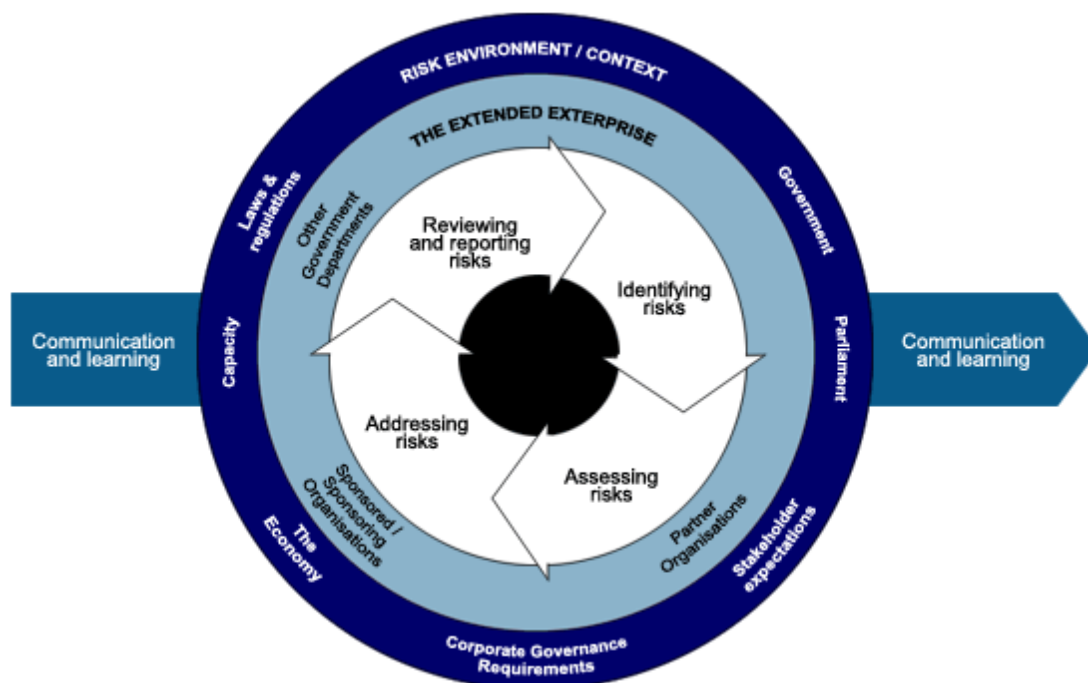
	Corporate Risk Register	Service Risk Register	Projects	Service Planning	Health & Safety	Business Continuity
Identification	Quarterly review by Heads of Service with Governance & Risk Officer	Bi annual review by Service Managers with Governance & Risk Officer	Part of the Project Initiation Document	Annual review by Service Managers as part of the service planning process	Service Managers and those IOSH Managing Safely trained	Continuous review of business continuity risks by Service Managers
Assessment	Performance & Programme Management Board (PPMB)	<ul style="list-style-type: none"> • Service Managers • Heads of Service 	<ul style="list-style-type: none"> • Project Manager • Senior Responsible Officer • Performance & Programme Management Office (PPMO) 	<ul style="list-style-type: none"> • Service Managers • Risk Management Group 	<ul style="list-style-type: none"> • Service Managers • IOSH Managing Safely trained 	<ul style="list-style-type: none"> • Service Managers • Heads of Service • Emergency Planning Officer
Addressing	Risk, treatment, owner and reporting mechanism identified and details recorded electronically in Covalent					Production of service business continuity plans along with actions
Reviewing and reporting	<ul style="list-style-type: none"> • Quarterly report to PPMB • Bi annual report to Governance & Audit Committee 	<ul style="list-style-type: none"> • Bi annual report to Risk Management Group • Quarterly review and updates to Risk Management Group 	<ul style="list-style-type: none"> • Steering groups • Monthly report to Performance and Programme Management Board (PPMB) • High level risks escalated to Corporate Risk Register which is reported to PPMB quarterly 	<ul style="list-style-type: none"> • Strategic Directors and Members 	<ul style="list-style-type: none"> • H&S Group • Corporate H&S Annual Report 	<ul style="list-style-type: none"> • Annual report to Governance & Audit Committee
Assurance	<ul style="list-style-type: none"> • Review by internal audit • Review by external audit • Annual Governance Statement 	<ul style="list-style-type: none"> • Quarterly Assurance Statements • Review by internal audit 	<ul style="list-style-type: none"> • PPMB 	<ul style="list-style-type: none"> • Quarterly Assurance Statements • Review by internal audit 	<ul style="list-style-type: none"> • External reviews 	<ul style="list-style-type: none"> • Desk top exercises to determine robustness of plans • External reviews

Appendix B - Risk Management Process

1. The Risk Management Process

The process used will incorporate the following steps:

