

Public Document Pack



AYLESBURY VALE DISTRICT COUNCIL

Democratic Services

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10 March 2016

AUDIT COMMITTEE

A meeting of the **Audit Committee** will be held at **6.30 pm** on **Monday 21 March 2016** in **The Olympic Room, Aylesbury Vale District Council, The Gateway, Gatehouse Road, Aylesbury, HP19 8FF**, when your attendance is requested.

Contact Officer for meeting arrangements: Craig Saunders; csaunders@aylesburyvaledc.gov.uk;

Membership: Councillors: K Hewson (Chairman), B Chapple OBE (Vice-Chairman), Branston, M Collins, A Hetherington, P Irwin, M Smith, R Stuchbury, D Town and H Mordue (ex-Officio)

AGENDA

1. APOLOGIES

2. TEMPORARY CHANGES TO MEMBERSHIP

Any changes will be reported at the meeting.

3. MINUTES (Pages 5 - 12)

To approve as correct records the Minute of the meeting held on 25 January 2016, attached as an appendix.

4. DECLARATION OF INTEREST

Members to declare any interests.

5. EXTERNAL AUDIT - EXTERNAL AUDIT PLAN 2015-16 AND FEE LETTER (Pages 13 - 48)

To consider the report attached as Appendix B.

Contact Officer: Kate Mulhearn (01296) 585724

6. RISK MANAGEMENT AND SERVICE RISK ASSURANCE (Pages 49 - 56)

To consider the report attached as Appendix C.

Contact Officer: Tamsin Ireland (01296) 585004

7. AVDC COMPANY GOVERNANCE (Pages 57 - 94)

To consider the report attached as Appendix D.

Contact Officer: Andy Barton (01296) 585430

8. ANNUAL GOVERNANCE STATEMENT 2015-16 (DRAFT) (Pages 95 - 112)

To consider the report attached as Appendix E.

Contact Officer: Kate Mulhearn (01296) 585724

9. INTERNAL AUDIT STRATEGY AND PLAN FOR 2016-17 (Pages 113 - 130)

To consider the report attached as Appendix F.

Contact officer: Kate Mulhearn (01296) 585724

10. BUSINESS ASSURANCE SERVICES - PROGRESS REPORT (Pages 131 - 140)

To consider the report attached as Appendix G.

Contact Officer: Kate Mulhearn (01296) 585724

11. AUDIT COMMITTEE WORK PROGRAMME (Pages 141 - 142)

To consider the work programme attached as Appendix H.

Contact Officer: Kate Mulhearn (01296) 585724

12. DATE OF FUTURE MEETINGS

Future meetings are planned as follows:-

- 6.30pm on 25 July 2016
- 6.30pm on 26 September 2016
- 6.30pm on 14 November 2016

13. EXCLUSION OF THE PUBLIC

The following matter is for consideration by Members "In Committee". It will therefore be necessary to

RESOLVE –

That under Section 100(A)(4) of the Local Government Act, 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in the Paragraph indicated in Part 1 of Schedule 12A of the Act.

Item 10 – Business Assurance Services Progress Report (Paragraph 3)

The public interest in maintaining the exemption outweighs the public interest in disclosing the information because the report contains information relating to the financial or business affairs of organisations (including the Authority holding that information) and disclosure of commercially sensitive information would prejudice negotiations for contracts and land disposals or transactions.

14. BUSINESS ASSURANCE SERVICES - PROGRESS REPORT (Pages 143 - 182)

To consider the information attached.

Contact Officer: Kate Mulhearn (01296) 585724

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AUDIT COMMITTEE

25 JANUARY 2016

PRESENT: Councillor K Hewson (Vice-Chairman), Branston, B Chapple OBE, M Collins, A Hetherington, P Irwin, M Smith, R Stuchbury, D Town and H Mordue (ex-Officio)

IN ATTENDANCE: Councillor C Adams

1. ELECTION OF CHAIRMAN

RESOLVED –

That Councillor Hewson be elected Chairman of the Committee for the remainder of the municipal year.

2. ELECTION OF VICE - CHAIRMAN

RESOLVED –

That Councillor B Chapple OBE be elected Vice Chairman of the Committee for the remainder of the municipal year.

3. PERMANENT CHANGES TO MEMBERSHIP

The Committee was informed that there had been two permanent changes to the Conservative membership of the Committee, with Councillors Branston and Irwin replacing Councillors Mills and Mrs Renshell.

4. MINUTES

RESOLVED –

That the minutes of the meeting held on 9 November 2015 be approved as a correct record.

5. EXTERNAL AUDIT - CERTIFICATION OF GRANT CLAIMS AND RETURNS ANNUAL REPORT 2014-2015

The Committee received a report from the External Auditors on their work associated with the certification of grant claims for 2014/15 submitted by AVDC. This was the seventh year that an audit of grant claims had been done.

Certification work was not an audit. It involved executing prescribed tests which were designed to give reasonable assurance that claims and returns were fairly stated and in accordance with specified terms and conditions. Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014/15 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this the external auditors followed a methodology determined by the Department for Works and Pensions.

The external auditors had checked and certified the claim for the housing benefits subsidy claim with a total value of £44,815,924. The certification work had found errors which had required the external auditors to carry out extended testing in several areas.

The identified errors had been amended by the Council and had a small net impact on the claim. Underpayments, uncertainties and the extrapolated value of other errors were included in a qualification letter and further details of these were included in the Committee report.

The indicative fees payable for the grant claim work for 2014/15 was £16,600, which was a slight increase on fees payable for the 2013/14 work. The increase was attributable to the additional testing (40+) that had to be carried out in response to the errors identified but had been completed in time for the submission deadline.

Members requested additional information and were informed that, in total, the auditors had checked 100 claims.

RESOLVED –

- (1) That thanks be passed to the Revenues and Benefits Section for the good work that had been done in administering the claims for the financial year 2014/15.
- (2) That the external auditors report on the certification of claims and returns by AVDC for 2014/15 be noted.

6. EXTERNAL AUDIT - PROGRESS REPORT

The Committee received a progress report summarising the work already undertaken and the work planned for 2016 in accordance with statutory requirements and to ensure it was aligned with the Committee's expectations.

The auditors would continue to hold regular meetings with key officers as part of their on-going audit process including fortnightly meetings with key finance staff during the audit opinion visit to discuss significant risks around the accounts and updates on work, and quarterly meetings with the Director of Finance and senior Finance Officers to discuss the significant risks and other issues faced by the Council and the approach and progress with the audit.

The progress report included a timetable setting out how key audit work would be phased during 2015 and when the key deliverables and outcomes would be reported to the Audit Committee. The Audit Plan would be discussed with senior managers in late January early February and reported to Members in March 2016.

Members were informed that the Department of Communities and Local Government (DCLG) had announced that it had decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. From 2018/19 onwards, local authorities would be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.

The National Audit Office had consulted on a draft Auditor Guidance Note in respect of auditors' work on value for money (VFM) arrangements. The guidance had now been issued and set out the proposed overall approach to work on VFM arrangements that would apply to audits from 2015/16 onwards. An initial VFM risk assessment would be carried out in early 2016 and be reported to the Audit Committee in March 2016.

In addition to the formal reporting and deliverables, the external auditors would continue to seek to provide practical business insights and updates on regulatory matters through their Sectors Briefings. The Local Government Audit Committee Briefing (November 2015) was attached to the Committee report.

Members requested further information and were informed:-

- (i) (Local government audit committee briefing) – Local Plans – that the auditors were bringing this information to the attention of the Council although it was not something that they intended to audit. The auditors agreed to clarify the accuracy of the data quoted regarding published local plans.
- (ii) (Local government audit committee briefing) – Housing Associations Right to Buy – that key issues for AVDC relating to RTB would be reported to the March 2016 meeting.

RESOLVED –

That the contents of the External Auditor’s progress report and the progress of work undertaken to date, and planned for 2016, be noted.

7. FRAUD PROGRESS REPORT - JANUARY 2016

The Committee received an update on the anti fraud and corruption work that had been undertaken over the last 12 months including the results of the fraud risk benchmarking assessment, and a report on the activity of the Compliance team for the first six months of 2015-16 following the transfer of staff to the DWP’s Single Fraud Investigation Service (SFIS).

In October 2013, an assessment was performed of the Council’s Anti Fraud and Corruption policies and processes compared to the three themes outlined in the Local Government Fraud Strategy: Acknowledge, Prevent and Pursue. The actions identified in the Anti-Fraud and Corruption Improvement Plan had largely been addressed and were reported to the Audit Committee in October 2014.

Since the previous fraud risk assessment new best practice guidance on anti-fraud in the public sector had been released by the Chartered Institute of Public Finance and Accountancy (CIPFA). In addition, the Council had undergone significant change with corporate restructure, setting up the new business model and seeking to increase commercial trading. The transfer of the Fraud Investigations team to the DWP SFIS had also had an impact on resources available and the mandate for investigation.

CIPFA’s “Code of practice on managing the risk of fraud and corruption” supported organisations seeking to ensure they had the right governance and operational arrangements in place to counter fraud and corruption. It was a voluntary code that could be applied in any public service organisation.

In March 2015 the Fraud Investigation Team transferred to the DWP SFIS as part of the government’s new aims to try to tackle welfare benefit fraud. This had left the Council without a dedicated fraud investigation resource. The Compliance Team which was part of the Revenues and Benefits Service had been established to undertake interventions and reviews of customer’s council tax liability, housing benefit and council tax reduction entitlement, and to ensure account/claim records were correct, identifying errors and recovering overpayments as well as applying penalties where appropriate.

Attached as Appendix A to the Committee report was a summary (mid year report) of the Compliance Team’s work for the first half of 2015-16.

Using the CIPFA Tool, Business Assurance Services (BAS) had performed a fraud benchmarking assessment of the current state of the Council’s governance structures and processes against the CIPFA code. The results of the assessment and action plan were attached at Appendix B to the Committee report. The Council was currently performing at 40% of the CIPFA standard. For an organisation of this size and

complexity aiming for 100% may not be appropriate, but the assessment showed that there were some key areas where further attention was needed to strengthen both the governance and operational arrangements in place to manage the risk of fraud. The actions identified would help to improve the Council's governance structures and ability to demonstrate effective financial stewardship and strong public financial management.

Members referred to Appendices A and B and in response to questions were provided with further information as follows:-

- (i) that it was difficult to assess how the Council's current performance at 40% of the CIPFA standard compared to other Councils. However, the assessment was a starting point and it was expected that working on the areas of improvement (high level set of actions) identified in the action plan would strengthen the Council's position in managing the risk of fraud and support good governance.
- (ii) that the Council did take fraud seriously and believed that it had developed some resilience to fraud awareness and risks. However, it had not always been able to evidence this and it would be addressed as part of the Action Plan.
- (iii) an explanation was provided on the work being done by the Compliance team, who focussed their work on reviewing Council Tax discounts and exemptions, Council Tax reduction and Housing Benefit entitlement and undertaking work through the National Fraud Initiative and data matching, and real time (wages checking) with the Inland Revenue Service.
- (iv) that the Council fraud risk work was currently assessed as strongest in Revenues and Benefits with the biggest challenges faced relating to financial controls. However, all of these areas would be improved through the set of actions set out in the Action Plan.
- (v) that a report on the governance arrangements regarding the Council's interaction / monitoring of the commercial companies that had been set up over the last 12-18 months would be reported to the March 2016 meeting.

Members also commented:-

- (a) that based on the results of the fraud assessment, the Council might want to consider setting a target of performing to 60-65% of the CIPFA code, although it was recognised that its performance would be variable across the 68 measurable steps and it would be important to perform well in some key identified areas.
- (b) that, if possible, they would like to see information on the cost of fraud prevention / resources devoted to fraud included with future Quarterly Finance Digests reported to the Finance and Services Scrutiny Committee.

RESOLVED –

- (1) That the mid year report of the Compliance Team be noted, and a full year report be submitted to the July 2016 meeting.
- (2) That information on historic levels of fraud for AVDC be reported to the March 2016 meeting (i.e. for the current and 2 previous years on number of instances of fraud detected, value of the fraud and assessment of the impact on AVDC).
- (3) That the Action Plan put together in response to the benchmarking assessment comparison to the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption be agreed.

(The Business Assurance Services Manager would be meeting with the Transition Board to agree responsibility and targets for the individual actions, including relevant timescales).

8. BUSINESS ASSURANCE SERVICES - PROGRESS REPORT

The Committee received a progress report against the 2015/16 Business Assurance Plan that highlighted the following matters:-

(i) Assurance reviews completed since the last progress report:

Housing Allocations – the process and controls for Housing Allocations including processing applications in accordance with Bucks Home Choice policy had been reviewed. Generally the processes operated by AVDC's Housing Service was good and had been given an overall reasonable assurance rating.

One medium priority recommendation had been raised relating to a wider review against the BHC policy objectives, recommending that an annual review of the objectives was undertaken.

Two low priority recommendations relating to the 'Common Housing Register and Nomination Rights' in place between AVDC and the Vale of Aylesbury Housing Trust and ensuring that routine management checks were carried out at the point of entry to the housing register had also been raised.

(ii) Assurance Plan Work in Progress – the following work from the 2015/2016 plan had started:-

- Technology One (Accounts Payable / Debtors) – actions were being agreed with management based on a draft report and recommendations that had recently been issued. The report would be presented to the Committee in March 2016.
- Council Tax and Business Rates collections – the review was being scoped with a view to issuing terms of reference and starting the review in January 2016.
- Housing Benefits and Council Tax reduction – the review was being scoped with a view to issuing terms of reference and starting the review in January 2016.
- Data Protection – Home working and use of personal devices – a high level scope had been provided to an external provider and the Council was awaiting quotes that would then allow the detailed scope and start date to be confirmed.
- Policy Compliance – Policy Hub had gone live in November 2015. A compliance programme was being planned including policy review and update and staff training.

(iii) Service Risk Assurance – the Service Risk Assurance process had commenced in December 2015. The information submitted was being reviewed and risk rating updated with a view to reporting the results to the Committee in March 2016.

- (iv) Revised Assurance Plan – the revised Plan had been approved by Members in September 2015. The plan had been further reviewed and updated to reflect changes which meant that some reviews were no longer a priority for this year and, in other cases, they had been merged with other reviews or removed altogether. Appendix 2 to the Committee report detailed the work completed, outstanding and the changes.
- (v) Overdue Audit Recommendations and follow up work
- Technology One – an update on the new finance system had been reported to Members in November 2015 regarding identified financial control weaknesses that had not yet been addressed. As previously reported, the Assurance Plan review work on Technology One was being completed and the results would be reported to the Committee in March 2016.
 - Transparency Code – the two areas that had previously not been compliant, relating to data about the ‘Organisation and Salaries’ and on ‘Land and Property ownership’, had now been uploaded onto the Council’s website. This recommendation had now been fully implemented and all data that the Council was required to publish as part of the Transparency Code could be found on the website under ‘Accessing Our Information – Open Data’.
 - Network Drives – a project to fully replace the Z drives had commenced and would take 6-9 months to complete. This would involve replacing the Z drives with an Enterprise Content Management solution called ‘Box’. Box was a cloud based solution that allowed for the easy sharing of documents whilst reducing the number of e-mail attachments that were sent.
 - Outstanding - Section 106 (Developer Contributions) – an action had been agreed to provide an addendum relating to the Community Infrastructure Levy (CIL) to Supplementary Planning Guidance. However, the addendum had not yet been written.

Members sought and were provided with additional information as follows:-

- (a) Bucks Home Choice allocations policy – that the Housing Division had indicated that some very minor amendments needed to be made to the policy, mainly to make the scheme lawful in response to a statutory instrument). However, they did not have any plans to make changes to the current sub group arrangements.
- (b) Safeguarding – that there had been a slight delay in commencing the review due to the Bucks Safeguarding Children Board currently revising the Section 11 audit requirements with an increased focus on outcomes and evidence of impact. Business Assurance Services would support the Service with independent challenge and validation of evidence for the Section 11 audit in 2016/17. It was also planned to extend the scope of the review to considering the policy and processes for safeguarding vulnerable adults.

Members also commented that if a wider review of the Bucks Home Choice policy and the Housing Register and Nominations policy was undertaken, that it should also be scrutinised by the Environment and Living Scrutiny Committee.

RESOLVED –

That the progress report be noted, including the progress made by Business Assurance Services against work identified in the Assurance Plan for 2015/16.

9. WORK PROGRAMME

The Committee considered the future Work Programme for 2016 which took account of comments and requests made at Audit Committee meetings and the requirements of the internal and external audit processes. Additions to the Work Programme included:-

- Audit Committee Annual Report – moved to 25 July 2016 meeting.
- Fraud Progress (information on historical levels of fraud) – report to 21 March 2016 meeting.
- Fraud Progress (Compliance Team full year report and report on fraud risk actions) – report to 25 July 2016 meeting.
- Governance arrangements regarding the Council's interaction / monitoring of commercial companies set up over the last 12-18 months – report to the March 2016 meeting.

Members commented that they would like to receive more frequent information reported to the Committee on the performance and management of strategic risks, and were also informed that where New Homes Bonus money was awarded to Parishes for local projects, Parishes were then only paid that money upon the production of paid invoices.

RESOLVED –

That the future Work Programme as discussed at the meeting be approved.

10. DATE OF FUTURE MEETINGS

The next meeting of the Audit Committee would be held at 6.30pm on 21 March 2016 in the Olympic Room at The Gateway, Gatehouse Road, Aylesbury.

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EXTERNAL AUDIT PLAN 2015-16

1 Purpose

- 1.1 To receive the external auditors Ernst and Young Audit Plan for 2015-16, attached as an appendix.

2 Recommendations/for decision

- | | |
|-----|--|
| 2.1 | The Audit Committee is asked to consider the Audit Plan from the external auditors and confirm that the work is aligned with the committee's expectations. |
|-----|--|

3 Supporting information

- 3.1 The Audit Plan summarises the audit approach and scope for the 2015/16 audit in accordance with the requirements of the Audit Commission Act 1998, Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements.

4 Reasons for Recommendation

- 4.1 The Audit Plan forms part of the independent external audit review process. The Audit Committee's role requires it to receive regular reports from the external auditors on the progress of their work at AVDC.

5 Resource implications

- 5.1 None

Contact Officer

Kate Mulhearn Business Assurance Services Manager (interim)
Tel: 01296 585789

Background Documents

None

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Aylesbury Vale District Council

Year ending 31 March 2016

Audit Plan

7 March 2016

Ernst & Young LLP



Building a better
working world

Audit Committee
Aylesbury Vale District Council
The Gateway
Gatehouse Road
Aylesbury
HP19 8FF

7 March 2016

Dear Committee Members

2015/16 – External Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 21 March 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mark Hodgson

Executive Director
For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the [PSAA website \(www.psa.co.uk\)](http://www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Aylesbury Vale District Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended;
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

There have been no changes in the scope of our audit.

We will provide an update to the Audit and Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2016.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>We have rebutted this risk for the Council's income and expenditure streams except for the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme.</p>	<p>We will</p> <ul style="list-style-type: none"> ▶ Review and test revenue and expenditure recognition policies ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias ▶ Develop a testing strategy to test material revenue and expenditure streams ▶ Review and test revenue cut-off at the period end date; and ▶ Review and test Capital spend to ensure the appropriateness of capital/revenue coding.
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ Reviewing accounting estimates for evidence of management bias, and ▶ Evaluating the business rationale for significant unusual transactions.
Property, Plant and Equipment - Valuations	
<p>Due to the complexity in accounting for property, plant and equipment, the cyclical approach to valuations, and the material values involved, there is a higher risk that asset valuations contain material misstatements.</p> <p>We also identified an error that required amendment in the prior year. The error was caused by incorrect accounting of upward revaluations of assets between the CIES and the Revaluation Reserve.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reliance on management's experts and review of the instructions given to that valuer ▶ Consideration of the accounting treatments and basis of valuation as required by the Code ▶ Test of detail if required; and ▶ Test the appropriateness of PPE journal entries ensuring that they are in line with the Councils accounting policies.

Other financial statement risks

New General Ledger System

The Council have changed their general ledger system during the year (from 01 June 2015).
 The main reason for this was to improve the control environment of the system as the old system, Aptos, had a number of historical control issues.
 There is a risk around the transfer of data between these systems, in particular that that opening balances will be incorrect.

Our approach will focus on:

- ▶ Testing the transfer of data between the two general ledger systems and ensuring that the opening balances are accurate;
- ▶ Walk through the new general ledger system and identify controls in place; and
- ▶ Substantively test transactions from these systems.

Group accounts

The Council set up three new companies in 2015:

- ▶ AVB Broadband , a 95% owned subsidiary
- ▶ Novae Consulting , a 100% owned subsidiary
- ▶ ValeCommerce Ltd, a 100% owned subsidiary

The Council has been preparing group accounts for a few years now in respect of Aylesbury Vale Estates LLP. The Council continues to assess these interests as quantitatively and qualitatively material to the group and therefore the Council will continue to consolidate the companies into the Council's group accounts as required by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).
 However, there has been a significant change to the group structure in year which poses the risk that the group financial statements do not meet the requirements as defined by the Code.

We will review and test whether the Council has:

- ▶ identified all potential group entities
- ▶ adopted and correctly applied accounting policies that comply with the requirements of the Code
- ▶ consolidated the companies' accounts appropriately into the group accounts
- ▶ made all appropriate disclosures in accordance with adopted accounting policies and requirements of the Code.

We are responsible for the direction, supervision and performance of the group audit. We will therefore instruct the auditor of the companies as part of our audit procedures.
 Further details on the work we will carry out in respect of the group accounts audit is set out in Appendix C.

Pension liability

The pension liability is considered a significant estimate in relation to its size. In 2014/15, the liability stood at £90.3m.
 There is a risk that small movements in the estimation could lead to material misstatement if the estimation is not robust.

We will review and test whether the Council has:

- ▶ Reliance on management's experts and review of the data given to Barnett Waddingham
- ▶ Consideration of the accounting treatment and IAS 19 requirements as set out by the Code; and
- ▶ Use of EY Pension specialists in reviewing actuary assumptions and other relevant data.

Provision for Business Rates Appeals

In 2013/14 the Council was required to calculate a provision for business rate appeals for the first time. We found that the council had developed an appropriate methodology for the estimate.
 This methodology needs to be reassessed to ensure that the assumptions made remain appropriate to prepare a reliable estimate.

Our approach will focus on:

- ▶ Reviewing the Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS 37 and that the assumptions underlying the estimate are reasonable.

As part of this we will ensure the provision is supported by appropriate evidence and that any level of estimation uncertainty is adequately disclosed in the accounts.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. For 2015/16 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risk which we view as relevant to our value for money conclusion:

Significant value for money risks	Our audit approach
<p>Balanced budget and long term financial planning</p> <p>The Council’s finances continue to be under significant pressure in the medium term. In its Medium Term Financial Plan 2016/17 – 2018/19 the Council has identified a budget gap of £5.6 million.</p> <p>The achievement of the Council’s Financial Plans to date has been good, with savings identified to close the budget gaps.</p> <p>However, the Council has to continue to deliver significant savings year on year in order to bridge the gap and balance its budget.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ use of PSAA’s value for money profile tool to assess Council’s spending against similar District Councils; and ▶ review and assess the assumptions within the Council’s 2016/17 budget and medium term financial plan; and ▶ Achievement of the 2015/16 budget, including delivery of savings.

3.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also:

Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This criterion is divided into three-sub areas for consideration:

- ▶ Informed decision making;
- ▶ Sustainable resource deployment;
- ▶ Working with partners and other third parties

In arriving at our value for money conclusion, we will rely as far as possible on the reported results of the work of other statutory inspectorates on corporate or service performance.

3.2 Audit process overview

Our audit involves:

- ▶ assessing the key internal controls;
- ▶ reliance on the work of other auditors where appropriate;
- ▶ reliance on the work of experts on pensions and valuations; and
- ▶ substantive tests of detail of transactions and amounts.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are;

Area	Specialists
Property, plant and equipment	Wilks, Head and Eve
Pensions	EY Pensions team/ Barnett Waddingham

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

3.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

3.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements' of the Council is £2.12 million based on 2% of gross expenditure. We will communicate uncorrected audit misstatements greater than £105,894 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

3.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Aylesbury Vale District Council is £56,785.

