

# Public Document Pack



Date: **7 March 2011**  
Our ref: Governance & Audit/agendas  
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## GOVERNANCE AND AUDIT COMMITTEE

15 MARCH 2011

A meeting of the Governance and Audit Committee will be held at **6.30 pm on Tuesday, 15 March 2011** in the Austen Room, Council Offices, Cecil Street, Margate, Kent.

### Membership:

Councillor Savage (Chairman); Councillors: Mrs Russell (Vice-Chairman), Day, Mrs Johnston, Mrs Lodge-Pritchard, McCastree, Mrs B Nicholson and Peppiatt

## A G E N D A

Item  
No

Subject

1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST**  
To receive any declarations of interest. Members are advised to consider the extract from the Standard Board Code of Conduct for Members, which forms part of the Declaration of Interest Form at the back of this Agenda. If a Member declares an interest, they should complete that Form and hand it to the Officer clerking the meeting.
3. **MINUTES OF PREVIOUS MEETING** (Pages 1 - 8)  
To approve the Minutes of the Governance and Audit Committee meeting held on 13 January 2011, copy attached.
4. **ACTION POINTS FROM PREVIOUS MEETINGS** (Pages 9 - 10)
5. **ASSET VALUATION AND PROPERTY MANAGEMENT**  
To receive verbal clarification on queries raised at the previous meetings.
6. **THE COUNCIL'S DATA QUALITY AND PERFORMANCE MANAGEMENT FRAMEWORKS** (Pages 11 - 12)
7. **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) PROGRESS REPORT AND UPDATED TIMETABLE** (Pages 13 - 44)
8. **REVIEW OF THE EFFECTIVENESS OF THE COUNCIL'S INTERNAL AUDIT ARRANGEMENTS 2010/11** (Pages 45 - 48)

Item  
No

Subject

9. **GOVERNANCE AND AUDIT COMMITTEE ANNUAL REPORT 2010/11** (Pages 49 - 62)
10. **QUARTERLY GOVERNANCE PROGRESS REPORT** (Pages 63 - 88)
11. **CONSTITUTION REVIEW 2010/11** (Pages 89 - 102)
12. **INTERNAL AUDIT CHARTER AND 2011/12 AUDIT PLAN** (Pages 103 - 140)
13. **INTERNAL AUDIT PROGRESS REPORT** (Pages 141 - 172)
14. **AUDIT COMMISSION PROGRESS REPORT MARCH 2011** (Pages 173 - 184)
15. **AUDIT COMMISSION-AUDIT PLAN 2010/2011** (Pages 185 - 214)
16. **AUDIT COMMISSION - CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT** (Pages 215 - 224)
17. **EXCLUSION OF PUBLIC AND PRESS** (Pages 225 - 226)
18. **TREASURY MANAGEMENT QUARTERLY UPDATE** (Pages 227 - 230)
19. **EUROPEAN REGIONAL DEVELOPMENT FUND** (Pages 231 - 244)

**Declaration of Interest form - back of agenda**

## GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 13 January 2011 at 6.30 pm in Austen Room, Council Offices, Cecil Street, Margate, Kent.

**Present:** Councillor Jason Savage (Chairman); Councillors Mrs Russell, Day, Mrs Johnston, Mrs Lodge-Pritchard, Mrs B Nicholson, Peppiatt and McCastree

### 110. ALSO PRESENT:

Sue McGonigal – Deputy Chief Executive  
Harvey Patterson – Head of Legal and Democratic Services (Monitoring Officer)  
Nikki Morris – Corporate Governance and Risk Officer  
Sarah Medus – Capital and Treasury Officer  
Zoe Harrison – Senior Systems & Incomes Officer  
Lisa Robertson – Audit Manager – Audit Commission  
Harpal Singh – Audit Commission  
Christine Parker – Head of the East Kent Internal Audit Partnership

### 111. VARIATION OF AGENDA ORDER

Members agreed to vary the order of the agenda and take Items 8 and 9 after Item 5 (followed by Item 6, 7 and 10, 11 and 12).

### 112. APOLOGIES FOR ABSENCE

No apologies were received.

### 113. DECLARATIONS OF INTEREST

There were no declarations of interest.

### 114. MINUTES OF PREVIOUS MEETING

The minutes of the Governance and Audit Committee meeting held on 28 September 2010, were approved and signed by the Chairman.

Christine and Nikki were thanked for the presentations given at the above meeting.

### 115. ACTION POINTS FROM PREVIOUS MEETINGS

The issue regarding tourism grants had been responded to by Harvey Patterson. Members still had concerns regarding this matter and it was agreed that at the time these grants had been given, the auditing of them had not been as thorough as it should have been. Sue McGonigal assured members that the role of monitoring was now resilient and robust processes were in place. Members asked for a breakdown of what monies were given, to whom and when. (SMc).

At the meeting of Governance and Audit Committee on 28 September, Members had asked that a Valuation Officer attend the next meeting. However, the information sought was thought to be provided in the briefing note though Members had further enquiries. It

was noted that the criteria for carrying out valuations had recently changed and included energy certificates being required to be up to date. A RICS red book was also needed and valuations were to be carried out by a qualified expert.

The following list of concerns were to be addressed by the attendance of the Valuation Officer and/or Estates Manager at the next meeting:

1. What is being done about assessing the sustainability of the buildings as part of the valuation process.
2. Declaration of Energy Certificates required.
3. Rent reviews are not happening on time creating a backlog.

Members noted the report.

#### **116. NATIONAL FRAUD INITIATIVE**

The Governance and Audit Committee received a presentation from Zoe Harrison, Senior Systems & Incomes Officer, on the National Fraud Initiative.

Members asked whether a cost analysis had been done to establish Value for Money as the amounts retrieved were relatively small compared to the time and costs of administration. Sue McGonigal informed Members that the fraud initiative was a very small area of Zoe's role and was indeed cost effective.

A copy of the presentation had been asked to be sent to Members following the meeting. (Done). It was also agreed that an update would be provided to this Committee following the matching exercise.

Harvey advised Members that the definition of fraud had recently changed although if unintentional it was still recoverable. Discussion took place regarding the 'single person discount' and how the council were informed of rising '18' year olds. This was still reliant on the honesty of the person filling in the forms.

Christine Parker, Head of the East Kent Internal Audit Partnership informed the Committee that Thanet Council did very well and good controls were in place.

Members received the presentation.

#### **117. QUARTERLY GOVERNANCE PROGRESS REPORT**

Nikki Morris, Corporate Governance and Risk Officer outlined the report which provides Governance and Audit Committee with a progress report on governance related issues.

Climate change was a matter of concern to Members and an action plan to deal with outstanding climate change related projects is underway.

A further risk causing concern was that gaps remain across the organisation in staff that have not yet undertaken child protection training. The training is on-line and other methods are being developed to assist staff who are unable to undertake the training on-line.

The matter of decision making protocols was also raised with Members and the matter of the Dane Valley Allotments which should have gone to the Asset Management Working Group. Harvey said that he would look into this as the Scheme of Officer Delegations may have permitted the decision to be made by the officer.

Moved by Councillor Peppiatt and seconded by Councillor Day that:

- “ (a) Members noted the content of annexes 1 and 2 and had identified any issues on which they required more clarification
- (b) that Members approved the changes to the Governance Framework and Local Code of Corporate Governance (annexes 3 and 4)
- (c) that Members agreed the revised Business Continuity Management Strategy and Policy (annex 5) and recommend that it be forwarded to Cabinet for their approval”

MOTION ADOPTED.

**118. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) PROGRESS REPORT AND UPDATED TIMETABLE**

Sue McGonigal, Chief Executive (Designate) summarised the report which updates the Governance and Audit Committee on progress in relation to the adoption of International Reporting Standards (IFRS) for 2010/11.

The absence of a qualified Capital Accountant and the late publication of detailed guidance continues to have an impact on the IFRS implementation project. The original timetable has therefore been revised accordingly. There are no costs associated with the implementation of these changes as they will be dealt with within existing staff resources, although there may be future budget implications dependant on the result of ongoing reviews.

Members noted the report and the updated timetable to implement the changes required under IFRS.

**119. MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT REPORT**

Sarah Medus, Capital and Treasury Officer outlined the report which is to inform the Governance and Audit Committee about the Treasury Management activity in the first half of 2010-11, and for the approval of any change to the prudential indicators.

The report is structured to highlight the key changes to the Council's capital activity (the prudential indicators (PI's) the economic outlook and the actual and proposed treasury management activity (borrowing and investment). It was reported that the investment strategy and the Prudential Indicators are not materially changed, except for the borrowing need in line with capital expenditure. This has reduced by £600,000 which is due to the authority no longer being required to fund the construction of the pontoon as part of the London Array agreement.

Some Members raised concerns regarding the Council's borrowing policy. Sarah explained that the table at 2.2 to the report is the expected Capital Expenditure and the table at 2.5 shows the Capital Finance Requirement, the overall need to borrow using reserves rather than actual borrowing. In addition, some concerns from Members regarding the interest rate were discussed. Sue McGonigal said that the Council had treasury advisors and that 2.75 was a good rate over a 5 year period.

Members also asked whether the Council had a facility to have money when it was needed. Sue McGonigal said that, to some extent the Council do that. The key objectives of the Council's investment strategy are the safeguarding the re-payment of the principal and interest of its investments on time, the investment return being a secondary objective. The current investment climate has one over-riding risk consideration, that of

counterparty risk. As a result of these underlying concerns officers continue to implement an operational investment strategy which tightens the controls already in place in the approve investment strategy.

It was also asked whether borrowing less could be 'offset'. Although this has been looked into before, Sarah is to ask treasury advisors again if there is any such facility for the public sector.

Thanks were given to the officers.

Moved by Councillor Mrs Johnston and seconded by Councillor Day that:

“the Governance and Audit Committee recommend to Council that:

to note the report, and the treasury activity, and recommend approval of any changes to the prudential indicators”

MOTION ADOPTED.

**120. BUDGET AND RENT SETTING REPORT AND TREASURY MANAGEMENT STRATEGY REPORT 2011/12 - 2013/14**

Sarah Medus, Capital and Treasury Officer outlined the report which provides the Governance and Audit Committee with the proposed Treasury Management Strategy Report for 2011-12 for their approval.

This is the first time that this report has come before the Governance and Audit Committee with a recommendation. In comparison with last year's strategy, not many changes have been made. The time and monetary limits for institutions on the Council's Counterparty List are as follows.

	Fitch, Moody's, Standard & Poor's respectively	Money Limit	Time Limit
<b>Upper Limit Category</b>	F1+,P1, A1+	<b>£6m</b>	<b>1 yr</b>
<b>Middle Limit Category</b>	F1, P1, A1	<b>£5m</b>	<b>1 yr</b>
<b>Debt Management Account Deposit Facility</b>	-	<b>No Limit</b>	<b>6 months</b>
<b>Money Market Funds</b>	AAA	<b>£5m</b>	<b>1 yr</b>
<b>Guaranteed Organisations (Eligible Institutions)</b>	-	<b>£4m</b>	<b>1 yr</b>

The Council's capital expenditure plans were summarised within the report and forms the first of the prudential indicators. A certain level of capital expenditure is grant supportive by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This unsupported capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);

- Stewardship of assets (e.g. asset management planning);
- Value for Money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax and rents);
- Practicality (e.g. the achievability of the forward plan).

The layout, as prescribed by CIPFA show best practice and recognises the trail between the table, net financing needs and capital investment.

### **The Capital Expenditure Plans**

The table at 2.2 was noted by Members.

### **The Council's Borrowing Need (the Capital Financing Requirement)**

The second prudential indicator is the Council's Capital Financing Requirement. This is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources,

The table at 2.3 was noted by Members.

### **Debt and Investment Projections 2011/12 – 2013/14**

The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The expected Operational Boundary prudential indicator, is shown which may be different from the year end position.

The table at 3.2 was noted by Members.

### **Limits to Borrowing Activity**

The Section 151 Officer reports that the Council has complied with this prudential indicator in the current financial year and does not envisage difficulties in the future.

The tables at 3.3 were noted by Members.

It was also noted that Members would like more training to be provided which was agreed.

Moved by Councillor Mrs Johnston and seconded by Councillor Mrs Russell that:

“the Governance and Audit Committee recommend to approve each of the key elements of these reports, and recommend these to Council:

- (1) The Prudential Indicators and Limits for 2011/12 to 2013/14 contained within Appendix A of the report, including the Authorised Limit Prudential Indicator.
- (2) The Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the Council's policy MRP.

- (3) The Treasury Management Strategy 2011/12 to 2013/14 and the treasury Prudential Indicators contained within Appendix B.  
The Investment Strategy 2011/12 contained in the treasury management strategy (Appendix B), and the detailed criteria included in Annex B1”

MOTION ADOPTED.

**121. INTERNAL AUDIT PROGRESS REPORT**

Christine Parker, Head of the East Kent Internal Audit Partnership outlined the report which gives Members a summary of the internal audit work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30 September 2010.

Disabled Facilities Grants are now receiving a Substantial assurance level. The process is working very well with expected controls effectively implemented within the established procedures and working practices. The information provided to applicants on DFG's is clear, detailed and appropriately repeated throughout the grant stages either through the use of the internet, standardised process documentation, or direct contact with the DFG Officer.

Fourteen follow-ups were carried out and show the performance against the plan up to the end of September. The results show that the council is on target and making good progress.

Members noted the report.

**122. ANNUAL AUDIT LETTER 2009/10**

Lisa Robertson, Audit Manager from the Audit Commission presented the Audit Commission's Annual Audit Letter 2009/10 to the Governance and Audit Committee.

The Audit Commission's Annual Audit Letter summarises the findings from the 2009/10 audit. It includes messages arising from the audit of the Financial Statements and the results of the work undertaken to assess the arrangements to secure Value for Money in the Use of Resources.

An unqualified opinion was issued on the financial statements on 29 September 2010. In the course of the audit two material accounting misstatements were identified as well as some non-material accounting and disclosure errors. These were corrected and did not impact on the Council's overall reported financial balance.

An unqualified value for money conclusion was also issued stating that the Council has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources during the year ending 31 March 2010. The Council has made good progress in terms of its governance and use of natural resources. It has also demonstrated good financial management, delivering budget savings and efficiencies in difficult external circumstances.

The Council is facing a difficult year and is currently revisiting its medium term financial strategy in the light of the Chancellor's recent comprehensive spending review. The scale of savings is unprecedented in recent memory and difficult choices will be required regarding future service delivery. The success of this will be critical to the future of the Council.

Members noted the report.



**123. FUTURE ITEMS OR TRAINING FOR THE COMMITTEE**

Members had earlier indicated that they would like some further training on Treasury Management for those sitting on the Governance and Audit Committee.

Following some discussion on the most cost effective and efficient way of pursuing this Harvey Patterson suggested that this training could form part of Members Induction Training following the election and ALL Members could be invited.

There was also discussion on the changes to the Fraud Act, and it was agreed that this could also be an item for consideration for training.

Meeting concluded : 9.20 pm

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**Governance and Audit Committee Action Plan**

<b>G &amp; A meeting</b>	<b>Action</b>	<b>Owner</b>	<b>Target date</b>	<b>Progress</b>	<b>Feedback / Comments</b>
13-Jan-11	Breakdown to be provided of what tourism grants / grants are outstanding, what is recoverable and what has been written off.	SMcG	15-Mar-11	C	Covered under a separate report on 15 March 2011 agenda.
13-Jan-11	Justin Thomson and Estates Team to be invited to next meeting to discuss list of concerns detailed below:	SG	15-Mar-11	C	Email sent to relevant officers on Monday 14 February 2011 requesting attendance at meeting on 15 March 2011.
13-Jan-11	<ul style="list-style-type: none"> <li>What is being done about assessing the sustainability of the buildings as part of the valuation process?</li> </ul>				
13-Jan-11	<ul style="list-style-type: none"> <li>Declaration of Energy Certificates required.</li> </ul>				
13-Jan-11	<ul style="list-style-type: none"> <li>Rent reviews are not happening on time creating a backlog. Has the calculation of potential loss of income been calculated?</li> </ul>				
13-Jan-11	Members agreed they would appreciate a regular update on the National Fraud Initiative to G & A.	ZH		O	The NFI matches for the data sets provided back in October have now been released for investigation. Across 46 reports we have 3,540 matches. 623 are marked as recommended as being investigated. The highest area being Concessionary Travel Passes to DDRI (Disclosure of Death Registration Information) Deceased Persons which is currently being investigated by the relevant officer. In 2008-09 there were 8,072 matches which would indicate that our controls have become more substantial as the amount has decreased by 43%.
13-Jan-11	Members requested a copy of the NFI presentation given by the Senior Systems and Income Officer.	SG		C	A copy of the presentation was sent to Members following the meeting.
13-Jan-11	Members were informed new Fraud Act was coming in shortly, possible detail for a future presentation.	HP		IP	This action is still being progressed, it may be possible to have a presentation at the March G & A meeting.
13-Jan-11	Members requested further training on Treasury Management, following the Elections in May 2011	SMe		IP	This is currently being discussed with our Treasury Advisors to agree a suitable date in June. We are also contacting neighbouring authorities to see if they would be interested in providing this to their members, which could reduce the fee.

<b>G &amp; A meeting</b>	<b>Action</b>	<b>Owner</b>	<b>Target date</b>	<b>Progress</b>	<b>Feedback / Comments</b>
13-Jan-11	Members requested that Finance look into an offsetting facility for public sector organisations.	SMe	18-Jan-11	C	Sarah Medus has checked with Sector and there is none available.
13-Jan-11	Members requested more information on the decision making process behind the sale of 20 allotments in Dane Valley.	HP	15-Mar-11	IP	Currently in discussion with the Parks and Open Spaces Manager - this will be reported back to Committee as soon as is possible.
13-Jan-11	Members asked how the governance processes of EK Services will be monitored.	SMcG / NM		C	This has been discussed with the Shared Services Director. The terms of reference for this Committee has been amended to take this into account. Revised ToR on 15 March 2011 agenda.
13-Jan-11	Possible presentation for the March G&A on the corporate restructure.	SMcG	22-Jun-11	IP	Will be done following the completion of the restructure.
28-Sep-10	Consult through the next Staff Survey on the provision of creche facilities for staff. SC to discuss with SMcG.	SC	31-Aug-11	IP	

**Key:**

CP Christine Parker  
 HP Harvey Patterson  
 MH Madeline Homer  
 NM Nikki Morris  
 SC Sarah Carroll  
 SM Sarah Martin  
 SMe Sarah Medus  
 SW Simon Webb  
 SG Sue Glover  
 SMcG Sue McGonigal  
 ZH Zoe Harrison

**Key:**

C Completed  
 IP In progress  
 O Ongoing

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## The Council's Data Quality and Performance Management Frameworks

To: **Governance and Audit Committee, 15th March 2011**

By: Business Improvement Officer, and Performance & Information Officer

Classification: **Unrestricted**

Ward: **N/A**

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**Summary:** This report outlines the process for the annual review of the council's data quality framework (DQF) and performance management framework (PMF) for 2011-2012.