- a) Identifying the risk
- b) Assessing the risk
- c) Addressing the risk – the risk control mechanism
- d) Assigning the risk ownership
- e) Reviewing and reporting the risk
- f) Providing assurance



2. Identifying the Risk

There is no single solution to identify risks. Here are some examples:

- a) Where risk management is becoming established, eg corporate risks, existing risks are reviewed quarterly and amended according to changes in the corporate plan priorities
- b) Other risks, eg when considering new activities, may be identified by comparison against the categories listed in **Appendix C**
- c) Business continuity will be identified by events that can be foreseen which prevent service delivery based around service risk register and other internal business risks
- d) Health and safety risks are usually, but not exclusively, identified by Service Managers or IOSH Managing Safely trained officers within the authority

3. Risk Description

The risks and opportunities identified need to be recorded in a structured format. A description covering the Cause, Event and Effect is used to scope a risk or opportunity. Guidance on some typical phrasing or statements is listed below:

Cause	Event	Effect
Because of..... As a result of..... Due to.....	<an uncertain event ie risk or opportunity> may occur.....	which would lead to <effect on objective(s)>

Event	Cause	Effect
Risk of..... Failure to..... Failure of..... Lack of..... Loss of..... Uncertainty of..... Delay in..... Inability to..... Inadequate..... Partnership with..... Development of..... Opportunity to..... due to..... leads to and/or..... results in.....

4. Assessing the Risk

Risk is assessed by the combination of two factors - the likelihood of something happening and the impact if it does happen. This can be represented graphically on a simple 4x4 matrix as shown below:

IMPACT	CRITICAL None or very low tolerance to the risk	4	4	8	12	16
	MAJOR Some tolerance to the risk	3	3	6	9	12
	MINOR Risk can be tolerated in most cases	2	2	4	6	8
	NEGLIGIBLE Risk can be tolerated	1	1	2	3	4
			1	2	3	4
		UNLIKELY Never occurred before	POSSIBLE Infrequent occurrence (within 12 months)	LIKELY Regular occurrence (within 3 months)	CERTAIN Frequent occurrence (daily, weekly or monthly)	
		LIKELIHOOD				

Risk Impact Descriptions:

IMPACT	Finance	Service Quality/ Objective	Legal/ Regulatory	Reputation	Health & Safety
4 CRITICAL	Over £500K loss	Complete failure of service (1-24 hours) or service affected for over 3 months Unable to meet business objectives	Loss of licence status or criminal prosecution from an external agency	Reputational damage is irrecoverable Front page of national newspaper	Fatality
3 MAJOR	£250K to £499K loss	Partial failure of service up to 3 months Re-prioritisation of business objectives	Legal case leading to an investigation or change of procedures	Localised reputational damage with groups of individuals/ businesses Front page of local newspaper	Serious injury and/or multiple illness
2 MINOR	£25K to £249K loss	Service marginally impaired Some impact on business objectives but recoverable	Legal action or regulatory penalty	Temporary reputational damage with individuals	HSE reportable incident
1 NEGLIGIBLE	Under £24K loss	Negligible effects on service quality or business objectives	Minor non- reportable incident	No effects on reputation	No injury or very minor injury

The worse case or effect will determine the risk impact ie £25K to £249K cost (Minor) but a fatality (Critical). The fatality over-rides the cost so the higher impact is applied - each risk is not required to meet all criteria in the description.

Definition of Risk Level:

16	Very High	Immediate escalation of risk to S151 officer/SMT for decision on action
9-12	High	Significant actions should be planned to mitigate the risk and implemented urgently. Risk to be referred to SMT

These risks will have an extreme effect on the operation of the business or its service delivery, resulting in significant financial loss, major service disruption or significant impact on the public eg major system failure, major flood or fire. These risks require immediate comprehensive action with senior management involvement.

4-8	Medium	Risk is acceptable as long as current control measures remain in place and are effective. Further actions to mitigate the risk should be explored
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These risks will have a noticeable effect on service provision, causing a degree of disruption and impinging on budgets eg fraud/theft, system failure or fire. Consequences of the risk materialising would be severe but not extreme. Some immediate action is required and the development of an action plan. They can be managed by specific monitoring or response procedures.

1-3	Low	Acceptable level of risk subject to regular monitoring
------------	------------	--

These risks are not severe and will be managed using routine monitoring procedures, unlikely to need specific or significant application of resources. Individually such risks will have a negligible effect on service provision and any associated loss is relatively small, but if left untreated these risks could have a more significant cumulative effect eg missed deadlines, minor incidents or service disruption.