3.6 Your audit team

The engagement team is led by Maria Grindley, who has significant experience on the audit of public sector bodies, and in particular of local government. Maria is currently taking a sabbatical and Mark Hodgson, an experienced Director, is providing cover until Maria returns in April 2016. Maria and Mark are supported by David Guest, who is responsible for the day-to-day direction of audit work and is the key point of contact for the Head of Finance.

3.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	December 2015 to January 2016	21 March 2016	Audit Fee Letter Progress Report
Risk assessment and setting of scopes	February 2016	21 March 2016	Audit Plan
Testing routine processes and controls	December 2015 to February 2016	25 July 2016	Progress Report
Year-end audit	June to August 2016		
Completion of audit	September	28 September 2016	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2016	November 2016	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

4. Independence

4.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

4.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson and Maria Grindley, the audit engagement Directors and the audit engagement team have not been compromised.

4.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Outturn fee 2014/15 £	Explanation
Opinion Audit and VFM Conclusion	56,785	56,785	75,713	The audit fee represents a 25 per cent reduction on the prior year as it recognises savings from the last Audit Commission retendering exercise.
Total Audit Fee – Code work	56,785	56,785	75,713	
Certification of claims and returns	11,286	11,286	16,600	The 2015/16 indicative fee is based on 2013/14 actual fee
Non-audit work	0	0	0	

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the [Audit Committee]. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	▶ Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Report to those charged with governance
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Report to those charged with governance
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ Report to those charged with governance
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	▶ Report to those charged with governance

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
<p>Group audits</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	<p>Audit Plan</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>

Appendix C Detailed scopes

Our objective is to form an opinion on the group's consolidated financial statements under International Standards on Auditing (UK and Ireland).

We set audit scopes for each reporting unit which together enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

- ▶ **Full scope:** locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the Group audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).
- ▶ **Specific scope:** locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the Group audit team.
- ▶ **Limited Scope:** limited scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.

Changes from last year are:

- ▶ There are three new subsidiary interests in year;
 - AVB Broadband, a 95% owned subsidiary
 - Novae consulting, a 100% owned subsidiary
 - ValeCommerce Ltd, a 100% owned subsidiary

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the component auditors of significant locations/reporting units. Our involvement can be summarised as follows:

Location Name	
Aylesbury Vale District Council	The audit team will be led by the Director, Manager and Lead Executive of the primary audit. All key audit team members will attend the group audit team's planning event to be held in June.
Aylesbury Vale Estates LLP	Review of the audited LLP's annual report and financial statements for Aylesbury Vale Estates and consolidation within the Council's financial statements. Reliance on third party assurance from the LLP's auditors, Buzzacott.LLP.
Aylesbury Vale Broadband	For this out of scope component, we will perform analytical procedures on financial statements.
Novae Ltd	For this out of scope component, we will perform analytical procedures on financial statements.
ValeCommerce Ltd	For this out of scope component, we will perform analytical procedures on financial statements.

EY | Assurance | Tax | Transactions | Advisory

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Aylesbury Vale District Council – Audit Committee – 21st March 2016

Additional commentary for the Audit Committee Progress Reports

Purpose of the Audit Committee Progress Reports

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving. It covers issues which may have an impact on the Council, the Local government sector and the audits that we undertake.

There are links to where you can find out more on all of the articles featured, which can be found at the end of the briefing.

Items discussed at the January Audit Committee – additional EY audit team comment:

- Housing Associations Right to Buy

Extending the period of right to buy will not have a significant impact on the Council. This change affects Council's which still have a housing stock and have a Housing Revenue Account (HRA). AVDC do not have an HRA.

Per the Council's Capital Programme, as part of the stock transfer agreement, the Council will receive a share of receipts from Vale of Aylesbury Housing Trust (VAHT). For 2015/16, VAHT were forecasting 20 sale completions of which AVDC's share would be £2.7m.

- Local Plans for New Homes

Details on percentages of Council's that have published local plans were obtained from a Downing Street press release, see <https://www.gov.uk/government/news/prime-minister-councils-must-deliver-local-plans-for-new-homes-by-2017>

Additional EY comment for latest Audit Committee Briefing

- Consultation: New Homes Bonus

Although this is still in consultation, this could have a significant impact on AVDC given the levels of new homes being built. The main impact from proposals is the reduction in the number of years that the bonus will be provided and would have an impact on medium term financial plans.

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Local government audit committee briefing

Contents at a glance

Government and economic news

Accounting, auditing and governance

Regulation news

Key questions for the audit committee

Find out more

This sector briefing is one of the ways that we see as supporting you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the local government sector and the audits that we undertake.

The public sector audit specialists in EY's national Government and Public Sector (GPS) team have extensive public sector knowledge which is supported by the wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only

technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authorities.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local engagement team.



Government and economic news

EY Item Club forecast

In its latest quarterly forecast (Winter) the EY Item Club highlights that what it terms the UK consumer's "holiday" from inflation and austerity in 2015 is expected to continue well into 2016, aided by the sharp fall in oil and other commodity prices, and the Chancellor's change of heart on working tax credits.

Whilst the global situation is clearly fragile, the UK is seen to be well placed to ride out the storms. Growth is expected to increase from the revised 2.2% in 2015 to 2.6% this year, being supported by low inflation and interest rates. The CPI is forecast to increase by just 0.7% and they do not expect the Bank of England Monetary Policy Committee to increase bank rate until late in the year.

Looking further forward, the forecast is for inflation and austerity to return, with GDP growth of 2.3% in 2017 and 2.2% in 2018 and consumer spending growth dropping from 2.8% in 2016 of 2.1% in 2017 and 1.7% in 2018. Highlighted as impacting on this are the increasing taxes and levies on consumers and companies, and the roll-out of Universal Credit (which will claw back this Autumn's concessions to low earners). Inflation is expected to increase to 1.8% by 2018, remaining below the MPC target until 2019.

Continuing uncertainty over the EU Referendum could potentially hit business investment this year, as businesses wait to see the result, but momentum in the UK and other economies is seen as supporting capital spending this year.

Local Government Devolution

Towards the end of 2015, Birmingham and Liverpool each agreed devolution deals with Treasury which gives them control over infrastructure investment, transport and skills. This brings the total of devolution deals to 6:

- ▶ Birmingham
- ▶ Liverpool
- ▶ Greater Manchester
- ▶ Sheffield
- ▶ North East
- ▶ Tees Valley

Each area will need to elect a metro mayor, with elections expected to take place in 2017.

For Birmingham, £1.2bn of government investment is anticipated over the next 30 years, and for Liverpool the expectation is £30mn per year over the next three decades.

Read the government announcements in full at <https://www.gov.uk/government/news/historic-devolution-deal-to-power-the-midlands-engine> and <https://www.gov.uk/government/news/liverpool-devolution-deal-boosts-the-northern-powerhouse>.



Government and economic news

Spending Review 2015

Some headlines from the Spending Review 2015 include:

- ▶ The intention to be running a £10bn surplus by 2019/20.
- ▶ Tax credit taper rates and thresholds will remain unchanged.
- ▶ Council tax increases of 2% to support social care will be permitted. Local Police and Crime Commissioners will have the power to increase their share of council tax by 2% from April 2016.
- ▶ From 2020, local government will retain 100% of business rates collected. The system of top ups and tariffs redistributing revenues between local authorities will be retained. The uniform rate will be abolished; allowing local areas to cut business rates if they choose to do so in order to win new jobs and generate wealth.
- ▶ Police and schools funding will be protected in line with inflation.

Read more at:

<https://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015>

The Government has also consulted on the 2016-17 settlement. Further details available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486730/Provisional_settlement_consultation_document.pdf.

Consultation: New Homes Bonus

In 2011 the New Homes Bonus was introduced to incentivise local authorities to encourage housing growth in their areas. Since 2011, £3.4bn has been allocated to support the delivery of 700,000 new homes and the return of 100,000 long term empty homes to use.

The Department for Communities and Local Government (DCLG) has released a consultation which seeks views on potential changes to the New Homes Bonus. The changes are intended to “better reflect authorities’ delivery of new housing”. Other proposed changes include introducing a reduction to the number of years in which current and future payments are made, from six years to four years.

See full details of the consultation as well as methods for responding at:

<https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

The deadline for response is 10th March 2016.



Government and economic news

Local Authority Revenue Expenditure and Financing

During November 2015, statistics for 2014-15 on revenue expenditure and financing with local government were released by the Department for Communities and Local Government.

Some highlights include:

Total revenue expenditure by local authorities in England reduced by 0.5% in 2014-15, from £96.4bn in 2013-14 to £95.9bn, however, excluding spend on Education (30.7% of total net current expenditure) there was an increase of 1.5% from £60.5bn in 2013-14 to £61.5bn.

Net current expenditure on education saw the largest decrease, which was largely driven by schools achieving academy status and therefore receiving central expenditure, and by the reclassification of some services to Children and Families Social Care services (which saw a £1.2bn increase for this reason).

Local Authorities added £0.9bn to reserves in 2014-15 as compared to £2.4bn in 2013-14. This takes total reserves to £22.5bn and means that the last 15 years has seen a significant increase in the amount held by local authorities in non-ringfenced reserves. Communities Secretary Greg Clark has noted this increase and said:

“With local government accounting for a quarter of all public spending, it is right that they are called on to play their part in dealing with the deficit.

Today’s figures show how they are well placed to do so, with local authorities holding £22.5bn held in non-ringfenced reserves – up 170% in real terms over the last 15 years.

As we continue to secure our country’s economic future and cut the deficit, now is the time to make efficient use of their assets and resources to provide the services local people want to see.”

Public Finance has published an article available at <http://www.publicfinance.co.uk/news/2015/11/mounting-reserves-leave-councils-well-placed-make-cuts-says-clark>, and the full publication is available at <https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-in-england-2014-to-2015-final-outturn>

Response to flooding

The Bellwin scheme, which compensates eligible authorities for exceptional costs incurred in incidents like flooding, has been opened for councils affected by floods resulting from storms Desmond and Eva.

Authorities are eligible for costs under the scheme when they have spent more than 0.2% of their calculated annual revenue budgets on works.



Government and economic news

Bellwin allows eligible authorities to apply to have 100% of their costs above threshold reimbursed by the government.

Eligible authorities include:

- ▶ Councils
- ▶ Policing bodies
- ▶ Fire and rescue authorities
- ▶ National Park authorities

For more information see <https://www.gov.uk/government/news/north-west-england-floods-2015-government-response>.

Council Tax support

A review into the effectiveness of Council Tax support schemes across the country has been initiated, led by Member of Parliament, Eric Ollerenshaw, OBE.

Council Tax Benefit was reformed from 2013-14 to give councils the power to design their own schemes and align them to local needs. This review is intended to examine the implementation of this change and to consider whether or not this support should be part of the Universal Credit payments in the future.

Further details of the review are available at:

<https://www.gov.uk/government/news/launch-of-review-into-council-tax-support>.

Public sector exit payment recovery regulations

The government is consulting on draft regulations that will give effect to the powers enacted in the Small Business, Enterprise and Employment Act 2015. These regulations allow for the recovery of exit payments following the return of a high earner to the public sector within a year of their initial departure.

Changes made to the policy since the previous consultation include:

- ▶ The minimum earnings threshold for individuals subject to the recovery provisions has been lowered from £100,000 to £80,000
- ▶ The policy has been extended to include qualifying returns to any part of the public sector, rather than only to the same part of the public sector
- ▶ Introduction of a tapered recovery period for 12 months from the exit date
- ▶ Recovery will now include employer funded pension 'top up' payments made under the Local Government Pension Scheme.

Public sector organisations that are in scope and those that are proposed to be exempt are included in the draft regulations.

Following this consultation, the regulations will go through Parliamentary scrutiny, and the intention is that the policy will take effect from April 2016.

Read more at <https://www.gov.uk/government/news/government-calls-time-on-public-sector-parachute-payments-for-boomerang-bosses>.



Accounting, auditing and governance

Faster Close update

Since our think piece 'accelerating your financial close arrangements' in the summer – we have worked together with our clients to successfully deliver another round of financial statements audits.

We have seen again a number of our clients achieve the earlier 31 July deadline – three years ahead of schedule. Nationally, 5% of opinions were issued by 31 July for 2014-15.

At other clients, we have seen a shortening of the actual audit window as both preparers and auditors refine the operational timetable in readiness for 2017-18 audits.

The think piece set out some areas where preparers can hone their closedown plans and work with their auditors in the run up to the revised timetable. Discussions with clients around the country are showing encouraging signs that finance teams are already grasping the issue and working on solutions to enable them to prepare and submit draft financial statements and supporting working papers to the auditor by 31 May. Twenty-one percent of our clients have committed to this earlier target for the 2015-16 audits.

On our side, as a firm, we are reviewing how we can streamline our audit approach, to provide maximum ability to undertake early substantive testing across a Month 8-10 window, thereby reducing some pressure in the key June – July audit window. This may not work in all cases, because of the budget setting process, so other ways of streamlining the audit approach are also being developed.

In addition, we are addressing the resourcing challenge that this presents to audit firms, with a significant recruitment campaign to enable us to continue to deliver exceptional client service across the entire sector. This will require us to phase our audits, at both an interim and final audit stage to allow us greater flexibility in resource deployment and audit clients should be prepared to have bigger audit teams on site for shorter periods of time, as running all audits concurrently is not likely to be possible.

A key issue arising from our recent discussions is dealing with the governance processes at councils for receiving the auditor's report and approving the accounts. There are a wide range of approval processes in place at councils as a result of custom and practice over the years, and some are more streamlined than others.

Councils will need to review their governance processes for approving the accounts with a view to making it as simple as possible to ensure the maximum amount of the nine week window for audit can be used for audit procedures. Under the Account and Audit Regulations 2015, it is only the responsibility of the committee 'charged with governance' to approve the financial statements ahead of final certification by the s151 officer. Adding additional layers of approval through to Cabinet or Full Council slows down the governance process and potentially adds to the audit burden.

For 2014-15 audits, 8% of our clients had Audit Committee meetings scheduled before September for approval of the financial statements. For 2015-16, in several instances Audit Committee timetables have not yet been finalised, however, currently 7% of our client base has already confirmed that their Audit Committee timetable would enable accounts authorisation before September, with 4% scheduled before 31 July 2016.



Accounting, auditing and governance

An effective Audit Committee is one which can appropriately scrutinise the financial statements and the auditor's results report prepared under International Standard on Auditing (UK&I) 260, and challenge officers about accounting policies and estimates in order to be able to approve the financial statements on behalf of the council.

Given the lead time for amending corporate governance processes, officers should review the approval arrangements, and schemes of delegation from Full Council, ensuring that the Audit Committee operates as effectively as possible and to the remit as set out by CIPFA in its guidance 'Audit Committees: Practical Guidance for Local Authorities and Police (2013 edition)'.

We are encouraged by the response of our clients to this challenge and the acceptance that it is a joint responsibility to achieve the faster close, and we will continue to work with you as we both prepare for the advanced deadlines.

For further information, please speak to a member of your engagement team.

Value for Money guidance

The Local Audit & Accountability Act 2014 Section 20(1) requires that: 'In auditing the accounts of a relevant authority other than a health service body, a local auditor must, by examination of the accounts and otherwise, be satisfied ... (c) that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

The Act is implemented through the National Audit Office's 2015 Audit Code of Practice (the Code), which sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act.

Paragraph 3.14 sets out that 'the auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report as appropriate to audited bodies other than health service bodies, providing a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period'.

To support the Code, the NAO issues guidance to auditors. This is undertaken by preparing and publishing Auditor Guidance Notes (AGNs) which are publically available on its website. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

AGN 03 – Auditors' work on Value for Money Arrangements was published in November 2015 following a consultation period. It confirms the requirement is for auditors to issue a conclusion in respect of the single overall criterion that:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

To assist auditors the NAO provide three sub-criteria that are intended to guide auditors in reaching their overall judgement:

- ▶ Informed decision making
- ▶ Sustainable resource deployment
- ▶ Working with partners and other third parties

However, these are not separate and auditors are not required to reach a judgement against each one.

Underpinning these sub-criteria are the proper arrangements,



Accounting, auditing and governance

which are aligned to the scope of arrangements that are already required to be put in place and reported on through documents such as the annual governance statement.

Auditors are required to undertake a risk assessment to identify any significant risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.

The Code defines 'significant' as follows: **"a matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects."**

Where such a significant risk is identified, further audit work will be undertaken based on the auditor's professional judgement. If the auditor does not identify any significant risks, there is no requirement to carry out further work.

Full information on all of the above can be found within AGN 03. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

New arrangements for the exercise of public rights

The Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015-16 onwards. In respect of principal bodies, paragraph 9(1) requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced. This is a change to previous arrangements where the local auditor notified the audited body of the appointed date on or after which local government electors could exercise their rights.

Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place until after the conclusion of the period for the exercise of public rights. For 2015-16, the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.

Paragraph 14(1) states that any rights of objection, inspection and questioning of the local auditor conferred by sections 26 and 27 of the Act may only be exercised within a single period of 30 working days. In effect this paragraph brings the period in which an elector can question the auditor into the inspection period, rather than immediately following the inspection period as per the previous regulations. As a result of this, auditors are unable to issue their audit reports until the 30 day period has been concluded.

Read the regulations in full at <http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>.

Consultation: HRA accounting

The Department for Communities and Local Government is consulting on directions to replace the Housing Revenue Account (Accounting Practices) Directions 2011, which will cease to have effect in relation to Housing Revenue Accounts of local housing authorities in England from 1 April 2016. DCLG describes the replacement directions as essentially technical changes in order to bring the accounting requirements in line with proper practices under international accounting standards. They specify information to be disclosed in the notes to the HRA.

See full details of the draft direction at:

<https://www.gov.uk/government/consultations/housing-revenue-account-accounting-practices-directions-2015>



Regulation news

Report on the results of auditors' work 2014-15

Public Sector Audit Appointments (PSAA) have published their first report showing the results of auditors' work for 2014-15 covering 509 principal bodies and 9,755 small bodies.

The report includes information on timeliness of reporting, as well as the outcomes of those reports.

- ▶ Auditors were able to issue an early opinion (by 31st July 2015) for 5% of principal bodies.
- ▶ The auditor was unable to issue an opinion by the statutory deadline of 30th September at 15 bodies (3%), compared to 2% in 2013-14.
- ▶ Consistent with 2013-14, no non-standard opinions were issued.
- ▶ 20 non-standard value for money opinions were issued, including 1 adverse conclusion, 18 except-for conclusions, and one report on matters arising.
- ▶ Ten value for money conclusions were outstanding at the time of publishing the report.

Read the report in full at:

<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>



Key questions for the audit committee

What questions should the Audit Committee ask itself?

Have we considered our responses to the key government consultations that affect us, including New Homes Bonus and HRA Accounting Directions?

Have we formulated a response to support the review of Local Council Tax Support Schemes? How effective have our council tax support arrangements been since 2013-14?

Are we monitoring our progress against the revised timetable for closing the accounts from 2017-18 onwards?

Have we considered amending governance arrangements to streamline the approval of the financial statements?



Find out more

Ey Item Club Summer 2015 forecast

For details of the EY Item Club's latest forecast, see <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

Local Government Devolution

Read the government announcements in full at <https://www.gov.uk/government/news/historic-devolution-deal-to-power-the-midlands-engine> and <https://www.gov.uk/government/news/liverpool-devolution-deal-boosts-the-northern-powerhouse>.

Spending Review 2015

Read more at:

<https://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015>

Consultation: New Homes Bonus

See full details of the consultation as well as methods for responding at:

<https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

Local Authority Revenue Expenditure and Financing

The full publication is available at:

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-in-england-2014-to-2015-final-outturn>

Response to flooding

For more information see <https://www.gov.uk/government/news/north-west-england-floods-2015-government-response>.

Council Tax Support

Further details of the review are available at:

<https://www.gov.uk/government/news/launch-of-review-into-council-tax-support>.

Public Sector Exit Payment Recovery Regulations

Read more at <https://www.gov.uk/government/news/government-calls-time-on-public-sector-parachute-payments-for-boomerang-bosses>

Faster Close update

The original publication 'accelerating your financial close arrangements' can be accessed at [http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/\\$FILE/EY-accelerating-your-financial-close-arrangements.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf)

For more information, please contact a member of your engagement team.

Value for Money guidance

Full information on the new guidance can be found within AGN 03. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

New arrangements for the exercise of public rights

Read the regulations in full at <http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>

Consultation: HRA accounting

See full details of the draft direction at:

<https://www.gov.uk/government/consultations/housing-revenue-account-accounting-practices-directions-2015>

Report on the results of auditors' work 2014-15

Read the report in full at:

<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

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ED None

81480.indd (UK) 02/16. Artwork by Creative Services Group Design.

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RISK MANAGEMENT AND SERVICE RISK ASSURANCE

1 Purpose

- 1.1 To present an update on Risk Management and the results of the Service Risk Assurance for 2015/16.

2 Recommendations/for decision

- | |
|--|
| 2.1 To review the Service Risk Assurance results and identify any issues for further consideration |
|--|

3 Risk Management - Supporting information

- 3.1 The risk management arrangements of the Council are a key part of the overall internal control arrangements of the Council and form part of the Annual Governance Statement.
- 3.2 The Council is currently undergoing significant organisational change. The introduction of the new CIPFA Governance Framework in April 2016 and the ongoing Commercial AVDC programme have necessitated a review of the risk management arrangements.
- 3.3 The starting point for this was a review of the Council's risk management strategy in late summer 2015. The revised risk management strategy was presented to Audit Committee in September 2015 and reflected changes in the Council's approach to risk and its changing risk appetite. We now need a framework to enable us to put our strategy into action.
- 3.4 The Strategic Risk Register was last reviewed in September 2015. A recent high level review identified that a number of the risks are no longer relevant to the organisation, or have changed. Workshops are planned with sector leads in the next few months to identify the strategic risks and sources of assurance over those risks. This will result in an updated risk register.
- 3.5 The Council needs to align its risk management strategy with its commercial ambitions to ensure that risk management can be evidenced. Discussions are currently underway with senior managers to determine what this might look like in the future.

4 Service Risk Assurance - Supporting information

- 4.1 The Audit Committee has a role to monitor the effectiveness of risk management and internal control across the Council. As part of discharging this role the committee is asked to review the Service Risk Assurance results for 2015-16.
- 4.2 In March 2014 the internal control self assessment was replaced by a new service risk assurance check. The new process was developed to address identified gaps in assurance for specialist areas such as Health and Safety, IT security, financial control and Safeguarding.
- 4.3 The revised process was devised to take into account the key compliance risks as well as the service specific risks. The process reflects the level of risk for each service against key areas. This in turn helps determine where further information is required on how specific risks are being managed.
- 4.4 The Service Risk Assurance process was undertaken with 20 services/teams. Due to a number of reorganisations it is not possible to make a direct

comparison with last year. This process was undertaken slightly earlier than normal due to changes resulting from the Commercial AVDC programme.

4.5 The biggest risks for services are reported as Information Security, Health and Safety and Business Continuity.

4.6 More detailed results can be found in appendix 1.

5 Reasons for Recommendation

5.1 To allow members of the Audit Committee to review the Service Risk Assurance results.

6 Resource implications

6.1 None

Contact Officer Tamsin Ireland Business Intelligence and Assurance Officer
Tel: 01296 585004

Background Documents None

Background

In March 2014 the internal control self assessment was replaced by a new service risk assurance check. The new process was developed to address identified gaps in assurance for specialist areas such as Health and Safety, IT security, financial control and Safeguarding.

The revised process was devised to take into account the key compliance risks as well as the service specific risks. The new process reflects the level of risk for each service against key areas. This in turn helps determine where further information is required on how specific risks are being managed.

An outline of the process is set out below.

Stage 1 – High Level Risk Assessment

Service assesses whether their risk potential is High, Medium or Low against key area.

Stage 2 – Detailed Risk Assurance Profile

For each area identified as High or Medium the risks for that specific area are discussed and controls that are in place are mapped. If there are any gaps these are identified and action is recorded.

Stage 3 – Specialist Review

The relevant specialist lead (e.g. Health & Safety) reviews the assurance documented and gives an opinion on whether in their view all the relevant risks have been identified.

Stage 4 – Overview for AGS

Business Assurance Services reviews overall assessment and reports any key weaknesses in Annual Governance Statement.