### For Decision

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#### **1.0 Introduction and background**

- 1.1 The council has a duty to ensure that the data it uses to monitor performance and inform decision making is fit for purpose.
- 1.2 In March 2010 the Governance and Audit Committee approved the council's current DQF and PMF. These documents set out how the council ensures that the data it uses to monitor performance and inform decision making is fit for purpose. The committee agreed that these frameworks should be reviewed on an annual basis, and they are now due for their third review.
- 1.3 Data reporting roles and responsibilities will change within the new organisational structure being implemented in 2011. It is not possible at this stage to give detail of the working arrangements for performance management and data quality controls. The principles established last March for good governance of data quality remain in place within ongoing monthly monitoring, but it is not yet possible to confirm how the frameworks will be applied to the new structure.
- 1.4 This report requests agreement to postponing the review until new working arrangements have been agreed. We anticipate that we should be able to make this report at the September 2011 meeting of this committee.

#### **2.0 Options**

- 2.1 **Option 1:** That the Governance and Audit Committee affirm continuity of existing arrangements, and require a review of data quality and performance management frameworks when the new organisational structure is in place.

**Option 2:** That the Governance and Audit Committee require an earlier appraisal of the frameworks at the next meeting.

#### **3.0 Corporate Implications**

##### **3.1 Financial**

6.1.1 There are no financial implications in this report.

### **3.2 Legal**

6.2.1 There are no legal implications in this report.

### **3.3 Corporate**

6.3.1 There are no corporate implications in this report.

### **3.4 Equity and Equalities**

4.4.1 No matters of equity or equality are affected by this report.

## **4.0 Recommendation(s)**

4.1 That the committee notes that the current data quality framework and performance management framework remain in place

4.2 That the committee agrees to receipt of a review of these arrangements in September 2011.

## **5.0 Decision Making Process**

*This is a non-key decision which is not in the Forward Plan*

Contact Officer:	<i>Adrian Halse, Business Improvement Officer 01843 577209 Steve Tebbett, Performance &amp; Information Officer 01843 577180</i>
Reporting to:	<i>Sarah Carroll, Corporate Resources Manager</i>

**Annex List** None

**Corporate Consultation Undertaken** None

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## INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) PROGRESS REPORT AND UPDATED TIMETABLE

To: **Governance and Audit Committee – 15 March 2011**

Main Portfolio Area: **Finance and Corporate Services**

By: **Financial Services Manager**

Classification: **Unrestricted**

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**Summary:** This report provides an update on progress in relation to the adoption of International Reporting Standards (IFRS) for 2010/11.

### For Decision

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#### **1.0 Introduction**

1.1 The move to adopt International Financial Reporting Standards in the public sector for the preparation of the annual financial statements requires local authorities to produce their accounts based on IFRS for the first time in 2010/11. First time adopters must comply with IFRS 1, which requires comparative data to be produced from the date of transition (1 April 2009). In order to plan for these changes a project plan was put in place and reported to this committee in September 2009, and is regularly monitored and updated to reflect changes in guidance.

1.2 The CIPFA Code of Practice on Local Authority Accounting based on International Financial Reporting Standards was published in December 2009, and additional guidance notes for practitioners December 2010.

#### **2.0 Update on Progress**

2.1 Transition work is largely complete, other than some outstanding asset revaluation work on reclassified assets. Audit working papers have been prepared for inspection in early March and financial system updates are scheduled for the end of March after the audit is complete. In addition work is continuing on the new format and additional disclosure notes required for the 2010/11 Statement of Accounts. The revised implementation plan is attached (see **Annex 1**)

2.1.1 To comply with IFRS 1 a 1 April 2009 balance sheet has been produced reconciling the differences from UK GAAP accounting (see **Annex 2** attached). New balance sheet headings have been mapped to the old headings and IFRS adjustments have been effected in the centre columns. Material restatements require additional disclosure in the notes to the accounts and are detailed below:

- **Government Grants Deferred** – government grant income used to finance the acquisition or enhancement of non current assets is no longer deferred and released to the General Fund over the life of the

asset but is recognised immediately as non specific grant income in the Comprehensive Income and Expenditure Account and is then reversed out to the balance sheet (Capital Adjustment Account) so that there is no impact to the taxpayer as the transaction is of a capital nature.

- **Capital Grants and Contributions** – similarly any capital grants and contributions received with conditions on their use are released to the General Fund in the same way once the conditions have been satisfied. Where conditions are yet to be met the grants are held on the balance sheet (Capital Grants Receipts in Advance).
- **Cash and Cash Equivalents** – cash equivalents are now shown with cash balances in the balance sheet. Cash equivalents are short term investments that are readily convertible to cash within three months of the date of acquisition.
- **Asset Reclassification** – stricter criteria for the classification of Investment Property (now solely held for income generation and/or capital appreciation) has resulted in £9m of existing Investment Property being reclassified as non operational land and buildings under the balance sheet heading of Property, Plant and Equipment.
- **Investment Property Revaluations** - gains or losses on the revaluation of Investment Property are no longer retained in the Revaluation Reserve on the balance sheet but are reflected in the Comprehensive Income and Expenditure Account under financing and investing income and expenditure and reversed out to the balance sheet to the Capital Adjustment Account to ensure there is no impact on the taxpayer.
- **Assets Held for Sale** – assets that have been identified for disposal but are not expected to be sold within twelve months of the balance sheet date are now classed as surplus assets under the balance sheet heading Property, Plant and Equipment only assets expected to be sold within one year can be classified as held for sale (Current Assets Held for Sale).

2.1.2 The necessity for prior year comparatives requires restatement of the 2009/10 core financial statements in the new format reflecting similar adjustments to 2.1.1 above. These statements are attached (see **Annex 3**) showing mapping to the published UK GAAP accounts. The core financial accounts are detailed below:

- **Movement in Reserves Statement** –this statement shows the movement in the year on the different reserves held by the authority and is analysed into usable and unusable reserves. The 'Surplus/Deficit on the Provision of Services' line shows the true cost of providing the authorities services.
- **Comprehensive Income and Expenditure Statement** – this statement shows the accounting cost of providing services in accordance with accepted practices rather than the amount to be funded by the taxpayer.
- **Restated Balance Sheet 31 March 2010** – the balance sheet shows the value of the assets and liabilities of the authority. The total of assets less liabilities is matched by the reserves (usable and unusable) that the authority holds.



- **Restated Cash Flow Statement** – this statement shows the changes in authority’s cash and cash equivalents during the reporting period, and shows how the authority generated and used these classifying cash flows as operating, investing or financing activities.

2.1.3 A series of new and revised accounting policies are now required to satisfy the conditions of the Code that reflect the required changes to accounting treatment outlined in 2.1.1 above, and the changes that are not retrospective but apply from 1 April 2010. There are therefore new or revised policies for:

- asset componentisation – the recognition of separate elements of major assets that have significant value in relation to the total cost of the asset, or that have different useful lives.
- asset impairment – more detailed accounting treatment for each class of asset where the recoverable amount of that asset is below the balance sheet value (carrying amount).
- employee benefit costs – the requirement to account for accumulated compensated absences (untaken annual and flexi leave and lieu time at the year end) in the year the benefit is earned.
- segmental reporting – the requirement to disclose information on income and expenditure segments based on the authority’s internal management reporting reconciled to the format in the Comprehensive Income and Expenditure Account (based on the Best Value Accounting Code of Practice BVACOP) in the notes to the accounts.
- group accounts.- the broader definition of group relationships under the Code where the ability to exert a significant influence on a body that the authority has an interest in can give rise to the necessity to publish group accounts.

The proposed policies to be published in the 2010/11 Statement of Accounts are attached (see **Annex 4**) and need to be formally adopted.

### **3.0 Corporate Implications**

#### **3.1 Financial**

3.1.1 The purpose of this report is to raise members’ awareness of the financial accounting changes under IFRS and inform them of progress on the implementation timetable. There are no costs associated with the implementation of these changes.

#### **3.2 Legal**

3.2.1 There are no legal implications.

#### **3.3 Corporate**

3.3.1 The Statement of Accounts is a statutory document and therefore failure to prepare the accounts in accordance with proper accounting practice could lead to the accounts being qualified by the Audit Commission which in turn could lead to considerable public censure.

### 3.4 Equity and Equalities

3.4.1 There are no equity or equality issues arising from this report

### 3.5 Risks

3.5.1 Failure to produce IFRS compliant accounts that meet statutory requirements may result in qualification.

### 4.0 Recommendations

4.1 That Governance and Audit Committee note the report and the updated timetable to implement the changes required under IFRS.

4.2 That Governance and Audit Committee adopt the revised accounting policies required to comply with the CIPFA Code of Practice on Local Authority Accounting.

4.3 That the Governance and Audit Committee approve the 1/4/09 opening balance sheet and the restated core financial accounts for publication in the 2010/11 Statement of Accounts subject to amendment for audit recommendations.

Contact Officer:	Sarah Martin, Financial Services Manager, DDI 01843 577617
Reporting to:	Sue McGonigal, Director of Finance and Corporate Services, DDI 01843 577790

#### ***Annex List***

Annex 1	IFRS Implementation Plan
Annex 2	Balance Sheet 1 April 2009
Annex 3	Restated Core Financial Accounts 2009-10
Annex 4	Statement of Accounting Policies

## IFRS Implementation Plan

Stage	Task	Revised Target Date	Date Achieved	Comments
<b>Ongoing</b>	Raise awareness of IFRS and train key staff. Cascade information within Accountancy.		Ongoing	Training and workshops attended on an ongoing basis.
	Engage with staff affected by the IFRS implementation – Property, Engineers, Procurement, HR.		Ongoing	In house liaison and Kent Wide Working Group continues to meet on regular basis.
<b>Transition Balance Sheet</b>	Agree treatment and estimation basis with auditors.	Ongoing	Ongoing	Liaising with Audit Commission on an ongoing basis.
	Compile restated Balance Sheet including reconciliation to GAAP basis.	Mid Dec 2010	February 2011	Restated balance sheet and reconciliation completed ready for audit.
	External Audit Commission verification.	March 2011	March 2011	Audit to take place 7 <sup>th</sup> – 17 <sup>th</sup> March and 4 <sup>th</sup> – 5 <sup>th</sup> April.
<b>2009/10 Closedown</b>	Restate 09/10 accounts on an IFRS compliant basis adopting new format, policies and disclosures, with reconciliation to UK GAAP.	March 2011	March 2011	Agreed restatement work ready for audit.
<b>2010/11 Closedown</b>	Design draft IFRS statement of accounts including statement of Accounting policies.	April 2011		Work continuing on the skeleton 2010/11 accounts.
	Test and implement permanent changes required to systems and procedures.	Feb 2011		Changes to be implemented by end of March after audit is complete.
	Produce 2010/11 Accounts on an IFRS basis.	June 30 <sup>th</sup> 2011		



## Balance Sheet 1 April 2009

2008 SORP Balance Sheet		IFRS Opening Balance Sheet Adjustments							Restated IFRS Balance Sheet 1/4/09	
	£'000s	Govt.Grants Deferred £'000s	Capital Grants £'000s	Cash Equiv. £'000s	Asset Reclass. £'000s	Inv.Prop Reval £'000s	Held for Sale £'000s	E'ee Benefits £'000s	£'000s	
Council Dwellings	122,620						- 288		122,332	Property, Plant & Equipment
Other Land & Buildings	36,641				9,030		- 276		- 122,332	-Council Dwellings
Vehicles, Plant & Equipment	4,898				73				45,395	-Other Land & Buildings
Community & Infrastructure Assets	12,933								4,971	-Vehicles, Plant & Equipment
									12,933	-Community & Infrastructure Assets
Investment Properties	31,485								1,268	-Surplus Assets
Surplus Assets Held for Disposal	829				- 9,077		- 175		22,233	Investment Properties
Long-term Debtors	1,440						- 829		-	Non-Current Assets Held for Sale
<b>Total Long Term Assets</b>	<b>210,846</b>								1,440	Long-term Debtors
Short-term Investments	6,936			- 6,936					<b>210,572</b>	<b>Long Term Assets</b>
Debtors	12,482								-	Short-term Investments
Cash & Bank	988			6,936					12,482	Debtors
									7,924	Cash & Cash Equivalents
									300	Current Assets Held for Sale
<b>Current Assets</b>	<b>20,406</b>								<b>20,706</b>	<b>Current Assets</b>
Borrowing Repayable within 12 months	- 8,556								- 8,556	Borrowing Repayable within 12 months
									125	Provision for Accum. Absences
Creditors	- 13,592		1,994						- 11,598	Creditors
<b>Current Liabilities</b>	<b>- 22,148</b>								<b>20,279</b>	<b>Current Liabilities</b>
Long Term Borrowing (> 1 year)	- 18,647								- 18,647	Long Term Borrowing (> 1 year)
Government Grants Deferred	- 17,203	17,203							-	
Capital Contributions Unapplied	- 2,172		- 1,784						3,956	Capital Grants - Receipts in Adv.
Pension Liability	- 53,678								53,678	Other Long term Liabilities
	- <b>91,700</b>								<b>76,281</b>	<b>Long Term Liabilities</b>
<b>Total Assets less Liabilities</b>	<b>117,404</b>								<b>134,718</b>	<b>Net Assets</b>
<b>Financed By:</b>										<b>Usable Reserves:</b>
Usable Capital Receipts	- 373								373	Usable Capital Receipts
General Fund Balance	- 2,076								2,076	General Fund Balance
HRA & Major Repairs	- 9,168								9,168	HRA & Major Repairs
Earmarked Reserves	- 6,817								6,817	Earmarked Reserves
Capital Grants Unapplied	-		- 210						210	Capital Grants Unapplied
Revaluation Reserve	- 8,045								3,863	Revaluation Reserve
Capital Adjustment Account	-143,269	- 17,203				4,182			164,680	Capital Adjustment Account
Deferred Credits/Capital Receipts	- 1,384				- 26	- 4,182			1,384	Deferred Capital Receipts
Adjustment Accounts	50								50	Adjustment Accounts
Pensions Reserve	53,678								53,678	Pensions Reserve
									125	Accumulated Absence Reserve
	- <b>117,404</b>								<b>134,718</b>	<b>Total Reserves</b>









2009 SORP Balance Sheet		Summary IFRS Adj. 1/4/09 £'000s	IFRS 09/10 Adjustments						Restated IFRS 09/10 Balance Sheet	
	£'000s		Govt Grants Deferred £'000s	Capital Grants £'000s	Cash Equiv. £'000s	Asset Reclass. £'000s	Invest Prop Reval £'000s	Assets Held for Sale £'000s	E'ee Benefits £'000s	£'000s
Council Dwellings	120,526	- 288					59		120,297	Property, Plant & Equipment -Council Dwellings
Other Land & Buildings	34,802	8,754			- 330		319		43,545	-Other Land & Buildings
Vehicles, Plant & Equipment	4,154	73			- 7				4,220	-Vehicles, Plant & Equipment
Infrastructure & Community Assets	12,873								12,873	-Infrastructure Assets
		1,268					- 99		1,169	-Surplus Assets
Investment Properties	29,186	- 9,252					- 145		19,789	Investment Properties
Surplus Assets Held for Disposal	1,410	- 829					- 581		-	
Long-term Debtors	742								742	Long-term Debtors
<b>Total Long Term Assets</b>	<b>203,693</b>								<b>202,635</b>	<b>Long Term Assets</b>
Short-term Investments	9,203	- 6,936		- 517					1,750	Short-term Investments
Debtors	12,778								12,778	Debtors
Cash & Bank	274	6,936		517					7,727	Cash & Cash Equivalents
		300						425	725	Current Assets Held for Sale
<b>Current Assets</b>	<b>22,255</b>								<b>22,980</b>	<b>Current Assets</b>
Borrowing Repayable Within 12 Months	- 2,486								- 2,486	Borrowing Repayable Within 12 Months
		125						- 2	127	Provision for Accum. Absences
Creditors	- 10,699	1,994		194					8,511	Creditors
<b>Current Liabilities</b>	<b>- 13,185</b>								<b>11,124</b>	<b>Current Liabilities</b>
Long Term Borrowing (> 1 year)	- 24,646								- 24,646	Long Term Borrowing (> 1 year)
Government Grants Deferred	- 9,410	17,203	7,793						-	
Capital Contributions Unapplied	- 2,875	1,784		174					4,833	Capital Grants - Receipts in Adv.
Deferred Liabilities	- 3,418								86,583	Other Long term Liabilities
Pension Liability	- 83,165								-	
	<b>-123,514</b>								<b>- 116,062</b>	<b>Long Term Liabilities</b>
<b>Total Assets less Liabilities</b>	<b>89,249</b>								<b>98,429</b>	<b>Net Assets</b>
<b>Financed By:</b>										<b>Usable Reserves:</b>
Usable Capital Receipts	- 1,144								- 1,144	Usable Capital Receipts
General Fund Balance	- 2,076								- 2,076	General Fund Balance
HRA & Major Repairs	- 10,155								10,155	Housing Revenue Account
Earmarked Reserves	- 7,967								7,967	Earmarked Reserves
Capital Grants Unapplied		210		20					230	Capital Grants Unapplied
									- 5,826	Revaluation Reserve
Revaluation Reserve	- 10,497	4,182					489		153,659	Capital Adjustment Account
Capital Adjustment Account	-139,911	21,411	7,793		337	- 489	22		710	Deferred Capital Receipts
Deferred Credits/Capital Receipts	- 710								46	Adjustment Accounts
Adjustment Accounts	46								83,165	Pensions Reserve
Pensions Reserve	83,165								127	Accumulated Absence Reserve
		125						2	<b>98,429</b>	<b>Total Reserves</b>
	<b>- 89,249</b>									