5. Addressing the Risk

There are three key stages to be taken when addressing a risk, they are:

- Decide how you are going to deal with the risk (see 5.1 for definition)
- If necessary what action is going to be taken to treat or control the risk (see 5.2 for definition)
- Identify the person responsible for controlling the risk (see 5.3 for definition)

6. Deal with the Risk

There are five courses of action for dealing with the risk:

- Tolerate the risk - take no further action
- Treat the risk - this is the most used option (see below for ways to treat risk)
- Transfer the risk - take out insurance or involve a third party
- Terminate the risk - stop doing what is causing the risk
- Take the opportunity - this encourages thoughts about additional opportunities that may arise if you decide to tolerate, treat or transfer the risk

Treat/Control the risk: If you decide to treat the risk, a control mechanism must be put in place. Consider these four types of control:

- Preventative controls – designed to limit the possibility of something undesirable happening eg separation of duties in a financial system to reduce the risk of fraud occurring
- Corrective controls – designed to limit the damage/impact should the risk arise eg effective contingency planning
- Directive controls – designed to ensure a particular outcome is achieved eg insistence that workers wear protective clothing to help reduce the likelihood of harm
- Detective controls – designed to identify an undesirable outcome that has arisen eg stock takes alert to the fact theft has possibly taken place

Identify the owner: The owner of the risk should be the person who is best placed to inform and monitor the risk. Delegation for monitoring the risk and any associated/resulting actions may be undertaken, however overall responsibility for the risk remains with the risk owner. All risks must have an owner to ensure they are controlled effectively.

7. Monitor and Review

Risks need to be reviewed and reported upon:

- a) To identify if risks are changing and their impact on the Council's objectives
- b) To gain assurance that risk management is effective

8. Assurance

Assurance will be provided that the Council's approach to risk management is working by:

- a) Setting up systems which include the reporting of:
 - Risks identified
 - Risk owners
 - Risk treatment
 - Reporting mechanism
- b) Review of the risk management system by:
 - Risk Management Group
 - Performance and Programme Management Board
 - Governance & Audit Committee
 - Internal audit
 - External audit
- c) Quarterly Assurance Statements – this ensures the efficient application and integration of risks, controls and assurances coupled with their reporting and monitoring. The Governance & Audit Committee will review annually the on-going effectiveness of the Council's risk controls assurance framework.
- d) Committee Reports - Integration of risk identification as part of the member review and approval process following the inclusion of a risk table on the reporting template.

Appendix C – Risk Categories

<p style="text-align: center;">CORPORATE</p> <p style="text-align: center;">Risks which need to be taken account of in judgements about the long term goals and objectives of the Council</p>	<p style="text-align: center;">SERVICE/BUSINESS CONTINUITY</p> <p style="text-align: center;">Risks which managers and staff will encounter in the course of their daily work</p>
<p>Political Associated with failure to deliver either local or central government policy, or to meet the local manifesto commitments.</p>	<p>Professional Associated with the particular nature of each profession.</p>
<p>Economic Affecting the ability of the council to meet its financial commitments e.g. internal budgetary pressures, failure to purchase adequate insurance provision, external macro level economic changes and consequences of investment decisions.</p>	<p>Financial Associated with financial planning and control and the adequacy of insurance cover.</p>
<p>Social Relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to deliver its objectives.</p>	<p>Legal Relating to possible breaches of legislation.</p>
<p>Technological Associated with the capacity of the Council to deal with the pace/scale of technological changes, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures in the Council's ability to deliver its objectives.</p>	<p>Physical Relating to fire, security, accident prevention and health and safety. This would also include staff shortages and knowledge shortage.</p>
<p>Legislative Associated with current law or potential changes in National or European law.</p>	<p>Contractual Associated with the failure of contractors to deliver services or products to the agreed cost or specification (including fuel suppliers).</p>
<p>Environmental Relating to the environmental consequences of progressing the Council's strategic objectives eg energy efficiency, pollution, recycling, landfill requirements and emissions etc.</p>	<p>Technological Relation to reliance on operational equipment eg IT systems (loss of data or loss of access to data) or equipment and machinery.</p>
<p>Competitive Affecting the competitiveness of the service (in terms of cost and quality) and/or ability to deliver Added Value.</p>	<p>Environmental Relating to pollution, noise or energy efficiency of ongoing service operations and weather related disruption.</p>
<p>Customer Associated with failure to meet the current and changing needs and expectations of customers/clients/citizens.</p>	<p>Health & Safety Affecting the safety and well being of staff and the public.</p>
<p>Partnership Associated with working with other councils, agencies and the private and voluntary sector to deliver the Council's objectives.</p>	
<p>Sustainability Associated with maintaining and improving South Kesteven as a place to live, work or visit.</p>	
<p>Reputational Relating to the confidence, or otherwise, that partners, customers, staff and the public have in the Council.</p>	

Appendix D - Roles & Responsibilities

All Officers and Members have a responsibility to ensure that risk management is effective across the whole of the Authority's operations. Specific roles and responsibilities are set out below:

The Executive

- Determine the overall approach and attitude to risk management
- Provide assurance to members that high risks are being identified and managed
- Review and monitor the Corporate Risk Register

Designated Portfolio Holder

- Strategic endorsement of the overall approach and attitude to risk management
- Champion risk management