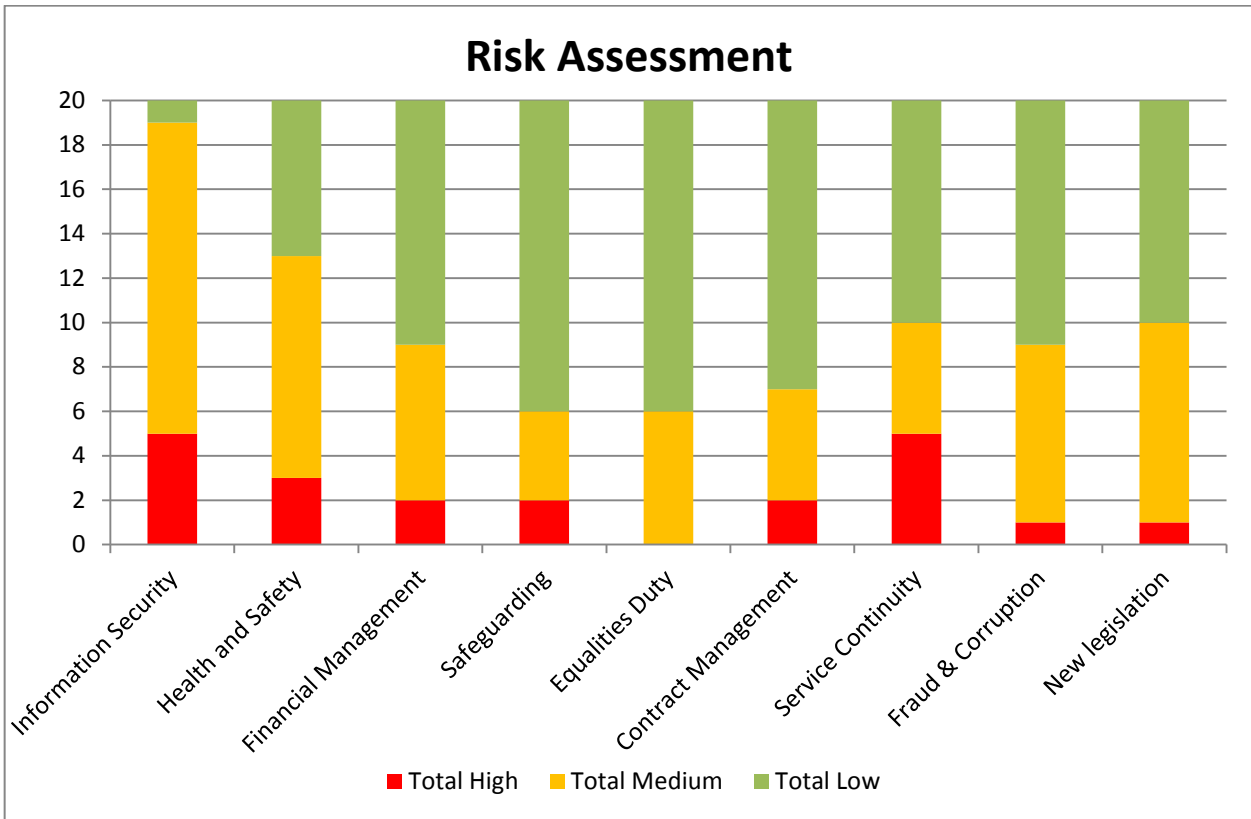
2015/16 Overview

The Service Risk Assurance process was undertaken with 20 services/teams. Due to a number of reorganisations it is not possible to make a direct comparison with last year. This process was undertaken slightly earlier than normal due to changes resulting from the Commercial AVDC programme.

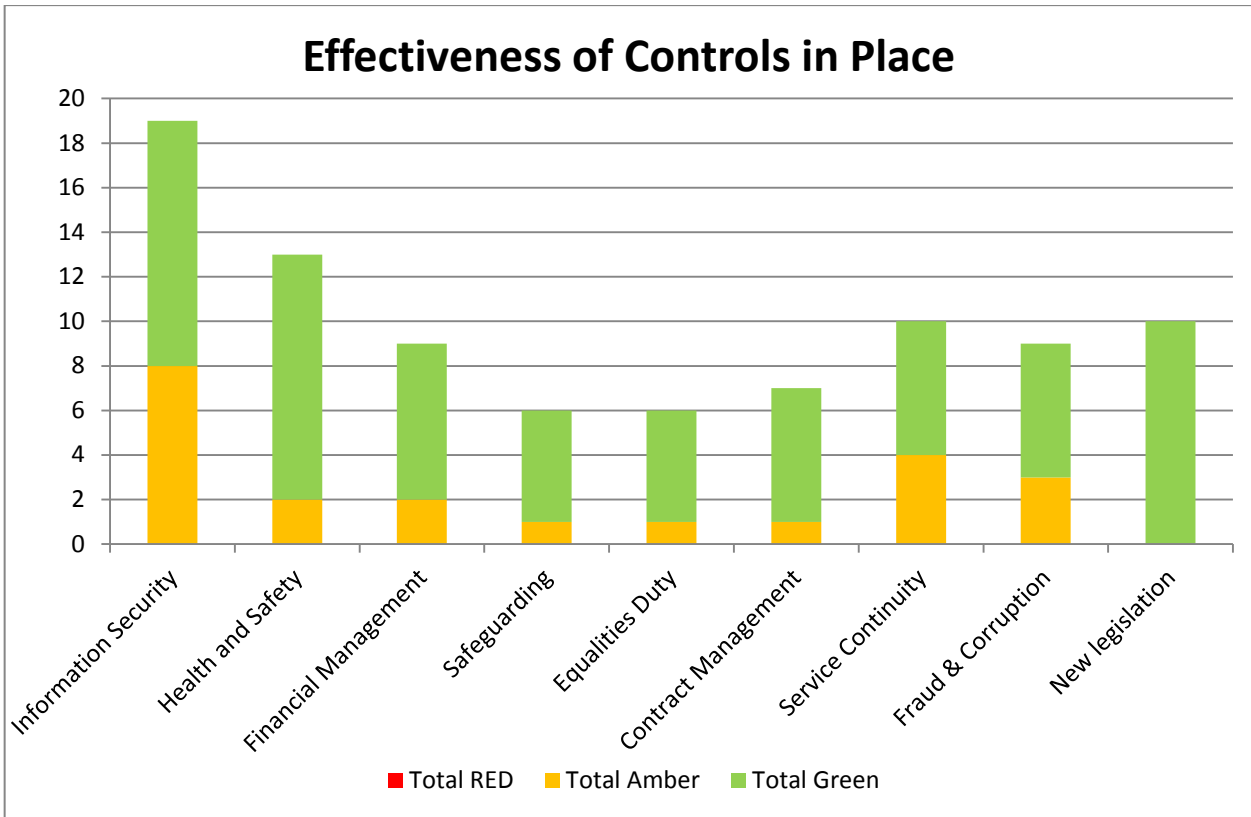
The process this year has been undertaken through a mixture of self completion and individual discussions with Managers. The discussions have been led by Business Assurance Services.

A full list of ratings can be found in appendix 1

The graph below shows a summary of the Risk Rating for all services/teams.



The graph below shows the assurance rating for all services.



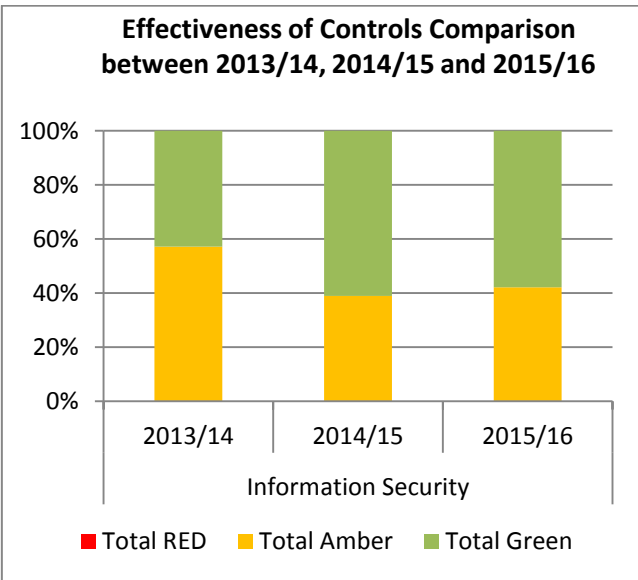
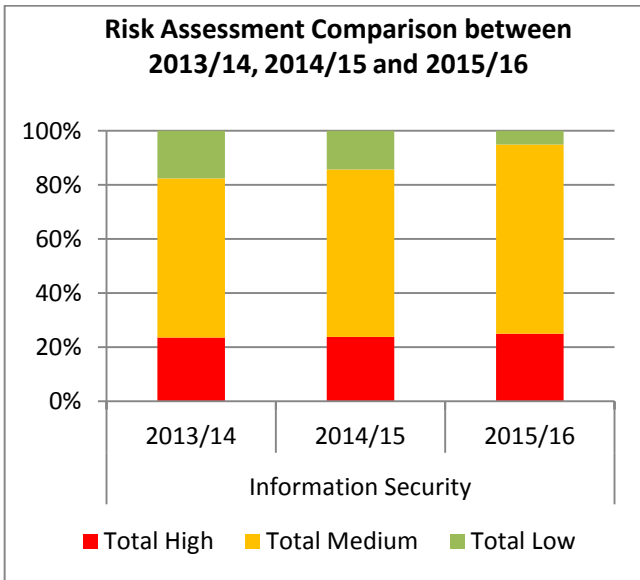
The biggest risks for services are reported as Information Security, Health and Safety and Business Continuity.

Trend over time.

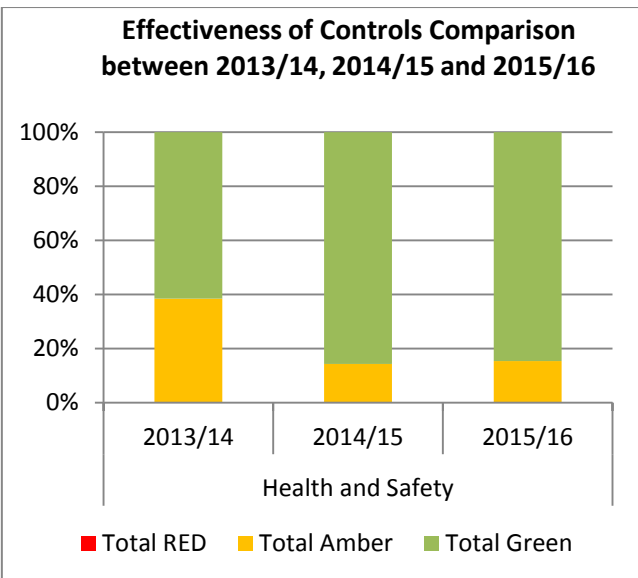
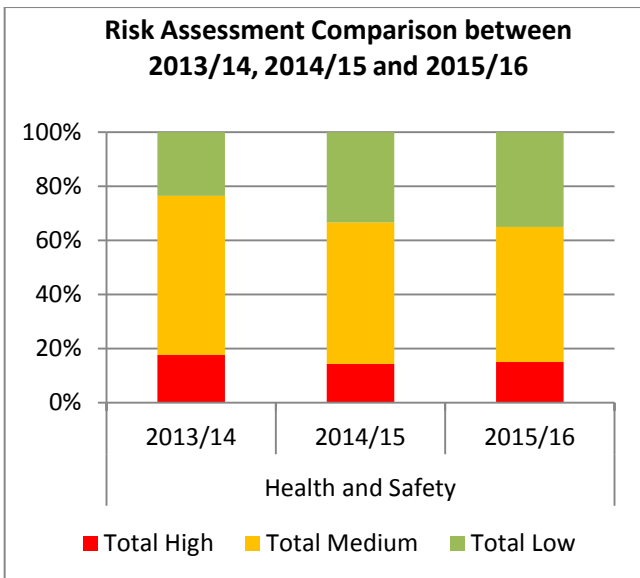
The graphs below show the changes over the last 3 years. We cannot make direct comparisons year on year due to organisational changes. In 2013/14 17 areas were assessed, however due to organisational changes 21 areas were assessed in 2014/15 and 20 areas in 2015/16.

Information Security has been consistently one of the biggest areas of concern over the last three years, followed by health and safety.

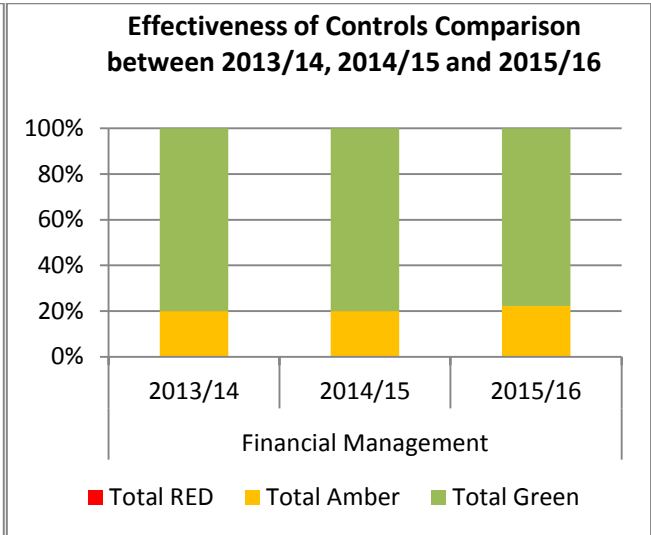
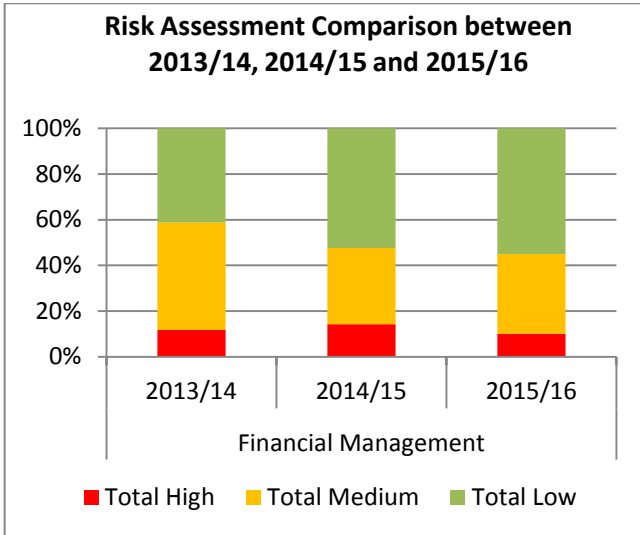
Information Security



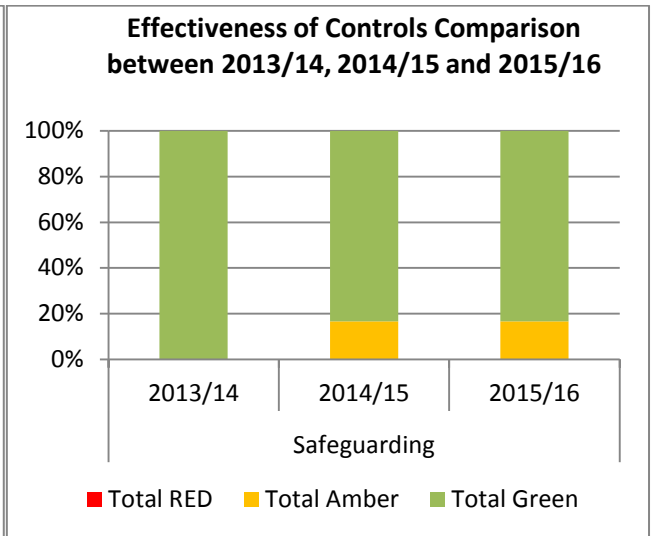
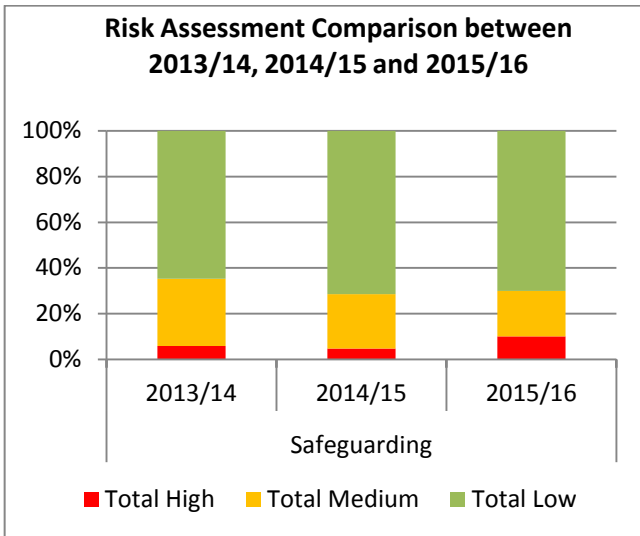
Health and Safety



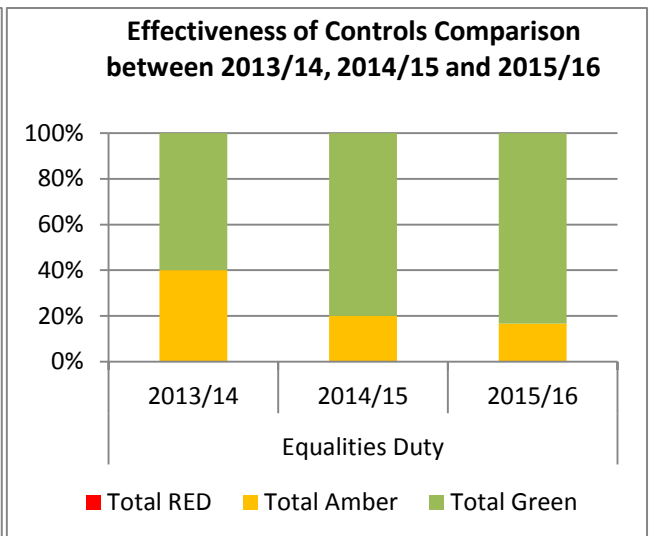
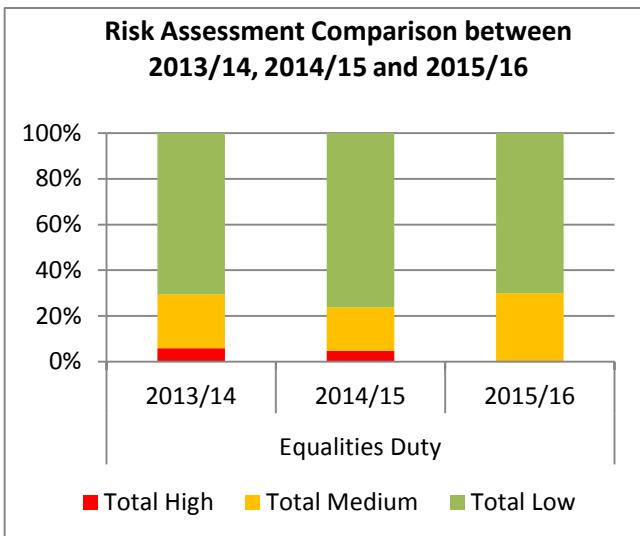
Financial Management



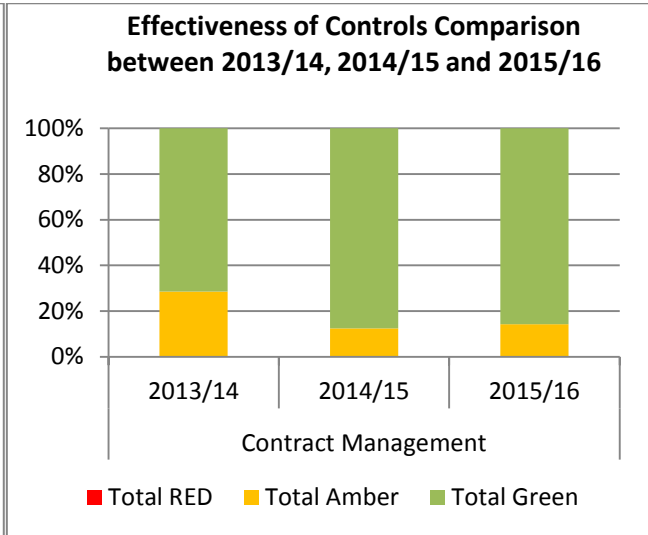
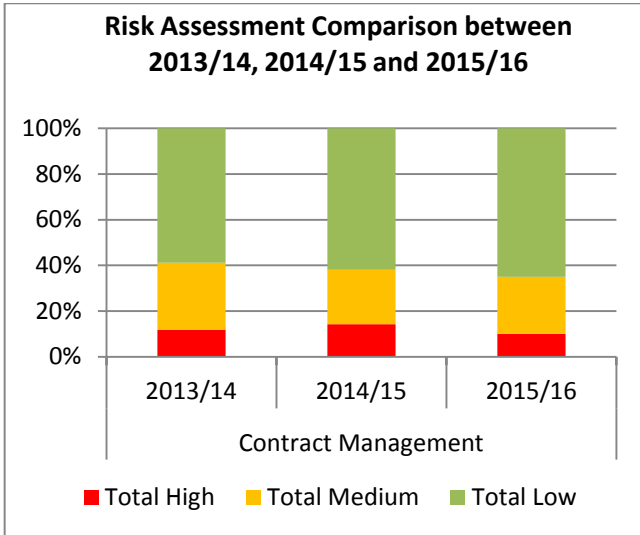
Safeguarding



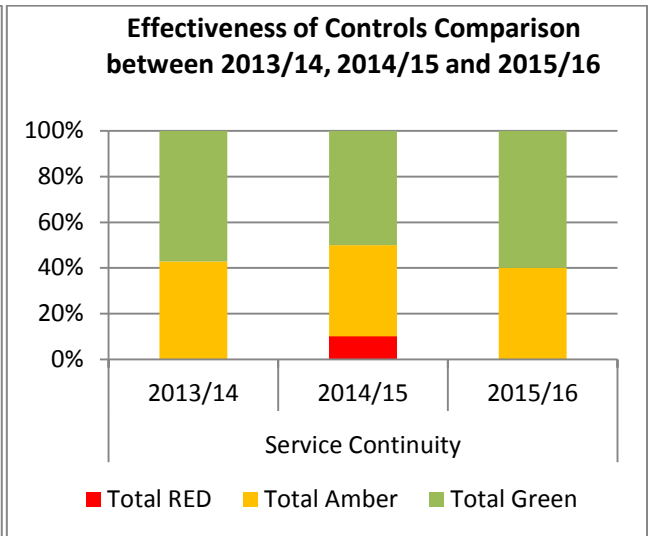
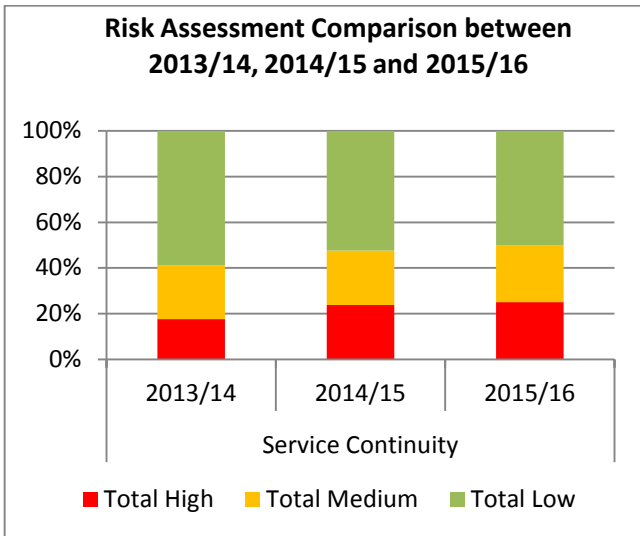
Equalities Duty