SORP Cash Flow Statement 09/10		2009-10	SORP Cash Flow in IFRS Format		2009-10
		£'000s			£'000s
<b>Surplus/deficit for the year on the Inc &amp; Exp A/c</b>		<b>1,795</b>	<b>a) Net Surplus or Deficit on the Provision of services</b>		<b>1,795</b>
Interest Payable	-	2,077	<b>b) Adjust net surplus or deficit on the provision of services for noncash movements</b>		
Interest Payable (impairments)	-	147	Depreciation	-	4,789
Interest Receivable		83	Impairment and downward valuations	-	7,794
Non Cash Transactions			Amortisation		8,042
Depreciation	-	4,789	Increase in impairment provision for bad debts	-	147
Amortisation	-	7,794	Movement in Creditors		2,281
Impairment		8,042	Movement in Debtors		528
Pension Costs	-	540	Movement in Stock (Inventories)		12
Revenue expenditure funded from capital under statute	-	468	Pension liability	-	540
Net gain/loss on the disposal of fixed assets		220	Carrying amount of non-current assets sold		
			Other non-cash items charged to the net surplus or deficit on the provision of services	-	467
			<b>c) Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>		
Soft Loans		1	Purchase of short term and long term investments	-	2,077
Movements in stocks		12	Proceeds from short term and long term investments		83
Movement in debtors	-	583	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		220
Movement in creditors		2,281	<b>d) Net Cash Flows from Operating Activities</b>	-	<b>2,853</b>
<b>Net Cash Inflow/Outflow from Revenue Activities</b>	-	<b>3,964</b>	<b>e) Investing Activities</b>		
<b>Returns on Investments and Servicing of Finance</b>			Purchase of Property, plant and equipment, investment property and intangible assets		3,757
Interest paid		2,168	Purchase of short term and long term investments		4,435
Interest received	-	51	Other Payments for investing activities		87
Purchase of fixed assets		3,757	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-	1,759
Other capital cash payments		87	Proceeds from short term and long term investments	-	51
Sale of fixed assets	-	1,759	Other receipts from investing activities	-	2,902
Capital grants received	-	1,236	<b>Net cash flows from investing activities</b>		<b>3,567</b>
Other capital cash receipts	-	1,666	<b>f) Financing Activities</b>		
<b>Management of Liquid Resources</b>			Cash receipts of short and long term borrowing	-	8,000
Increase/decrease on short term deposits		2,267	Other receipts from financing activities		-
Increase/decrease in Council Tax liquid resources	-	206	Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts		-
Increase/decrease in NDR liquid resources		1,317	Repayments of short and long term borrowing		8,000
<b>Financing Cash Inflows/Outflows</b>			Other payments for financing activities		-
Repayments of amounts borrowed		8,000	<b>Net cash flows from financing activities</b>		<b>-</b>
New loans raised	-	8,000	<b>g) Net increase or decrease in cash or cash equivalents</b>		<b>714</b>
<b>Net Increase/Decrease in Cash</b>		<b>714</b>	<b>h) Cash and cash equivalents at the beginning of the reporting period</b>		<b>988</b>
			<b>i) Cash and cash equivalents at the end of the reporting period</b>		<b>274</b>

IFRS Cash Flow Statement		IFRS Adjustments 09/10							Restated 2009-10 £'000s
		Assets Sold £'000s	Govt Grants £'000s	Capital Grants £'000s	Asset Reclass £'000s	invest Props £'000s	Held for Sale £'000s	E'ee Benefits £'000s	
<b>a) Net Surplus or Deficit on the Provision of services</b>	<b>1,795</b>		<b>7,793</b>	<b>- 6,236</b>	<b>337</b>	<b>- 489</b>	<b>22</b>	<b>2</b>	<b>3,224</b>
<b>b) Adjust net surplus or deficit on the provision of services for noncash movements</b>									
Depreciation	- 4,789			- 337		- 22			- 5,148
Impairment and downward valuations	- 7,794								- 7,794
Amortisation	8,042								8,042
Increase in impairment provision for bad debts	- 147								- 147
Movement in Creditors	2,281						- 2		2,279
Movement in Debtors	528								528
Movement in Stock (Inventories)	12								12
Pension liability	- 540								- 540
Carrying amount of non-current assets sold					873				- 873
Other non-cash items charged to the net surplus or deficit on the provision of services	- 467		- 7,793	6,236		489			- 1,535
<b>c) Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>									
Purchase of short term and long term investments	- 2,077								- 2,077
Proceeds from short term and long term investments	83								83
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	220				873				1,093
<b>d) Net Cash Flows from Operating Activities</b>	<b>- 2,853</b>								<b>- 2,853</b>
<b>e) Investing Activities</b>									
Purchase of Property, plant and equipment, investment property and intangible assets and long and short term investments	8,192							- 517	7,675
Other Payments for investing activities	87								87
Proceeds from the sale of property, plant and equipment, investment property and intangible assets and other receipts	- 4,661								- 4,661
Proceeds from short term and long term investments	- 51								- 51
<b>Net cash flows from investing activities</b>	<b>3,567</b>								<b>3,050</b>
<b>f) Financing Activities</b>									
Cash receipts of short and long term borrowing	- 8,000								- 8,000
Repayments of short and long term borrowing	8,000								8,000
<b>Net cash flows from financing activities</b>	<b>-</b>								<b>-</b>
<b>g) Net increase or decrease in cash or cash equivalents</b>	<b>714</b>								<b>197</b>
<b>h) Cash and cash equivalents at the beginning of the reporting period</b>	<b>988</b>							<b>6936</b>	<b>7,924</b>
<b>i) Cash and cash equivalents at the end of the reporting period</b>	<b>274</b>							<b>7453</b>	<b>7,727</b>



## Statement of Accounting Policies

### **General**

The accounts had previously been prepared in accordance with 'The Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice' (SORP) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In tandem with the introduction of the concept of Best Value into local authorities, CIPFA also published the 'Best Value Accounting Code of Practice' (BVACOP). This Code complemented the SORP and both the SORP and BVACOP were based on UKGAAP reporting requirements and were recognised by statute as representing 'proper accounting practice'.

With effect from the Financial year commencing April 2010, Local Authorities are required to produce their annual financial statements in accordance with International Financial Reporting Standards (IFRS) requirements. CIPFA has produced a "Code of practice on local authority accounting in the United Kingdom 2010-11" (The Code), based on IFRS, to assist practitioners in preparing the annual financial statements in the required format. The IFRS standards apply from the 2010-11 financial year, the reporting criteria require comparative figures to be provided for 2009-10 and this in turn necessitated restatement of the balance sheet position as at 1<sup>st</sup> April 2009 and at 31<sup>st</sup> March 2010.

In general the Council is required to apply its accounting policies determined under IFRS retrospectively to determine the opening IFRS balance sheet. The changes required to comply with IFRS impact on the following areas, Non-current (Fixed) assets, Intangible assets, Impairment, Stocks, Employee benefits, Reserves, Government Grants, Leases, Group accounts, Segmental Reporting and some minor amendments.

The accounting policies that have been adopted are set out in the following paragraphs. Where an accounting policy has not been adopted, or where it has been varied, then a note to that effect has been provided.

The qualitative characteristics, fundamental accounting principles, concepts and estimation techniques upon which the accounts have been prepared are set out below: The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### **Qualitative Characteristics of Financial Information**

#### **Relevance**

In accordance with FRS18, Accounting Policies, all information about the Authority's financial performance that is useful for assessing the stewardship of public funds and making economic decisions is disclosed within the accounts.

#### **Reliability**

The Accounts represent fairly the substance of transactions that have taken place. The accounts are free from material error, complete within the bounds of materiality

and have been prudently prepared.

## **Comparability**

Comparative figures have been included to allow performance to be compared with a prior period.

## **Comprehensibility**

In accordance with FRS18, the accounts have been prepared in such a way to aid the understanding of the reader. We do, however, recognise the complexities contained within the Statement of Accounts. The Statements are prepared in accordance with accounting concepts, treatments and terminology that require reasonable knowledge of accounting and local government if they are to be properly understood. Technical terms have been avoided where possible, in favour of plain language. There is also a Glossary of Terms included, which can be found on pages 99 - 104.

The Explanatory Foreword on pages 4 – 11 sets out the local authority financial reporting framework and the key aspects of the authority's financial performance and standing.

## **Materiality**

Materiality is a measure to ensure that information is of such significance as to justify its inclusion in the financial statements. An item of information is considered material to the financial statements if its misstatement or omission might reasonably be expected to influence assessments of the authority's stewardship, economic decisions, or comparisons with other entities, based upon those financial statements. If there are two or more similar items the materiality of the items in aggregate, as well as of items individually, are considered.

Council policy is to consider the following factors when assessing whether items are material:

- The item's size, judged in the context of both the financial statements as a whole and of such other information available as would affect consideration of the financial statements
- The item's nature, in relation to:
  - The transactions or other events giving rise to it
  - The legality, sensitivity, normality and potential consequences of the event or transaction
  - The identity of the parties involved
  - The particular headings or disclosures affected.

Strict compliance with the Code, as to both disclosure and accounting principles, is not considered necessary where the amounts involved are not material to the fair presentation of the financial position and transactions of the authority and to the understanding of the Statement of Accounts by a reader.

## ***Accounting Concepts***

### **Accruals**

The accounts, other than cash flow information, have been prepared on an accruals basis. This means that sums due to or from the Council in respect of the year of account are included whether or not the cash has actually been received or paid in the year. Exceptions to this principle are public utility accounts which are charged according to the date of the meter reading and some recurring sundry debtor accounts for which the due dates do not coincide with normal quarter dates. This policy is applied consistently each year and does not have a material effect on the year's accounts.

The income to be recovered through ongoing benefit deduction is accounted for in the year of account and not when the cash has been received or paid in the year.

The income to be recovered through the issue of fines is accounted for in the year of account and not when the cash has been received or paid in the year.

### **Going Concern**

The Accounts have been prepared on a going concern basis, on the assumption that the Authority will continue in operational existence for the foreseeable future. This means in particular that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to curtail significantly the scale of the operation.

### **Primacy of Legislation**

Local Authorities derive their power from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. Where there is a conflict between a legal requirement and an accounting standard, the legal requirement will take precedence over the accounting standard.

## ***Accounting Policies and Estimation Techniques***

An accounting policy specifies the basis on which an item is to be measured. Where there is uncertainty over the monetary amount corresponding to that basis the amount will be arrived at using an estimation technique.

### **Overheads**

All costs of management and administration have been fully allocated during the year on the following bases

Departments	-	Time spent by staff
Buildings	-	Employee numbers
Computing	-	Actual use and employee numbers

The Council has established a spreadsheet based system which records the services supported by individual staff within Business Units. These allocations are costed and recharges for the costs of management and administration are prepared from this information and allocated to services.

## Value Added Tax

In accounting for VAT, we comply with the SSAP5, Accounting for Value Added Tax and VAT is excluded from the main accounting statements unless it is not recoverable. The Council's partial exemption status is reviewed on an annual basis.

## Government and Non Government Grants and Contributions

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the Comprehensive Income and Expenditure Statement and then reversed to the Capital Adjustment Account once the Council is satisfied that all grant conditions have been complied with. This ensures that the overall revenue effect is neutral and that no cost falls to the local taxpayer. The change to IFRS removes the requirement to amortise the grant received over the life of the asset.

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounts when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. If a grant has been received but not applied to fund capital expenditure the grant will be shown on the balance sheet within the Capital Grants receipts in advance account. If the grant is subsequently assessed to be free of any conditions and remains unapplied the grant will be shown as Capital Grants Unapplied on the balance sheet. If a grant is due for repayment due to the Council's failure to meet grant conditions it will be included as a creditor on the Balance Sheet.

Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant and Area Based Grant) are credited to the foot of the Comprehensive Income and Expenditure Statement after Net Operating Expenditure.

Any contributions received under S106 agreements where developers are required to pay sums to the Council as a consequence of planning permission being granted are initially included in the Comprehensive Income and Expenditure Statement. Contributions applied to offset service revenue expenditure are credited to the service and contributions for capital works are included in the taxation and non-specific grant income line in the Comprehensive Income and Expenditure Statement and then taken to the Useable Reserves section of the balance sheet.

### Area Based Grant

Area Based Grant (ABG) is a non-ring fenced grant, upon which no conditions have been imposed as to its use, therefore ensuring full local control over how the funding can be used.

As ABG is a general grant, monies received during the year are included within the Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

## Intangible Assets

In line with FRS10/IAS 38, (Goodwill and Intangible Assets), expenditure on intangible fixed assets is capitalised at cost. An intangible fixed asset is one that has no physical substance but is identifiable and the Authority has control, (either



through custody or legal protection) over the future economic benefits derivable from it.

Purchased intangible assets (e.g. software licences) should be capitalised as assets. Internally developed intangible assets should only be capitalised where criteria set out in section 4.5.2.7 of The Code are met. The authority must satisfy itself that these criteria can be met and that internal systems are able to distinguish between Research and Development phases of a project.

Council policy is to write down intangible assets to the relevant service revenue account in the year that they occur.

### **Non-Current Assets (formerly Fixed Assets)**

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

**Recognition:** All expenditure on the acquisition, creation or enhancement of Non Current assets has been capitalised on an accruals basis. Expenditure on Non Current assets is capitalised, provided that the asset yields benefit to the Council and the services it provides, for a period of more than one financial year. Subsequent expenditure on Non Current assets is capitalised in accordance with FRS15. This excludes expenditure on routine repairs and maintenance of Non Current assets, which is charged directly to service revenue accounts.

Non Current assets are classified into groupings required by The Code, comprising

- a) Property Plant and Equipment, which can be further analysed as
  - Land and Operational Buildings
  - Council Dwellings
  - Infrastructure assets
  - Vehicles Plant and Equipment
  - Community Assets
  - Assets under Construction
  - Leased Assets
  - Non Operational Land and Buildings
- b) Investment Properties
- c) Intangible Assets, (see separate Accounting Policy).

**Measurement:** Non Current assets have been valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). They have been classified in accordance with the IFRS Code and have been valued on the following bases:

- a. **Land and Buildings** – The lower of net current replacement cost or net realisable value (as certified by the Estates Surveyor).
- b.
- c. **Council Dwellings** – Existing use value for social housing, including regional adjustment factors as amended from time to time.

- d. **Infrastructure Assets** – Historical costs net of depreciation.
- e.
- f. **Vehicles, Plant and Equipment** – The lower of net current replacement cost or net realisable value.
- g.
- h. **Community Assets** – Historic cost.
- i. **Non-operational Assets** – The lower of net current replacement cost and net realisable value.
- j. **Investment Properties** - normally open market value

Net current replacement cost is assessed as:

- Non-specialised operational properties – existing use value
- Specialised operational properties – depreciated replacement cost
- Investment properties and surplus assets – market value

Depreciated replacement cost is only used where there is no active market for the asset being valued: that is where there is no useful or relevant evidence of recent sales transactions due to the specialised nature of the asset.

**Revaluation** - Revaluations of Non Current assets are undertaken on a 5-year rolling programme, revaluing approximately one fifth of the Authority's assets annually. Council Dwellings are revalued annually using the Beacon principle. Identified material changes to asset valuations will be adjusted in the interim period, as they occur.

Surpluses from any revaluation of assets are credited to the Revaluation Reserve and are used to offset any subsequent revaluation loss with the exception of investment properties that are charged directly to the Comprehensive Income and Expenditure Statement and reversed out to the Capital Adjustment Account to ensure that no cost falls to the taxpayer. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

The Council has decided to adopt a phased approach to annual valuation of its Investment properties due to the size of the portfolio. From April 2010 investment properties with a value in excess of £100,000 will be valued annually with the remaining properties included in the existing 5 yearly rolling programme of revaluation.

**Investment Property** - Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a

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

**Components:** The IFRS Code requires local authorities to identify elements of major assets that have either a capital cost that is significant in relation to the total cost of the asset and/or has a different useful life or depreciation method. The Council proposes to account for components for assets with a gross book value in excess of £1m and where any individual component has a value in excess of £100,000. The component proposals for the HRA dwelling stock differ from that above. Guidance allows for the ongoing use of the MRA as a proxy for depreciation and if the Council continues this policy it is allowed to defer the application of component accounting to the dwelling stock. The Housing Finance system is likely to change from April 2012 and this accounting policy will need to be reviewed at that time. The requirement to implement Component accounting commences on 1<sup>st</sup> April 2010 and only applies to properties valued after that date or where there has been significant capital expenditure in respect of the individual asset.

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

Where impairment losses are identified, the accounting entries are

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

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

The HRA dwelling stock is revalued annually using beacon property values. Any change in valuation is assessed to determine any annual impairment charges.

**Disposals:** Income from the disposal of Non current assets is accounted for on an accruals basis.

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet, any receipt from disposal and any costs associated with the disposal are accounted for in the Comprehensive Income and Expenditure Statement so comprising any gains or losses on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory

deductions and allowances) is payable to the Government. The amount payable to the Government can be reduced where the Council elects to invest in certain regeneration projects or affordable housing. The balance of receipts is required to be credited to the Useable Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow, (the Capital Financing Requirement). Receipts are appropriated to the reserve through the Movement in Reserves Statement.

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

**Depreciation:** With the exception of Investment Properties and Land (which are not subject to depreciation), assets are depreciated on a straight line basis over their useful economic life as follows:

Council Dwellings	The Major Repairs Allowance (MRA) is used as a proxy for depreciation.
Infrastructure	Up to 40 years
Other Buildings	Specifically determined by Estates Officer
Vehicles	Up to 12 years
Plant	Up to 10 years
Surplus assets	Up to 40 years

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

Newly acquired assets are depreciated in the year following acquisition unless the change in depreciation charge is considered material. Assets in the course of construction are depreciated when they are brought into use.

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

A review of depreciation policy in connection with the Council dwelling stock was carried out in 2009/10 when it was decided that the Major Repairs Allowance would be used as a proxy for depreciation. This was reviewed as part of the IFRS transition arrangements along with proposed changes to the Housing Finance System. It was decided that no changes were required.

### **Non-current assets held for sale**

When it becomes probable that the carrying amount of an asset will be recovered

principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. An asset "Held for sale" has the following specific criteria attached to it

- Management is committed to sell
- The asset is available for immediate sale
- A buyer is being actively sought
- The sale is likely (within 12 months)
- The asset is for sale at a fair price
- It is unlikely to stop the sale process

If the asset meets these criteria it should be newly classified as a current asset and no longer depreciated. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

### **Charges to Revenue for Non-Current Assets**

Service revenue accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

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

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, (Minimum Revenue Provision, (MRP)). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (MRP) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

### **Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Council policy is to write down this expenditure in the year that it occurs. The full cost is charged to the relevant service in the Comprehensive Income and Expenditure Statement but then reversed out through the Movement in Reserves Statement to ensure that there is no effect on the revenue accounts as a whole.

### **Inventories, Rechargeable Works and Long Term Contracts**

Inventories relate to printing, stationery and marketing merchandise held at Visitor Information Centres and Museums and stores held at the Parks and Waste Direct Labour Organisations.

The Code and SSAP9, Stocks and Long-term contracts, require stocks to be shown at the lower of actual cost or net realisable value. The stock at the printing unit is

measured at average cost of stock held as it is considered that the financial effect of the different treatment is not material.

Any work in progress is subject to an interim valuation at the year end. Rechargeable Works are included at cost.

Long Term contracts are defined as “contracts entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or of a combination of assets or services which together constitute a single project) where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods” The Council makes a disclosure in the notes to the Core Financial Statements in respect of any capital contracts meeting this definition.

## **Debtors and Creditors**

The accounts of the Council are maintained on an accruals basis in accordance with FRS 18 ‘Accounting Policies’, i.e. sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year.