Governance & Audit Committee

- Approve the Risk Management Strategy
- Monitor the implementation of the strategy
- Review the Annual Governance Statement, including effectiveness of risk management
- Provide assurance to members that high risks are being identified and managed
- Scrutiny of the system of internal control, including risk management arrangements and assurance statements from Service Managers and Heads of Service
- Receive quarterly reports on risk management including any significant changes to the Authority's risk profile including the risk controls assurance framework

Chief Executive

- Strategic leadership that endorses the implementation of the Risk Management Strategy across the Council

The s151 Officer (Strategic Director – Corporate Focus)

- Champion risk management
- Overall responsibility for maintenance and delivery of risk management across the Authority
- Promulgate and promote the strategy

Performance and Programme Management Board (includes Management Team)

- Monitor the Corporate Risk Register
- Take ownership, as appropriate, of the identified corporate risks
- Monitor Project Risk Registers
- Raise awareness of risk with Members and Officers as appropriate

Strategic Directors/Heads of Service/Service Managers

- Communicate the Risk Management approach and strategy throughout the Council
- Develop an open and transparent culture for the identification and management of risk, and encouraging employees to instil risk awareness in their behaviour
- Identify, assess and communicate risks within their sphere of responsibility, including updating of the risk register
- Regularly review the risk management process in their area of responsibility – feeds into the assurance statements
- Provide support and assistance to all employees in fulfilling their individual risk management duties

Risk Management Group

- Provide a forum for the discussion of risk management issues including review of the Risk Management Strategy
- Review and monitor the Service Risk Register and other associated risk areas such as insurance, partnership and business continuity risks
- Monitor implementation of risk management action plans
- Promote and embed risk management throughout service areas including horizon scanning

Head of Finance, Finance Support Manager (Finance and Risk) and Governance & Risk Officer

- Operational responsibility for supporting and guiding the risk management process across the Council
- Facilitate discussion of risk at local and corporate level, including risk identification and assessment workshops
- Ensure, by means of regular communication, that employees are aware of the key risk issues facing the Council
- Maintain the Corporate Risk Register
- Provide managers with practical techniques for identifying and assessing risks and designing control and mitigation strategies
- Provide continuous training and support to Members and Officers

Risk Owner

- Responsible for ensuring that each risk assigned to them is managed effectively and other associated risk areas such as insurance, partnership and business continuity risks.
- Report any significant changes to the Risk Management Team/Group
- Implement actions arising from risk assessments

Staff

- Responsible for managing risk effectively and reporting opportunities and threats to their managers
- Contribute to minimising risk whenever possible
- Attend relevant training

Internal Audit

Internal audit provide an independent and objective assurance to management and members on the effectiveness of risk management. They normally provide assurance on the following areas:

- Risk management processes, both their design and how well they are working
- Management of those risks classified as 'key', including effectiveness of the controls and other responses to them
- Reliable and appropriate assessment of risks and reporting of risk and control status
- Report on the relationship between risk and control

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: HEAD OF FINANCE

REPORT NO: HOF228

DATE: 14th March 2013

TITLE:	Statement of Accounting Policies 2012/13	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	None	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Strategic Resources and Well Run Council	
CONTACT OFFICER:	John Carpenter Year End Accountant j.carpenter@southkesteven.gov.uk Telephone (01476) 406218	
INITIAL IMPACT ANALYSIS: Equality and Diversity	Carried out and Referred to in paragraph (7) below N/A	Full impact assessment Required: N/A
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS		

1. RECOMMENDATION

It is recommended that Governance & Audit Committee approve the Statement of Accounting Policies to be used in the production of the 2012/13 financial statements.

2. PURPOSE OF THE REPORT

The Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 (The Code) does not require the disclosure of any new accounting policies however a new policy for foreign currency transactions is included for completeness

The policies have been reviewed and revised with reference to the model form of accounting policies contained in the Code. There have been no substantive changes in the accounting policies however policies have been brought into line with the model form and adjusted to reflect local circumstances.

When changes are made to the policies, it is a requirement that these are reported to those charged with governance.

3. DETAILS OF REPORT

The 2012/13 Statement of Accounts will summarise the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. It will be prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2012-13* (The Code) which is based on International Financial Reporting Standards (IFRS). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets.

The Code does not require any new accounting policies to be applied in 2012/13 however a policy not previously included has been added concerning Foreign Currency Transactions for completeness. .

All other accounting policies have been reviewed for the 2012/13 financial year to ensure that they comply with The Code, are more accurately reflective of the transactions that have occurred and that they have been applied consistently. The recommended policies are more closely aligned with the model set of accounting policies included in the Code while reflect whilst providing further clarification where it seems appropriate.