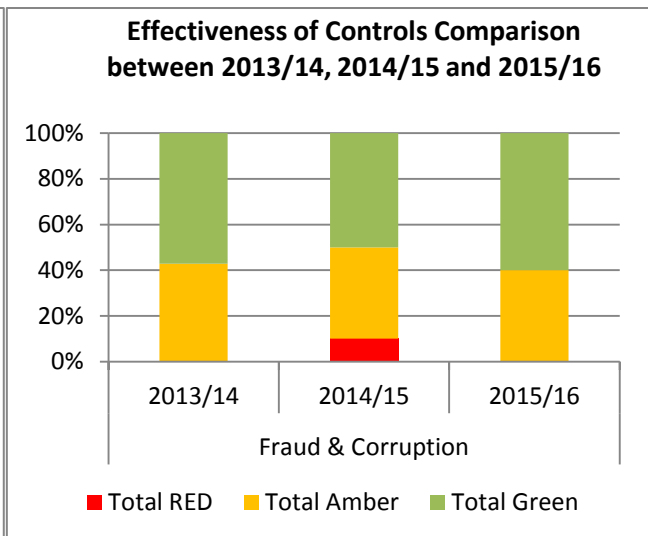
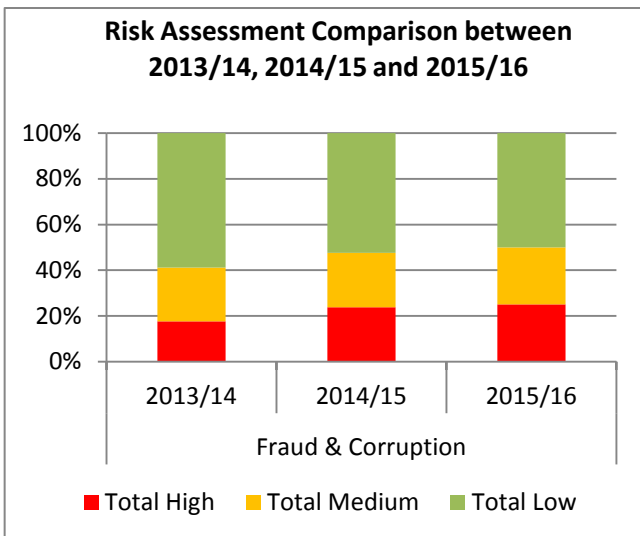
Contract Management



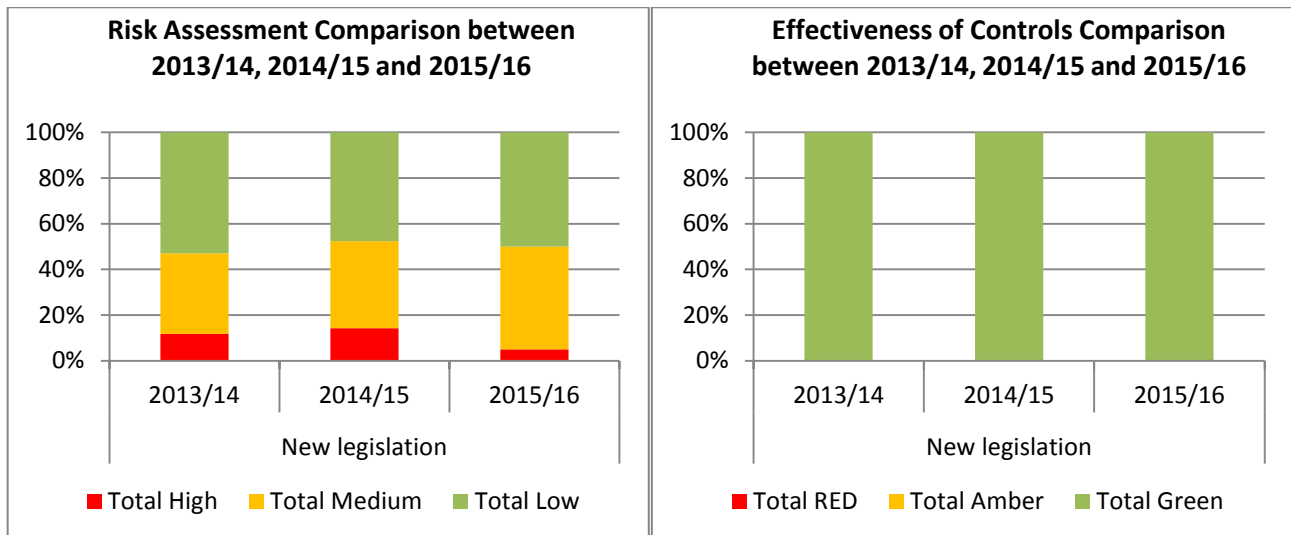
Service Continuity



Fraud and Corruption



New Legislation



Top Concerns for teams/services

Teams/services were also asked to highlight up to five top concerns for their area for the first time this year. They were asked to rate these concerns using the same rating system used for corporate risks.

The common themes across services were Information Security, Organisational Change and Financial Management.

Moving Forward

Due to the current organisational changes that the Council is undertaking, this is the last time that the service risk assurance will be completed in this format. The introduction of the new CIPFA Governance Framework in April 2016 and the ongoing Commercial AVDC programme will necessitate a review of our risk management arrangements.

Tamsin Ireland
March 2016

AVDC COMPANY GOVERNANCE

1 Purpose

- 1.1 To approved the attached Companies in which AVDC has a financial Interest Guide, and to nominate the shareholder representative for Vale Commerce.

2 Recommendation

- | |
|---|
| 2.1 To make any comments on 'Companies in which AVDC has a Financial Interest Guide' attached as appendix 1 to this report, prior to it being considered at the April 2016 Cabinet meeting. |
|---|

3 Supporting information

- 3.1 As the approaches of the Commercial AVDC programme and particularly the formation and ownership of companies has the potential to become more common place, there is a need to ensure that good governance is in place so that the actions of AVDC and those companies are clear, transparent and in line with the overall aims of AVDC.
- 3.2 The attached guide sets out how the relationships between any company that AVDC has a financial interest in and the council should be conducted, it also covers in broad terms the way in which new companies should be developed. Following any comments on the document by the committee, the guide will be taken to Cabinet with a recommendation to adopt at its April meeting.
- 3.3 The governance of any company owned or invested in by AVDC is important as there is a need to :
- Ensure that it is clear for staff, public, members and the company staff who is responsible for what, when and why
 - Ensure that AVDC and the company is clear on its roles and responsibilities
 - Ensure that nothing is developed that conflicts with AVDC, or places AVDC in an unlawful position
 - Ensure that any and all legal or contractual issues are complied with
 - Ensure that the company is operating ethically and transparency is in line with the councils legal responsibilities.
- 3.4 Good corporate governance is aimed at ensuring that the above are adhered to, to maintain and improve the image of both the company and AVDC, and overall ensure that the company delivers against the reasons it was created and to its business plan.
- 3.5 It is also important that there is consistency across all companies that AVDC may own or relate to, so that there is a common understanding for all partners involved in oversight and management.
- 3.6 The aim of any company owned or part owned by AVDC is to produce overall benefits for the residents and businesses of the Vale. This may be through investment, commercial opportunity, a host of other reasons or simply by generating income for the council through divided payments funded from profit. This also may be through purchasing or reselling elements of council services which may result in an overall better position for the council.

- 3.7 This overarching aim should be at the heart of all decision making, and the attached guide seeks to assist in developing these approaches.
- 3.8 The guide sets out a number of principles that owned (part or whole) companies should deliver. It is recognised that companies created preceding the publication of this guide may not be fully compliant, or those who are not 100% owned by AVDC, however where possible these should be transitioned over the medium term to align with this guide where practical.

4 Resource implications

- 4.1 None directly from this report.

Contact Officer	Andy Barton, Sector Lead Business Strategy & Governance – 01296 585430
Background Documents	None



AYLESBURY VALE DISTRICT COUNCIL

GUIDE TO CREATION AND WORKING WITH COMPANIES IN WHICH AVDC HAS A FINANCIAL INTEREST

MARCH 2016

Draft 6- Andy Barton 02/03/16

FINAL DRAFT FOR SCRUTINY & CABINET APPROVAL

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BACKGROUND

WHY GOVERNANCE IS IMPORTANT

The governance of any company owned or invested in by AVDC is important as there is a need to :

- Ensure that it is clear for staff, public, members and the company staff who is responsible for what, when and why?
- Ensure that AVDC and the company is clear on its roles and responsibilities
- Ensure that nothing is developed that conflicts with AVDC, or places AVDC in an unlawful position
- Ensure that any and all legal or contractual issues are complied with
- Ensure that the company is operating ethically and transparency is in line with the councils legal responsibilities.

Good corporate governance is aimed at ensuring that the above are adhered to, to maintain and improve the image of both the company and AVDC, and overall ensure that the company delivers against the reasons it was created and to its business plan.

It is also important that there is consistency across all companies that AVDC may own or relate to, so that there is a common understanding for all partners involved in oversight and management.

The aim of any company owned or part owned by AVDC is to produce overall benefits for the residents and businesses of the Vale. This may be through investment, commercial opportunity, a host of other reasons or simply by generating cash for the council through divided payments funded from profit. This also may be through purchasing or reselling elements of council services which may result in an overall better position for the council. This overarching aim should be at the heart of all decision making, and that this document seeks to assist in developing.

This document sets out a number of principles that owned (part or whole) companies should deliver. It is recognised that companies created preceding the publication of this guide may not be fully compliant, however where possible those should be moved to align with this guide where practical. It is recognised however that each company and circumstance is different, and hence sometimes departures from these principles can be justified, but the guidance forms a starting point and any departure must be justified and documented and such deviation agreed with as a minimum a Cabinet Member and potentially full Cabinet.

It is assumed that the company will operate legally at all times.

START UP

Possibly the most important phase of launching a new company is its start up process. This section of the guide gives a high level set of issues/checklist that may be useful when developing new companies – especially when wholly owned. It is not intended to be a detailed implementation plan, rather the key phases and key issues to consider.

There are 3 distinct phases of developing a company in the AVDC environment.

PHASE 1 – BUSINESS CASE AND DECISION MAKING

The key activity in this phase of developing the company is to establish the business case behind the company and to gain the necessary decisions to progress. A checklist for company set up is shown in Annex 6.

BUSINESS CASE

It is important that there is a solid basis for developing a company. Prior to developing the business case there are a number of key questions worthy of consideration :

Why do you need a company and are we sure that a company is the best solution ?

Developing a company should only be undertaken where there is a clear reason for doing so. A number of options are available for AVDC to gain many of the advantages that a company provides without the need for setting one up, and the running costs that this incurs. Advice should be sought from AVDC legal to assist in this decision making.

Principally the main reason AVDC is likely to wish to set up a company is to gain access to something or some activity that as a council it can not. This is likely to be related to making a profit in areas it is prohibited from doing or that it needs some freedom or flexibility from the bureaucratic process in local government that it can't gain in any other way. In general the Council will be setting up companies with a specific aim in mind. This may be that a Company is required in order to create an outcome for the community that the Council is not empowered to deliver itself but in general it is more likely that a Company is being set up either because a company can carry out a Council function better or more at lower cost or to generate profit for the council in the form of cash which can be reinvested in Council services that cannot ever recover their costs or other commercial initiatives. The important point to bear in mind is that the Company must deliver benefit to the Council either through :

- Reducing Council operating costs by delivering Council service at lower cost than the Council is able to do.
- Delivering services which the Council is not empowered to deliver
- Generating cash to the Council through Dividend payments
- Generating a cash lump sum by enabling the Council to sell its shares at a point in the future at a significant profit.

It must be clear which of these objectives is in focus and how the company will deliver them.

Once the decision is made that a company is the right option, a business case needs to be developed. This should ideally take the form of a 'green book'¹ compliant business case (the government standard for business cases). This is not a rigid form, but one which can flex and adapt to the issue at hand.

As a minimum it should clearly set out :

- the objectives of the business
- The investment and other resources required to achieve those objectives.
- What options for delivering this are – including benefits and dis-benefits of each
- An assessment of the best option
- What form the company should take
- A consideration of the taxation and potential State Aid issues
- How the company will generate cash for reinvestment in the Council rather than just profits for reinvestment in the Company's growth.
- A business plan (ideally no less than 5 years) and a matching financial cashflow forecast including how start up will be funded (including any risks the business may face and how significant these risks are, and the expected financial results of the business and projected dividend payments to the Council, together with any relevant outcomes that the business is expected to achieve
- Evidence, normally backed by legal opinion, that the option is not ultra vires
- The Business Plan will be rigorously scrutinised and any Business Plan that does not demonstrate a clear understanding of the target market, costs, opportunities, the competition, barriers to entry and pricing and profit strategy is likely to be rejected.

GAINING PERMISSION

Company set up is a reserved matter for Council. This means as a minimum Cabinet recommendation and Full Council resolution to set up is required. In reality much work prior to these formal stages will need to be undertaken with senior managers, stakeholders and members. Bear in mind the time it will take to complete the decision making process in full – likely minimum 3 months at the very earliest.

PHASE 2 – PRE LAUNCH PREPARATION

Once agreement to proceed is granted, there is an intensive effort in launching the company. This will include (but not limited to) :

- Who and how the company will be staffed – internal staff seconded, cost recovery options, direct employment (if the latter then personnel advice will be required)
- Clear Statement of Cost recovery arrangements to a level that would be expected if the services were being procured from a third party.
- Clear statement of which costs of setup will be funded by AVDC and which will be attributed to the Company.
- Clear explanation of how the company will generate surplus cash to be returned to the Council in the form of dividends or stock splits and what level of reinvestment of profits is expected.

¹ <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

- Explanation of the risks to the Council’s reputation which may arise from the Company’s operation and how they will be managed
- Assets – where will the company operate from, what IT will it use, what data does it need etc – see using assets section below. What consideration the Company will give to AVDC for their use.
- Financial arrangements – any loan or capital, who the company will bank with, accountancy, VAT and corporation tax considerations, insurances etc.
- Clear statements of the controls that AVDC will require the company to put in place, and any audit processes that AVDC may require in relation to
 - Information Security and Data Protection
 - Financial Controls
 - Intellectual property
- Media & Communications – how will the messages be communicated, how will you get to your customers, how will they contact you etc. The relationship between AVDC Customers and any other company customers, and a clear role/responsibility understanding between AVDC and the company.

All of these areas are considered in more detail in the following sections of this guide.

PHASE 3 – POST LAUNCH EARLY DAYS

Once the initial set up phases are completed and the company starts to operate in a more stable sense there should be every effort made to move the company into an independent state as soon as possible.

START UP SUPPORT

AVDC will help in the start up process where it can but it is limited in what it can provide and when. The guiding principles around start up support are :

- Up to the point of decision – everything can be done by AVDC, it is in the process of developing the business case for a company and that is a legitimate activity it can do as the council.
- Post decision and pre launch – things will start to get less clear. AVDC is still setting up the company and hence can fund most things, however once the company entity exists the distance between the company and AVDC needs to become more distinct. The guiding rule is at this point that any company will pay for itself.
- Best practise is to use the company incorporation date as a dividing line between setup by AVDC and the company existing by itself. At this point technically the company exists and should start to operate separately. This means that by that point all of the issues in this guide should be either agreed or both AVDC and the company should be clear about how they will work. Any council resources used by the company from the point of incorporation will be charged to the company at full cost recovery. If necessary Service Level Agreements (SLA) between AVDC and any company can be entered into on a full cost recovery basis – more of which is explained further on in this guide.

ARTICLES OF ASSOCIATION

One key part of company set up is the articles of association. These govern the way the relationship between AVDC and the company works, and how the company itself runs. These are different for each case, but some standardised issues are starting to form. As a minimum the Articles should cover :

- Business Plan
- Access to information by AVDC regarding the company
- Management of the company
- Board of Directors
- Share Management
- Termination
- Confidentiality
- Reserved Matters – see Annex 5

This guide goes through in more depth all of the above points and more.

STATE AID ²³

This is a summary version of the state aid rules and regulations. If you have **ANY** query regarding state aid please refer to legal advice. As a first stage you may wish to refer to the government guidance referred to in the footnote.

DEFINITION – “State aid is any advantage granted by public authorities through state resources on a selective basis to any organizations that could potentially distort competition and trade in the European Union (EU)”.

The definition of state aid is very broad because ‘an advantage’ can take many forms. It is anything which an undertaking (an organisation engaged in economic activity) could not get on the open market. Whilst it is unusual for councils at the district level to come near to State Aid issues due to size and scale, when dealing with companies and investments it is more likely and hence you should have an understanding of the principles.

STATE AID RULES

State aid rules can (among other things) apply to the following:

- grants
- loans
- tax breaks
- the use or sale of a state asset for free or at less than market price (including intellectual property)

The rules can apply to funding given to charities, public authorities and other non-profit making bodies where they are involved in commercial activities. In principle, state aid is not allowed in the EU. However the state aid rules allow for good aid, which is necessary to deliver growth and other important objectives.

The UK government supports the need for effective state aid rules to prevent distortion of competition and to create an open and competitive market in the EU on which UK firms can fairly compete and grow.

COMPLIANCE WITH THE STATE AID RULES

Public authorities are responsible for ensuring their policy measures and projects comply with the rules. *We should think about state aid early and seek advice to avoid problems and save time.*

The rules can be complex and getting it wrong can mean recovery of state aid and suspension or withdrawal of funds as well as penalties. This might have serious consequences for the recipients of aid and the delivery of policy objectives.

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443686/BIS-15-417-state-aid-the-basics-guide.pdf

³ <https://www.gov.uk/guidance/state-aid>

IS THE ACTIVITY STATE AID ?

If your proposal can answer 'yes' to any four questions set out below then it is most likely state aid.

1. *Is the assistance granted by the state or through state resources ?*

- "Granted by the State" means by any public or private body controlled by the state (which, in the UK, means national or local Government).
- "State resources" is broad: any measure with an impact on the state budget or where the state has significant control are included, for example, tax exemptions, national Lottery funding and EU structural Funds, and gifts/funds.

2. *Does the assistance give an advantage to one or more undertakings over others ?*

- An "undertaking" is any organisation engaged in economic activity.
- This is about activity rather than legal form, so non-profit organisations, charities and public bodies can all be undertakings, depending on the activities they are involved in.
- An undertaking can also include operators and 'middlemen' if they benefit from the funding
- "Economic activity" means putting goods or services on a market. It is not necessary to make a profit to be engaged in economic activity: if others in the market offer the same good or service, it is an economic activity.
- Support to an organisation engaged in a non-economic activity isn't State aid, e.g. support to individuals through the social security system is not state aid.
- An "advantage" can take many forms: not just a grant, loan or tax break, but also use of a state asset for free or at less than market price. Essentially, it is something an undertaking could not get in the normal course of business.

3. *Does the assistance distort or have the potential to distort competition?*

- If the assistance strengthens the recipient relative to its competitors then the answer is likely to be "yes".
- The "potential to distort competition" does not have to be substantial or significant: may include relatively small amounts of financial support to firms with modest market share.

4. *Does the assistance affect trade between Member States*

- The interpretation of this is broad: it is enough that a product or service is tradable between Member States, even if the recipient does not itself export to other EU Markets.

If you answer **YES** to all four questions then state aid is likely to exist.

There are then a number of other conditions that apply – in particular a de minimis rule (€200,000 in any rolling 3 year period – around £140,000 in Dec 2015). There are tight regulations about the use of this and the de minimis regulations will need to be followed, which include record keeping and standard text to be used on notices. Do not anticipate that this is automatic exemption.

To ensure that state aid has been considered a screening form will need to be kept – Annex 1. This should be lodged somewhere safely in case any accusations of state aid are lodged.

If you are **AT ALL** concerned about state aid – seek legal advice early.

GENERAL GOVERNANCE

When forming a company we are creating a separate entity from the AVDC. As such it has its own rules, roles, finance and purpose. Because it is its own entity we need to ensure that we (staff members, customers and the public) don't confuse the company with AVDC and vice versa.

This does not mean that two can't and will not work closely together, but it does mean we have to be clear where the dividing line is.

Set out below are some principles around general governance for specific things, people or actions. They are not exhaustive but they are intended to set a minimum level of things that should be addressed.

EXISTING COMPANIES AND THOSE IN PILOT STAGES

Our existing companies that pre date the adoption of this document may not be in full compliance with the content set out. There should be an effort made to move the companies to become in compliance over the medium term.

Companies or concepts that are in pilot stages may again not be in full compliance, however the spirit of this guide should be adhered to, and where possible full compliance should be reached as soon as practicable.

ROLES OF MEMBERS AND STAFF

AVDC and the Company need to be aware of who staff are working for and under what rules, and what their role is for the company and/or AVDC. We need to operate an element of compartmentalisation or 'Chinese walls' between the different roles that staff play – especially when they are working for both AVDC and the company at any point.

This means that :

- There should be clear governance and transparency to the residents of the Vale.
- When talking to members, the public or customers – clarity and transparency are key, and people need to be able and ready to explain the relationship between the AVDC and the company.
- Staff, the Company and AVDC are clear what data, equipment and resources can be used by the company (see later sections regarding the principles around these issues).
- Information and knowledge that is gained in one role is **NOT** used in the other – for example knowledge obtained by AVDC should not be used in the company and vice versa. There may be exemptions to this where agreements are in place – but the default is **NO** transfer between the two.
- Staff working for the company should be formalised in some way – this could be via rolling secondment, or by buying staff time and ideally under a SLA for clarity . AVDC Staff **can not** do work for the company without this type of arrangement being in place, once the company has moved past the inception stage (ie post company incorporation).

- Specific guidance/induction should be given to staff before they work for an AVDC company regarding these issues to avoid any accusation of State Aid or procurement/contractual breach.
- Staff should be selected to avoid potential conflicts of interest if they remain in roles with AVDC - this is particularly important when regulatory services are involved - for example when companies may be applying for permissions where AVDC is the decision maker.
- The above also applies to elected members, and as part of member induction/training we need to cover the same issues.
- These messages should be reiterated regularly to members and staff (working for the company or not).

NORMAL COMPANY STRUCTURE

Normally any company is managed by a board of directors. With the exception of the Reserved Matters, the Business and all affairs of the Company shall be managed by the Board. To that end but subject to those exceptions, the Board shall have full and complete authority, power and discretion to direct, manage and control the Business and the affairs and properties of the Company, to make all decisions regarding those matters and to perform any and all other acts or activities customary or incidental to the management of the Business.

To assist in the day to day running of the company AVDC should appoint a shareholder representative. They act in the role of shareholder in making major decisions. This would normally be an elected member of the Council.

APPOINTMENT OF AVDC DIRECTORS TO COMPANIES

As part of owning companies AVDC will appoint representative directors to the boards of those companies. Notwithstanding public sector responsibilities, all Directors of companies have legal responsibilities, as defined under the Companies Act 2006, and under a wide variety of other laws and regulations such as insolvency and health and safety legislation.

The general duties of directors are set out in Chapter 2 of Part 10 of the Companies Act 2006:

- to act within powers in accordance with the company's constitution and to use those powers only for the purposes for which they were conferred
- to promote the success of the company for the benefit of its members as a whole
- to exercise independent judgement
- to exercise reasonable care, skill and diligence
- to avoid conflicts, or possible conflicts between interests as a Director and the interests of the company
- not to accept benefits from third parties, if they may be regarded as likely to give rise to a conflict of interest
- to declare any direct or indirect interest in a proposed transaction or arrangement.

Directors appointed by a public sector body have the same responsibilities as any other director under the Companies Act 2006. They must also continue to act in accordance with other applicable legislation, relevant civil service and public sector guidelines, including around managing public money and standards for conduct in public life.

When appointing directors the following guiding principles should apply. The current (and periodic updates) of AVDC standing orders or constitution should also be reviewed to ensure no conflicts are present.

Potential Directors :

- must be aware of the ramifications of acting as a director for a company – this includes that the director would be working for in the interests of the company and not the individual or indeed AVDC. They should be able to manage any conflicts that may occur.
- should be selected so that they are sufficiently senior to act at the level required by the role
- should be selected on their ability to demonstrate skills or knowledge pertinent to the operations of the company
- should be insured against liability claims by the company so as to limit their personal liability
- should be informed of the potential risks of acting as a Company Director
- will by default be unremunerated positions
- can be either executive or non executive positions
- should be selected to avoid potential conflicts of interest if they remain in roles with AVDC – for example typically the section 151 officer, the Monitoring Officer and the Leader should not be directors of external companies. This is so AVDC is still able to hold the company to account.
- Board Members should be provided with letters of appointment which clearly explain both the role and the conditions of the appointment.

When companies set up their boards, there should be consideration paid to use of external board members. Ideally companies should not be set up solely with AVDC staff and/or members. This is to ensure the independent operation of the company. External board members can be remunerated if required.

Shareholder representatives are also likely to be required, and are mandatory for larger companies. Shareholder representatives are important conduits between AVDC and the company, and should serve as both a liaison and reporting. Similar principles to the above should be used when AVDC selects representatives. When selecting representatives the conflicts of interest principle set out above can be waived.

Shareholder representatives will as a minimum need to be an elected member is able to action issues that relate to the role. In larger concerns there may also be merit in having an officer level assistant as well, however this would be in addition to, rather than in lieu of the member.