Debts due to the Council are recorded as they become due and the item Debtors shown in the Balance Sheet represents the amounts due during the year which remain unpaid at the year-end, from which a sum is deducted as a provision for bad debts.

Interest payable has been accrued to 31 March 2010 on all loans outstanding at that date. Interest on short-term investments due, but not received as at 31 March 2010 has also been accrued where this is material.

Instalments of interest on Housing Act advances and deferred payments are brought into account on the day they fall due for payment, irrespective of the period to which they relate.

Housing Revenue Account gross rent income is brought into account for the full year irrespective of debit and collection dates.

## **Provisions**

Provisions represent sums set aside for liabilities or losses which are likely, or certain to be incurred but it is uncertain as to the amounts or dates on which they will arise. Provisions are charged direct to the appropriate service revenue account and when the expenditure is incurred to which the provision relates it is charged direct to the provision.

HRA Leasehold Service Charge accounts are raised after the accounts have closed as they are based on actual cost in order to comply with Leasehold conditions. A provision is made on the Leasehold Maintenance Holding Account for the estimated cost of Services, Day to Day Repairs, Recurring Maintenance and Major Works incurred during the financial year.

## **Reserves**

Amounts set aside for purposes falling outside of the definition of provisions are

considered as reserves. The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year within the Net Cost of Services in the Comprehensive Income and Expenditure Statement and an equal amount is appropriated back to the General Fund from the accumulated reserve so that there is no charge to the taxpayer.

Details of the Council's reserves can be found within the notes to the Core Financial Accounts. Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and they do not represent usable resources for the Council.

The IFRS standards require details of Reserves to be reported in the Movement in Reserves Statement, a new table in the core Financial Statements. The Statement of Accounts also clearly separates the useable and non-useable reserves in the Financing section of the balance sheet.

### **Provision for Bad and Doubtful Debts (Impairment)**

Provisions are made for bad and doubtful statutory debts and these are charged to the appropriate revenue account. In accordance with the CIPFA guidelines, for Council Tax and Business Rate debts, the older the debt the greater the provision, although depending on specific circumstances this may not be applied. Debts relating to garage rents are subject to a flat rate percentage based on historical trends. All other HRA related debts over £2,500 are analysed and a provision made depending on individual circumstances, with the exception of leaseholder accounts as the Housing Act states that tenants should not subsidise Leaseholders, therefore no bad debt provision is made within the HRA. Housing benefit overpayment debt provision is subject to a range of specific percentages dependant on whether the debt is to be collected from ongoing benefit.

Previous guidance set out more detailed criteria for the assessment of the "impairment" of the outstanding debt and stressed a need to look at individual large debts and their specific circumstances as well as estimating a more general provision based on historic payment trends, these criteria are continued into the current policy.

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the Council's borrowings this means that interest charged to the Comprehensive Income and Expenditure Statement represent the amounts payable for the year in accordance with the loan agreements. Under the requirements of FRS25, 26 and 29 interest due (but not yet paid) on outstanding loans is added to the principal amount outstanding and is shown under short term borrowing in the Balance Sheet.

## Financial Assets

Financial assets are classified into various types:

- Loans and receivables - Assets that have fixed or determinable payments not linked to market price
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables are initially measured at fair value and subsequently carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement. A small element of the loans are classified as soft loans (made at less than market rate) so there is a requirement to record any loss in the Comprehensive Income and Expenditure Statement to represent interest forgone over the life of the loan.

Where assets are identified as impaired (in the case of trade debtors where there is a likelihood the payments due will not be made as a result of past events) the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement under the heading “Interest Payable and Similar charges”.

Any gains and losses that arise on the derecognition (i.e. cessation or transfer of the loan) of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

## Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. The accounting treatment for leases depends on whether the Council is a lessee; is paying a third party rental payments for the right to use an asset, or a lessor where it is granting the right to use an asset to an external third party. The accounting treatment for each is given below:

### **Where the Council is a Lessee:**

**Finance Leases:** Where the Council enters into material finance leases, the asset is recognised in the Council’s Balance Sheet, together with any associated liability to fund the asset. The cost of the fixed asset is then charged to the Comprehensive Income and Expenditure Statement over the life of the asset in accordance with the Council’s depreciation policy.

Rentals payable under finance leases are apportioned between a finance charge and a reduction in the liability. The apportionment bases used ensures that the finance charge is allocated over the term of the lease.

**Operating Leases:** Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

### **Where the Council is a Lessor:**



**Finance Leases:** The asset is removed from the balance sheet as the risks and rewards are with the lessee with the amounts due from finance leases recorded in the Balance Sheet as a debtor. Rentals received are apportioned between reducing the debtor and finance interest earnings. The apportionment basis used ensures that earnings are normally allocated to the lease term to give a constant periodic rate of return to the Council.

**Operating Leases:** Rentals receivable are charged to the relevant service revenue account over the term of the lease, generally meaning that rentals are charged when they become payable.

**Embedded Leases:-** The IFRS reporting arrangements require the Council to determine whether or not it benefits from the exclusive use of tangible assets within any of its contract arrangements with third parties. If the Council decides that this is the case it has to decide whether the arrangement is to be considered a lease in accordance with IFRIC12. The Council has determined that there are no contracts that fall within these criteria.

## Pensions

The Accounting Standard, FRS17 Retirement Benefits, requires recognition of pension assets and liabilities in the Balance Sheet and the operating costs of providing retirement benefits together with changes in the value of assets and liabilities to be reflected in the Comprehensive Income and Expenditure Statement.

In order that FRS17 requirements do not impact upon council tax levels, the movement on the net assets and liabilities (net of the employer's contributions and actuarial gains and losses) is reversed out to the Pension Reserve through the Movement in Reserves Statement.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The latest formal valuation of the Fund for the purpose of setting employers' actual contributions was as at 31 March 2007 and this has been used to update the service cost figures. The effects of the valuation carried out on the 31 March 2010 will be implemented on 1 April 2011.

Liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method. This requires an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employees turnover rates and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bond.

The assets of the pension fund attributable to the Council are included in the balance sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

Previously, quoted securities were valued at mid market value rather than bid price.

The changes in the net pensions liability is analysed into seven components:

**Current service cost** – the increase in liabilities as a result of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.

**Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.

**Interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement.

**Expected Return on Assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement.

**Gains/Losses on Settlements and Curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.

**Actuarial Gains and Losses** – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Comprehensive Income and Expenditure Statement.

**Contributions paid to the Funds** – cash paid as employer’s contributions to the pension fund.

FRS17 also requires the disclosure of any additional liabilities, for example those in respect of additional pensions paid on retirement under the Discretionary Payment Regulations (“compensatory added years pensions”) which are not paid from the Fund itself. This information has been provided by the Fund’s actuary and is included within the liabilities figures quoted.

## Exceptional Items

Exceptional items are ones that are material in terms of the Council’s overall expenditure and not expected to recur frequently or regularly. The Council accounts for exceptional items in accordance with FRS3, Reporting Financial Performance.

## Contingent Gains/Liabilities

Contingent liabilities are defined as possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council’s control. If such obligations are likely, they are quantified and a disclosure note is added to the Accounts.

A Contingent Gain arises where an event has taken place that gives the authority a

possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent Gains are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **Events After the Balance Sheet Date**

Where an event occurs after the Balance Sheet date, whether favourable or unfavourable, and also provides evidence of conditions that existed at the Balance Sheet date, the amounts recognised in the Statement of Accounts will be adjusted. Any disclosures affected by the new information about the adjusting event will also be updated in light of the new information.

Events that occur after the Balance Sheet date indicative of conditions arising after the Balance Sheet date will not be adjusted in the Accounting Statements, but will be disclosed in the Notes to the Accounts, to include:

- the nature of the event, and
- an estimate of the financial effect or a statement that such an estimate cannot be made reliably

Events after the Balance Sheet date will be reflected up to the date when the Statement of Accounts is authorised for issue.

### **Group Accounts**

The Code broadens the definition of an interest in a company/entity to include “an ability to exert a significant influence”. The guidance included in the 2009 SORP still applies but the assessment of the involvement/interest now needs to consider the above when determining whether or not a group relationship exists. This is considered to apply where,

- The authority has an interest in another body and that body is delivering a service or carrying on a trade or business of its own;
- The authority has access to benefits and exposure to risks inherent in realising those benefits;
- The authority controls the majority of equity capital or equivalent voting rights or appoints the majority of the governing body;
- The authority exercises or has the right to exercise dominant influence.

This Council has determined that for the 2009-10 financial year it has no interests in subsidiaries, associates or joint ventures of a material nature, but has a Joint Arrangement, not an Entity (JANE) with Kent County Council (East Kent Opportunities LLP). In accordance with FRS9 the Council has accounted for its share of the assets, liabilities, and income and expenditure within its own single entity accounts, but consider that including the Council's share of the liability owed to Kent County Council for the cost of construction of the Spine road as a deferred liability instead of imputed cash provides more transparency. In addition the Council's share of EKO's landholdings are included in these accounts at the Council's own land valuation as this is considered more appropriate. During 2009-10 the Council in conjunction with Canterbury, Dover and Shepway Councils is preparing to transfer the management of their combined HRA dwelling stock to an Arms Length Management Organisation. It is considered likely that this arrangement will constitute a Group Accounting arrangement as the Council will “own” 25% of the new organisation.

## Collection Fund

Billing authorities are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and Business Rates. Statute determines the amount required to be transferred from the Collection Fund to the General Fund (an authority's precept for the year plus/minus its share of the surplus/deficit on the Collection Fund for the previous year). From 1 April 2009 the Council Tax income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The difference between this amount and the amount required by regulation is taken to the Collection Fund Adjustment Account, and is included as a reconciling item in the Movement in Reserves Statement to negate the effect on the taxpayer. Council Tax is collected on an agency basis, so the Balance sheet reflects debtor/creditor position between the Council and major preceptors, since the cash paid to preceptors in the year is not the share of actual cash collected from council taxpayers.

With effect from 1 April 2009 it is recognised that National Non-domestic Rates are collected by billing authorities for the Government on an agency basis. The recognition of ratepayers arrears/overpayments and impairment allowance for doubtful debts are no longer appropriate in the authority's Balance sheet, and are now consolidated into a debtor/creditor for amounts due to/from Government departments.

## Investments

Short-term investments are shown in the Balance Sheet as 'Current Assets' at the actual sums lent.

## Employee Costs

Overtime payments relating to the previous financial year are accrued to that year. The full costs of employees are charged to the accounts of the period within which the employees worked.

The Code requires that Councils identify the costs of any Employee Benefits accrued but untaken at the balance sheet date. These costs primarily consist of any untaken leave, flexitime and lieu time. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services so that the holiday benefits are accounted for in the financial year in which the holiday absence occurs. The adjustment is reversed out of the Comprehensive Income and Expenditure Statement so that there is no charge to the taxpayer.

## Prior Period Adjustments

Material adjustments applicable to prior years arising from changes in accounting policies or standards will be reflected by restating the comparable figures in the Statement of Accounts, together with a disclosure note detailing the reasons for such restatement.

## Segmental Reporting

A segment is a component of the Council's service activity which can be

distinguished separately as providing services either by nature of the business or to particular areas of the community. The Council's primary reporting format during the year is by Directorate but traditionally the Statement of Accounts has been prepared in BVACOP format. The Council is only required to report Segments that constitute a significant proportion of the Council's total business but detailed information has been prepared for all activities as this provides more meaningful data.

### **Changes in Accounting Policy**

The 2009 SORP required Local Authorities to amend their accounting arrangements and so their accounting policies in respect of Council Tax and Business rates (NNDR) These changes had been introduced for the 2009-10 Statement of Accounts along with amendments arising from a review of the existing policies. The implementation of IFRS requires further changes to Accounting Policies and these have been reflected in this document.

### **Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in [specified period, no more than three months] or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

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## REVIEW OF THE EFFECTIVENESS OF THE COUNCIL'S INTERNAL AUDIT ARRANGEMENTS 2010/11

To: **Governance and Audit Committee – 15 March 2011**

By: **Chief Executive Designate**

Classification: **Unrestricted**

Ward: **All**

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**Summary:** This report presents the review of the effectiveness of the council's Internal Audit arrangements for 2010/11 as required by The Accounts and Audit (Amendment) (England) Regulations 2006

### For Decision

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#### **1.0 Introduction and Background**

- 1.1 The Accounts and Audit (Amendment) (England) Regulations 2006 impose on councils the need to undertake a regular review of their internal control arrangements; specific requirements are that:
- the findings of the review of the system of internal control are considered by a committee of the relevant body, or by members of the body meeting as a whole. [Regulation 4 refers]
  - the effectiveness of their system of internal audit are reviewed at least once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control referred to in regulation 4. [Regulation 6 refers]
- 1.2 Subsequent guidance issued by the Department for Communities and Local Government indicates that the actions in paragraph 1.1 above do not require the establishment of an audit committee to undertake the exercise, although such a committee would provide an appropriate means through which to consider the findings of the review. In the case of Thanet District Council this responsibility is within the delegated powers of the Governance and Audit Committee.
- 1.3 In line with the CIPFA guidance document 'Delivering Good Governance in Local Government' the council is also obliged to publish an Annual Governance Statement (AGS) within its Annual Accounts. The draft AGS for Thanet for 2010/11 will be coming before this Committee at the June meeting.
- 1.4 The AGS reflects the council's overall governance arrangements and the effectiveness of these, based on evidence and assurances gained from a number of different sources, which includes information from the East Kent Audit Partnership (EKAP). The review of the effectiveness of the council's internal audit arrangements is therefore very important in order to add credence to the assurances gained from the findings of the Audit Partnership.
- 1.5 It should be noted that this review is primarily about effectiveness, not process. In essence the need for the review is to ensure that the opinion in the annual report of the internal auditors may be relied upon as a key source of evidence for the Annual Governance Statement.
- 1.6 This report presents the findings of the review of the effectiveness of the internal audit arrangements for Thanet District Council for 2010/11.

## **2.0 Review of the effectiveness of the internal audit function**

- 2.1 The internal audit function is performed by the East Kent Audit Partnership (EKAP), which provides internal audit services to the councils of Dover, Shepway and Canterbury, as well as to Thanet. As a result of this collaborative approach the partnership is able to be robustly resourced and provide a mechanism for promulgating best practice to the East Kent authorities that use its services.
- 2.2 The auditors are independent to the management of the council and have direct access to the Chair of the Governance and Audit Committee if required. They provide a regular update to the Committee at each of the quarterly meetings, and attend any special meetings that may be convened during the year.
- 2.3 As at 31 January 2011 the Internal Auditors completed 413.38 days of review equating to 93.83%, which was spent undertaking 38 audits, 3 unplanned audits and 29 follow-up audits. The EKAP undertake a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual report which will be presented to this Committee in June.
- 2.4 The EKAP have met as a team and considered the CIPFA Checklist for compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006. The results of this self-assessment showed that the internal audit function is 97% compliant with the Code against a target of 97%, with no identified actions to improve the score.
- 2.5 As part of EKAP's quality monitoring arrangements Members should be aware that following the completion of each audit, a satisfaction questionnaire is completed by the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self assessment.
- 2.6 The EKAP Audit Manager and Head of EKAP regularly meet with the Section 151 Officer to monitor performance against the Audit Plan, but also to discuss any matters arising in relation to the performance of the Audit Partnership. Periodically these meetings are attended by the External Auditors of the Audit Commission, so that they are able to gain assurances as to the effectiveness of the process. The Section 151 Officer (Chief Executive Designate) is pleased to be able to provide Members with assurance that in her opinion the Partnership operate to high professional standards, fostering an excellent working relationship with management without fettering the independence needed to be able to take a sufficiently independent perspective.
- 2.7 In addition to which, feedback from the audits and any other matters arising from the work of the partnership are considered at regular meetings that are held between the Section 151 Officers of each of the partnering councils and the auditors to manage any issues arising from the process. These meetings provide an additional opportunity to assess whether the internal audit function is operating in an effective manner and is compliant with the requirements of the CIPFA code.
- 2.8 Finally, the Audit Commission undertakes an evaluation of the work of the EKAP against the CIPFA Code of Practice every three years. This review was undertaken in November 2009 and found that the EKAP "provides an adequate and effective review of the accounting records and systems of internal control" and acknowledged that the action plan items from the 2006/07 review have all been implemented.
- 2.9 Given the consistency of evidence of a quality internal audit service and the assessment outcomes referred to above it is believed that the Council has an effective internal audit function in place providing confidence in the context of their contribution to the council's Annual Governance Statement.



### **3.0 Options**

3.1 That Members accept the findings of the review of the effectiveness of the council's Internal Audit arrangements.

3.2 That Members do not accept the findings of the review of the effectiveness of the council's Internal Audit arrangements.

### **4.0 Corporate Implications**

#### **4.1 Financial**

4.1.1 There are no financial implications arising from this report.

#### **4.2 Legal**

4.2.1 The Accounts and Audit Regulations 2003 (SI 2003/533) have been amended by The Accounts and Audit (Amendment) (England) Regulations 2006. Regulation 4 of the 2006 regulations requires that the findings of the review of the system of internal control shall be considered by a committee of the council, or by the members of the relevant body meeting as a whole, and following that consideration, shall approve a statement on internal control, prepared in accordance with proper practices in relation to internal control.

4.2.2 Regulation 6 requires that the council shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit. The findings of the review must be considered, as part of the consideration of the system of internal control referred to in regulation 4, by the committee or meeting referred to in that paragraph

#### **4.3 Corporate**

4.3.1 The council is required, at least once in each year, to conduct a review of the effectiveness of its internal audit function, and this report details the review that has been undertaken and its outcomes.

#### **4.4 Equity and Equalities**

4.4.1 There are no equity or equalities issues arising from this report.

#### **4.5 Risks**

4.5.1 If this review was not undertaken, there is a risk that the Financial Statement may be qualified.

### **5.0 Recommendations**

5.1 **That Governance and Audit Committee accept the findings of the review of the effectiveness of the council's Internal Audit arrangements for 2010/11.**

### **6.0 Decision Making Process**

6.1 This recommendation does not involve the making of a key decision.

6.2 This recommendation is within the Council's Budgetary and Policy Framework, and the decision may be taken by the Governance and Audit Committee.