The substantive changes and variations between the model set of accounting polices and the recommended Council polices are as follows:

- a. Polices in respect of accounting regulations not appropriate to the Council and therefore not included:
 - Acquisitions and Discontinued Operations
 - Interests in Companies and Other Entities
 - Jointly Controlled Operations and Jointly Controlled Assets
 - Private Finance Initiative (PFI) and Similar Contracts
- b. Policies in respect of accounting regulations with significant additions and omissions to reflect the financial arrangements of the Council:
 - Financial Instruments. The proposed policy reflects the Council's borrowing and lending policy.

- Property, Plant and Equipment .The policies for componentisation of assets and a de-minimis level for the recognition of capital expenditure are retained and there is no policy for donated assets to reflect the Council’s position.
- c. Additional Policy recommended:
- Foreign Currency Transactions
- d. Locally developed policy included
- Heritage Assets. The existing policy reflects the limited scale of heritage assets held by the Council
- e. Local policies not included in code
- Principal and Agent Transactions

4. OTHER OPTIONS CONSIDERED

4.1 None

5. RESOURCE IMPLICATIONS

5.1 None

6. RISK AND MITIGATION

Risk has been considered as part of this report and any specific high risks are included in the table below:

Category Risk	Action / Controls
None identified	

7. ISSUES ARISING FROM IMPACT ANALYSIS

7.1 N/a

8. CRIME AND DISORDER IMPLICATIONS

8.1 N/a

9. COMMENTS OF FINANCIAL SERVICES

Prior to the compilation of the statement of accounts for 2012/13 it is important that members of Governance and Audit Committee have the opportunity to discuss and comment on the accounting policies to be used in the production of the financial statements. These policies if agreed, will be applied to the treatment of all transactions that make up the figures in the Statement of Accounts to ensure that the accounts present a true and fair view of the financial position of the Council at the balance sheet date and of its income and expenditure for the financial year.

10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

The policies referred to in this report are procedures and guidance and not formal policies adopted by the Council as policy development framework or key decisions made as a matter of local choice. As such there is no formal process for updating and amending. As a matter of good practice, any updates and amendments should be reported to Governance and Audit Committee in accordance with their role to consider whether appropriate accounting policies have been followed.

11. COMMENTS OF OTHER RELEVANT SERVICES

11.1

12. APPENDICES:

1. Statement Of Accounting Policies

STATEMENT OF ACCOUNTING POLICIES

I. GENERAL PRINCIPALS

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts & Audit (England) Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* and the *Service Reporting Code of Practice 2012/13*, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

II. ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transactions and it is probable that economic benefits of service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

III. CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty or notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 30 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

IV. EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

V. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES & ESTIMATES AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Services, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year.

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and Impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction

with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

VI. EMPLOYEE BENEFITS

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits for current employees and are recognised as an expense for services in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits:

Termination benefits are payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service, or where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement where the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Lincolnshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Council recognises the cost of retirement benefits in the revenue account when employees earn them, rather than when the benefits are eventually paid as pensions.

Local Government Pension Scheme

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

- The liabilities of the Lincolnshire County Council pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees. Financial assumptions are based on market expectations at the reporting date for the period over which they are to be settled. The scheme assets and liabilities are subject to a formal actuarial valuation every three years. Between these formal valuations, values are estimated at each balance sheet date using latest membership data.
- Liabilities are discounted to their value at current prices, using a discount rate calculated by the Actuaries (based on the indicative rate of return on the Bond yields and inflation rates).
- The assets of the Lincolnshire County Council pension fund attributable to the Council are included in the balance sheet at their fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unlisted securities – current bid price
 - Property - market value
- The change in the net pensions liability is analysed into seven components:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – charged in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
 - Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing & Investment Income & Expenditure line in the Comprehensive Income and Expenditure Statement.
 - Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs

- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumption – charged to the Pensions Reserve.
- Contributions paid to the Lincolnshire County Council pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense..

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

VII. EVENTS AFTER THE REPORTING PERIOD

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified :

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts will be adjusted to reflect these.
- Those that are indicative of conditions that arose after the reporting period - the statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosures is made in the notes of the nature of the event and an estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

VIII. FINANCIAL INSTRUMENTS

Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised

For all of the borrowing that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principle repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year in the loan agreement.

All current borrowing is with the Public Works Loan Board and the Council has no intention at present to make early settlement of these loans. Borrowing costs that relate to these loans are charged to the Comprehensive Income & Expenditure Account as they are incurred.

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the council becomes a party to contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest of the instrument. For all of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principle receivable (plus accrued interest) and interest credited to the Comprehensive Income & Expenditure Statement is the amount receivable for the year in the loan agreement.

When assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-sale Assets

The Council does not hold any Available-for-Sale assets.

IX. FOREIGN CURRENCY TRANSACTIONS

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

GOVERNMENT GRANTS & OTHER CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potentially embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Money advanced as grants and contributions for which conditions have been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non Specific Grant Income (non ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure statement.