For ease it is also worth the company identifying its representative (s) at this point. It is for the company to determine who should be this role, but ideally it should not be a director of the company and be more at the operational level.

PRESS MEDIA AND RELATIONS RELATING TO THE NEW COMPANY

AVDC investments in companies are created so that the companies can have a clear focus on particular issues and activities. The company is a separate entity and best placed to make day to day operational decisions on all press, marketing and PR activity. To support this there will be an overarching principle that the company makes its own decision regarding these activities, with a hands off approach from AVDC.

However the company and its Board should have due regard to the political and community arena that AVDC operates within and should seek to uphold AVDCs broad aims and principles.

In doing so this general guidance applies :

- The Company should do nothing to harm the reputation of AVDC in the general eyes of the electorate, and vice versa.
- It should be clear on key media (such as website and significant marketing material) that the company is owned (part or full) by AVDC.
- An explanation as to the company and AVDC relationship should be on all websites. This helps with transparency to customers and the electorate. This should include reciprocal links to and from AVDCs website.
- It should be clear to the average customer what entity they are transacting with at any time (ie the company should not seek to pass itself off as AVDC, there should be a clear understanding by customers of who they are dealing with at any time).
- AVDC may assist in the launch of new companies and at significant events – where these are deemed in the overall public interest and are requested by the company.
- AVDC will limit its activity in the day to day communications and marketing by the company – company activity should be by the company not AVDC.
- In return, AVDC will aim not to influence or interfere in the commercial activities of the company through a politically driven agenda.
- There may however be issues where a co-ordinated approach between AVDC and the company may still be required (for example major launch or crisis). This will need to be addressed preferably in advance but if necessary in a time critical manner depending on the issue.

At times of normal operation the above should suffice to ensure a healthy and clear relationship between companies and AVDC. However where there are reputational risks alternative approaches may be necessary.

It is recommended that planned significant marketing activities form part of the quarterly reporting set out elsewhere in this guide so that both parties are aware.

REPORTING & PERFORMANCE MONITORING

In its role as shareholder there should be clear and regular performance monitoring of companies that AVDC has shares in. This is to ensure that the investments made in the company are being well managed according to the business plan, and to ensure transparency to members and the electorate.

QUARTERLY REPORTING

As a minimum these should include the items below, however the shareholder representative and company representative should agree the specific reporting requirements in advance of the first quarter reports and keep these under regular review :

- Current cash flow and profit and loss position
- Current investment position (including any loan position)
- Income and expenditure forecast for the 4 rolling quarters
- Current position compared to current business plan
- Any expected issues reserved in the companies articles of association that may be need to be reported to AVDC formally over the next 6 months.
- High level reporting of planned strategic marketing activities.

FORMAL ANNUAL REPORTING

Formal reporting of companies will be annual via Scrutiny and Cabinet. This will become due on or at the end of each financial year. Where Company Incorporation occurred within the last quarter of a financial year then the first formal report will be fall due in at the following financial year end.

The annual business plan for the vehicle and should be a matter reserved for shareholders' approval in the form of Cabinet, with the appropriate scrutiny review.

This reporting should be in the form of a narrative suitable for an AVDC member report and an updated business plan. The reporting should include as a minimum :

- Those items listed above for quarterly reporting
- Should cover a retrospective look since the last annual report
- Should set the business and financial targets for the forthcoming years and projections for two further years
- Any key reporting agreed with the Shareholder Representative
- As a minimum the forward reporting should cover the next 12 months.

Where possible all reporting provided by the company should be able to be made public. Where this is not possible confidential elements should be clearly marked in accordance with AVDCs current information security policy. AVDC and the company will come to a decision regarding what level of confidentiality should be applied. This will range from 'yellow pages' through redaction to full withholding of the information

As a minimum all reporting should have at the very least a summary commentary of progress and summary financial position able to be made public. For further information see the information security section of this guide.

FINANCIAL

The main reason why AVDC will own shares in company is likely to be due to the need to create new income or to protect its financial interests. As such the financial management of shares and the companies they reside in are of fundamental importance. This section of the guide sets out principles for managing these aspects in relation to AVDC. It does not seek to replicate or substitute the normal legal, tax and financial regimes that exist for any company – it is only concerned with the direct relationship between AVDC and the company.

As with all parts of this guide each ownership or company is different and these are subject to individual negotiation.

LOANS

When setting up companies it is possible that there will be some form of loan to the new company for start up (see start up section).

When loaning to the company AVDC will be guided by :

- The need to loan at a marginal commercial rate – by this we mean that there will be some element of interest payment over and above the cost of borrowing on all loans given to owned or part owned companies. This will be proportionate to the size of loan, term and risk. The guiding principle is that the loan will not be to the detriment of AVDC, and will be made on commercial terms.
- Payback terms, level of interest and level of loan shall be determined in the company set up stage. The level of loan will be clear in any business case prepared to support the investment. The Loan is then to be agreed by resolution by the company once it is set up.
- Where possible, there should be benchmarking evidence that the rate used is commercially comparable.

DIVIDENDS AND EXTRACTING FUNDS FROM COMPANIES

The key point of investments in companies is to raise general income for the council over the longer term. There are a variety of ways in which these can be extracted and it this guide cannot determine a rigid approach to this issue due to the number of specific and unknown factors facing each set of circumstances.

When extracting/receiving funds from its investments AVDC will :

- Seek to extract funds from the company in a planned and known way
- Seek to not harm the ability for the company to fulfil its purpose or agreed business plan. Business Plans will need to feature how this will be achieved in their forward plans.
- Will do so in the most in a way as to be most advantageous to both AVDC and the company with regard to the ruling financial arrangements at the time.

AVDC ANNUAL ACCOUNTS

Summary accounts suitable for inclusion in the Councils Annual Accounts will be required. These will largely replicate those required for the companies own tax issues. These may however vary from time to time linked to legislative or regulatory changes.

The Company will need to provide draft accounts a maximum of 4 weeks after the close of the financial year, in a format agreed with AVDC.

AVDCs auditors may require further information or access to financial records during this process. If this is required AVDC and their auditors will work with the company to deal with any specific issues.

Articles of Association for companies will need to reflect these issues.

BANKING, TAXATION AND ACCOUNTANTS

As with other areas of new company formation, AVDC is not concerned with the day to day operation of the company. Therefore choices regarding bank suppliers etc are for the company to decide (within the reputational guidelines set out earlier). Due diligence will be need to ensure that any provider meets the minimum legal requirements required by UK Law.

It is strongly recommended that external accountants are used for companies so that the dividing lines between AVDC and the company are clear and transparent.

During the set up phases of any company there should be due consideration to the best approach to taxation issues, including registration for VAT etc. and advice should be externally sought or verified.

USE OF COUNCIL ASSETS

AVDC wants to ensure that any company it invests in succeeds. As such the council has access to significant assets that may be able to assist in the new company set up or over the longer term; subject to satisfying state aid issues.

However many of the assets have been procured or are contracted in such a way that their use by commercial concerns is limited. This for example may be that procurement has been through government frameworks or license for products are limited to public sector use. In addition the rules around State Aid (see the section of this guide regarding this) may mean that use of such assets may not be possible.

The basic principle is therefore that there should be NO assumption that any asset can be used by the company. Starting from this position means that each request is thoroughly considered before being agreed to.

In all circumstances all assets will also be charged at for at a minimum full cost recovery rate. This should include a profit element where legislation allows, and should include the recovery of all costs – including those leading up to the provision of service.

All requests for assistance regarding assets will originate from the company. AVDC will seek to fulfil those requests subject to the issues covered in this guide.

Where fulfilling requests AVDC will need to pay careful regard to balancing the needs of the request and any detriment to existing council service that may occur – eg where fulfilling the request may mean that normal day to day council business is impacted on. This does not mean that this can not occur, but it does mean it needs to be explicitly considered.

Set out below are some principles that will apply to specific topics. These are not exhaustive but do give some guidance on the some principles (where possible should form the basis of a SLA between AVDC and any company).

IT

The council has significant IT resources, however in most cases these have been procured or are supplied through public sector restricted contracts.

There should be no assumption that ANY IT resource can be used by or for a company activity. This includes hardware and software. Data protection issues also apply – see other sections of this guide.

Known exemptions to this are :

- Printers – these are able to create auditable charge back codes which can be charged out to the company. This is currently actively managed via the conference centre.
- WiFi – free public WiFi is available through our offices. Any member of the public can use this facility (subject to sign up conditions) and therefore the company can also intermittently use this same facility. AVDC do however reserve the right to limit access in relation to this facility.

- Some licensed software is only for use by AVDC under the terms of its licence and cannot be used by any company without explicit consent.
- AVDC can generally procure hardware at prices which are more attractive than those available to low volume purchasers. In most cases these prices are available to AVDC related companies.
- Telephony services – AVDC have procured telephony services at attractive rates which can be used by AVDC wholly owned companies.

PROPERTY & ACCOMMODATION

The council has significant property assets. As with other areas these are however funded for by the tax payer for AVDC business, therefore the default position of NON use applies. Known exemptions are :

- Public areas of offices – a number of public areas in our buildings exist. The company would have access to these areas in a similar vein to those of any member of the public and to enjoy any of the facilities in these areas. This excludes full operation of the company from these public areas.

All other property assets will be charged for at the commercial rate. For example this may include use of the conference facilities, meeting rooms or serviced office space. Where only part time use is being considered (for example during start up) there may be a case for linking this to staff recharging (see below).

STAFF

The biggest asset that AVDC has at its disposal is its staff. In many cases, and especially during start up, AVDC staff are likely to be used in helping to launch a company (especially where wholly owned).

The use of staff, especially on a flexible basis, in companies is possible but it is likely to be only possible on an agreed voluntary basis. The principle would be that the staff member always remains an AVDC employee on AVDC terms & conditions as is charged out to the company at a full cost recovery rate applicable to their grade

Two rates are possible to form this type of recharge :

- Staff employment cost (this includes ALL employment costs of staff including employment costs)
- Staff employment cost + operational costs related to employment (for example this would include accommodation overheads) – this may be a viable alternative to separate accommodation costs in start up phases.

These two rates are available via the staff time calculator available on MAVIS. They are expressed as hourly rates and hence time recording of activity will be required to determine the charge.

Any other arrangements are likely to require detailed HR input in to the process and may well involve detailed employment law consideration include TUPE. It is not the purpose of this guide to

address this issue in any depth and HR input should be sought if long term significant use of AVDC staff is considered. This protects both staff, AVDC and the company.

HOW CHARGES SHOULD BE MADE

Whatever the asset provided rates, conditions and payment cycles should be clearly set out prior to delivering service. Normally charges should be recovered on a quarterly basis, to reduce overheads this should be via a combined invoice for all services provided, and they should be subject to AVDC normal terms of payment (ie no special favours to the company).

DATA HANDLING & PROTECTION

Data and data protection is a key area for consideration when working with AVDC companies. The security of AVDC data has significant security, financial, legal and reputational risks attached to it. As such this guide is only a summary position on these issues. Reference for specific issues should be made to AVDCs current Data Protection Policy and Information Governance Group and this guide is subservient to those policies and groups.

Where any data is to be shared between the Company and AVDC a Data Sharing agreement **MUST** be put in place and agreed by the AVDC Information Governance Group which clearly addresses issues such as

- Data Ownership
- Restrictions that may apply to the use of the data
- Security requirements that the data owner may require
- Restrictions on locations to which data may be transferred
- Retention schedules
- Responsibility for response to Freedom of Information Act requests.

Any transfer of data to a Company which is not covered by a prior Data sharing agreement will be treated by AVDC as an Information Security incident and investigated as such. The outcome could result in a Disciplinary Investigation and Action being taken against individuals involved in the transfer.

Data of any sort normally limited by either legal, contractual, security or probity regulations. The assumption around the movement, transfer or access to around ANY data should be that it can NOT happen unless it is explicitly agreed. This protects AVDC, staff and the company. AVDC will seek to collaborate with any request from its companies but this presumption has to exist to protect AVDCs overall position.

Customer data in particular is highly regulated and has significant implications for individuals and organisations if mishandled. In particular the issue regarding the need to only hold data for the time necessary, and to only use it for the explicitly agreed purpose is a key one for consideration when considering the movement or sharing of data.

In the start up phases of new companies (especially wholly owned) it is likely that employees may be working on a seconded or cost recovery basis. Staff need to be very clear that they may have access to data in their AVDC role which should not be exposed or access when working for the company. This will need to be reinforced in any communications with staff, and staff should be very clear that they can not 'leak' data from AVDC to the company.

If it has been agreed that data can be moved between bodies the following must be adhered to :

- The data being moved should be checked by at least 2 people
- That only the data agreed as being moved should be moved – ie some element of redaction may be required
- Movement of data should be accompanied by a data movement form (see Annex 2) which sets out the data being moved, tracks how it is being moved, the people involved in the

process including approvals, the mode of movement, security considerations and the time and date this occurred. This is necessary to it is clear what and how data is being moved.

- Data should be moved in the most secure way available – which should include options around encryption, passwords, destruction of any hard media involved in the process once successful transfer has occurred.
- Once moved any data should be secured to a sufficient and agreed level as set out in the data movement form. This should include the standards of industry accredited protection as well as storage locations.

FREEDOM OF INFORMATION

As a body covered by Freedom of Information (FOI) legislation, AVDC is compelled to make certain data available on request. In line with our public and transparent practises the default is to make data accessible unless there are reasons why not.

Companies will be expected to work with AVDC on responding to data requests. Annex 3 sets out draft contractual positions that may form part of company set up or understand on this issue.

The simple stance to take is that if anything is given to AVDC it should be considered to be able to made public unless there is a commercial reason why not.

CONTRACTS & AGREEMENTS

It is likely that during the life of an AVDC company there will be some form of contractual relationship between the council and the company. These should be treated no differently to those between the council and any other body (except where specific legal exemptions apply – for example teckal). No advantage should be given to an AVDC company over any other who can undertake a similar role and standard procurement rules apply.

Earlier sections of this document have set out a number of issues that will guide the development of any contracts as they come forward, and these should form the basis of the n- going contract development when the need arises.

Exemptions to this may be where a company has been set up for a specific purpose and this results in the company being legally exempt from these standing arrangements.

In some cases a less formal arrangement may be required for lower level activity. Where appropriate a Service Level Agreement (SLA) approach may be appropriate. Annex 4 sets out an example SLA that may be a useful starting point.

As with any contractual arrangement a named AVDC contact should be provided as a liaison point who should serve as the first point of contact, payment information, terms etc should also be included.

PART 1 – INITIAL STATE AID ASSESSMENT

1. Is the support provided granted by the State or through State resources?

The definition of state resources is aid that is granted by the state; this includes all public and private bodies controlled by the state to distribute public funds. State resources include, for example, Lottery, tax exemptions, grants, subsidies, provision of service at below market rate, the selling of public land at below market rate, etc. Funds not permanently belonging to the state but which the state may direct, such as European funds like Structural Funds, ERDF.

Yes/No:

If no, please provide an explanation.

2. Does the support confer a selective advantage to an undertaking?

A benefit which is granted for free or on favorable (non-commercial) terms to some selected undertakings (but not others), could be state aid.

Definitions:

Advantage: An advantage can take the form of direct payment of state resources in the form of grants and subsidies as well as indirect benefits that affect the public budget such as tax breaks, rate rebates, low interest loans, sale of public land below market value and the provision of services for free or at below-market rates.

Selectivity: Support that targets particular businesses, regions or types of firm e.g. SMEs or particular sectors and not others is selective.

Undertakings: An undertaking is defined as any entity, regardless of its legal status, which is engaged in economic activity and where there is a market in comparable goods or services. It does not have to be profit-making as long as the activity carried out is one which, in principle, has commercial competitors. It can include voluntary and non-profit-making public or public authorities when they are engaged in economic activity. Charities, universities, research institutions, voluntary entities, social enterprises and public sector bodies may therefore be deemed to be undertakings when they are engaged in economic activity. Support in favour of non-undertakings (i.e. entities which are not involved in economic activity) is not state aid.

Economic activity: Activity which consists of offering goods or services on a given market and which could, at least in principle, be carried out by private actors in order to make profits.

⁴ Based on the BIS State Aid Assessment form Nov 2010 - see <https://www.gov.uk/government/publications/state-aid-a-beginners-guide-guidance-notes>

Yes/No

If no, please provide an explanation.

3. Does the support distort or have the potential to distort competition?

If the support has the potential to strengthen the position of the beneficiary relative to other competitors then this criteria is likely to be met. The potential to distort competition does not need to be substantial or significant, and this criterion can apply to relatively small amounts of financial support and firms with little market share.

Yes/No

If no, please provide an explanation.

4. Does the support affect trade between Member States?

Commission's interpretation of this is broad - it is sufficient that a product or service is tradeable between member states, even if the recipient of support does not itself export to other EU markets. This test is not met only in very limited circumstances e.g. where a single, small business is involved in very localised activity e.g. hairdressers.

Yes/No

If no, please provide an explanation.

ANNEX 2 – DATA MOVEMENT FORM

AVDC Originator	<i>Insert name of officer</i>
Destination	<i>Insert company and staff members name</i>
Description of Data being moved	<i>Set out in detail the data being moved – where it currently exists, what form etc</i>
What conditions are being applied	<i>Set out any conditions/limits/redaction etc being made</i>
How will the transfer be made	<i>Email/ftp/shared link etc</i>
Identify any sensitive data within the transfer	<i>Set out if there is any</i>
How will data security risks be addressed	<i>Describe how this will be managed during the transfer process</i>
Frequency	<i>Is this data transfer a one off or regular – if regular state how and reason</i>
When the data was collected does AVDC have the powers to pass this on	<i>Yes/No</i>
Data Ownership	<i>Who will own the data once transferred</i>
Restrictions on use of data	<i>List any restrictions on it use</i>
Restrictions on Location of end data	<i>Where will this data be stored – system and location</i>
Retention Schedules	<i>What are the retention schedules for the data</i>
Named person for any FOI requests	<i>Named person in the company</i>
Checked by AVDC officer	<i>Second officer agreeing the above</i>
IGG Sign off	<i>Detail IGG meeting that this was agreed to including extract of minute</i>

ANNEX 3 – FOI DRAFT CONTRACTUAL CONDITIONS

FREEDOM OF INFORMATION ACT REQUIREMENTS

The Shareholder and the Company acknowledge that the Shareholder is subject to the requirements of the FOIA and the EIR and the Company shall, where reasonable, assist and co-operate (at its own expense) with the Shareholder to provide information to enable the Shareholder to comply with these information disclosure obligations.

Where the Company receives a request for information under either the FOIA or the EIR in relation to information which it is holding on behalf of the Shareholder in relation to the Company, it shall:

- transfer the request for information to the Shareholder as soon as practicable after receipt and in any event within two Business Days of receiving a request for information;
- provide the Shareholder with a copy of all information in its possession or power in the form that the Shareholder requires within ten Business Days (or such longer period as the Shareholder may specify) of the Shareholder requesting that information; and
- provide all necessary assistance as reasonably requested by the Shareholder to enable the Shareholder to respond to a request for information within the time for compliance set out in the FOIA or the EIR.

Where the Shareholder receives a request under FOIA or EIR which relates to the operations of the Company (a request), it shall notify the Company and afford it an opportunity to make any comments or representations in respect of the disclosure of the information sought. The Company shall respond within five Business Days of receipt of this notification. The Shareholder shall take into account any such comments or representations and shall not respond to the Request until the 5 day response period referred to above has passed.

ANNEX 4 – ILLUSTRATIVE SERVICE LEVEL AGREEMENT (SLA)

Set out below is an illustrative email of what an IT based SLA might contain. It is provided as example text to consider when considering developing a SLA for any purpose. This is not an exhaustive example but is provided to illustrate the types of things that would be covered in such a document.

Service Level Agreement (SLA)

for *Customer*

by

Company name

Effective Date: xx/xx/xxxx

Document Owner:	Company name
-----------------	--------------

Version x.x

Version	Date	Description	Author

Approval

(By signing below, all Approvers agree to all terms and conditions outlined in this Agreement.)

Approvers	Role	Signed	Approval Date
Company name	Service Provider		Xx/xx/xxxx
Customer	Customer		Xx/xx/xxxx

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Agreement Overview

This Agreement represents a Service Level Agreement (“SLA” or “Agreement”) between *Company name*. and Customer for the provisioning of IT services required to support and sustain the Product or service.

This Agreement remains valid until superseded by a revised agreement mutually endorsed by the stakeholders.

This Agreement outlines the parameters of all IT services covered as they are mutually understood by the primary stakeholders. This Agreement does not supersede current processes and procedures unless explicitly stated herein.

Goals & Objectives

The **purpose** of this Agreement is to ensure that the proper elements and commitments are in place to provide consistent IT service support and delivery to the Customer(s) by the Service Provider(s).

The **goal** of this Agreement is to obtain mutual agreement for IT service provision between the Service Provider(s) and Customer(s).

The **objectives** of this Agreement are to:

- Provide clear reference to service ownership, accountability, roles and/or responsibilities.
- Present a clear, concise and measurable description of service provision to the customer.
- Match perceptions of expected service provision with actual service support & delivery.

Stakeholders

The following Service Provider(s) and Customer(s) will be used as the basis of the Agreement and represent the **primary stakeholders** associated with this SLA:

IT Service Provider(s): Company name. (“Provider”)

IT Customer(s): Customer (“Customer”)

Periodic Review

This Agreement is valid from the **Effective Date** outlined herein and is valid until further notice. This Agreement should be reviewed at a minimum once per fiscal year; however, in lieu of a review during any period specified, the current Agreement will remain in effect.

The **Business Relationship Manager** (“Document Owner”) is responsible for facilitating regular reviews of this document. Contents of this document may be amended as required, provided mutual agreement is obtained from the primary stakeholders and communicated to all affected parties. The Document Owner will incorporate all subsequent revisions and obtain mutual agreements / approvals as required.

Business Relationship Manager: Company name

Review Period: Bi-Yearly (6 months)

Previous Review Date: xx/xx/xxxx

Next Review Date: xx/xx/xxxx

Service Agreement

The following detailed service parameters are the responsibility of the Service Provider in the ongoing support of this Agreement.

Service Scope

The following Services are covered by this Agreement;

- ***Manned telephone support***
- ***Monitored email support***
- ***Remote assistance using Remote Desktop and a Virtual Private Network where available***
- Planned or Emergency Onsite assistance (extra costs apply)
- Monthly system health check

Customer Requirements

Customer responsibilities and/or requirements in support of this Agreement include:

- Payment for all support costs at the agreed interval.
- Reasonable availability of customer representative(s) when resolving a service related incident or request.

Service Provider Requirements

Service Provider responsibilities and/or requirements in support of this Agreement include:

- Meeting response times associated with service related incidents.
- Appropriate notification to Customer for all scheduled maintenance.

Service Assumptions

Assumptions related to in-scope services and/or components include:

- Changes to services will be communicated and documented to all stakeholders.

Service Management

Effective support of in-scope services is a result of maintaining consistent service levels. The following sections provide relevant details on service availability, monitoring of in-scope services and related components.

Service Availability

Coverage parameters specific to the service(s) covered in this Agreement are as follows:

- Telephone support : 9:00 A.M. to 5:00 P.M. Monday – Friday
- Calls received out of office hours will be forwarded to a mobile phone and best efforts will be made to answer / action the call, however there will be a backup answer phone service
- Email support: Monitored 9:00 A.M. to 5:00 P.M. Monday – Friday
- Emails received outside of office hours will be collected, however no action can be guaranteed until the next working day
- Onsite assistance guaranteed within 72 hours during the business week

Service Requests

In support of services outlined in this Agreement, the Service Provider will respond to service related incidents and/or requests submitted by the Customer within the following time frames:

- 0-8 hours (during business hours) for issues classified as **High** priority.
- Within 48 hours for issues classified as **Medium** priority.
- Within 5 working days for issues classified as **Low** priority.

Remote assistance will be provided in-line with the above timescales dependent on the priority of the support request.

ANNEX 5 – MODEL RESERVED MATTERS

All Reserved Matters shall only be effective if approved by the Shareholder.

The following matters are Reserved Matters unless (where relevant) they have been approved in advance by the Shareholder under the Business Plan:

Constitution of the Company

1. Varying in any respect the Articles or the rights attaching to any of the shares in the Company.

Officers and Shareholders of the Company

2. Agreeing the appointment and the appointment terms (including any remuneration terms) of all Directors.
3. Agreeing the removal of all Directors (including any terms on which Directors are removed from their office as Directors).
4. Approving the admission of further shareholders to the Company or agreeing any rights or restrictions attaching to any shares allocated to such new shareholders.
5. Agreeing or approving the maximum size of the Board.