Contact Officer:	Sue McGonigal, Chief Executive Designate
Reporting to:	Richard Samuel, Chief Executive

#### ***Corporate Consultation Undertaken***

Finance	Not applicable
Legal	Not applicable

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## GOVERNANCE AND AUDIT COMMITTEE ANNUAL REPORT 2010/11

To: **Governance and Audit Committee – 15 March 2011**  
By: **Chair of the Governance and Audit Committee**  
Classification: **Unrestricted**

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**Summary:** **This report summarises the achievements of the Governance and Audit Committee against its terms of reference for the period 1 April 2010 to 31 March 2011 and details the impact that it has made on the overall system of internal control in operation for that period.**

### For Decision

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#### **1.0 Introduction and Background**

1.1 The purpose of the council's Governance and Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the authority's financial and non financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

1.2 To comply with best practice the Committee determined that it would consider annually whether it meets its terms of reference and how it has impacted on the internal control environment. The purpose of this report is to consider the self assessment that has been undertaken and summarise any improvement opportunities for the forthcoming year.

#### **2.0 Reporting on Effectiveness**

2.1 The Governance and Audit Committee should ensure it has effective communication with the authority, to include the Executive, the Head of internal Audit, the External Auditor and other stakeholders. Consequently it is considered to be best practice for the Committee to be self aware and to submit an annual report to Council.

2.2 The Governance and Audit Committee has previously used the CIPFA Guidance and National Audit Office self assessment checklist to consider whether it has met its terms of reference. This year, a meeting was held with the Chairman, Councillor Jason Savage; the Head of the Audit Partnership, Christine Parker and the Corporate Governance and Risk Officer, Nikki Morris to review the Committees terms of reference to specifically evidence how the Committee achieved against them.

2.3 This report summarises the work of the Committee for the year and concludes that it has received clear, concise and relevant information, regular training events on topics specific to the business of the Committee, and has done all that it can to meet the aims and objectives for the Committee in the best way that it can.

#### **3.0 Annual Report**

3.1 The Governance and Audit Committee is assured on the integrity and reliability of data held in the financial statement. It receives clear, concise reports and actions are dealt with in an appropriate timescale. The members of the Committee receive specific training in order to assist them with their role in receiving comprehensive assurance from the accounting officer. During 2010/11 the Committee has received training on the following areas:

- Anti-fraud and Corruption Policy
  - Statement of Accounts
  - Effective Audit Committees
  - Risk Management
  - National Fraud Initiative
- 3.2 The work of internal and external audit provides detailed assurance on the reliability and integrity of the information held in the financial statements as well as on the key control framework in operation across the council.
- 3.3 The assurances from the accounting officer, the work of internal and external audit together support the Committee in forming their opinion of the financial statements, enabling them to agree to sign them off in accordance with regulations.
- 3.4 The Committee receives a regular report on agreed actions from the Annual Governance Statement process which is completed as part of the preparation of accounts. It also reviews the Councils Governance Framework and Local Code of Corporate Governance.
- 3.5 The Committee reviews the Risk Management Strategy on a regular basis and considers the effectiveness of the risk management process both through the work of internal audit and through receiving quarterly risk management reports.
- 3.6 The Committee considers the effectiveness of the internal audit arrangements by reviewing the annual assessment of the Section 151 Officer, the view of external audit and the quality of reports, actions and follow up through the quarterly reports submitted throughout the year to Committee.
- 3.7 The Committee is able to request service managers and, where necessary, the relevant portfolio holder to attend the Committee to give an update on progress against agreed actions to reduce risk and/or improve governance.
- 3.8 The Chairman and Officers considered the effectiveness of the Committee against the terms of reference at a meeting on the 23 February 2011 and 4 actions were identified which are recommended that will improve performance against best practice for the forthcoming year. The evidence demonstrating achievement of the Committees terms of reference is attached at Annex 1.
- 3.9 The recommended actions are listed in annex 2 attached to this report. They will be incorporated into the councils Annual Governance Statement (AGS) for 2010/11 and then reviewed on a quarterly basis through the AGS action plan.
- 3.10 Annex 3 details the status of the action plans for 2008/09 and 2009/10 to ensure Members are confident that these actions have been completed.
- 3.11 The terms of reference for the Committee were also reviewed and changes recommended which the Governance and Audit Committee considered at its meeting on the 15 March 2011.

#### **4.0 Options**

- 4.1 That Members agree the content of this report and the recommended actions within the action plan, and that Members recommend that the Annual Report be forwarded to Full Council.
- 4.2 That Members do not agree the content of this report and the recommended actions within the action plan, and Members do not recommend that the Annual Report be forwarded to Full Council.

## 5.0 Corporate Implications

### 5.1 Financial

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

### 5.2 Legal

5.2.1 The Council is meeting best practice by having in place an audit committee, as this is not a mandatory or statutory function. In adopting the CIPFA guidance for the terms of reference for the Committee the Council is meeting the standards set out for the public sector.

### 5.3 Corporate

5.3.1 Under the Local Code of Corporate Governance accepted by Governance and Audit Committee on the 13 January 2011, the Council is committed to comply with requirements for the independent review of the financial and operational reporting processes, through the external audit and inspection processes, and satisfactory arrangements for internal audit. The functions of the Governance and Audit Committee contribute to the overall internal control environment for the Council and feed into the Annual Governance Statement process.

### 5.4 Equity and Equalities

5.4.1 There are no equity or equalities issues arising from this report.

### 5.5 Risks

5.5.1 Failure to undertake this process will negate the council's approach to corporate governance.

## 6.0 Recommendation(s)

**6.1 That Members agree the content of this report and the recommended actions within the action plan, and that Members recommend that the Annual Report be forwarded to Full Council.**

## 7.0 Decision Making Process

7.1 This recommendation does not involve the making of a key decision and may be taken by the Governance and Audit Committee.

Contact Officer:	Christine Parker, Head of the Audit Partnership, DDI 01843 577190 Nikki Morris, Corporate Governance and Risk Officer, DDI 01843 577625
Reporting to:	Sue McGonigal, Chief Executive Designate (Section 151 Officer), DDI 01843 577790 Sarah Carroll, Corporate Resources Manager, DDI 01843 577188

### **Annex List**

Annex 1	Evidence from 23 February 2011 meeting
Annex 2	Action Plan 2010/11
Annex 3	Action Plans for 2008/09 and 2009/10

### **Background Papers**

<b>Title</b>	<b>Details of where to access copy</b>
Governance and Audit Committee papers	Formal meetings agenda and minutes held electronically on the Council's website

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## Evidence from 23 February 2011 meeting

<b>Governance and Audit Committee terms of reference</b>	<b>Achieved through:</b>
To consider the annual report and opinion of the East Kent Audit Partnership, and a summary of audit activity (actual and proposed) and the level of assurance it can give over the council's governance arrangements;	Receiving East Kent Audit Partnership annual report in June of each year.
To consider summaries of specific internal audit reports as requested;	Achieved through agreeing the annual audit plan, and receiving the quarterly internal update reports.
To consider reports dealing with the management and performance of the providers of internal audit services;	Receiving the 'effectiveness of the council's Internal Audit arrangements' report prepared by the Chief Executive Designate (Section 151 Officer).
To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale;	Contained within the quarterly internal audit reports and the internal audit annual report.
To consider the external auditor's annual letter, relevant reports and the report to those charged with governance;	Receive the Annual Audit Letter normally in December and on a quarterly basis receive an update report from the external auditors.
To consider specific reports as agreed with the external auditor;	The external auditors regularly provide reports to the Governance and Audit Committee on relevant matters.
To receive and note the annual programme of work and associated fees for the external auditors and provide challenge as appropriate	Receive the annual audit fee from the external auditors.
To commission work from internal and external audit.	This enables Governance and Audit Committee to request work, but this has not been required during 2010/11.
To review any governance / financial issue referred to it by the Chief Executive or a Director, or any council body;	This enables Governance and Audit Committee to consider any specific issues referred to it, but this has not been required during 2010/11.
To monitor the effective development and operation of risk management and governance in the council;	Approve the annual review of the risk management strategy and process, and receive the corporate risk register on a quarterly basis.
To overview the council policies on Whistleblowing and Anti-fraud and Corruption;	Received the reviewed policy for approval and received training on this matter.
To oversee the production of the authority's Annual Governance Statement and to recommend its adoption;	Annual Governance Statement approved by Governance and Audit Committee in June 2010.
To consider the council's compliance with its approved Treasury Management Strategy	Agreed by Governance and Audit Committee in December 2010 and receive regular reports on this matter.

<b>Governance and Audit Committee terms of reference</b>	<b>Achieved through:</b>
To consider the council's arrangements for governance and agreeing necessary actions to ensure compliance with best practice;	Achieved by the Committee receiving the annual review of the Governance Framework and Local Code of Corporate Governance.
To review the council's arrangements for ensuring adequate data quality;	Receive annual review of the Performance Management and Data Quality Frameworks.
To consider the council's compliance with its own and other published standards and controls.	Achieved through reviewing the Committee's terms of reference and achievement against them, and production of the Chairman's Annual Report.
To approve the annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the council;	Receive and approve the draft Statement of Accounts in June and the Final Accounts in September of each year.
To consider the external auditor's report to those charged with governance on issues from the audit of the accounts.	This is included within the Annual Audit Letter received in December each year.



## Governance and Audit Committee Action Plan 2010/11

Following a review of the Governance and Audit Committee terms of reference for the period 1 April 2010 to 31 March 2011, the actions below were identified and will be undertaken during the period 1 April 2011 to 31 March 2012.

Ref	Issue identified	Proposed Action	Proposed completion date	Responsible officer / body	Status
10/11-01	The Governance and Audit Committee terms of reference need to be reviewed to ensure they are fit for purpose.	Terms of reference reviewed.	15 Mar 11	CGRO	
10/11-02	Member training and development.	Specific section on governance and finance within Member Induction programme.	31 May 11	CED, FSM, CGRO	Section within Member Induction agreed for 24 May 2011.
10/11-03		Member guidance pack for Governance and Audit Committee be updated.	22 Jun 11	CGRO	
10/11-04		Review the terms of reference and programme of reports documents to produce a simple document that shows a timeline or flowchart on why certain reports have to be received at certain times.	22 Jun 11	CGRO	

### Key:

CED Sue McGonigal, Chief Executive Designate (Section 151 Officer)  
 FSM Sarah Martin, Financial Services Manager  
 CGRO Nikki Morris, Corporate Governance and Risk Officer

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## Governance and Audit Committee Improvement Action Plan 2009/10

As a result of a self assessment against the Audit Committee Self Assessment Checklist the sub group of Governance and Audit Committee have identified the following action to move some criteria forward within the timescales set out below.

Ref	Requirement	Current Situation	Proposed Action	Status
<b>SECTION I</b>				
<b>Principle 1: The Role of the Audit Committee</b>				
7	Does the audit committee meet regularly (at least four times a year), and do meetings coincide with key dates in the financial reporting and audit cycle?	The committee meets on a quarterly basis, however on occasion the agenda for these meetings are quite heavy and meetings tend to go on for a number of hours.	That the Committee consider: 1. Increasing the number of times the Committee meet to relieve pressure on full agendas, 2. Holding a separate meeting in June to deal with the Financial Statement,	<b>Completed</b> Council agreed in May 2010 to increase the number of meetings of the Governance and Audit Committee in June to deal with the Statement of Accounts separately ensuring effective challenge
<b>Principle 2: Membership, Independence, Objectivity and Understanding</b>				
No actions identified within this section.				
<b>Principle 3: Skills</b>				
23.	Is there an induction checklist for new Audit Committee members that details key things that they must do eg visits to important business locations, meetings with Board, Risk Manager, Internal Audit and External Auditors?	A member guidance pack is produced for the Governance and Audit committee which holds: 1. Terms of Reference 2. Member guidance 3. Programme of report for the years meetings 4. Internal Audit Plan for the year, and other documents which are relevant to the Committee.	1. Training requirements to be discussed at the September meeting. Add this to the programme of reports. 2. Regular item on agenda entitled 'Future items or training for the Committee', making reference to the programme of reports.	<b>Completed</b> Governance and Audit Committee regularly receive training on matters they are to review at their meeting.  There is a regular item on each agenda entitled 'Future items or training for the Committee'.
<b>Principle 4: Scope of Work</b>				
No actions identified within this section.				
<b>Principle 5: Communication</b>				
No actions identified within this section				

Ref	Requirement	Current Situation	Proposed Action	Status
<b>SECTION II: The Role of the Chair: Good Practice</b>				
65.	Are the meetings set for a length of time which allows all business to be conducted, yet not so long that the meeting becomes ineffective?	Meetings do not currently have a set time, and the agenda are sometimes quite heavy.	Section action 7 above.	Section action 7 above.
72.	Does the Chair or the Secretariat ensure that members who have missed a meeting are appropriately briefed on the business conducted in their absence.	The substitute who attends for the member feeds back on outcomes of the meeting.	<ol style="list-style-type: none"> <li>1. Set up a pool of substitutes to ensure they receive appropriate training.</li> <li>2. Ensure that substitutes are aware of their responsibilities to feed back.</li> </ol>	<b>Completed</b> Guidance on the use of substitutions and their responsibilities has been detailed within the member guidance.
<b>SECTION III: Committee Support: Good Practice</b>				
83.	Ensure that the minutes clearly state all agreed actions, the responsible owner, when they will be done by and any advice given from any stakeholders?	Minutes are currently produced which note any actions required.	Need to ensure owners and timescales are noted within actions.	<b>Completed</b> An action plan is prepared from each meeting which will feature as an item on the agenda to ensure members are confident actions have been carried out and reported back to the Committee.

## Governance and Audit Committee Improvement Action Plan 2008/09

Ref	Requirement	Current Situation	Proposed Action	Status
<b>Principle 1: The Role of the Audit Committee</b>				
5.	Does the Executive report to the Audit Committee on how key business risks and their financial implications are being dealt with?	The Governance and Audit committee receives regular reports regarding the strategic and operational risks that the Council has identified and is managing. However, the financial implications of key business risks are not necessarily identified. Reports come from officers direct to the G&A Committee, the Executive does not account in this way to the G&A Committee.	To achieve best practice the Council should: a) consider calculating the financial implications of key business risks as standard, b) consider how the G&A committee can hold the Executive to account for the key business risks.	<ul style="list-style-type: none"> <li>The new refreshed risk register does record the financial implications of a risk, where appropriate, as part of assessing the impact of a risk. <b>Completed</b></li> <li>The chair of G&amp;A plans to issue a quarterly update to follow the committee cycle on "What If" examples and how the Council is making plans to deal with risks. <b>Completed – Governance Matters newsletter issued following Governance and Audit Committee meeting</b></li> </ul>
<b>Principle 2: Membership, Independence, Objectivity and Understanding</b>				
15.	Do Executive members attend Audit Committee meetings, participate in discussions, and provide information to the Audit Committee as and when the Audit committee deems it necessary?	Portfolio Holders do not attend the G&A Committee meetings or participate in discussions.	When a relevant matter is due to appear on the G&A Committee Agenda, the relevant Portfolio Holder should be invited to attend and participate in the meeting, for that item.	Ongoing as appropriate. <b>Can be dealt with by recommendation 2 under ref 23 of the 09/10 action plan.</b>
<b>Principle 3: Skills</b>				
34.	Is there an induction checklist for all new Audit Committee members that details key things that they must do?	Members of the Governance and Audit Committee are required to attend training regarding the Statement of Accounts.	A formal checklist should be set out for inducting new members to the G&A Committee. All slides from the recent	<ul style="list-style-type: none"> <li>Ongoing</li> <li>New G&amp;A Guidance Pack issued summarising the TOR, Member Guidance, schedule of Meetings etc.</li> </ul>

Ref	Requirement	Current Situation	Proposed Action	Status
			training sessions should be offered to the new member, with the option of a 1-2-1 training session if required.	<p><b>Will be updated as necessary each year and provided to G &amp; A Members.</b></p> <ul style="list-style-type: none"> <li>Quarterly Newsletter in preparation.</li> </ul> <p><b>Completed – Governance Matters newsletter issued following Governance and Audit Committee meeting</b></p>
37.	Does the Audit Committee ensure that new members have sufficient knowledge of the business to identify the key risk areas and to challenge both line management and internal and external auditors on critical and sensitive issues?	The relevant political leaders nominate the members of the G&A Committee.	The G&A Committee should annually consider its training needs and make recommendations to the Executive.	Ongoing. To be presented to G&A Committee for approval at the March meeting annually. <b>Can be dealt with by recommendations 1 and 2 under ref 23 of the 09/10 action plan.</b>
39.	Does the Audit Committee benchmark itself, in some way, against other Audit Committees?	The four Audit committee Chairs from the East Kent councils are able to meet once a year to discuss matters of interest.	Identify a relevant, 'excellent' authority and attend another Audit Committee meeting in order to find out how they run.	Possibility of a visit to be considered further. <b>Decision taken by all councils not to take forward</b>
<b>Principle 4: Scope of Work</b>				
55.	Does the Audit Committee make suggestions to the External Auditors regarding risk and problem areas the audit could address in the short and long term?	The External Auditors present their plan of work to the G&A Committee and seek agreement to it.	The G&A Committee seeks the opportunity to make suggestions for areas for review to the External Auditors each year, as part of their planning process.	Liaise with the External Auditor by December 2009 to establish a process for consultation. <b>Completed</b>
<b>Principle 5: Communication</b>				
86.	Does the Audit Committee provide an Annual Report to the Board, times to	The G&A Committee has not previously written an annual	Produce an Annual Report to Full Council, in March	Achieved for 2009. To be presented to G&A Committee for

Ref	Requirement	Current Situation	Proposed Action	Status
	support preparation of the Annual Governance Assurance Statement (AGAS)?	report.	each year so that it can support the AGAS.	approval at the March meeting annually. <b>Completed</b>
87.	<p>Does the Annual Report of the Audit Committee present the Committee's opinion about;</p> <ul style="list-style-type: none"> <li>• the comprehensiveness of assurances in meeting the Board and Accounting Officer's needs</li> <li>• the reliability and integrity of these assurances</li> <li>• whether the assurance available is sufficient to support the Board and Accounting Officer in their decisions taken and their accountability obligations</li> <li>• the implication of these assurances for the overall management of risk</li> <li>• any issues that audit committee considers pertinent to the AGAS, and any long terms issues the Committee thinks the Board should give attention to</li> <li>• financial reporting fro the year</li> <li>• the quality of both internal and external audit and their approach to their responsibilities, and</li> <li>• the Audit Committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed?</li> </ul>	There is currently no structure to such a report.	Use question 87 from the guidance as the structure for the content of the proposed Annual Report from the G&A Committee.	Achieved for 2009.To be presented to G&A Committee for approval at the March meeting annually. <b>Completed</b>

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## QUARTERLY GOVERNANCE PROGRESS REPORT

To: **Governance and Audit Committee – 15 March 2011**

Main Portfolio Area: **Finance and Corporate Services**

By: **Corporate Governance and Risk Officer**

Classification: **Unrestricted**

Ward: Not applicable

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**Summary:** To provide Governance and Audit Committee with a progress report on governance related issues.