Where Capital Grants are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure

X. HERITAGE ASSETS

Heritage assets are held or maintained principally for their contribution to knowledge and culture. They are initially recognised at cost if this is available. If cost is not available, values are only included in the Balance Sheet where the cost of obtaining valuation is not disproportionate to the benefit derived. For most of the Council's heritage assets, insurance valuations are used. Where no market exists or the asset is deemed to be unique, and it is not practicable to obtain a valuation, the asset is not recognised in the Balance Sheet but disclosed in the notes to the accounts.

Heritage assets are depreciated over their useful life if this can be established. If an asset is considered to have an indefinite life, no depreciation is charged. Disposals, revaluation gains and losses and impairments of heritage assets are dealt with in accordance with the Council's policies relating to property, plant and equipment.

The cost of maintenance and repair of heritage assets is written off in the year incurred.

XI. INTANGIBLE ASSETS

Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of the Council's website is not capitalised.

Intangible Assets are measured initially at cost. Amounts are only revalued where the fair value of the asset held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gains or losses arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure Line in the comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts reserve.

The useful life of intangible assets is assessed by the Chief Finance Officer at the time of acquisition. Intangible assets are derecognised when no future economic benefits are expected from them.

XII. INVENTORIES AND LONG TERM CONTRACTS

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Where the output of Long-term contracts is in the form of a service rather than goods, work in progress is measured at the cost of its production, primarily consisting of the labour and other personnel costs incurred in providing the service.

XIII. INVESTMENT PROPERTY

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms-length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

XIV. LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets

The Council as Lessee

Finance Leases:

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the leases inception (or the present value of the minimum leases payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor e.g. payments net of financing costs. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into the lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the period in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease

term if this is shorter than the assets estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the patterns of payments (e.g. there is a rent free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal) matched by a lease (long term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount is due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipts for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight -line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

XV. OVERHEADS & SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2012/13 (SeRCOP)* (for example, charges are based on estimated or actual time allocations with the exception of administrative building costs – floor area basis). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate & Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

PROPERTY, PLANT & EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property Plant and Equipment.

Recognition:

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council, over more than one year and that the cost of the item can be measured reliably. Expenditure that maintains but does not add to an assets potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Enhancement is expenditure intended to:

- lengthen substantially the useful life of the asset,
- increase substantially the value of the asset,
- increase substantially the extent to which the asset can be used

The Council has a de-minimis of £10,000 for capital expenditure, with the exception of the purchase of motor vehicles. Where the total cost of an asset is higher than £10,000 but only part of the expenditure has occurred within a financial year, that expenditure would be included in the balance sheet even if it was below the de minimis level.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred while assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Dwellings – fair value determined using the basis of existing use value for social housing (EUV-SH). The social housing discount applied in 2011/12 is 34%.
- Community assets and assets under construction –historical cost.
- Plant, Vehicles & Equipment – depreciated historical cost
- All other classes of assets – fair value, unless there is no market-based evidence of fair value because of the specialist nature of the asset. In this case fair value is estimated using the Depreciated Replacement Cost method.

Assets included in the Balance Sheet at fair value are re-valued where there have been material changes in the value, but as a minimum every five years. Valuations of property assets are carried out by the District Valuer, an external, qualified valuer, who is independent of the Council. The method of valuations is as recommended by CIPFA and in accordance with the principles and guidance notes issued by the Royal Institute of Chartered Surveyors. Operational assets constructed or acquired during the year will be re-valued on 1 April of the following year.

Increases as a result of revaluations are debited to the appropriate asset account, with the opposite entry going to the Revaluation Reserve to recognise unrealised gains, except to the extent where it reverses a previous revaluation loss that was charged to a service revenue account within the Comprehensive Income & Expenditure Statement. In this case the revaluation gain will first be used to offset the previous loss and any further gain is then taken to the Revaluation Reserve. Revaluation gains charged to Surplus or Deficit on Provision of Services are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Decreases as a result of revaluation, which are not specific to one asset but affect several, are revaluation losses as opposed to impairments. The decrease is recognised in the Revaluation Reserve up to the balance in respect of each asset affected and then in Surplus or Deficit on Provision of Services. Any such charge taken to Surplus or Deficit on Provision of Services is then transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement,

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Land is not depreciated as it will not have a finite life.
- Council Dwellings and Other Buildings are depreciated using the straight line method. The finite useful life is assessed by the District Valuer at the time of revaluation but for Council Dwellings is usually 50 years, and for other buildings is between 1 and 60 years.

- Plant & Equipment are also depreciated by the straight line method. Useful life is assessed by the Chief Finance Officer at the time of acquisition, usually between 3 and 10 years. Some assets have a longer life span, up to 30 years.
- Vehicles are depreciated using the reducing balance method at a rate of 25% per annum.
- Non-current assets held-for sale are not depreciated.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account..