Future direction and development of the company

6. Forming any subsidiary or acquiring shares in any other company or participating in any partnership or joint venture (incorporated or not).
7. Amalgamating or merging with any other company or business undertaking.
8. Selling or disposing of any part of the Business.
9. Entering into any arrangement, contract or transaction with either a capital value over [£50,000 (fifty thousand pounds)] or otherwise a value of over [£100,000 (one hundred thousand pounds)].
10. Adopting or amending the annual Business Plan and any in-year changes.
11. Passing any resolution for its winding up or presenting any petition for its administration (unless it has become insolvent).
12. Apply for the listing or trading of any shares in its issued capital or debt securities on any stock exchange or market.

Management of the business of the Company

13. Changing the Company's registered office.
14. Changing the Company's name.
15. Creating or agreeing to create a charge, security or Encumbrance over the Company's assets, shares or income.

16. Adopting or agreeing any changes to any remuneration and redundancy policies of employees of the Company.
17. Adopting or agreeing any changes to any pension arrangements of any employees or officers of the Company.
18. Changing the nature of the Business or commencing any new business which is not ancillary or incidental to the Business.
19. Agreeing to enter into or entering into any acquisition or disposal of any material assets by the Company.
20. Selling rights (by license or otherwise) in or over any intellectual property owned or used by the Company.
21. Changing the Company's auditors.
22. Agree to make or making any loan (otherwise than by way of a deposit with a bank or other institution, the normal business of which includes the acceptance of deposits or in the ordinary course of business) or granting any credit (other than in the normal course of trading or giving any guarantee (other than in the normal course of trading) or indemnity.
23. Changing the Financial Year End of the Company to anything other than the other than the Shareholder's financial year end.
24. Increase or reduce the amount of its issued share capital, grant any option or other interest over or in its share capital, redeem or purchase any of its own shares or otherwise alter, or effect any reorganisation of, its share capital.

ANNEX 6 – CHECKLIST FOR COMPANY SET UP

Set out below are the main items that should be completed as a new company is formed. This is in the form of a checklist to facilitate ease of understanding. Certain items may vary depending on the type of company and specifics in each case.

Completed	N/a	Item	Detail
		Business Case Completed	
		Business case approved	
		Staffing arrangements agreed	
		Naming logos etc agreed	
		URLs and Domains purchased	
		Cost recovery and recharging agreements in place	
		Loan amount and agreement in place	
		Directors Appointed	
		Company registered	
		Bank Account set up	
		Accountants appointed – inc VAT	
		Company secretary appointed	
		Shareholder representative Appointed	
		Company Representative Appointed	
		Website and email set up	
		Support arrangements from AVDC clarified	
		Accountancy needs clarified	
		First scrutiny scheduled of business plan	
		Launch Media in place and agreed	
		Registration with ICO if required	
		Others ?	

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ANNUAL GOVERNANCE STATEMENT 2015/16

1 Purpose

- 1.1 The purpose of this report is to update the committee on the progress in developing the Annual Governance Statement for 2015/16 and report the current draft statement. Appendix 1.
- 1.2 The preparation and publication of the Annual Governance Statement (AGS) is a statutory requirement of the Accounts and Audit Regulations 2011. The Council is required to “conduct a review at least once in a year of the effectiveness of its system of internal control” and to prepare a statement on internal control “in accordance with proper practices”.

2 Recommendations for decision

- 2.1 The committee is requested to discuss and comment upon the initial draft statement

3. Supporting information

- 3.1 The statement including the action plan is still a draft. Part of the key assurance gathering process includes assurance from Service Managers and Heads of Service. A new Service Risk Assurance process was introduced at the end of 2013/14 to replace the previous “Internal Control Assessment”. This process has proved to be very helpful in assessing the level of assurance that can be obtained from management. Some minor improvements have been made to the process following a feedback session with some key staff.
- 3.2 The assessment was undertaken slightly earlier than usual to avoid clashing with the Office Move at the end of January 2016. The results will be incorporated into the statement.
- 3.3 The Introduction of the new CIPFA Good Governance Framework in April 2016 will require changes to the Annual Governance Statement for 2016/17.

4. Options considered

- 4.1 None – this is a statutory requirement.

5. Reasons for Recommendation

- 5.1 To comply with legislation

6. Resource implications

None

Contact Officer

Tamsin Ireland, Business Intelligence and Assurance Officer, 01296
585004

Background Documents

Names of Background documents



ANNUAL GOVERNANCE STATEMENT

APRIL 2015 – MARCH 2016

AYLESBURY VALE DISTRICT COUNCIL**ANNUAL GOVERNANCE STATEMENT 2015/16****Contents**

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Annual Governance Statement

1. Scope of Responsibility

- 1.1. Aylesbury Vale District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Aylesbury Vale District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2. In discharging this overall responsibility, Aylesbury Vale District Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3. Aylesbury Vale District Council's arrangements for ensuring good Corporate Governance are embedded in its constitution, policies and procedures. It has not approved and adopted a separate single code of corporate governance. However the principles to which the Council operates are intended to be consistent with those contained in the CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. Copies of the Council's principal policies and codes of practice can be consulted on its website (www.aylesburyvaldc.gov.uk). A list of the more significant documents is attached at Appendix A.
- 1.4. This statement explains how Aylesbury Vale District Council has complied with the principles of corporate governance and also meets the requirements of regulations 4(2) and 4(3) of the Accounts and Audit Regulations 2011, which requires all relevant bodies to prepare an annual governance statement prepared in accordance with proper practices in relation to internal control.

2. The Purpose of the Governance Framework

- 2.1. The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risk to the achievement of Aylesbury Vale District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. The Governance Framework

- 3.1. The governance framework has been in place at Aylesbury Vale District Council for the year ended 31 March 2015 and up to the date of approval of the Annual Governance Report and Statement of Accounts.

3.2. Identifying, communicating and reviewing the Council's vision

- 3.2.1. Aylesbury Vale District Council's statement of its long-term vision for the Vale:

"To secure the economic, social and environmental wellbeing of the people and businesses in the area."

The council has an ambitious agenda to meet the financial pressures facing the Council and is committed to supporting the local economy and transforming the district through its Commercial AVDC programme.

Key Plans include:

Medium Term Financial Plan 2015/16-2019/20
 Capital Programme
 Housing and Homeless Strategy 2014-2017
 Vale of Aylesbury Local Plan (under development)

3.3. Ensuring effective management of change and transformation

- 3.3.1. The approach adopted to achieve this organisational change is through the Commercial AVDC programme and in turn this will see each service fundamentally reviewed in terms of what is delivered, to whom, by who, at what

cost and what the recipient should be expected to pay for it.

3.3.2. The work being undertaken within the Commercial AVDC programme is being overseen and directed by the Cabinet member for Business Transformation and is being subjected to scrutiny by Finance and Services Scrutiny Committee.

3.3.3. To ensure greater accountability, a separate Programme Board has been established and meets fortnightly.

3.4. Measuring the quality of services for users and value for money

3.4.1. AVDC recognises that it is essential to have accurate monitoring and forecasting information in order to understand costs. Managers and budget holders are able to access financial reports through the TechOne finance system. Summary reports are prepared for Corporate Board and Members. These show current expenditure, forecast predicted outturn for the year and highlight any areas where unexpected variances are apparent.

3.4.2. The Council has a sound understanding of its costs and performance and the factors influencing these. Cost and performance information is used in financial and service planning to make policy and service provision decisions and to identify efficiency savings. The Council regularly reviews costs to assess whether they are commensurate with the range, level and quality of services provided. It actively seeks and evaluates new ways of delivering services to achieve efficiencies and works with partners and other service providers to compare and evaluate processes, costs and outcomes.

3.4.3. Projected budgetary pressure resulting from the Government's public sector efficiency agenda have made reduction of the Council's cost base through either efficiency, cuts or increasing its income the top strategic priority. The extent of the reduction in available funding are predicted to be such that this will fundamentally reshape the size and structure of the organisation.

3.4.4. The Council has recently reviewed its Contract Procedure Rules these will go live in June 2016 replacing the current set.

3.4.5. To promote best practice in procurement the Council has entered into a joint arrangement with Improvement and Efficiency South East (IESE). IESE are a sector wide organisation with considerable cross cutting experience and knowledge of various procurement approaches. The performance of this arrangement is being kept under review by the Finance and Services Scrutiny Committee.

3.4.6. The need to understand relative cost and performance is important for Members and staff at all levels of AVDC. Information on costs and performance are used by Scrutiny committees in understanding relative efficiency and direct scrutiny and challenge to particular areas.

3.4.7. A corporate scorecard is in place to report key measures to Transition Board. This includes both performance and financial measures. The Council is currently undertaking a review of Business Intelligence and the scorecard will be part of this review.

3.5. Roles and Responsibilities of Members and Officers

3.5.1. The Council's Constitution sets out the roles of and relationships between the full Council, the Cabinet and Scrutiny and other Committees in the policy and decision making process and sets out their legal requirements. It also sets out a record of what responsibility each Council body or individual has for particular types of decisions or for decisions relating to particular areas or functions. The Constitution requires that all decisions taken by or on behalf of the Council will be made in accordance with the principles set out in the Constitution. The Leader is now responsible for determining the scheme of delegation for executive functions which is included in the Constitution.

3.5.2. The Constitution also sets out how the public can access the decision making process. Cabinet publishes a plan 28 days before each meeting publicising key decisions to be taken at the meeting. Other issues which are due to be considered by Cabinet or the Major Projects Committee at the time of publication of this document are included for information. Notice is also given of the intention to hold a meeting or part of a meeting in private to enable confidential or exempt information to be discussed.

The Constitution is subject to review as and when it is considered necessary.

3.6. The Standards of Behaviour for Members and Staff

3.6.1 Member behaviours are governed by a code of conduct which is set out in the Constitution. The code covers disclosable pecuniary interests as required by the Localism Act 2011 and also retains the requirements to

disclose personal and prejudicial interests and those to register gifts and hospitality received in a member's official capacity together with interests in outside bodies' charities and pressure groups. The Code of Conduct was adopted by full Council in July 2012.

- 3.6.2 All members of the Council have completed a register of their pecuniary and personal interests. Copies of guidance produced by the Department for Communities and Local Government on the revised code have been provided to every member and they have also received information from the monitoring officer highlighting the key aspects.
- 3.6.3 The Constitution also includes protocols covering member/officer relations, member involvement in commercial transactions and a members planning code of good practice.
- 3.6.4 There is a three stage procedure for dealing with complaints that councillors have broken the code of conduct. Hearings sub-committee considers complaints at stage 3 following an investigation report and a hearing procedure has been agreed.
- 3.6.5 A code of conduct for employees was approved in 2013 in conjunction with trade unions and employee representatives. This covers all aspects of conduct at work from how to treat colleagues to any conflicts of interest or dealing with matters such as accepting gifts and hospitality.

3.7 Standing Orders, Financial Regulations and Schemes of Delegation

- 3.7.1 The constitution sets out the scheme of delegation and the Contract Procedure Rules and guidance. Revised Contract Procedure Rules will go live in April 2016.
- 3.7.2 Compliance with financial procedure notes and manuals are checked as part of key financial audits.
- 3.7.3 Financial regulations and procedures are incorporated into the constitution of the Council.

3.8 Role of the Chief Financial Officer

- 3.8.1 The Council largely mirrors the recommendations made by CIPFA with regards to the role of the Chief Financial Officer and his or her position and status within the organisation.
- 3.8.2 For this purpose the Chief Financial Officer is the Director with responsibility for Finance.
- 3.8.3 The Director with responsibility for Finance has a key position within the organisation and sits as a member of the Transition Board, this being the main Officer Decision making body of the organisation responsible for developing, implementing and delivering the strategic objectives of the organisation.
- 3.8.4 All material financial decisions must be approved by the Director with responsibility for Finance or his deputy and the decision making structure of the organisation is designed to ensure that this happens through the report approval framework.
- 3.8.5 Processes, systems, internal controls and risks are maintained and frequently reviewed in order to ensure that good financial management exists within the organisation and that value for money is achieved.
- 3.8.6 The Director with responsibility for Finance is professionally qualified and skilled and is provided with the necessary resources to provide a finance function that is fit for purpose and suitably equipped to meet organisational and stakeholder needs.

3.9 Role of the Audit Committee

- 3.9.1 The Audit Committee was created as a full committee of the Council after the local government elections held in May 2007, arrangements that have continued in place since the 2011 and 2015 District Council elections. Council agreed changes to the Audit Committee's Terms of Reference to bring them into line with CIPFA Guidance at their meeting on 24 February 2016.
- 3.9.2 This committee aims to provide independent assurance of the adequacy of the Council's risk management framework and the associated control environment, independent scrutiny of the financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

3.10 Compliance with Relevant Laws and Regulations, Internal Policies and Procedures

- 3.10.1 Ensuring compliance with established policies, procedures, laws and regulations involves a range of measures which include:
- Notification of changes in the law, regulations and practice to Directorates;
 - Awareness, understanding and training carried out by internal officers and external experts;
 - The drawing up and circulation of guidance and advice on key procedures, policies and practices;
 - Proactive monitoring of compliance by relevant key officers including the Section 151 Officer (Director with responsibility for Finance) and the Monitoring Officer.
- 3.10.2 Compliance with new or revised policies is monitored by the relevant key officers and is incorporated in the Service Risk Assurance Process.
- 3.10.3 External audit reviews are reported to the Audit Committee. Their recommendations are also included in the monitoring arrangements described below for internal audit recommendations.
- 3.10.4 Business Assurance Services reviews compliance across all areas of AVDC. Reports are produced for management, recommendations for improvements agreed and implementation monitored through to completion. Regular reports on internal and external audit reviews and the progress made in implementing audit recommendations are provided to the Audit Committee. This helps to ensure that appropriate resources are made available for implementation within agreed timescales.
- 3.10.5 The Probity Group (Head of Paid Service, S151 Officer, Monitoring Officer and Business Assurance Manager) looks at emerging issues and non-compliance from any source.
- 3.10.6 Under Section 5 of the Local Government and Housing Act 1989 the Monitoring Officer is required to report to the Council where, in his/her opinion, a proposal, decision or omission by the Council, its Members or Officers is, or is likely to be, unlawful and also to report on any investigation by the Local Government Ombudsman. It has not been necessary for the Monitoring Officer to issue a formal report for the year 2015/16.
- 3.10.7 The Section 151 officer also has a legal responsibility to issue formal reports if they have particular concerns about the financial arrangements or situation of the Council. No such formal reports have been issued during the 2015/16 financial year.

3.11 Risk Management Arrangements

- 3.11.1 The Council has in place a process for identifying, assessing, managing and reviewing the key areas of risk and uncertainty that could impact on the achievement of the Council's objectives and service priorities.
- 3.11.2 A Service Risk Assurance process in place for all services and risk registers are in place for major projects.
- 3.11.3 Strategic risks for the Council have been identified and monitoring arrangements in place through six monthly updates to Transition Board.
- 3.11.4 As a result of the Commercial AVDC programme and the substantial changes facing the Council the risk management arrangements are being reviewed to ensure they are appropriate for the current change programme.

3.12 Whistle-blowing and Complaints Procedures

- 3.12.1 The Confidential Reporting Policy has been updated and replaced with a Whistleblowing Policy and reporting procedures are now available on the Council's website. This forms part of the Anti Fraud and Corruption Policy Strategy which was reviewed and update in 2013.
- 3.12.2 There have been no whistle-blowing reports through to the Business Assurance Service in 2015/16.
- 3.12.3 There has been no use of the Regulation of Investigatory Powers Act during 2015/16.
- 3.12.4 The Contract Regulations require officers preparing contracts to consider including references to AVDC's Confidential Reporting Policy.

- 3.12.5 There is a Customer Comment, Compliments and Complaints Policy which includes a publication for the public which explains the process. There are also detailed procedures for staff who are dealing with a complaint. All staff are required to complete the Customer Comment, Compliments and Complaints e-learning module.
- 3.12.6 In 2014/15 the Council maintained the British Standards Institute Complaints Standard. However it was decided not to continue with this certification in 2015/16 due to the cost. The process for complaints, however, remains the same as when the council had the certification.
- 3.12.7 The Standards Committee considers any complaints made against councillors relating to breaches of the code of conduct. Details of how to make a complaint and the committee's procedure for dealing with member complaints are available on the Council's website and hard copies of a complaints leaflet have been distributed to information points throughout the District.
- 3.12.8 There were no complaints against councillors in AVDC which lead to a full investigation in 2015/16.

3.13 Member and Officer Development Needs

- 3.13.1 An all-party Member Development Steering Group (MDSG) has been in place since October 2009 to oversee, monitor and help progress delivery of learning and development for elected Members to meet individual and corporate needs, and to achieve value for money. The MDSG has continued its work, with some changes in membership, following the 2015 District Council elections. A Member Induction Programme was successfully delivered to newly elected Councillors following the 2015 elections. This included training on the Code of Conduct and ethical standards.
- 3.13.2 The MDSG undertook surveys of Members in July-August 2015 asking them to identify their future development and support needs. The survey results have been used to put together a Member Development Programmes (MDP) which covers a range of issues including scrutiny skills, casework/advocacy, the local Member role in planning applications and enforcement, public speaking, effectively communicating with the media, housing matters and safeguarding.
- 3.13.3 All staff, including Directors and Heads of Service, take part in the Annual Talent Review process. This is used to identify their development needs and assess performance and career potential. All staff are assessed against a set of behavioural competencies which were introduced in 2011. As part of the process quarterly Personal Performance Plans (PPP or one to ones) continue to take place for all staff.
- 3.13.4 As part of the commercial AVDC programme the Council is reviewing the Annual Talent Review Process and developing a new behavioural framework as part of this review.
- 3.13.5 AVDC has a comprehensive training and development programme. Details of the programme are available to all staff and Members on the Intranet. This takes into account both the organisation development needs as well as individual needs. The eLearning hub is now well established with a wide range of learning and development opportunities, alongside more traditional classroom programmes. We continue to work collaboratively with other public sector organisations across Buckinghamshire to deliver management and leadership training. This has the benefits of staff being able to receive training in a timely manner and also learn from other organisations.
- 3.13.6 The Council operates a joint coaching scheme with Buckinghamshire County Council. Staff can self nominate or be referred to the scheme by their managers; they are then able to choose a coach from BCC or AVDC. This has been well used over the last 12 months.
- 3.13.7 The council has further developed its apprenticeship programme offering training opportunities to young people. Nine teams have employed apprentices during 2015/16.
- 3.13.8 iTrent, the HR and Payroll system is well established; with staff able to submit time and expense claims on-line, book on learning events and inputting sickness directly onto the system through the self-service portal.

3.14 Communication and Consultation with the Public and Other Stakeholders

- 3.14.1 The Council recognises and welcomes the importance of consulting effectively with local people and other stakeholders who have an interest in life in the district.
- 3.14.2 The Council uses a wide range of channels to both consult and communicate with the community and other stakeholders. Consultation methods range from quantitative self-completion questionnaires to focus groups depending on the target audience and the objectives of each consultation project. Regular communication channels include the residents' magazine delivered to all households, a proactive media relations programme (radio, TV, newspapers), parish and community noticeboards, poster sites and targeted literature. Social media including text messaging, Twitter, Facebook and YouTube are being used proactively by the council.

3.14.3 The Council launched its new website in August 2015. The website is clear, easy to use and available on any device at any time. The website was developed in consultation with residents, customers and council services to ensure the site provides what is needed in this advancing digital environment.

3.14.4 The Council uses Acorn customer segmentation data to help the council understand the profile, likes and dislikes of residents living in the Vale to inform service provision. A review of Business Intelligence is currently underway and this will include customer insight.

3.15 Information Governance Arrangements

3.15.1 Information governance is managed by the Information Governance Group (IGG) which is chaired by the director with responsibility for Finance who fulfils the role of Senior Information Risk Owner (SIRO). This group comprises of managers from key departments who are empowered to take decisions on information management. The IGG's key responsibility is to ensure that the Information Management Strategy is maintained and that actions are taken to implement the strategy and kept it up to date.

3.16 Governance Arrangements for Partnerships

3.16.1 Article 1 of the constitution commits the Council to providing community leadership in partnership with local people and businesses and effective and transparent decision-making, and to improving the delivery of services in consultation with the community. The Council has identified its significant partnerships and there are appropriate governance arrangements in place.

3.16.2 In December 2014 the list of significant partnerships was circulated to Corporate Board for review, and a number of changes were made. Partnership reviews were completed in July 2013. This will be considered as part of the risk management review in 2016/17

3.16.3 The significant partnerships are:

- Aylesbury Vale Estates (AVE). AVE is a limited liability partnership between AVDC and Akeman LLP, a private sector organisation with considerable experience of estates management and property development. The main aims are to improve AVDC's ageing commercial estate and support the local economy, whilst maintaining a future income for the Council.
- Local Enterprise Partnerships - South East Midlands LEP (SEMLEP) and Buckinghamshire Thames Valley LEP (BTVLEP). AVDC is in overlapping LEP arrangement as they both have a natural geographical fit with the Vale and reflect the common "travel to work areas' and shared workforce, housing, skills and infrastructure issues. AVDC has had a seat on both of the LEP Boards, which is helpful in being in a strong position to influence and ensure there is LEP impact in the Vale and its economic growth, benefitting AVDC's communities.
- Buckinghamshire Advantage acts as the operational arm of Buckinghamshire Thames Valley Enterprise Partnership (BTVLEP) on the delivery of any BTVLEP funded capital schemes, ensuring local growth funds are invested to maximum effect. Its mission is to add value to planned development by promoting growth, identifying opportunities and removing barriers to sustainable development.
- Shared Procurement Partnership with Improvement and Efficiency South East (IESE). A special purpose vehicle established to deliver savings through improved procurement.
- Aylesbury Vale Advantage
- Aylesbury Vale Broadband is a joint venture, backed and supported by the Council. Its aim is to develop a future proof fibre network to deliver at least superfast broadband speeds in hard to reach areas of Aylesbury Vale in Buckinghamshire that are not currently covered by the Connected Counties rollout.
- Vale Commerce Ltd

4. Review of Effectiveness

4.1 Aylesbury Vale District Council has responsibility for conducting, at least annually, a review of effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Business Assurance Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 The review of effectiveness has to consider the following areas:

- the authority
- the executive
- the audit committee / overview and scrutiny committees / risk management committee
- the standards committee
- Internal audit
- Chief Financial Officer
- other explicit review/assurance mechanisms

4.3 The Authority

4.3.1 The Council has a governance model for executive arrangements commonly referred to as the 'strong leader model'. The Constitution sets out the functions which are the responsibility of full Council such as the significant plans and strategies and the budget. Committees deal with certain matters notably in respect of development management control and licensing. The Cabinet deals with all other functions which are not the responsibility of another part of the Council whether by law or under the Constitution. The Leader has responsibility for appointing members of the Cabinet and determining the scheme of delegation for executive functions.

4.3.2 At the full Council meeting held on 11 September 2013 the Council formally elected a new Leader who made some changes to the membership of the Cabinet. The Cabinet structure and the membership of the committees was reviewed after the 2015 elections having regard to the political balance rules and some changes were made. The effect of which was to consolidate some of the portfolios resulting in a reduction of Cabinet Members from eight to seven. The Leader intends to keep the individual workloads under review, but at present is satisfied with the current arrangements.

4.3.3 Minutes and papers for Council, Cabinet and Committee meetings which are open to the public are freely available on the Council's web site. The only papers not available will be those that are exempt under the Council's procedures rules as set out in the Constitution.

4.3.4 To encourage participation and accountability one hour is set aside for questions from members at every ordinary meeting of the full Council. There is also provision for public participation at meetings of the development management control committees and a facility for the public to make statements relevant to a matter on the agenda at Council, Cabinet and other committees. Full Council meetings and Strategic Development Management Committee are now webcast.

4.4 The Executive

4.4.1 Operational management of the Council is a partnership between the Cabinet and the Corporate Team, which consists of the Chief Executive, the Deputy Chief Executive and Directors.

4.4.2 Formal Cabinet meetings are held monthly and the papers and minutes are made available to the public on the AVDC web site. Time is set aside for questions from members at the start of every Cabinet meeting. The scheme of delegation sets out the areas for which each Cabinet post holder is responsible.