### For Information and Decision

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#### 1.0 Introduction and Background

1.1 This report provides Governance and Audit Committee with an update on governance related issues. The items covered in this report are:

- 2.1 Corporate risk register
- 2.2 Annual Governance Statement 2009/10 action plan
- 2.3 Programme of reports for 2011/12
- 2.4 Terms of reference – annual review

#### 2.0 The Current Situation

##### 2.1 Corporate risk register

2.1.1 Attached at **annex 1** is a copy of the corporate risk register. Governance and Audit Committee need to be confident that the risk management process is being followed, such as ensuring reviews are being undertaken and target dates for implementing control measures are met.

2.1.2 The table below provides a summary of the corporate risk register for the period January to March 2011.

Directorate	No of risks per area	Risk review overdue	Risk rating		
			Increased	Reduced	Remained the same
Community Services	2	0	0	0	2
Customer Services and Business Transformation	0	0	0	0	0
Finance and Corporate Services	17	0	0	2	15
Environmental Services	1	0	0	0	1
Regeneration Services	2	0	0	0	2
<b>Total</b>	<b>22</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>20</b>

## 2.2 Annual Governance Statement 2009/10 action plan (including G & A annual report half yearly monitoring)

- 2.2.1 For the period 2009/2010 the council prepared an Annual Governance Statement (AGS) which was agreed by Governance and Audit Committee on the 22 June 2010.
- 2.2.2 Within the Annual Governance Statement 2009/10 areas of concern identified from the numerous assessments into our governance arrangements were detailed within Section 6 'Significant governance issues'.
- 2.2.3 The council proposed to take steps to address these matters and report on the action plan to this Committee on a regular basis. The action plan is attached at **annex 2** for Members information.
- 2.2.4 The table below provides a summary of the Annual Governance Statement 2009/10 action plan.

Section	No of actions	Comment outstanding	Comment provided	No of actions completed
1.	2	0	2	0
2.	14	0	14	4
3.	4	0	4	4

1. Within this section are the governance issues identified in previous Annual Governance Statement action plans, which have not been completed for various reasons and will therefore be updated and incorporated into the 2009/10 action plan
2. The identified areas detailed below have arisen from our numerous assessments into the council's governance arrangements for 2009/10 and have been deemed to be significant by the Governance Group. These will be addressed during 2010/11 and for those already actioned an update has been provided.
3. To comply with best practice the Governance and Audit Committee determined that it would consider annually whether it meets its terms of reference and how it has impacted on the internal control environment. The Committee carried out the National Audit Checklist and identified some actions which it recommends will improve performance against best practice for the forthcoming year. These issues have already been actioned and an update is provided but will continue to be monitored to ensure they are effective.

## 2.3 Programme of reports 2011/12

- 2.3.1 The programme of reports for future Governance and Audit Committees has been reviewed, and an updated list is provided as **annex 3** for Members' information. Once agreed, this will be incorporated in the Guidance Pack which will be distributed to Members of the Group at the 22 June meeting.

## 2.4 Terms of reference – annual review

- 2.4.1 The terms of reference for this Committee have been reviewed and were discussed as part of the Governance and Audit Committee annual report review process carried out on the 23 February 2011. The recommended changes are detailed in **annex 4** to this report, shown as track changes.
- 2.4.2 The main change that needs to be brought to Members' attention is the addition under 'Regulatory Framework', following questions raised at the last Governance

and Audit Committee around ensuring governance processes are in place for EK Services and how they will be monitored.

2.4.3 Following agreement by this Committee to the recommended changes, the terms of reference will go before the Constitutional Review Working Party, Standards and then onto Council on the 21 April 2011.

2.4.4 A copy of the terms of reference will be included within the Guidance Pack that is to be issued in June 2011.

### **3.0 Options**

3.1 That Members note the content of annex 1, the Corporate Risk Register and identify any issues on which they require more clarification.

3.2 That Members note the content of annex 2, the Annual Governance Statement 2009/10 action plan and identify any issues on which they require more clarification.

3.3 That Members agree the reviewed programme of reports for 2011/12.

3.4 That Members agree the changes to the terms of reference and agree that they go forward to the Constitutional Review Working Party, Standards and Council for formal agreement.

### **4.0 Corporate Implications**

#### **4.1 Financial**

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

#### **4.2 Legal**

4.2.1 There are no legal implications arising directly from this report.

#### **4.3 Corporate**

4.3.1 The Annual Governance Statement Action Plan is a corporate document that addresses the areas of improvement identified as necessary through the Annual Governance Statement process.

4.3.2 Governance and Audit Committee are charged with monitoring the effective development and operation of risk management, and to this end receive the corporate risk register on a regular basis to ensure that the risk management process is being applied appropriately across the organisation.

#### **4.4 Equity and Equalities**

4.4.1 There are no equity or equalities issues arising from this report.

#### **4.5 Risks**

4.5.1 Failure to undertake these processes will impact on the council's approach to Corporate Governance.

## 5.0 Recommendation(s)

- 5.1 That Members note the content of annexes 1 and 2 and identify any issues on which they require more clarification.
- 5.2 That Members agree the programme of reports for 2011/12, on the understanding that there may be variations to the programme should the need arise.
- 5.3 That Members agree the changes to the terms of reference and agree that they go forward to the Constitutional Review Working Party, Standards and Council for formal agreement.

## 6.0 Decision Making Process

- 6.1 These recommendations do not involve the making of a key decision and may be taken by the Governance and Audit Committee.

Future Meeting if applicable:	Date:
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Contact Officer:	Nikki Morris, Corporate Governance and Risk Officer, DDI 01843 577625
Reporting to:	Sarah Carroll, Corporate Resources Manager, DDI 01843 577188

### ***Annex List***

Annex 1	Corporate Risk Register
Annex 2	Annual Governance Statement 2009/10 action plan
Annex 3	Programme of reports for 2011/12
Annex 4	Terms of Reference (Version 5 11-12)

### ***Background Papers***

<b>Title</b>	<b>Details of where to access copy</b>
Annual Governance Statement 2009/10	Members Portal, Council website ( <a href="http://www.thanet.gov.uk">www.thanet.gov.uk</a> ) and hard copy within Corporate Resources, first floor, Cecil Street Offices, Margate
Terms of Reference (Version 4)	Within Constitution

### ***Corporate Consultation Undertaken***

Finance	Not applicable
Legal	Not applicable

## Risk Register

Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
<p><b>Risk Ref:</b> COM0001</p> <p>There are a number of external funding streams which are used to fund a number of delivery elements. This includes both current and potential future funding streams.</p> <p><b>Next Review:</b> 10/05/2011 (Reviewed every 4 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Unable to secure anticipated future funding or current funding withdrawn</p>	<p>Mainstream services</p> <p>Funding issue</p> <p>Recruitment and retention issues</p> <p>Funding paid back</p> <p>Decision needs to be made</p> <p>Possible overspend due to mainstreaming</p> <p>Possible cessation of delivering service</p> <p>Dissatisfaction / complaints</p>	<p>Homer, Madeline</p>	<p>6</p> <p>P(3) I(2)</p>	<p>6</p> <p>P(3) I(2)</p>	<p><b>Existing Strategy for SSCF to be agreed by SSCF Board</b></p> <p><i>Implemented</i></p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> (Reviewed every 0 months)</p> <p><b>Restructure staff within Community Services as part of the 2010/11 budget build</b></p> <p><i>Implemented</i></p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 10/05/2011 (Reviewed every 4 months)</p>	<p>Wenham-Jones, Carla</p> <p>Homer, Madeline</p>	<p>3</p> <p>P(3) I(1)</p>
<p><b>Risk Ref:</b> COM0002</p> <p>TDC do not respond to a Child Protection issue.</p> <p><b>Next Review:</b> 05/07/2011 (Reviewed every 6 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Staff are not adequately trained to recognise a potential safeguarding issue. TDC do not comply with the KSCB Annual Review and Section 11 Audit.</p>	<p>The child's welfare is at risk. TDC are non-compliant with The Childrens' Act 1989 and 2004.</p>	<p>Phippin, Sarah</p>	<p>9</p> <p>P(3) I(3)</p>	<p>3</p> <p>P(1) I(3)</p>	<p><b>KSCB Annual Review and Section 11 Audit Completed</b></p> <p><i>Proposed (0% complete)</i></p> <p><b>Target Date:</b> 29/04/2011</p> <p><b>Next Review:</b> 07/01/2012 (Reviewed every 12 months)</p> <p><b>All staff trained to recognise a child at risk and the LA procedure</b></p> <p><i>In Progress (75% complete)</i></p> <p><b>Target Date:</b> 05/07/2011</p> <p><b>Next Review:</b> 07/07/2011 (Reviewed every 6 months)</p>	<p>Phippin, Sarah</p> <p>Phippin, Sarah</p>	<p>3</p> <p>P(1) I(3)</p>
<p><b>Risk Ref:</b> ENV0001</p> <p>Health and safety risk assessments not having been completed recently.</p> <p><b>Next Review:</b> 09/05/2011 (Reviewed every 4 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Member of staff injured undertaking Council duties</p>	<p>Possible corporate manslaughter</p> <p>Failure of statutory requirements</p> <p>Insurance claim against the Council</p> <p>Loss of reputation</p> <p>Adverse media</p>	<p>Seed, Mark</p>	<p>9</p> <p>P(3) I(3)</p>	<p>9</p> <p>P(3) I(3)</p>	<p><b>Liaise with EKHRP to review H&amp;S risk assessment process</b></p> <p><i>In Progress (75% complete)</i></p> <p><b>Target Date:</b> 31/12/2010</p> <p><b>Next Review:</b> (Reviewed every 4 months)</p> <p><b>Liaise with EKHRP to implement recommendations from 2009 internal audit</b></p> <p><i>In Progress (60% complete)</i></p> <p><b>Target Date:</b> 30/04/2011</p> <p><b>Next Review:</b> 13/03/2011 (Reviewed every 4 months)</p>	<p>Carroll, Sarah</p> <p>Carroll, Sarah</p>	<p>3</p> <p>P(1) I(3)</p>

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Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
<p><b>Risk Ref:</b> FCS0001</p> <p>The Medium Term Financial Strategy contains a number of plans and assumptions around income and expenditure however there are a number of issues which if they occurred could impact on the plan. This could include issues around the capital programme, pay settlement, pension fund or government legislation changes. This is further impacted by the current economic volatility - 'credit crunch'.</p> <p><b>Next Review:</b> 18/03/2011 (Reviewed every 2 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Assumptions made differ from actual or something unexpected significantly impacts on the plan</p>	<p>Impact on reserves Requirement for remedial action Supplementary precept Need to prioritise / rationalise some areas Stop doing certain things Impact on service delivery Complaints Adverse media</p>	<p>Martin, Sarah</p>	<p>12 P(4) I(3)</p>	<p>12 P(4) I(3)</p>	<p><b>Regular liaison with budget Managers and Directors</b> <i>Implemented</i> <b>Target Date:</b> <b>Next Review:</b> 18/03/2011 (Reviewed every 2 months)</p> <p><b>Clear communication of financial position</b> <i>Implemented</i> <b>Target Date:</b> <b>Next Review:</b> 18/03/2011 (Reviewed every 2 months)</p> <p><b>Set up process to deliver savings</b> <i>Implemented</i> <b>Target Date:</b> <b>Next Review:</b> 18/03/2011 (Reviewed every 2 months)</p>	<p>Martin, Sarah</p> <p>Martin, Sarah</p> <p>Martin, Sarah</p>	<p>4 P(2) I(2)</p>

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Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
<p><b>Risk Ref:</b> FCS0002</p> <p>Procurement and contract management / monitoring are increasingly important and there is a need to measure and monitor effectiveness and value for money (VFM) on key contracts</p> <p><b>Next Review:</b> 13/05/2011 (Reviewed every 4 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Fail to adequately manage / monitor key contracts</p>	<p>Impact on VFM</p> <p>Tenant satisfaction falls</p> <p>Impact on reputation from tenants and marketplace</p> <p>Key contract fails</p> <p>Significant amount of time required to manage situation</p>	<p>Paton, Karen</p>	<p style="text-align: center;">9 P(3) I(3)</p>	<p style="text-align: center;">3 P(1) I(3)</p>	<p><b>Strengthen process for capturing contract details aligned with budget information</b> <i>In Progress</i> (50% complete) <b>Target Date:</b> <b>Next Review:</b> 13/03/2011 (Reviewed every 4 months)</p> <p><b>Increase the resource for monitoring compliance with CSOs</b> <i>In Progress</i> (10% complete) <b>Target Date:</b> <b>Next Review:</b> 13/05/2011 (Reviewed every 4 months)</p> <p><b>Contract Management Training</b> <i>Proposed</i> (0% complete) <b>Target Date:</b> <b>Next Review:</b> 04/09/2011 (Reviewed every 6 months)</p> <p><b>Periodic refresh of the Contract Register</b> <i>In Progress</i> (50% complete) <b>Target Date:</b> <b>Next Review:</b> 04/07/2011 (Reviewed every 8 months)</p>	<p>Paton, Karen</p> <p>McGonigal, Sue</p> <p>Paton, Karen</p> <p>Paton, Karen</p>	<p style="text-align: center;">2 P(1) I(2)</p>
<p><b>Risk Ref:</b> FCS0003</p> <p>Targets for efficiency savings over 3 years are part of the financial plan however there are costs that are currently funded externally as well as a high level of 'charged for' / demand led services where the removal of grant or reduction in demand could result in significant budget pressures.</p> <p><b>Next Review:</b> 11/07/2011 (Reviewed every 5 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Fail to deliver balanced budget or contain within available funding streams</p>	<p>Draw on reserves</p> <p>Difficult to balance budget</p> <p>Funds need to be secured from other areas</p> <p>Possible reduction in service areas</p> <p>Staffing implications</p> <p>Impact on morale / culture</p> <p>Service delivery affected</p>	<p>Martin, Sarah</p>	<p style="text-align: center;">8 P(4) I(2)</p>	<p style="text-align: center;">8 P(4) I(2)</p>	<p><b>Set out exit strategy for grant funded costs at the point of inception</b> <i>In Progress</i> (75% complete) <b>Target Date:</b> <b>Next Review:</b> 11/07/2011 (Reviewed every 5 months)</p> <p><b>By adopting a flexible approach to staffing in services where demand is volatile</b> <i>In Progress</i> (95% complete) <b>Target Date:</b> 31/05/2011 <b>Next Review:</b> 30/05/2011 (Reviewed every 4 months)</p>	<p>Martin, Sarah</p> <p>Carroll, Sarah</p>	<p style="text-align: center;">2 P(1) I(2)</p>

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<p><b>Risk Ref:</b> FCS0004</p> <p>The organisation has made significant improvement in performance management, with a clearly defined 'golden thread' through service planning and performance. There is still some concern that the performance information isn't being used by managers, as a tool to manage.</p> <p><b>Next Review:</b> 09/05/2011 (Reviewed every 4 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Council doesn't have or make best use of performance information for service outcomes</p>	<p>Resources used for wrong priorities</p> <p>Missed opportunities (to save and improve)</p> <p>Unable to achieve key targets</p> <p>Don't manage performance effectively</p>	<p>Carroll, Sarah</p>	<p style="text-align: center;">6 P(3) I(2)</p>	<p style="text-align: center;">6 P(3) I(2)</p>	<p><b>Training of managers on the benefits of performance management</b></p> <p><i>Implemented</i></p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 31/03/2011 (Reviewed every 4 months)</p> <p><b>Work to change the culture of management around performance management</b></p> <p><i>In Progress</i> (30% complete)</p> <p><b>Target Date:</b> 31/03/2011</p> <p><b>Next Review:</b> 11/07/2011 (Reviewed every 5 months)</p>	<p>Tebbett, Stephen</p> <p>McGonigal, Sue</p>	<p style="text-align: center;">4 P(2) I(2)</p>
<p><b>Risk Ref:</b> FCS0005</p> <p>The Council's financial position is severely compromised as a result of its pension liabilities.</p> <p><b>Next Review:</b> 13/05/2011 (Reviewed every 4 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>The Council is unable to contain its costs within its funding level.</p>	<p>An unbalanced budget, or cuts in key services needed to balance the budget</p>	<p>Martin, Sarah</p>	<p style="text-align: center;">9 P(3) I(3)</p>	<p style="text-align: center;">12 P(3) I(4)</p>	<p><b>Allow sufficient growth in the Medium Term Financial Plan</b></p> <p><i>In Progress</i> (50% complete)</p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 18/03/2011 (Reviewed every 4 months)</p>	<p>Martin, Sarah</p>	<p style="text-align: center;">4 P(2) I(2)</p>
<p><b>Risk Ref:</b> FCS0010</p> <p>Business Continuity Plans are not sufficiently drafted or robustly tested; or are not sufficiently understood across the organisation.</p> <p><b>Next Review:</b> 16/03/2011 (Reviewed every 2 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>A business continuity incident occurs and the organisation fails to respond effectively</p>	<p>Confusion</p> <p>Mixed messages internally and externally</p> <p>Impact on key services</p> <p>Service failure</p> <p>Impact on vulnerable people</p> <p>Potential health and safety issues</p> <p>Possible corporate manslaughter</p> <p>Drop in standards</p> <p>Possible breach of contract</p>	<p>McGonigal, Sue</p>	<p style="text-align: center;">16 P(4) I(4)</p>	<p style="text-align: center;">9 P(3) I(3)</p>	<p><b>Review and revise the council's BCP</b></p> <p><i>In Progress</i> (80% complete)</p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 16/05/2011 (Reviewed every 2 months)</p> <p><b>Test the effectiveness of the BCP</b></p> <p><i>In Progress</i> (60% complete)</p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 16/05/2011 (Reviewed every 2 months)</p>	<p>Morris, Nikki</p> <p>Morris, Nikki</p>	<p style="text-align: center;">1 P(1) I(1)</p>