Componentisation:

Only assets with a carrying amount more than or equal to £500,000 at the beginning of the financial year are considered for componentisation. To be recognised as a component the value of the part of the asset being considered must be more than or equal to 10% of the value of the asset, and have a life less than or equal to half that of the main asset. When a component is replaced, the carrying amount of the old component is derecognised and the new component is recognised. If the carrying amount of the old component is not known, this is estimated by indexing back from the cost of the new component and adjusting for depreciation and impairment over the old component's useful life. The Building Costs Index will be used.

The depreciation calculated is charged to the service revenue accounts, central support service accounts and trading accounts.

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

Depreciation charges for non-housing assets are not proper charges to the General Fund, so are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement. Depreciation charges for HRA dwellings that are covered by the Major Repairs Allowance (MRA) are real charges and are included in the Comprehensive Income & Expenditure Statement. If the depreciation charged is higher than MRA, an amount equal to the difference is transferred to the HRA from the Major Repairs Reserve. If the depreciation charged is lower than MRA the transfer is from the HRA to the reserve. These transactions are reported in the Movement in Reserves Statement.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is classified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to a fair value less costs to sell, the loss is posted in the Other Operating Expenditure line in the Comprehensive Income and Expenditure statement. Gains in fair value are recognised only up

to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts related to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

XVI. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Provisions:

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year-where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

The council has made a provision for settling the self-insured element of Public Liability insurance claims.

Contingent Liabilities

A contingent Liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent Liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent Asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

XVII. RESERVES

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

Certain reserves are kept to manage the accounting processes e.g. for non-current assets, retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

XVIII. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

XIX. VAT

Income and expenditure excludes any amounts related to VAT, as in the main VAT collected is payable to HM Revenue & Customs and VAT paid is recoverable from them. VAT is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income

XX. PRINCIPAL & AGENT TRANSACTIONS

In its capacity as a billing authority the Council acts as an agent - council tax income is collected and distributed by the Council both on its own behalf and as an agent for Lincolnshire County Council and Lincolnshire Police Authority. Non Domestic Rate (NDR) income is collected on behalf of the Government.

Where the Council is acting as an agent, transactions are not reflected in the financial statements, except where cash is collected or expenditure is incurred on behalf of the other bodies. In this case a debtor or creditor will be raised.

Council Tax income is included in the Comprehensive Income & Expenditure Account on an accruals basis.

REPORT TO GOVERNANCE & AUDIT COMMITTEE

REPORT OF: Head of Finance

REPORT NO: HOF 227

DATE: 14th March 2013

TITLE:	UNDERLYING ASSUMPTIONS TO BE USED TO CALCULATE IAS19 PENSION FIGURES IN 2012/13 STATEMENT OF ACCOUNTS	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	None	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Strategic Resources and Well Run Council	
CONTACT OFFICER:	Gillian Goddard, Senior Accountant (Accountancy) g.goddard@southkesteven.gov.uk Telephone 01476 406288	
INITIAL IMPACT ANALYSIS:	N/A	Full impact assessment Required: N/A
Equality and Diversity		
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	None	

1. RECOMMENDATION

- 1.1 It is recommended that Governance & Audit Committee approve the IAS19 (International Accounting Standard 19) assumptions to be used in the production of the 2012/13 Statement of Accounts.

2. PURPOSE OF THE REPORT

- 2.1 The purpose of this report is to allow the Committee to consider the assumptions the pension fund actuary proposes to use in preparing the IAS 19 figures to be reported in the annual Statement of Accounts. It is an audit requirement that those charged with governance have the chance to consider these assumptions.

3. DETAILS OF REPORT

- 3.1 IAS19 - Employee Benefits is one of the financial reporting standards with which we must comply when producing our annual Statement of Accounts.
- 3.2 The basic requirement of IAS19 is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.
- 3.3 To calculate the cost of earned benefits for inclusion in the Statement of Accounts, the scheme actuaries use certain assumptions to reflect expected future events which may affect the cost. The assumptions used should lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date.
- 3.4 SKDC will use the calculated costs and the underlying assumptions, based upon the advice of the actuary of the Lincolnshire County Council Pension Fund and the administering authority (Lincolnshire County Council), in preparing the annual Statement of Accounts.
- 3.5 A formal actuarial valuation is carried out every three years, the last being as at 31st March 2010. The figures produced for 31st March 2013 are estimates based on the last full actuarial valuation rolled forward and allowing for any change in the underlying assumptions.
- 3.6 Financial Assumptions for 2012/13

Price Inflation – this allows for the effect of inflation on salary growth. At 31st December 2012 this was 3.2%. (At 31st March 2012 it was 3.1%).

Pension Increase Rate –Public sector pension increases are linked to the Consumer Prices Index (CPI). In the current economic climate it is difficult to predict what rates will apply at 31st March 2013. At 31st December 2012 CPI was 2.4%, (31st March 2012 2.5%).