4.4.3 Regular informal Cabinet briefing sessions are held approximately once a fortnight at which the Corporate Team briefs the Cabinet on Council business. Close working relationships are maintained as the Leader's, Cabinet Members' and Corporate Teams offices are all located close to each other.

4.4.4 The Transition Board which comprises the Corporate Team and senior managers ensures that the senior officers work as a team to enable the Council to best serve the people who live and work in the Vale.

4.4.5 All managers are involved in Managers Group meetings which receive information on corporate issues and projects.

4.4.6 The series of "Let's Get Talking" sessions continued in 2015/16 where Directors and Cabinet members meet with staff across the Council to discuss current issues and give staff the opportunity to ask questions. Feedback from these sessions continues to be positive.

4.5 The Audit Committee

4.5.5 The Audit Committee's Annual Report will be discussed at their meeting in July 2016. It will be circulated to all members, who will have the opportunity to raise questions at full Council. It will also be published on the Council's website.

- 4.5.6 The effectiveness of the Audit Committee forms part of the overall assessment of the effectiveness of Internal Audit and in 2014 CIPFA produced a publication 'Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition)' This included a self assessment against which Audit Committees could identify if they are meeting recommended good practice. The self assessment results were reported to the committee in July 2014 and this included a list of areas of improvement. An update on the self assessment was undertaken in March 2014 and fed into the Audit Committees Annual Report.
- 4.5.1 Audit Committee meetings have included regular training and information sessions to ensure that Members are able to fulfil their responsibilities effectively. During 2015/16 this included sessions on risk management and the role of the audit committee.
- 4.5.2 The Audit Committees Terms of Reference have been updated to reflect the CIPFA best practice model and were approved at the Council meeting on 24 February 2016.

4.6 Overview & Scrutiny Committees

- 4.6.1 Following a review of the scrutiny structure and the effectiveness of the scrutiny process, AVDC moved to a structure of three Scrutiny Committees from four Scrutiny Committees from August 2012. Committee responsibilities have been divided between Economy and Business Development, Environment and Living, and Finance and Services. Their role includes policy development, service reviews, holding the Cabinet to account, representing community interests and external scrutiny. They look at how and why decisions are made, how services are functioning and whether there is scope for improvement and also consider wider community issues, particularly improving services to people living in the area. During 2014 it was decided to establish another scrutiny committee tasked with steering the development of the new Local Plan.
- 4.6.2 A Task and Finish Group was established during 2014 to review the operation of Overview and Scrutiny and the general view was that the current arrangements were working reasonably well. However a few minor requirements were suggested and these will be considered after the 2015 elections. Subsequently, however, the Leader of the Council took the view that scrutiny was operating satisfactorily and that no immediate changes should be made. An annual report on the work of the Scrutiny Committees is presented to Council each year and for 2016 will be considered by full Council on 18 May 2016. The annual report will summarise the issues considered by the Scrutiny Committees during the course of 2015-16 and will continue to provide opportunities for members of the public and the wider Council membership to suggest possible topics for review.

4.7 Standards Committee

- 4.7.1 The Annual Report of the Standards Committee for 2015/16 will be submitted to the full Council on 18 May 2016. This set out the work of the Committee over the year, including information on the Committee's Role and Terms of Reference, an overview of its activities during the year and a report on the monitoring of complaints and compliance with the Code of Conduct. The Annual Report is published on the Council's website.
- 4.7.2 The Standards Committee comprises seven district councillors plus two councillors from town or parish councils and three independent persons who are not entitled to vote. The two parish/town council representatives have been nominated by the Aylesbury Vale Association of Local Councils and the three independent persons have been appointed following public advertisement and interview. From March 2016 there will be two independent people.
- 4.7.3 The work of the Standards Committee is appreciated within the Council and promoted within the community. The Chairman of the Standards Committee, who is also a Cabinet member, has the opportunity to speak at Council when the annual report is submitted. Members and staff have a good understanding of the importance of the ethical agenda.

4.8 Business Assurance Service

- 4.8.1 The Business Assurance Service operates under regulation 6 of the Accounts and Audit Regulations 2003 (amended 2006 & 2011) and in accordance with the CIPFA Public Sector Internal Audit Standards.
- 4.8.2 A review of effectiveness against the standards is completed annually as part of the Business Assurance Manager's Annual Report.
- 4.8.3 The Council's Financial Regulations and Internal Audit Charter grant Business Assurance Services an unrestricted right of access to all Council records and property. They also confirm the organisational independence which allows Business Assurance Services to form an objective opinion on the adequacy and effectiveness of the whole system of internal control.

- 4.8.4 The Business Assurance Services Manager reports to the Sector Lead for Strategy and Governance and may also report direct to the Chief Executive, other Directors and Members of the Council if required. Within their role as Head of Internal Audit they also report to the Audit Committee Chairman.
- 4.8.5 The plan of work undertaken by Business Assurance Services is prepared with regard to the risks faced by the Council and following discussions with Directors and Sector Leads. It is presented to and approved by the Audit Committee in March.
- 4.8.6 The scope of work included in the annual assurance plan extends beyond financial governance to include corporate governance, risk management, probity, value for money, effectiveness and compliance with laws and standards.
- 4.8.7 The outcome of all assurance reviews are reported to the responsible Director as well as to the Director with responsibility for Finance (Section 151 officer) and the Deputy Chief Executive. A summary of the report will also be presented to the Audit Committee.
- 4.8.8 Where recommendations for the improvement of controls or systems are made at the end of an assurance review, these are agreed with the responsible managers together with details of the required action and an expected date for implementation. Any concerns regarding overdue actions are reported to the Audit Committee as part of the regular progress report.
- 4.8.9 Where action to address issues is not undertaken within the pre-determined timescales the Audit Committee can and has required the responsible manager to attend a formal meeting and be personally accountable.
- 4.8.10 The Audit Committee receives a progress report at each meeting which covers the assurance reviews and advisory work undertaken since the last report and any amendments needed to the Assurance plan.

4.8.11	Based on the results of the work undertaken during the year my opinion overall is ... (to be completed for final version)
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4.9 Other Assurance Work Undertaken

4.9.1 To be completed

4.10 Anti Fraud and Corruption

- 4.10.1 Business Assurance Service and the Audit Committee are responsible for developing and maintaining the Council's anti-fraud and corruption strategies and culture. Anti fraud safeguards are the cornerstone of good governance and control across all areas of the Council.
- 4.10.2 CIPFA's "Code of Practice on managing the risk of fraud and corruption" supports organisations seeking to ensure they have the right governance and operational arrangements in place to counter fraud and corruption. It is a voluntary code that can be applied in any public service organisation. Business Assurance Services (BAS) has performed a fraud benchmarking assessment of the current state of the Council's governance structures and processes against the CIPFA code.
- 4.10.3 The Council has reached a basic level of performance against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. This includes having adequate arrangements in place against most of the performance criteria that are fundamental to the management of fraud and corruption risks. There remain a number of key areas where performance should be improved before a good standard of performance can be achieved. Overall the Council needs to do more to ensure it's resilience against fraud and to support good governance.
- 4.10.4 Having considered all the criteria set out in the CIPFA code and the gaps, a high level action plan has been developed to strengthen the Council's position in managing the risk of fraud.

4.11 Assurance Model

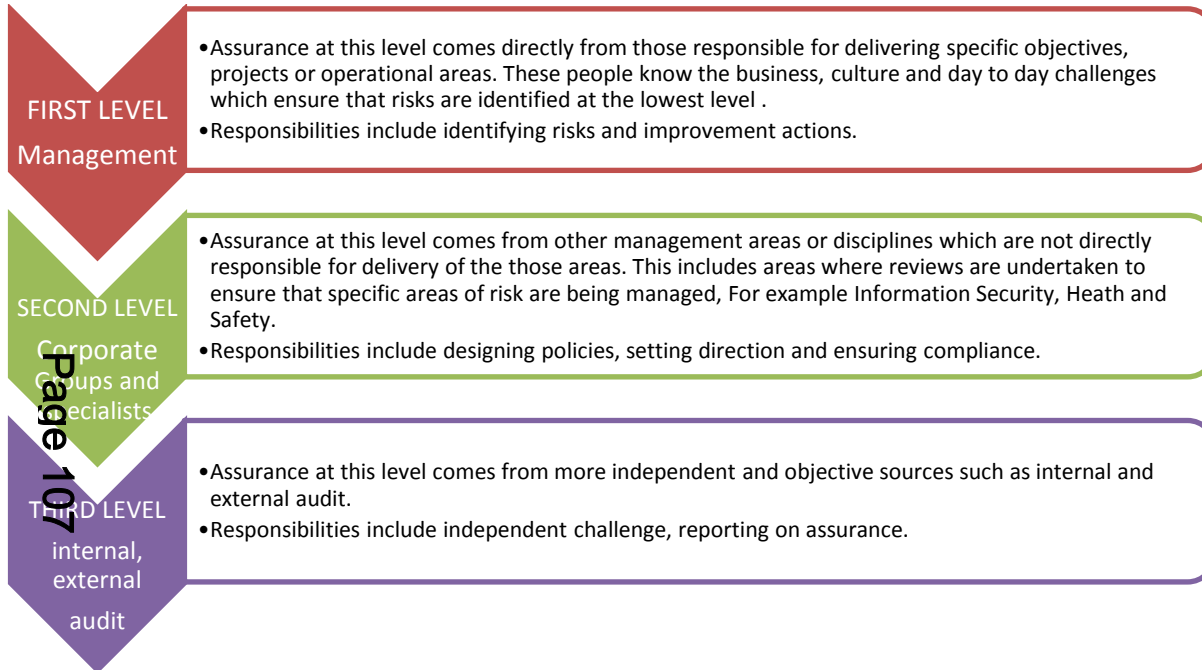
4.11.1 To be updated

4.12 Other Assurance and Review Mechanisms

4.12.1 To be updated

5 AVDC Assurance Model

5.1 Assurance can come from many sources within the Council and part of the role of Business Assurance Service is to map out where those assurances come from in order to identify any gaps and this will help determine the scope of some of assurance reviews that need to be planned. There are broadly three main categories of assurance modelled below and by working towards defining these across areas of risk it will help the council understand how each contributes to the overall level of assurance and how best they can be integrated and mutually supportive.



OVERALL ASSURANCE MODEL ON KEY POLICY AREAS

The key areas of assurance are listed below together with the assessment of assurance for 2014/15. Areas with weaknesses are addressed through either Business Assurance recommendations or specific actions listed in the Action Plan in Appendix 2.

To be updated in next version

SIGNIFICANT GOVERNANCE ISSUES

To be updated

Update on actions identified in 2013/14

To be updated

New Areas of weakness identified in 2014/15

To be updated

6. Assurance Statement

6 Assurance Statement

- 6.1.1 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Audit Committee and plan to address weaknesses and ensure continuous improvement of the system in place.
- 6.1.2 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that we identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:.....

Leader

Signed:.....

Chief Executive

On behalf of Aylesbury Vale District Council

Appendix A
Council Policies, Codes of Practice

Public documents

District Link

Council tax Information leaflet distributed with council tax bills in March 2015

– Constitution:

Part 2 – Articles of the Constitution

Part 3 – Responsibility for Functions

Part 4 – Rules of Procedure

Part 5 - Codes and Protocols

Part 6 – Members Allowance Scheme

Part 7 – Management Structure

Member details

Membership of Cabinet and Committees

Calendar of meetings

Public participation opportunities

Member information on the intranet

Membership of informal groups

Receipt of gifts and hospitality

Political balance

Comments, compliments and complaints guidance

Representatives on outside bodies

Question time arrangements at Council

Members' services

Committee reports

Standards Committee Work Programme

See Audit Committee papers for Statement of Accounts

Annual scrutiny report

Other Documents/Policies

Medium term financial strategy

Partnership protocol

Equalities strategy

Quarterly financial digest

Aylesbury Vale Times

Risk management strategy

Annual talent book scheme

Whistleblowing Policy

Anti fraud & corruption strategy

Compliments and complaints procedure

IT security policies

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INTERNAL AUDIT STRATEGY AND PLAN 2016-17

1 Purpose

- 1.1 The purpose of this report is to provide the committee with details of the internal audit risk assessment and plan for 2016-17.

2 Recommendations

- 2.1 The committee is recommended to approve the Internal Audit Strategy and Plan for 2016-17 attached at Appendix 1.

3 Supporting Information

- 3.1 The methodology applied in developing the Internal Audit Strategy and Plan has been updated for 2016-17. A full assessment of the “Audit Universe” has been performed. Each auditable unit has been risk assessed at a high level to determine the priority for internal audit, represented by the frequency of audit review.
- 3.2 As part of the Commercial AVDC Transformation Programme a number of “Business Reviews” are being undertaken across the Council. Where these have been defined, we have identified these in the risk assessment. Commercial AVDC reviews and projects may provide additional assurance. Internal Audit will review the scope of these projects and the outcomes and update the risk assessment accordingly.
- 3.3 Should further internal audit work be required as a result of emerging risks highlighted during the Commercial AVDC Business Reviews, the annual plan will be updated to accommodate this work.
- 3.4 The work plan has been discussed with Directors and Sector Leads to obtain their views and take into account any areas they specifically identified as areas to review.
- 3.5 The core financial systems areas and housing benefits and collection fund remain on the list each year but the scope of the reviews will be tailored to look at different areas of risk each year as well as the core key controls.
- 3.4 The Internal Audit Plan will be reviewed on a quarterly basis to allow for flexibility to pick up new areas of risk or organisational change. This will be reported to the committee as part of the progress report.

4 Options considered

- 4.1 None

5 Reasons for Recommendations

- 5.1 The Internal Audit Strategy and Plan fulfils requirements of the Public Sector Internal Audit Standards which came into force on 1 April 2013.

6 Resource Implications

- 6.1 The plan will be delivered within current resources. Where reviews require specialist expertise this may be sourced from external providers, within the allocated financial budget.

Contact Officer:

Kate Mulhearn, Business Assurance Manager 01296 585724

Background papers: none



Internal Audit Strategy and Plan 2016/17

**Business Assurance Services
March 2016**

Contents

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<i>4. Annual internal audit plan</i>	<i>10</i>
<i>Appendix 1: Detailed methodology</i>	<i>13</i>
<i>Appendix 2: Risk assessment criteria</i>	<i>15</i>

1. Introduction and approach

Introduction

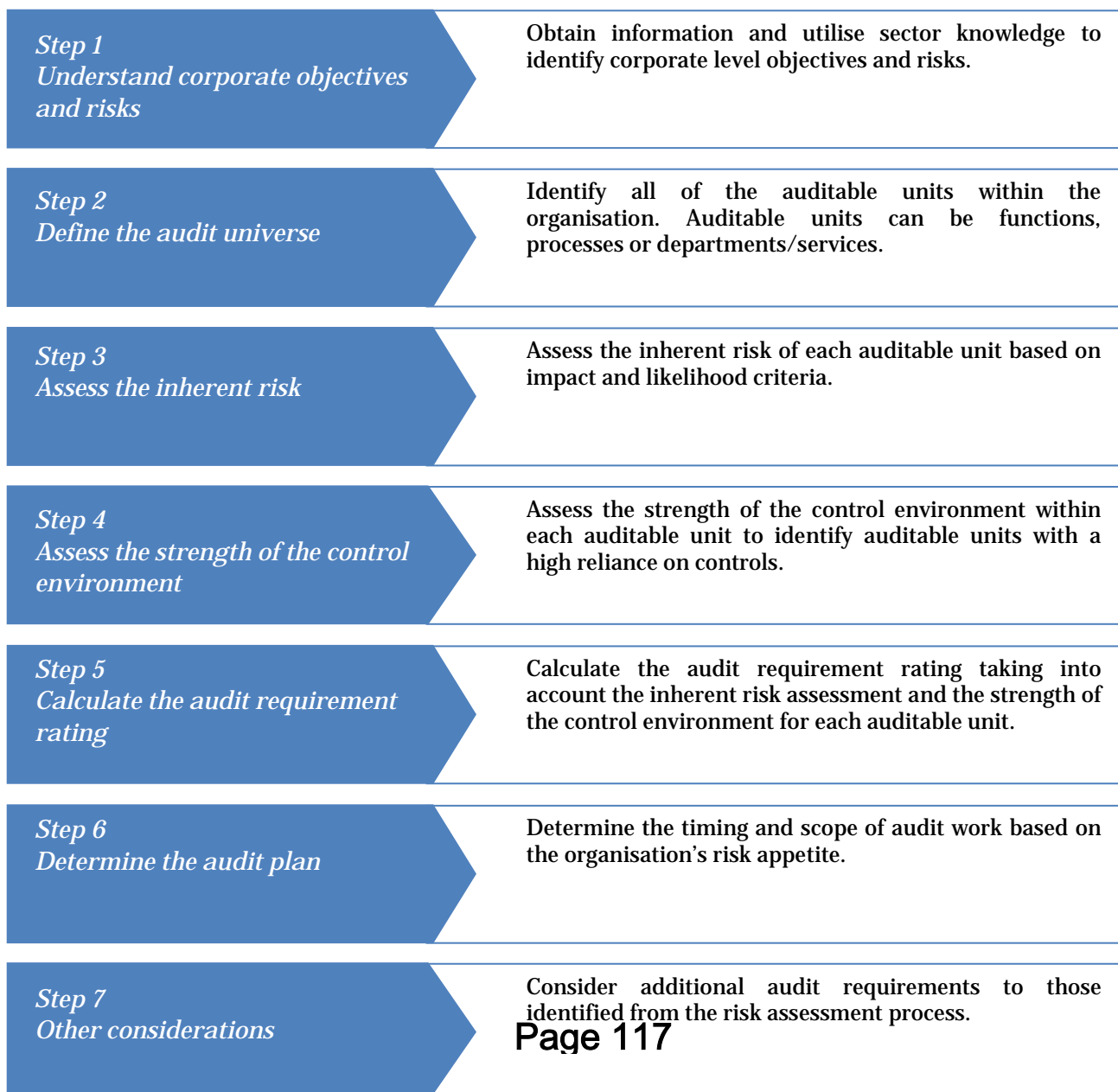
This document sets out the risk assessment and 2016/17 internal audit plan for Aylesbury Vale District Council (AVDC).

Approach

The internal audit service will be delivered in accordance with the Internal Audit Charter and the Public Sector Internal Audit Standards.

A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. The internal audit plan is driven by the Council's organisational objectives and priorities, and the risks that may prevent the Council from meeting those objectives. A more detailed description of our approach can be found in Appendix 1 and 2.

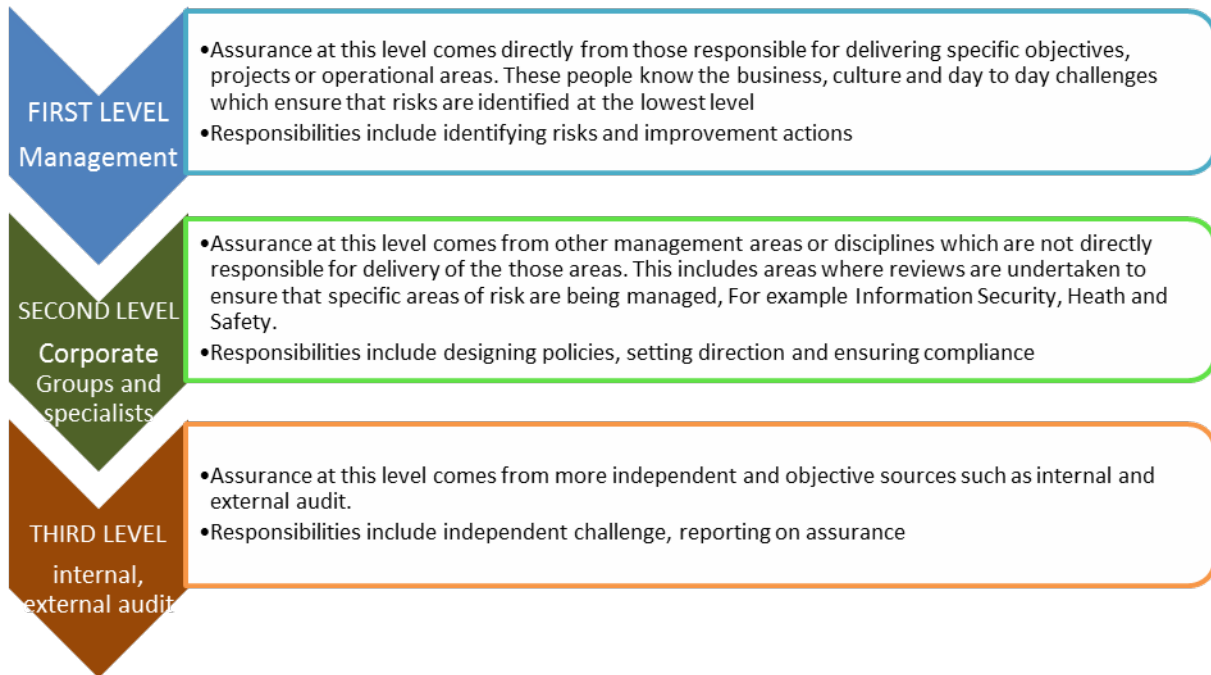
In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks.



Other sources of assurance

Assurance can come from numerous sources within the Council. In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources.

There are broadly three main categories of assurance modelled below and by working towards defining these across areas of risk it will help the Council understand how each contributes to the overall level of assurance and how best they can be integrated and mutually supportive.



Level 3 is undertaken by the Internal Audit team and other independent external or regularity auditors.

The other sources of assurance for the Council in 2016/17 may include the reviews being undertaken as part of the Commercial AVDC change programme. These are overseen by the Commercial AVDC Programme Board. In order to place reliance on these other sources of assurance we will review the terms of reference and the final reports and action plans. We may perform work to ensure the actions are appropriately implemented.

Commercial AVDC reports and action plans may be shared with the Audit Committee to inform the ongoing risk assessment.

Key contacts

The internal audit plan has been discussed with the following members of the Senior Management team and the Transition Board during the planning process:

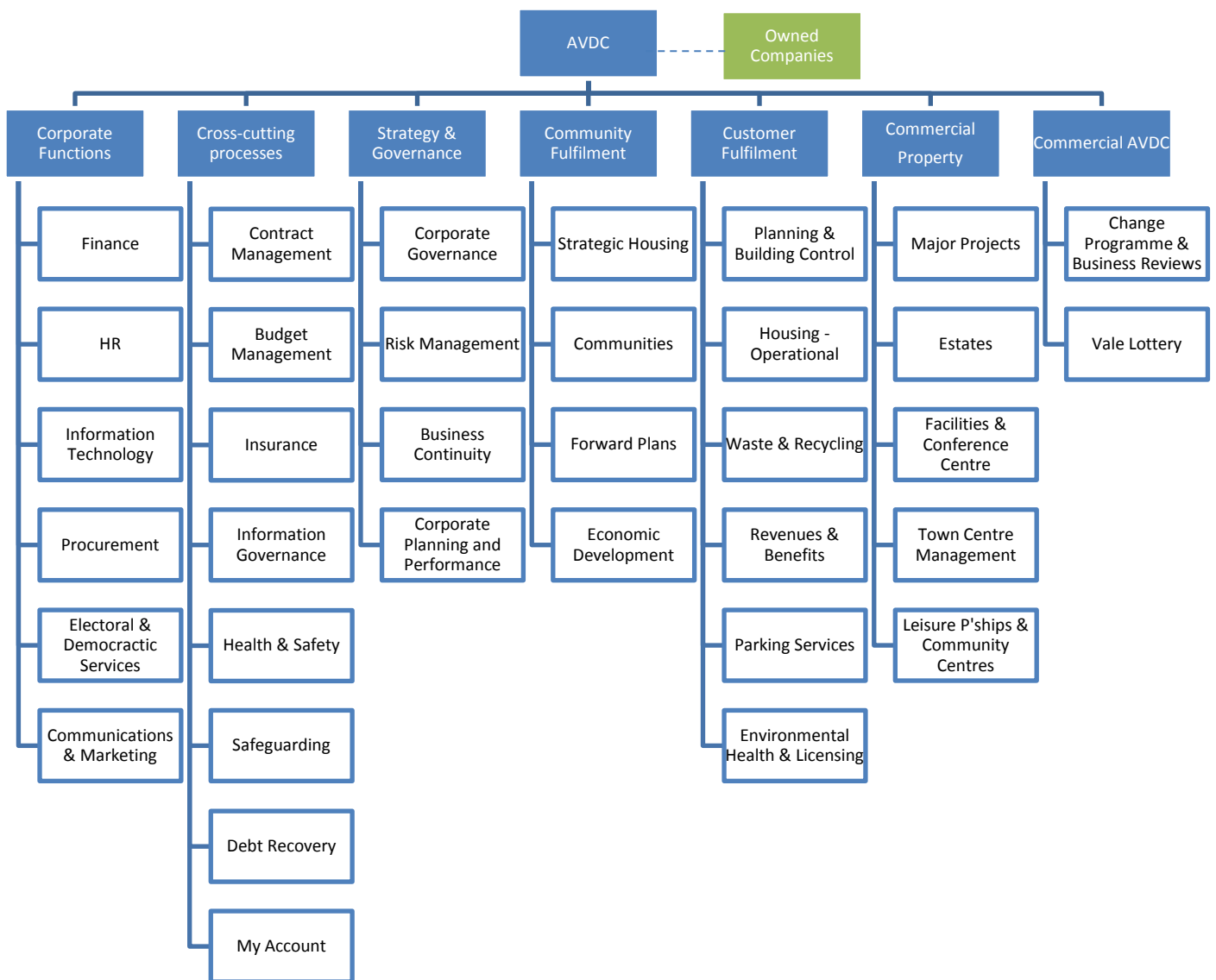
<i>Name</i>	<i>Title</i>
Andrew Grant	Chief Executive
Andrew Small	Director
Tracey Aldworth	Director
Alan Evans	Head of Business Transformation
Andy Barton	Strategy & Governance
Sarah Rodda	Business Support and Enablement
Teresa Lane	Commercial Property
Jeff Membery	Customer Fulfilment
Will Rysedale	Community Fulfilment
Jean Gamester	Commercial AVDC Programme Manager

2. Audit universe, objectives and risks

Audit universe

We have identified the auditable units with the Council based on the structure as of February 2016 and consideration of processes that run across a number of different areas of the Council (cross-cutting processes).