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<p><b>Risk Ref:</b> FCS0011</p> <p>Climate change is increasingly on the agenda and there is a balance between a willingness to address this against the resource requirements. The Council is signed up on a number of targets in the Kent Agreement</p> <p><b>Next Review:</b> 13/05/2011 (Reviewed every 4 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Fail to deliver leadership and corporate commitment on climate change</p>	<p>Unable to change behaviours internally and locally</p> <p>Not seen as a community leader on this issue</p> <p>Impact on Use of Resources (from 2010)</p>	<p>McGonigal, Sue</p>	<p>8</p> <p>P(4) I(2)</p>	<p>4</p> <p>P(4) I(1)</p>	<p><b>Assess what climate change measures are needed</b></p> <p><i>Implemented</i></p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 13/05/2011 (Reviewed every 4 months)</p> <p><b>Draft an action plan to deal with outstanding climate change related projects</b></p> <p><i>In Progress (50% complete)</i></p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 13/03/2011 (Reviewed every 4 months)</p> <p><b>Attempt to change the culture of the council's staff in relation to climate change</b></p> <p><i>In Progress (80% complete)</i></p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 13/03/2011 (Reviewed every 4 months)</p>	<p>McGonigal, Sue</p> <p>Wingate, Justine</p> <p>Wingate, Justine</p>	<p>2</p> <p>P(2) I(1)</p>
<p><b>Risk Ref:</b> FCS0012</p> <p>The Council and other public sector bodies are all striving to deliver against key priorities and targets on both a local level, through the Corporate Plan, and at a county-wide level through the Community Strategy, Local Area Agreement (LAA). The restricted financial position could limit the resources available to do this, which in turn could have an impact on ability to meet the wide range of targets.</p> <p><b>Next Review:</b> 11/05/2011 (Reviewed every 6 months)</p> <p><b>Risk Status:</b> Tolerate</p>	<p>Thanet Corporate plan / BVPI's don't align with Community Strategy / LAA, resulting in too many (possibly conflicting) pieces of work being attempted.</p>	<p>Conflicting priorities</p> <p>Try to do too much</p> <p>Fail to achieve priorities</p> <p>Impact on CAA / Use of Resources</p> <p>Impact on election</p> <p>Adverse publicity</p> <p>Reputation damaged</p>	<p>McGonigal, Sue</p>	<p>3</p> <p>P(3) I(1)</p>	<p>2</p> <p>P(2) I(1)</p>	<p><b>Input into the development of the Community Strategy that have an impact on Thanet council and the area</b></p> <p><i>Implemented</i></p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> (Reviewed every 6 months)</p> <p><b>Exercise to align new Corporate Plan with Vision and other key documents</b></p> <p><i>In Progress (55% complete)</i></p> <p><b>Target Date:</b> 31/08/2011</p> <p><b>Next Review:</b> 11/05/2011 (Reviewed every 3 months)</p>	<p>Chadwick, Sophie</p> <p>Halse, Adrian</p>	<p>1</p> <p>P(1) I(1)</p>

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Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
<p><b>Risk Ref:</b> FCS0013</p> <p>The Council relies on staff consistently working for longer than their contracted hours</p> <p><b>Next Review:</b> 13/05/2011 (Reviewed every 4 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Increasingly due to staff numbers having reduced to make budget savings</p>	<p>Increased sickness absence</p> <p>Increased levels of overtime requests</p> <p>Potential health and safety issues</p> <p>Breach of contract</p> <p>Impact on service delivery</p> <p>Staff dissatisfaction</p> <p>Recruitment and retention issues</p> <p>Impact on VfM</p>	Carroll, Sarah	<p style="text-align: center;">9</p> <p style="text-align: center;">P(3) I(3)</p>	<p style="text-align: center;">12</p> <p style="text-align: center;">P(4) I(3)</p>	<p><b>Approve and implement flexible working arrangements</b></p> <p><i>Approved</i> (98% complete)</p> <p><b>Target Date:</b> 30/04/2011</p> <p><b>Next Review:</b> 13/03/2011 (Reviewed every 4 months)</p> <p><b>Deliver training</b></p> <p><i>In Progress</i> (25% complete)</p> <p><b>Target Date:</b> 30/04/2011</p> <p><b>Next Review:</b> 13/03/2011 (Reviewed every 4 months)</p>	<p>Carroll, Sarah</p> <p>Carroll, Sarah</p>	<p style="text-align: center;">4</p> <p style="text-align: center;">P(2) I(2)</p>
<p><b>Risk Ref:</b> FCS0015</p> <p>The current economic climate may result in individuals and/or criminal fraternities taking greater risks and/or using more innovative technologies in order to obtain monies by illegal means.</p> <p><b>Next Review:</b> 05/07/2011 (Reviewed every 6 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>The Council may not have sufficient resource dedicated to anti-fraud measures to deal with any increase in fraudulent activity; or may not have the capacity to keep up to date with new fraudulent methods.</p>	<p>Increase in incidence of successful frauds against the Council</p>	Martin, Sarah	<p style="text-align: center;">12</p> <p style="text-align: center;">P(4) I(3)</p>	<p style="text-align: center;">6</p> <p style="text-align: center;">P(3) I(2)</p>	<p><b>Raise staff awareness</b></p> <p><i>In Progress</i> (0% complete)</p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 05/09/2011 (Reviewed every 6 months)</p>	Martin, Sarah	<p style="text-align: center;">3</p> <p style="text-align: center;">P(3) I(1)</p>
<p><b>Risk Ref:</b> FCS0016</p> <p>Non compliance with local CSO's and public sector contract regulations (as written into UK Law) as and where applicable</p> <p><b>Next Review:</b> 09/05/2011 (Reviewed every 4 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Challenge around probity and transparency by stakeholders</p>	<p>Loss of reputation</p> <p>Financial penalty</p> <p>Cessation of contract (contract deemed ineffective)</p> <p>Additional resource and cost to correct</p> <p>Cost of defending challenge</p>	Paton, Karen	<p style="text-align: center;">9</p> <p style="text-align: center;">P(3) I(3)</p>	<p style="text-align: center;">6</p> <p style="text-align: center;">P(2) I(3)</p>	<p><b>Monitor the contract process</b></p> <p><i>In Progress</i> (75% complete)</p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 09/06/2011 (Reviewed every 4 months)</p> <p><b>Implement Audit recommendations</b></p> <p><i>In Progress</i> (75% complete)</p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 04/06/2011 (Reviewed every 3 months)</p>	<p>Paton, Karen</p> <p>Paton, Karen</p>	<p style="text-align: center;">3</p> <p style="text-align: center;">P(1) I(3)</p>

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Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
<p><b>Risk Ref:</b> FCS0017</p> <p>The Council is engaging in a shared services programme through a number of projects, with a number of other authorities, particularly at this point around Waste, Housing and HR and Payroll Services. This will have an impact on the viability of the remaining organisation, particularly around corporate support. The Council needs to corporately understand and agree the future shape of the organisation.</p> <p><b>Next Review:</b> 20/04/2011 (Reviewed every 3 months)</p> <p><b>Risk Status:</b> Treat</p>	Unable to corporately understand/agree the impact of this programme on the residual organisation	Lack of clarity Differing views Political impact Sub-optimal model Missed opportunities Financial impact Failure to make tough decisions Piecemeal solution Cannot support core function Impact on delivery	McGonigal, Sue	6 P(3) I(2)	6 P(3) I(2)	<p><b>Project teams identified</b>  <i>Implemented</i>  <b>Target Date:</b> 30/04/2011  <b>Next Review:</b> (Reviewed every 0 months)</p>	McGonigal, Sue	3 P(1) I(3)
<p><b>Risk Ref:</b> FCS0018</p> <p>The Council is engaged in a shared services programme with two other authorities.</p> <p><b>Next Review:</b> 15/04/2011 (Reviewed every 3 months)</p> <p><b>Risk Status:</b> Treat</p>	Shared service programme fails to deliver effectively to improve services and save money in shared areas	Financial loss Wasted resources Dissatisfaction Need to unwind and go back Failure of statutory responsibilities Unitary model imposed Political unrest	McGonigal, Sue	9 P(3) I(3)	9 P(3) I(3)	<p><b>Strategic Business Case</b>  <i>In Progress</i> (60% complete)  <b>Target Date:</b>  <b>Next Review:</b> 18/05/2011 (Reviewed every 3 months)</p>	McGonigal, Sue	3 P(1) I(3)
<p><b>Risk Ref:</b> FCS0019</p> <p>limited internal specialist support available (such as engineers, property, legal) at peak times.</p> <p><b>Next Review:</b> 11/05/2011 (Reviewed every 6 months)</p> <p><b>Risk Status:</b> Treat</p>	Possible claim against the Council under professional / officials indemnity	Delays in service delivery Unable to meet targets Non completion of corporate plan objectives Wasted resources Stop doing certain things Dissatisfaction / complaints Drop in standards	Carroll, Sarah	4 P(2) I(2)	4 P(2) I(2)	<p><b>Shared Services</b>  <i>Withdrawn</i>  <b>Target Date:</b>  <b>Next Review:</b> (Reviewed every 6 months)</p> <p><b>Recruitment /appointment process</b>  <i>Withdrawn</i>  <b>Target Date:</b>  <b>Next Review:</b> (Reviewed every 6 months)</p> <p><b>Take into account when drafting budget savings proposals</b>  <i>Implemented</i>  <b>Target Date:</b>  <b>Next Review:</b> 30/05/2011 (Reviewed every 6 months)</p>	Reed, Donna  Carroll, Sarah  Martin, Sarah	2 P(1) I(2)

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<p><b>Risk Ref:</b> FCS0020</p> <p>The Council is involved in a number of partnerships and there is a reliance on these to deliver in a number of areas. There are concerns however around the level of resourcing required, the robustness of the management and governance around these and the ability / willingness of partners to participate fully</p> <p><b>Next Review:</b> 11/03/2011 (Reviewed every 4 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Council invests more time and resource into partnerships than the benefit received</p>	<p>Wasted resources Differing priorities Effort expended on other / lower priorities Direction of partnership changes Expend extra effort to manage partnership arrangements Frustration Unable to meet targets Loss of funding Loss of confidence</p>	<p>Carroll, Sarah</p>	<p style="text-align: center;">6 P(3) I(2)</p>	<p style="text-align: center;">6 P(3) I(2)</p>	<p><b>Use the performance management process to monitor the achievements of partnerships</b> <i>Proposed</i> (0% complete) <b>Target Date:</b> <b>Next Review:</b> 11/07/2011 (Reviewed every 4 months)</p> <p><b>Record the governance arrangements and agreed benefits / purpose of partnerships</b> <i>In Progress</i> (10% complete) <b>Target Date:</b> <b>Next Review:</b> 11/07/2011 (Reviewed every 4 months)</p> <p><b>Request outline business case to be produced to highlight resource requirements up front</b> <i>Implemented</i> <b>Target Date:</b> <b>Next Review:</b> 11/05/2011 (Reviewed every 6 months)</p>	<p>Morris, Nikki</p> <p>Morris, Nikki</p> <p>Carroll, Sarah</p>	<p style="text-align: center;">2 P(1) I(2)</p>
<p><b>Risk Ref:</b> LDS0001</p> <p>There are corporate standards, policies and procedures which need to be understood and applied consistently throughout the Council. The organisation has a history of focusing on delivery, not corporateness and there could be tensions, particularly with capacity constraints around key areas of focus.</p> <p><b>Next Review:</b> 13/07/2011 (Reviewed every 4 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Inconsistent application of corporate standards, policies and procedures</p>	<p>Some areas more robust than others Poorly tracked decisions Possible litigation Financial loss Qualified accounts Impact on Use of Resources Impact on management</p>	<p>Patterson, Harvey</p>	<p style="text-align: center;">8 P(4) I(2)</p>	<p style="text-align: center;">8 P(4) I(2)</p>	<p><b>Reinforce the need to follow corporate policy &amp; processes</b> <i>In Progress</i> (50% complete) <b>Target Date:</b> <b>Next Review:</b> 13/07/2011 (Reviewed every 4 months)</p> <p><b>Implement QA and compliance testing programmes</b> <i>Proposed</i> (0% complete) <b>Target Date:</b> <b>Next Review:</b> 13/07/2011 (Reviewed every 4 months)</p> <p><b>Manager / Officer Handbook</b> <i>In Progress</i> (5% complete) <b>Target Date:</b> <b>Next Review:</b> 16/05/2011 (Reviewed every 4 months)</p>	<p>Patterson, Harvey</p> <p>Patterson, Harvey</p> <p>Morris, Nikki</p>	<p style="text-align: center;">2 P(1) I(2)</p>

## Risk Register

Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
<p><b>Risk Ref:</b> LDS0002</p> <p>Loss of unencrypted memory stick, loss of laptop computer, loss of paper file, improper use of e-mail system , breach of data protection protocols</p> <p><b>Next Review:</b> 13/04/2011 (Reviewed every 2 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Personal data disclosed in response to FOIA Request in breach of the Data Protection Act , Using personal information for a more than one purpose without notifying the data subject of that intention, personal information not kept up to date, personal information held longer than necessary, failing to comply with a subject access request within the prescribed period</p>	<p>Reputational Damage, ICO Investigation and potential fines, Increased risk of compensation claims for breach of privacy</p>	<p>Patterson, Harvey</p>	<p>12 P(4) I(3)</p>	<p>12 P(4) I(3)</p>	<p><b>Up to date Data Protection Policy</b> <i>In Progress</i> (90% complete) <b>Target Date:</b> 20/06/2011 <b>Next Review:</b> 13/03/2011 (Reviewed every 1 months)</p> <p><b>Advanced Training</b> <i>Proposed</i> (0% complete) <b>Target Date:</b> 31/07/2011 <b>Next Review:</b> 13/03/2011 (Reviewed every 1 months)</p> <p><b>Acquire Data Protection Manual</b> <i>Proposed</i> (0% complete) <b>Target Date:</b> <b>Next Review:</b> 13/03/2011 (Reviewed every 1 months)</p> <p><b>Review Use of Privacy (formerly Fair Processing) Notices</b> <i>In Progress</i> (90% complete) <b>Target Date:</b> 01/05/2011 <b>Next Review:</b> 13/03/2011 (Reviewed every 1 months)</p> <p><b>Review Data Sharing Agreements with External Agencies</b> <i>In Progress</i> (90% complete) <b>Target Date:</b> 30/09/2011 <b>Next Review:</b> 13/03/2011 (Reviewed every 1 months)</p> <p><b>All Staff Training on Data Protection</b> <i>Proposed</i> (0% complete) <b>Target Date:</b> 31/05/2011 <b>Next Review:</b> 13/03/2011 (Reviewed every 1 months)</p>	<p>Patterson, Harvey</p> <p>Patterson, Harvey</p> <p>Patterson, Harvey</p> <p>Cordes, Gary</p> <p>Cordes, Gary</p> <p>Cordes, Gary</p>	<p>6 P(3) I(2)</p>

## Risk Register

Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
<p><b>Risk Ref:</b> REG0001</p> <p>Concerns that the Council is not investing sufficiently in the upkeep of its physical assets due to lack of financial resources.</p> <p><b>Next Review:</b> 28/04/2011 (Reviewed every 2 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Council has more property than it can afford. This is due to the repairs deficit, of over 4 million pounds. And community/ political tension over many potential asset dispoasls. Further during recession, our tenats in community buildings are requesting reduced rents, creating more budget pressures.</p>	<p>Gradual deterioration in quality and utility</p> <p>Decrease in value of property</p> <p>Loss of income</p> <p>Potential health and safety issues</p> <p>Political impact</p> <p>Loss of reputation</p> <p>Adverse publicity</p> <p>Impact on VfM</p> <p>Complaints</p>	White, Brian	12 P(3) I(4)	16 P(4) I(4)	<p><b>Asset Management Strategy</b></p> <p><i>In Progress</i> (70% complete)</p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 28/04/2011 (Reviewed every 2 months)</p>	White, Brian	4 P(2) I(2)
<p><b>Risk Ref:</b> REG0002</p> <p>The Council has a role to play within Emergency Planning, but there is a lack of clarity on this currently.</p> <p><b>Next Review:</b> 28/04/2011 (Reviewed every 2 months)</p> <p><b>Risk Status:</b> Treat</p>	<p>Council fails to fulfil it's emergency planning role</p>	<p>Council doesn't contribute as required</p> <p>Lack of understanding on requirements and arrangements</p> <p>Confusion on role in an incident</p> <p>Mixed messages internally and externally</p> <p>Impact on vulnerable people</p> <p>Potential health and safety issues</p> <p>Possible corporate manslaughter</p> <p>Drop in standards</p> <p>Possible breach of contract</p>	White, Brian	12 P(3) I(4)	4 P(1) I(4)	<p><b>Emergency Plan and processes updated and disseminated to staff.</b></p> <p><i>In Progress</i> (90% complete)</p> <p><b>Target Date:</b></p> <p><b>Next Review:</b> 04/06/2011 (Reviewed every 4 months)</p>	Humber, Mike	4 P(1) I(4)



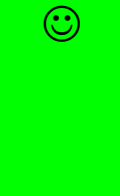

Deadline met. Progress made in line with deadline date

Slightly off track but underway

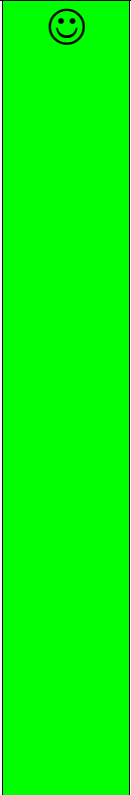
Progress off track / deadline not met







Governance issue identified	Proposed action	Responsible officer / body	Dec - Feb quarter position / progress made	Deadline date	Completion date
<p><b>1. Within this section are the governance issues identified in previous Annual Governance Statement action plans, which have not been completed for various reasons and will therefore be updated and incorporated into the 2009/10 action plan, to be undertaken during 2010/11.</b></p>					
<p>Health and safety risk assessments need a thorough review to ensure they encompass lone working, out of hours and enforcement tasks and a corporate approach is needed, especially in high risk areas such as Grounds Maintenance, the Port and Harbour and Waste &amp; Recycling.</p>	<p>The risk assessment process needs to be addressed and has been identified in the East Kent Human Resources Partnership Health and Safety Strategy, which is currently in draft to provide assurance to the Corporate Management Team.</p>	<p>EKHRP</p>	<p>Work is ongoing by the EKHRP health and safety case consultants in assisting managers to undertake and review risk assessments relating to work activities, equipment, premises, events etc. A practical example of this is a risk assessment for works on the renovation of seafront shelters at Margate which has introduced controls against the possible exposure to lead poisoning from old paint work. Additionally a draft risk assessment guidance note will be presented to the committee in March. The 2nd health and safety committee meeting took place in December with issues identified as ongoing for presentation at the March meeting. This included work on a draft lone working policy and a demonstration of an electronic personal safety system to committee members. Following completion of the restructure process health and safety maps will be issued to managers together with training in their application and use.</p>		<p>Ongoing</p>




Governance issue identified	Proposed action	Responsible officer / body	Dec - Feb quarter position / progress made	Deadline date	Completion date	
Member training and development needs, especially around specific areas such as planning, scrutiny and governance, needs to be enhanced to ensure that the committees are effective and that members are suitably able to undertake their roles within these committees.	The council plans on surveying members to identify future training and development needs, with a view to establishing a more formally structured Member development programme.	Glenn Back	The council plans on surveying members to identify future training and development needs, with a view to establishing a more formally structured Member development programme. In view of the proximity of the District elections, it is anticipated the survey will take place in June 2011.		Jun 2011 (survey)	
<b>2. The identified areas detailed below have arisen from our numerous assessments into the council's governance arrangements for 2009/10 and have been deemed to be significant by the Governance Group. These will be addressed during 2010/11 and for those already actioned an update has been provided.</b>						
The East Kent Audit Partnership's work throughout 2009/10 indicated areas of concern regarding systems of internal control in the following areas:	In each of the cases indicated above, actions plans have been agreed with Managers and are being progressed as directed.					
<ul style="list-style-type: none"> <li>CSO Compliance</li> </ul>		Karen Paton	Dec and Jan stats of orders monitored indicate 100% compliance.		31-Mar-11	
<ul style="list-style-type: none"> <li>Creative Margate CSO Arrangements</li> </ul>		Derek Harding	Action completed			01-Jun-10
<ul style="list-style-type: none"> <li>Overtime Claims</li> </ul>		Sarah Carroll	Recommendations were made in October to KCC for the 'universal claim' form to include reasons from overtime claimed. Confirmation received in February that this will be actioned alongside verification / authorisation by manager. Audit have undertaken a review of 'payroll controls' which included an element of reporting. CMT continue to scrutinise overtime and recommendations from the VfM review will be shared with CMT in March.		TBC	