Salary Increase Rate – reflects the expected rate of growth in pensionable pay, allowing for increases over and above inflation, eg career progression. Due to the public sector pay restrictions put in place by the Government in summer 2010 this will be restricted to 1% until 2015. (At 31st March 2011 it was 1%). After 2015 the rate will revert to RPI plus 1% or 1.5% plus an allowance for promotional salary increases. Based on market conditions as at 31st December 2012, in 2015 this would be 4.2% or 4.7%, plus an allowance for promotional salary increases.

Expected Return on Assets – This reflects the interest earned and changes in values of the investments within the scheme and will be based on market values as at 31st March 2013. (At 31st March 2012 it was 5.7%). At 31st December 2012, the expected return on equities was 6.2% per annum

Discount Rate – this allows for the effect of inflation on the liabilities in the scheme. The assumption as at 31st December 2012 was 4.5%, (down from 4.8% at 31st March 2012).

All the calculations will be reviewed by the Actuary as at 31st March 2013 to confirm that there have been no material changes to the rates to be used over the three months since December, and to calculate final figures.

3.7 Demographic Assumptions

Pensioner Mortality – this impacts on the length of time pensions are expected to be payable. For the 2012/13 accounts the mortality assumptions are to be based on the same analysis used in 2011/12. At the present time, the life expectancy figures are not available, but will be calculated as at 31 March 2013.

Commutation – this allows for the effect of future retirees choosing to take a larger initial lump sum and reduced annual pension. As at 31st March 2011 the assumptions were 25% of members who joined the scheme prior to 1st April 2008 and 63% of members who joined since that date. These ratios are not expected to change for the 2012/13 accounts.

Other demographic assumptions are used e.g. rates of withdrawal from the scheme, number of ill-health early retirements etc. These assumptions are based on past experience and will not change from those used in 2011/12.

3.8 Financial Impact

Appendix A shows the rates used as at 31st March 2012, the rates as at 31st December 2012, the direction of the movement to date and the impact of each of those movements on the Council's accounts.

The effect of the expected increase in the assumed inflation rate is likely to be a higher charge in the Council's Comprehensive Income & Expenditure Statement for the cost of future pensions. The charge for 2011/12 was £1.952 million.

The expected decrease in pensions would lead to a decrease in the liability on the balance sheet.

The decrease in the salary increase rate would result in a lower charge to the Council's Comprehensive Income & Expenditure statement for the cost of future pensions.

An increase in the expected return on assets would cause the pension liability on the balance sheet to decrease from £29.453 million.

The reduction in the discount rate used to calculate the value of the liabilities will also have the effect of reducing the liability held in the balance sheet.

It is therefore possible that in the 2012/13 financial accounts, the annual charge made within the accounts will be higher than in 2011/12 and the liability on the

balance sheet will increase. However, market conditions at 31st March 2013 could change and the impact on the accounts is not certain.

4. OTHER OPTIONS CONSIDERED

None.

5. RESOURCE IMPLICATIONS

All of the figures relating to IAS 19 are simply accounting adjustments made to comply with accounting standards and have no direct impact on resources. The amount charged to the General Fund Balance is the actual amount paid out in employers contributions and not the charge calculated in accordance with IAS19. The liability shown in the balance sheet is an estimate based on assumptions and would only ever become payable if the Council ceased as a going concern..

6. RISK AND MITIGATION

Risk has been considered as part of this report and any specific high risks are included in the table below:

Category Risk	Action / Controls
None identified that are of a high risk nature	

7. ISSUES ARISING FROM IMPACT ANALYSIS

None.

8. CRIME AND DISORDER IMPLICATIONS

None.

9. COMMENTS OF FINANCIAL SERVICES

Prior to the compilation of the statement of accounts for 2012/13 it is important that members of Governance and Audit Committee have the opportunity to discuss and comment on the underlying financial assumptions made by the actuary in respect of the Council pension fund. These assumptions, if agreed, will have an impact on both the comprehensive income and expenditure account and the balance sheet for the financial year 2012/13.

10. COMMENTS OF LEGAL & DEMOCRATIC SERVICES

Assumptions will be subjective. They are a forecast of what might happen within the year.

11. APPENDICES:

Appendix A - Financial Assumptions

APPENDIX A

IAS 19 ASSUMPTIONS FOR 2012/13 STATEMENT OF ACCOUNTS

<u>Financial Assumptions</u>	<u>Rate As At 31/03/12 (%)</u>	<u>Rate as at 31/12/12 (%)</u>	<u>Movement</u>	<u>Financial Impact</u>
Price Inflation	3.1	3.2	↑	Increase in the charge for cost of future pensions
Pension Increase Rate	2.5	2.4	↓	Increase in liabilities
Salary Increase Rate	4.8	4.7	↓	Reduction in the charge for cost of future pensions
Expected Return on Assets	5.7	6.2	↑	Increase in liabilities
Discount Rate	4.8	4.5	↓	Reduction in liabilities