As part of the Commercial AVDC transformation programme, the services are undergoing review which may result in changes to the structure and auditable units. The internal audit plan should be flexible to adapt to these changes.



* AVDC owned companies - Vale Commerce (LimeCart & IncGen), Novae Consulting, Aylesbury Vale Broadband, Aylesbury Vale Estates

Corporate objectives and risks

Corporate level objectives and risks have been considered when preparing the internal audit plan.

Objective	Risk(s) to achievement of objective	Cross reference to Internal Audit Plan
To secure the Economic, Social and Environmental Wellbeing of the Vale	To be updated	

3. Risk assessment

Risk assessment results

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1 and 2. The results are summarised in the table below.

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Comments (incl. other sources of assurance)
A	Corporate Functions						
	Finance <ul style="list-style-type: none"> General Ledger Debtors Creditors Payroll Treasury Fixed Assets 	6	1	6	●	Annual	Commercial AVDC review of Financial Services, Process & Systems including control design for all financial systems starting Feb 2016. IA are involved in the project and will review implementation and operation of processes once established.
	HR	4	3	3	●	2 years	2016/17 review of recruitment process
	IT	5	3	4	●	Annual	Consider outcome of Commercial AVDC review of role, form & function of IT service.
	Procurement	4	3	3	●	2 years	Consider with Contract Management
	Electoral & Democratic Services	3	3	2	●	3 years	Roll out of ModGov – review processes post implementation
	Communication & Marketing	3	3	2	●	3 years	
B	Cross-Cutting Processes						
	Contract Management	5	2	4	●	Annual	Commercial AVDC review of lifecycle management of contracts from procurement through ongoing management. 15/16 review of Supplier Resilience to be completed 16/17
	Budget Management	6	2	5	●	Annual	Consider outcomes of Commercial AVDC Finance review
	Insurance	5	4	3	●	2 years	Tender process to start Q2. Claims handling is audited by Travellers Insurance (date TBC)
	Information Governance	6	3	5	●	Annual	IT Security and/or Information Governance review.
	Health & Safety	6	4	4	●	Annual	Last audit in 2010/11. 2016 IA against OHSAS 18001 (45001 from 2018)
	Safeguarding	5	4	3	●	2 years	Review deferred from 15/16. Assurance also from external audits e.g. Sec 11
	Debt Recovery	4	3	3	●	2 years	Review in Q3 2016/17 to inform Commercial AVDC business reviews

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Comments (incl. other sources of assurance)
	My Account	5	3	4	●	Annual	Review security of payments, information and interfaces with other systems
C	Strategy & Governance						
	Corporate Governance	4	2	3	●	2 years	New Good Governance Framework for Local Government effective from 1 Apr 16. Review compliance gaps.
	Risk Management	5	1	5	●	Annual	Continuous assurance over risk management processes
	Business Continuity	5	4	3	●	2 years	
	Corporate Planning & Performance	5	2	4	●	Annual	Commercial AVDC review of Business Intelligence will recommend on Performance Monitoring and Reporting processes. IA consider review of outcomes.
D	Community Fulfilment						
	Strategic Housing	5	4	3	●	2 years	16/17 consider review of housing grants
	Communities	5	4	3	●	2 years	Commercial AVDC review of Communities
	Forward Plans	5	4	3	●	2 years	
	Economic Development	5	4	3	●	2 years	16/17 review of Enterprise Zones
E	Customer Fulfilment						
	Planning & Building Control	5	4	3	●	2 years	Sec 106 reviewed in 15/16. 17/18 review to consider Government consultations.
	Housing – Operational	4	4	2	●	3 years	IA of Housing Allocations in 15/16
	Waste & Recycling	6	2	5	●	Annual	Commercial AVDC review of Waste
	Revenues & Benefits • Collection Fund • Housing Benefits	6	4	4	●	Annual	
	Parking Services	4	4	2	●	3 years	New contract in place in 2015. Consider in 17/18
	Environmental Health & Licensing	5	4	3	●	2 years	
F	Commercial Property						
	Major Projects	5	4	3	●	2 years	Major Project Board provides oversight of significant capital projects
	Estates	5	2	4	●	Annual	Commercial AVDC Business Review planned to assess adequacy of

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Comments (incl. other sources of assurance)
							processes to manage landlord/tenant arrangement. IA input to scope of project and review of calculation of service charges.
	Facilities & Conference Centre	5	4	3	●	2 years	
	Town Centre Management	4	4	2	●	3 years	
	Leisure P'ships & Community Centres	5	4	3	●	2 years	17/18 consider Aqua Vale Pool
G	Commercial AVDC						
	Change Programme and Business Reviews	6	4	4	●	Annual	Commercial AVDC Programme Board maintain oversight of Programme Risk register and monitoring of Business Reviews.
	Vale Lottery	4	3	3	●	2 years	16/17 Internal audit review ahead of Gambling Commission Audit

Key to frequency

Audit Requirement Rating	Frequency	Colour Code
6, 5 and 4	Annual	●
3	Every two years	●
2	Every three years	●
1	No further work	●

4. Annual internal audit plan

Annual plan and indicative timeline

The internal audit work planned for 2016/17, together with indicative start dates for each audit.

Ref	Auditable Unit	Indicative number of audit days	Planned start date				Comments
			Q1	Q2	Q3	Q4	
A	Corporate functions						
	Finance <ul style="list-style-type: none"> General Ledger Debtors Creditors Payroll Treasury Fixed Assets 	36	X	X	X	X	Ongoing input to Commercial AVDC project (Q1&Q2) and assurance over implementation and effectiveness of processes (Q3 &Q4)
	HR - Recruitment	6		X			Review recruitment processes and controls
	Electoral & Democratic Services	5			X		Deferred from 15/16. Roll out of ModGov – review processes post implementation
B	Cross-cutting processes						
	Contract Management – Supplier Resilience	10		X			Deferred from 15/16. Assurance that key suppliers/contracts have adequate business continuity plans in place. Consider outcomes of Commercial AVDC review.
	Budget Management	8				X	
	Information Governance	12		X			IT Security or Information Governance review.
	Health & Safety	12		X			Compliance with OHSAS18001
	Safeguarding	8	X				Review pre Sec 11 audit. Also consider vulnerable adults.
	Debt Recovery	6			X		
	My Account	10		X			Review security of payments, information and interfaces with other systems
C	Strategy & Governance						
	Good Governance Framework for Local Government	6	X				Review compliance with new CIPFA code and implications for AGS 16/17
	Risk Management	12	X	X	X	X	Continuous assurance over risk management process
D	Community Fulfilment						

	Enterprise zones	8			X		Processes governing management of E Z partnerships
E	Customer Fulfilment						
	Housing benefits	6				X	
	Collection fund	8				X	
F	Commercial Property						
	Estates – Service Charges	8		X			Basis for and calculation of service charges, collection processes
G	Commercial AVDC						
	Business Reviews	10	X	X	X	X	See below
	Vale Lottery	6	X				
H	Other						
	Follow up of audit actions	8	X	X	X	X	Validation that agreed internal audit actions have been implemented.
	Completion of 15/16 internal audit plan • General Ledger & Budget Control • Housing Benefits	10	X				
	Total planned audit days	195					
	Contingency for risk responsive reviews	20					
	Total	215					

Resourcing the plan

The majority of the plan will be delivered by the in house Internal Audit Officer. Where specialist input is required we may seek external resources for specific reviews.

Available Resource	
Internal Audit Officer (1FTE) - Days available	215
Budget for 2FTE vacant positions (Internal Audit Officer and Business Assurance Manager)	£100,000

Commercial AVDC Business Reviews

During 2016/17 a series of Business Reviews will be undertaken as part of the Commercial AVDC transformation programme. The outcomes of these reviews will recommend changes/improvements to current ways of working in line with the strategic vision of the Council.

Internal audit, whilst not necessarily involved in completing these reviews, will input into the scope of work, review outcomes and consider any impact this may have on the risk assessment.

At the time of preparing the internal audit plan, the following Commercial AVDC projects have been identified within the risk assessment:

- Financial Services, Processes and Systems
- IT – role, form and function
- Procurement and contract management lifecycle
- Business Intelligence
- Communities
- Estates – Landlord /Tenant management function
- Waste

The results of these projects and periodic updates from the Commercial AVDC Programme Board will be shared with the Audit Committee for their ongoing consideration of risk and assurance.

Appendix 1: Detailed methodology

Step 1 -Understand corporate objectives and risks

We have:

- Reviewed the strategy, organisational structure and corporate risk register;
- Considered the wider public sector and local government context; and
- Met with a senior management.

Step 2 -Define the Audit Universe

We have identified the audit universe made up of a number of auditable units. Auditable units include functions, processes, systems, departments or services. Any processes or systems which cover multiple departments are separated into their own distinct cross cutting auditable unit.

Step 3 -Assess the inherent risk

The internal audit plan should focus on the most risky areas of the Council. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of the Council and the sector; and
- Discussions with management.

Impact Rating	Likelihood Rating					
	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

Step 4 -Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:

- Knowledge of the internal control environment;
- Information obtained from other assurance providers; and
- The outcomes of previous internal audits.

Step 5 -Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control design indicator					
	1	2	3	4	5	6
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

Step 6 -Determine the audit plan

The risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

Step 7 -Other considerations

In addition to the audit work defined through the risk assessment process described above, we may undertake a number of other internal audit reviews such as regulatory driven audits or advisory reviews. These are identified separately in the annual plan.

Appendix 2: Risk assessment criteria

Determination of Inherent Risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

<i>Impact rating</i>	<i>Assessment rationale</i>
6	Critical impact on operational performance [quantify if possible]; or Critical monetary or financial statement impact [quantify = materiality]; or Critical breach in laws and regulations that could result in material fines or consequences [quantify if possible]; or Critical impact on the reputation or brand of the organisation which could threaten its future viability).
5	Significant impact on operational performance [quantify if possible]; or Significant monetary or financial statement impact [quantify = materiality/2]; or Significant breach in laws and regulations resulting in large fines and consequences [quantify if possible]; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance [quantify if possible]; or Major monetary or financial statement impact [quantify = materiality/4]; or Major breach in laws and regulations resulting in significant fines and consequences [quantify if possible]; or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance [quantify if possible]; or Moderate monetary or financial statement impact [quantify = materiality/8]; or Moderate breach in laws and regulations with moderate consequences [quantify if possible]; or Moderate impact on the reputation of the organisation.
2	Minor impact on the organisation's operational performance [quantify if possible]; or Minor monetary or financial statement impact [quantify = materiality/16]; or Minor breach in laws and regulations with limited consequences [quantify if possible]; or Minor impact on the reputation of the organisation.
1	Insignificant impact on the organisation's operational performance [quantify if possible]; or Insignificant monetary or financial statement impact [quantify = materiality/32]; or Insignificant breach in laws and regulations with little consequence [quantify if possible]; or Insignificant impact on the reputation of the organisation.

<i>Likelihood rating</i>	<i>Assessment rationale</i>
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

BUSINESS ASSURANCE PROGRESS REPORT – MARCH 2016

Purpose

- 1.1 To receive the Business Assurance Services Progress Report of activity undertaken since January 2016.

2 Recommendations

- 2.1 The committee is recommended to note the progress report at Appendix A and approve the proposed revisions to the 2015/16 Business Assurance plan.
- 2.2 The committee is recommended to note the “Update on Financial Systems and Controls”.

3 Supporting Information

- 3.1 This report provides an update on the progress made against the 2015/16 Assurance Plan. Appendix A includes information on:
 - Summary of assurance reviews completed and in progress
 - Revised assurance plan
 - Overdue recommendations and follow up work
- 3.2 Attached to the Progress Report in the confidential part of the agenda (Appendix 3) is an Update on Financial Systems and Controls. This includes the detailed findings of our report on Accounts Payable and Accounts Receivable together with Management Response and Action Plan.
- 3.3 It will be necessary for the Committee to consider Appendix 3 “In Committee” as the public interest in maintaining the exemption outweighs the public interest in disclosing the information because the report contains information relating to the financial or business affairs of organisations (including the Authority holding that information) and disclosure of commercially sensitive information would prejudice negotiations for contracts and land disposals or transactions.

4. Reasons for Recommendations

- 4.1 Ensuring a proper and effective flow of information to Audit Committee Members enables them to perform their role effectively and is an essential element of the corporate governance arrangements at the council.

5. Resource Implications

- 5.1 There are no resource implications to report.

Contact Officer: Kate Mulhearn, Business Assurance Manager 01296 585724

Background papers: none



Business Assurance Services

Assurance Progress Report

March 2016

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Appendix 1 – Assurance Criteria	6
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1. Update on Financial Systems and Control	
2. Internal Audit Report: Accounts Payable & Accounts Receivable	
3. Management Response and Action Plan	

1. Assurance reviews completed since the last progress report

No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
	Accounts Payable & Accounts Receivable	Payroll	

Accounts Payable and Accounts Receivable

The full report together with Management Response and Action Plan is attached as Appendix 3.

Payroll

This review focussed on the key controls operating during 2015/16 to date. We also undertook analysis on the payroll data that was downloaded from the payroll database. We awarded the process 'Reasonable Assurance' and raised 2 medium priority recommendations concerning the following:

- The need to perform a monthly reconciliation between the payroll costs in iTrent and the general ledger (T1 finance system). The process at present does update the cost centres with payroll data but there is no subsequent validation.
- To formally adopt a Corporate 'Pay Rate Structure' for Casual Workers which should be reviewed at least an annually.

2. Assurance plan work in progress

The following reviews are in progress:

Assurance Plan Area	Type of review	Progress
Council Tax and Business Rates	Assurance	Audit work is complete and a draft report is being prepared.
General Ledger and Budgetary Control	Assurance	The review has been scoped and the Terms of Reference have been issued. The fieldwork and a draft report will be completed by the end of March 2016.
Housing Benefits	Assurance	The review has been scoped and the Terms of Reference have been issued. The fieldwork and a draft report will be completed by the end of March 2016.
Data Protection – Home working and use of personal devices	Assurance	Work will commence 14 March.

Service risk assurance

The results of the service risk assessment have been presented to Audit Committee in a separate report. In March we will begin the review of the Strategic Risk Register and focus on implementing an organisational wide risk management process.

3. Revised assurance plan 2015/16

In January 2016 a revised Assurance Plan was approved by members of the Audit Committee. The plan has been further reviewed and updated for the remainder of the year to reflect changes which have meant some reviews are no longer a priority for this year and in other cases they have been merged with other reviews or removed all together. Appendix 2 shows the work completed, outstanding and the changes.

4. Overdue recommendations and follow up work

Business Assurance actively track and monitor the recommendations that we have raised from our Assurance Reviews. This is to ensure that the control weaknesses identified have been satisfactorily addressed by the agreed target date which reflects the priority weighting. We only report to the Audit Committee when more than 3 months has passed since the original agreed target date.

Section 106 (Developer Contributions) – Completed

This review incorporated a ‘health check’ against the new regulations that impact on Section 106 Agreements. This is known as the Community Infrastructure Levy (CIL). There was a Medium priority recommendation which had an agreed action with a target date of September 2015. This was concerning the Council’s policy on developer contributions, commonly known as the ‘Supplementary Planning Guidance’. We found that this document made no reference to the Community Infrastructure Levy (CIL). An action was agreed to provide an addendum to the Guidance to reduce the prospect of a legal challenge from a Developer.

Status at March 16

Following on from concern about legality of negotiations, Forward Plans, Leisure Officers and Development Management met to discuss the implications of the changing CIL regime. It was determined that there was no need to change the guidance at this stage, but instead it was better to write to all parties involved in the process (Members, Parish/Town Councils) to explain the change instituted by the CIL Regulations.

The letter does not affect the way the process operates however, the review did highlight the need to reflect the CIL Regulations in the way 106 Agreements are drafted.

Taxi Licensing – In progress

We carried out an assurance review to check the controls around vetting and issuing licenses to drive private hire and hackney carriages.

We identified that there was no retention policy in place for the personal documents that are sent in to support an application. Where applications are not completed for whatever reason there needs to be a process of actively identifying these within a specified timeframe and then deleting the documentation accordingly.

Status at March 16

We are still in the process of reviewing our requirements and drafting a procedure for data retention that covers not just taxi licensing but all other documents that may contain personal, sensitive information within the Environmental Health & Licensing department. We are currently working with Arcus Global on the set-up of a new document management storage solution for EH&L into which the data retention principles will be built prior to data migration from our existing system to the new Salesforce system.

It is expected that the data retention policy across the department will be complete by the end of April 16. The data will be migrated into the new system sometime between July and September with full implementation complete by the end of December 16.

Assurance Definitions

<p>Substantial</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low.</p> <p>As a guide there are a few low risk / priority actions arising from the review.</p>
<p>Reasonable</p>	<p>Our critical review or assessment on the activity gives us a reasonable level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls are in place and operating sufficiently so that the risk to the activity not achieving its objectives is medium to low.</p> <p>As a guide there are mostly low risks and a few medium risk/priority actions arising from the review.</p>
<p>Limited</p>	<p>Our critical review or assessment on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the risks are not always being operated or are inadequate. Therefore, the risk of the activity not achieving its objectives is medium to high.</p> <p>As a guide there are mostly medium and a few high risk / priority actions arising from the review.</p>
<p>None</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the risks are not being operated or are not present. Therefore the risk of the activity not achieving its objectives is high.</p> <p>As a guide there are a large number of medium and high risks / priority actions arising from the review.</p>

REVISED ASSURANCE PLAN 2015/16

Updated March 2016

The 2015/16 Assurance Plan was revised and approved by members of the Audit Committee in January 2016. A status update on the revised agreed plan together with further proposed changes is presented below.

COMPLETED REVIEWS

Review Area	Description	Reported to Audit Committee	Assurance Rating
Data Transparency	Provide assurance that the transparency requirements have been implemented and review data quality of key areas	July 2015	Limited
Depot fuel management	To review the control and management of fuel at the depot including fuel cards	July 2015	Substantial
S106 allocations	Review of process for determining and allocation S106 monies.	September 2015	Reasonable
Enterprise Car Pool	To review the controls in place for monitoring the use and administration of the pool cars and company cars	September 2015	Reasonable
Oculus income	Review of arrangement for the charging and collection of income	September 20 15	Reasonable
Fraud Identification – post SFIS	To review the impact of staff transferring to SFIS	September 20 15	N/A – advisory
Procurement Arrangements	To review the use of iESE and the future procurement resource needs of the council	September 20 15	N/A - advisory
Taxi Licensing	To review processes and controls for the issue of taxi licenses	November 20 15	Substantial
Housing	Review of housing allocations process	January 2016	Reasonable
Fraud strategy	To update strategy and action plan	January 2016	N/A - advisory
Core Financial - Payroll	A review of payroll system and controls	March 2016	Reasonable

Core Financial - Accounts payable	Review of new process and controls to test that they are working as expected	March 2016	Limited
Core Financial - Debtors	Review the process and controls to test that they are working as expected	March 2016	Limited

OUTSTANDING REVIEWS

Review Area	Description	Progress/Expected Start date	Planned reporting
Data Protection – Home working	To review the information risks and arrangements for staff who regularly work out of the office with access to personal data	Scope of work for review of Information Security Environment surrounding use of Mobile Devices has been agreed with external provider. Work will start on 14 March.	July 16
Data protection – use of personal devices	To review use of personal devices for work		
Core Financial - General Ledger & Budget Management	A review of budget setting, monitoring processes and reconciliations.	Work commencing 7 March	July 2016
Housing Benefits and CT reduction	Review the processes and controls for the correct payment of housing benefits and application of CT reductions/exemptions	Work planned March 2016	July 2016
Council Tax and Business Rates collections	A review of the key controls around the collection process	Work is complete. Draft report being prepared.	July 2016

ITEMS REMOVED OR CHANGED FROM REVISED (January 16) PLAN

Review Area	Description	Reason for change	Proposal
Chiltern Rail Account	Review controls around the account and reconciliation	Considered a low risk priority with current resources.	Remove
Safeguarding	To assess the awareness and understanding of safeguarding in the high/medium risk services.	Preliminary scoping meeting held Dec-15. The Bucks Safeguarding Children Board is currently revising the Section 11 audit requirements with an increased focus on outcomes and evidence of impact. The planned timescale for implementation is March/ April. Also to consider policy and process for safeguarding vulnerable adults.	Included in the 2016/17 Internal Audit Plan.
Corporate Governance - Committee Reporting	Review arrangements for reducing risk of decisions being presented to committee without due diligence by key officers	New process is being implemented early 2016 to monitor and record decision making process.	Included in the 2016/17 Internal Audit Plan.
Supplier Resilience	Assurance that key suppliers/contracts have adequate business continuity plans in place	Commercial AVDC project to procurement and contract management processes. Review supplier resilience following outcome of project in 16/17.	Included in the 2016/17 Internal Audit Plan.
Elections funding	Review the expenditure and resources incurred in managing the elections	Considered a low risk priority with current resources. Returns are audited by Electoral Commission.	Remove

AUDIT COMMITTEE WORK PROGRAMME 2015-16

Item	Contact Officer	28 Sep	9 Nov	25 Jan	21 Mar	25 July
		2015	2015	2016	2016	2016
Audit Committee Work Programme	Kate Mulhearn	X	X	X	X	X
Member Training / Briefing Sessions	Kate Mulhearn	X		X		X
Audit Committee Annual Report	Kate Mulhearn					X
External Audit Plan & fee letter	David Guest				X	
External Audit - Audit Results Report (ISA 260)	David Guest	X				
External Audit Annual Letter	David Guest		X			
External Audit AGR for Grant Claims	David Guest			X		
External Audit Update / Progress Report	David Guest		X	X		X
Annual Assurance Strategy and Plan	Kate Mulhearn				X	
Assurance Progress Report	Kate Mulhearn	X	X	X	X	X
Audit Committee Review of Effectiveness	Kate Mulhearn				X*	
Risk Management Progress Report	Kate Mulhearn	X			X	
Fraud Progress	Kate Mulhearn			X		X
Business Assurance Services Manager's Annual Report	Kate Mulhearn					X
Annual Governance Statement	Kate Mulhearn				X	X
Statement of Accounts	Tony Skeggs					X
Post Audit Statement of Accounts	Tony Skeggs	X				
Working Balances	Tony Skeggs					X

*Propose to bring the Audit Committee Review of Effectiveness to the July Meeting along with Audit Committee Annual Report

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

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