Governance issue identified	Proposed action	Responsible officer / body	Dec - Feb quarter position / progress made	Deadline date	Completion date
<ul style="list-style-type: none"> <li>Environmental Health Food Safety</li> </ul>		Penny Button	<p>The one outstanding item, shellfish sampling, is still outstanding due to further changes in the requirements of the sampling regime to now possibly include oysters and different sampling points as well as staff absence has meant that this hasn't been progressed to completion. Various options for completion of the regime have been discussed including using existing staff or staff from other teams until outsourcing becomes possible.</p>		End Mar 2011
<ul style="list-style-type: none"> <li>Homelessness</li> </ul>		Victoria May / Stuart Clifton	<p>Homeless prevention work is still continuing and is effective in keeping the number of homelessness acceptances low. The number of households in temporary accommodation remains fairly low, though there has been a slight increase from the previous quarter. Both homelessness acceptances and households in temporary accommodation is likely to rise over the coming quarters due to changes in Housing Benefit reform and also in line with government cuts nationally as part of the CSR. Rent Deposit debtors are continuing to be chased and Bond Scheme still being explored. Final meeting with CASA to locate accounts for Old Schools Lodge been held.</p>		Ongoing

Governance issue identified	Proposed action	Responsible officer / body	Dec - Feb quarter position / progress made	Deadline date	Completion date	
A directory of key documents referred to should be produced with a brief summary of their content, purpose, application to managers and where the documents can be located. This should be referred to annually in the staff development notes/team briefings and should be published on TOM. It would also provide a useful induction tool.	Work on a manager / officer handbook to be undertaken during 10/11 which will inform officers of key documents, processes, systems and responsibilities.	Nikki Morris	Progress is being made on this project. A draft Customer Charter has been prepared and will be circulated to the Improvement Forum. Pages are under construction on TOM.		31-Mar-11	
The issue of compliance with corporate policies and procedures (especially CSOs and the Gifts and Hospitality procedure) needs to be reviewed to ensure consistency across the council.	To be considered by CMT and the use of sanctions for non-compliance to be made more explicit.	CMT (via Nikki Morris)	See comments below			
<ul style="list-style-type: none"> <li>CSO awareness</li> </ul>	A formalised procurement programme be developed. Risk in procurement management to be added to the council's corporate risk register. A skills audit be undertaken for all managers involved in procurement activity, to be used to inform future training programmes.	Karen Paton	Roles and responsibilities scoped and communicated to originators and authorisers. A follow up internal audit Compliance with CSO's has seen the Council's assurance level increase from limited to Reasonable		31-Mar-11	
<ul style="list-style-type: none"> <li>Gifts and Hospitality procedure</li> </ul>	Declaration of interest and gifts and hospitality register processes to be communicated as priority.	Glenn Back	Completed.		01-Sep-10	04-Oct-10
A lack of capacity at the managerial level to undertake the statutory functions that the council is required to carry out could result in governance issues for the council.	Regular workforce reporting to CMT ensures that resources are allocated as appropriate.	CMT (via EKHRP)	Workforce reports provided to CMT on a monthly basis. EKHRP to attend each CMT meeting to present each report.		Ongoing	
There is a lack of knowledge of the council's staff charter, which details mutual expectations between employees and employer.	Due to time elapsed this needs to be revisited to ensure its relevance and communicated to all staff.	Sarah Carroll	The Council has now launched its core values and priorities. This clearly identifies how the council will conduct its business and has superseded the unpublished Staff Charter at this point in time.			No further action

Governance issue identified	Proposed action	Responsible officer / body	Dec - Feb quarter position / progress made	Deadline date	Completion date	
There remains gaps across the organisation in staff that have undertaken child protection training. A substantial number of employees have done this training.	The Child Protection Committee should be charged with reviewing compliance and ensuring that this training is included in the induction programme. An annual compliance report is made to Cabinet.	Carla Wenham-Jones	Parks and Gardens Child Protection training undertaken in January 2011. IT met with and will be loading LAN Consent onto Thanet log-in system.		End Sept 2010	01-Feb-11
The council has tried a number of approaches to carrying out value for money reviews, but there has been a lack of commitment to the process from some areas, which has impacted on the review programme and created problems for the resources allocated to undertake these reviews.	The council's approach and commitment to value for money needs to be discussed and agreed to ensure that future reviews and the overall programme are undertaken in a timely way and add value.	Nikki Morris	The Improvement Board, Improvement Project Team and Improvement Forum have now been established which will be looking at service improvements throughout the authority, taking into account value for money.		Ongoing	
Changes in staffing structures must be communicated appropriately to ensure there is no confusion over responsibilities and authorities. More changes are taking place and this is still a live issue and clarification needs to take place on the member and officer scheme of delegations.	Delegations to Cabinet Members and officers were reviewed by the Constitutional Review Working Party in 2009/10 for implementation in 2010/11. These will be placed on TOM as a reminder to managers. This also needs to be added to the corporate risk register.	Harvey Patterson	Tom was updated following the May 2010 meeting. This will however need to reviewed again following the implementation of the new corporate structure.		19-May-11	
<b>3. To comply with best practice the Governance and Audit Committee determined that it would consider annually whether it meets its terms of reference and how it has impacted on the internal control environment. The Committee carried out the National Audit Checklist and identified some actions which it recommends will improve performance against best practice for the forthcoming year. These issues have already been actioned and an update is provided but will continue to be monitored to ensure they are effective.</b>						
The Audit Committee meets on a quarterly basis, however on occasions the agendas for these meetings are quite heavy and meetings tend to go on for a number of hours.	That the Committee consider increasing the number of times the Committee meet to relieve pressure on full agendas, and holding a separate meeting in June to deal with the Statement of Accounts.	G & A (via Nikki Morris)	Action completed. Governance and Audit Committee agenda will continue to be monitored.			June 2010

Governance issue identified	Proposed action	Responsible officer / body	Dec - Feb quarter position / progress made	Deadline date	Completion date
An induction checklist for new Audit Committee members should be available which details key things and explains their key roles and responsibilities	Training requirements to be discussed, a regular item on agenda entitled 'Future items or training for the Committee', making reference to the programme of reports and a Member guidance pack issued at the first meeting of the cycle.	G & A (via Nikki Morris)	Governance and Audit Committee regularly receive training on matters they are to review at their meeting. There is a regular item on each agenda entitled 'Future items or training for the Committee'.		June 2010
Members who have missed a meeting need to ensure they are appropriately briefed on the business conducted in their absence. The substitute who attends for the member feeds back on outcomes of the meeting.	Set up a pool of substitutes to ensure they receive appropriate training and ensure that substitutes are aware of their responsibilities to feed back.	G & A (via Nikki Morris)	Guidance on the use of substitutions and their responsibilities has been detailed within the member guidance.		June 2010
Ensure that the minutes clearly state all agreed actions, the responsible owner, when they will be done by and any advice given from any stakeholders.	Minutes are currently produced which note any actions required but need to ensure owners and timescales are noted within actions.	G & A (via Nikki Morris)	An action plan is prepared from each meeting which will feature as an item on the agenda to ensure members are confident actions have been carried out and reported back to the Committee.		June 2010

# Governance and Audit Committee

Programme of reports for 2011/12



Meeting timetable	Agenda Items	Theme	Responsible Officer / Body
22 June 2011	Quarterly governance progress report, to include: <ul style="list-style-type: none"> <li>• Corporate risk register review</li> <li>• Annual training requirements</li> <li>• Annual Governance Statement action plan</li> </ul>	Governance	Corporate Governance and Risk Officer
	Approve the Annual Governance Statement	Governance	Corporate Governance and Risk Officer
	Quarterly Internal Audit update report	Internal Audit	East Kent Audit Partnership
	Annual Internal Audit report	Internal Audit	East Kent Audit Partnership
	Quarterly Audit progress report	External Audit	Audit Commission
	2011/12 Audit Fee letter	External Audit	Audit Commission
29 June 2011	Treasury Management year end report	Finance	Financial Services Manager
	Approve the Statement of Accounts	Finance	Chief Executive / Section 151 Officer
29 September 2011	Quarterly governance progress report, to include: <ul style="list-style-type: none"> <li>• Corporate risk register review</li> <li>• Strategy and process annual review</li> <li>• Partnership Framework annual review</li> <li>• Annual Governance Statement action plan</li> </ul>	Governance	Corporate Governance and Risk Officer
	Treasury management update	Finance	Financial Services Manager
	Quarterly Internal Audit update report	Internal Audit	East Kent Audit Partnership
	Quarterly Audit progress report	External Audit	Audit Commission
	2010/11 Annual Governance report	Finance	Audit Commission

Meeting timetable	Agenda Items	Theme	Responsible Officer / Body
13 December 2011	Quarterly governance progress report, to include: <ul style="list-style-type: none"> <li>• Corporate risk register review</li> <li>• Business Continuity Policy annual review</li> <li>• Annual Governance Statement action plan</li> <li>• Local Code of Corporate Governance and Governance Framework - annual review</li> </ul>	Governance	Corporate Governance and Risk Officer
	Treasury Management mid year report	Finance	Financial Services Manager
	Draft Treasury Management Strategy	Finance	Financial Services Manager
	Quarterly Internal Audit update report	Internal Audit	East Kent Audit Partnership
	2010/11 Annual Audit Letter	Governance	Audit Commission
20 March 2012	Performance and Data Quality Frameworks	Governance	Performance and Information Officer
	Quarterly governance progress report, to include: <ul style="list-style-type: none"> <li>• Corporate risk register review</li> <li>• Programme of meetings review</li> <li>• Terms of reference - annual review</li> <li>• Annual Governance Statement action plan</li> </ul>	Governance	Corporate Governance and Risk Officer
	Review of the effectiveness of the council's Internal Audit arrangements	Governance	Director of Finance and Corporate Services
	Treasury management update	Finance	Financial Services Manager
	Review of the effectiveness of the Governance and Audit Committee and annual report	Governance	Chair and Sub group of Governance and Audit Committee
	Quarterly Internal Audit update report	Internal Audit	East Kent Audit Partnership
	Internal Audit Plan, Audit Charter and Audit Strategy	Internal Audit	East Kent Audit Partnership
	Quarterly Audit progress report	External Audit	Audit Commission
	2010/11 Annual Grant Certification report	External Audit	Audit Commission
	2011/12 Opinion Audit Plan	External Audit	Audit Commission

## Programme of reports for 2011/12

The draft programme of reports for 2011/12 for the Governance and Audit Committee was agreed at the meeting held on the 15 March 2011. Whilst this is a comprehensive list, there may be variations due to matters that arise.

A regular item for the Governance and Audit Committee will be 'future items for discussion / training'. This programme of reports should be considered at this point to inform any requests for future training.

The dates of the meetings were correct at the time of printing.



## Terms of Reference

### Audit Activity

- To consider the annual report and opinion of the East Kent Audit Partnership, and a summary of audit activity (actual and proposed) and the level of assurance it can give over the council's governance arrangements;
- To approve (but not direct) internal audit's strategy, plan and monitor performance;
- To consider summaries of specific internal audit reports;
- To consider reports dealing with the management and performance of the providers of internal audit services;
- To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale;
- To consider the external auditor's annual letter, relevant reports and the report to those charged with governance;
- To consider specific reports as agreed with the external auditor;
- To consider the annual programme of work and associated fees for the external auditors and provide challenge as appropriate
- To commission work from internal and external audit as agreed by the Committee.

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### Regulatory Framework

- To review any governance / financial issue referred to it by the Chief Executive or a Director, or any council body;
- To monitor the effective development and operation of risk management and governance in the council;
- To oversee the application of the council's governance arrangements for partnership activities where the council is the accountable body and/or employee;
- To approve the council policies on Whistleblowing and Anti-fraud and Corruption;
- To approve the authority's Annual Governance Statement ;
- To consider the council's compliance with its approved Treasury Management Strategy
- To consider the council's arrangements for governance and agreeing necessary actions to ensure compliance with best practice;
- To consider the council's arrangements for ensuring adequate data quality;
- To consider the council's compliance with its own and other published standards and controls.

Deleted: overview

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### Accounts

- To approve the annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the council;
- To consider the external auditor's report on issues from the audit of the accounts and recommend approval to those charged with governance.

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## CONSTITUTION REVIEW - 2010/11

To: **Governance and Audit Committee – 15 March 2011**

By: **Corporate & Regulatory Services Manager**

Classification: **Unrestricted**

Ward: **N/A**

Summary: **To note the changes to the Financial Procedure Rules agreed by Council on 4 February 2011.**

### For Decision

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#### **1.0 Introduction and Background**

1.1 The Council is required by law to keep its Constitution under review and it discharges this obligation through the Constitutional Review Working Party which first considers all proposed constitutional amendments. The Working Party then makes recommendations to the Standards Committee, which in turn, makes recommendations to full Council.

#### **2.0 Review Cycle 2011/12**

2.1 The 2011/12 Review Cycle included proposals to amend the Council's Financial Procedure Rules in order to implement a high priority action in a Payroll Audit conducted in 2007. In that case the Auditor had recommended that the responsibility for writing off bad debts be clearly set out in the Constitution.

#### **3.0 Amendments to the Financial Procedure Rules in relation to Writing- Off Bad Debts**

##### Constitutional Review Working Party -26 January 2011

3.1 Following consultation with the Chief Financial Officer (CFO), the Constitutional Review Working Party was asked to consider and approve amendments to the Financial Procedure Rules which would give the CFO the power to write off debts below £20,000 and to write off debts between £20,000 and £30,000 in consultation with the Cabinet Portfolio holder for Resources. All debts exceeding £30,000 would continue be reported to Cabinet for write off. The Constitutional Review Working Party agreed the proposed amendments and also recommended that a procedure be developed whereby all members receive regular reports concerning all debts written off at officer level.

##### Standards Committee - 8 February 2011

3.2 When the Standards Committee came to consider the recommendations of the Constitutional Review Working Party, it concluded that the write off thresholds were too high. Following a detailed discussion on the issue the Standard Committee decided recommended to Council that the CFO be authorised to write off debts up to £10,000 and be authorised to write off debts between £10,000 and £20,000 in consultation with the Portfolio holder for Resources. As a consequence, all debts proposed for write off in excess of 20,000 would be reported to Cabinet. The Standards Committee also recommended that the Monitoring Officer consults the CFO on the adoption of a procedure that enables Members to be informed of all debts proposed for write off in advance of write off. As this can be implemented without constitutional amendment it is intended to take suitable proposals to the next meeting of the Governance & Audit Committee.

Council - 24 February 2011

- 3.3 Council approved the recommendations of the Standards Committee. At the meeting held on 24 February 2011 and the approved amendments to the Financial Procedure Rules are set out for information purposed underlined in bold at **Annex 1**.

**4.0 Corporate Implications**

**4.1 Financial**

There are no direct financial implications arising from this report.

**4.2 Legal**

Council must approve all amendments to the Constitution.

**4.3 Corporate**

None

**4.4 Equity and Equalities**

There are no specific equity and equality consideration that need to be taken into account in relation to this report.

**5.0 Recommendation**

- 5.1 That the report and the amendments to the Financial Procedure Rules be noted.
- 5.2 That a report be received at the next meeting of the Governance & Audit Committee setting out proposals for a procedure whereby members are informed of debts proposed to be written off at officer level.

Contact Officer:	Harvey Patterson - Corporate & Regulatory Services Manager and Monitoring Officer
Reporting to:	Sue McGonigal, Chief Executive Designate

**Annex List**

Annex 1	Proposed Amendments to the Financial Procedure Rules: Regulation D ("Systems and Procedures") and Appendix D ("Financial Procedure Note – Financial Systems and Procedures")
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**Background Papers**

Title	Details of where to access copy
None	N/A

**Corporate Consultation Undertaken**

Finance	N/A
Legal	N/A

## Financial Procedure Rules

### Regulation D: Systems and Procedures

#### Introduction

- D.1 Sound systems and procedures are essential to an effective framework of accountability and control.

#### General

- D.2 The Section 151 Officer is responsible for the operation of the Council's accounting systems, the form of accounts and the supporting financial records. Any changes made by Directors of Services to the existing financial systems or the establishment of new systems must be approved in advance by the Section 151 Officer. Directors of Services however are responsible for the proper operation of financial processes in their individual departments.
- D.3 Any changes to agreed procedures by Directors of Services to meet their own specific service needs must be agreed in advance with the Section 151 Officer.
- D.4 Directors of Services must ensure that their staff receive relevant financial training that has been approved by the Section 151 Officer.
- D.5 Directors of Services must ensure that, where appropriate, computer and other systems are registered in accordance with data protection legislation. Directors of Services must also ensure that their staff are aware of their responsibilities under Data Protection and Freedom of Information legislation.

#### Income and Expenditure

- D.6 It is the responsibility of Directors of Services to ensure that a proper scheme of delegation has been established within their department and that it is operating effectively. The scheme of delegation must identify staff authorised to act on the Directors of Services' behalf, or on behalf of the Cabinet, in respect of payments, income collection and placing orders, together with the limits of their authority.

**It is the responsibility of the Section 151 Officer to develop, administer and keep under review procedures for writing off debts and to seek approval of these by full Council as part of the overall control framework of accountability and control.**

#### Payments to Employees and Members

- D.7 The Section 151 Officer is responsible for making all payments of salaries, wages and allowances to all staff, and for making payments of allowances to Members.

**Taxation**

- D.8 The Section 151 Officer is responsible for advising Directors of Services, in the light of guidance issued by appropriate bodies and relevant legislation, on all taxation issues that affect the Council.
- D.9 The Section 151 Officer is responsible for maintaining the Council's tax records, making all tax payments, receiving any tax credits and submitting tax returns by their due date.

**Trading Accounts/Business Units**

- D.10 It is the responsibility of the Section 151 Officer to advise on the establishment and operation of any trading accounts and business units within the Council.

**Procedure Note**

- D.11 A Procedure Note in relation to Regulation D is attached as Appendix D and forms part of the Rules.
-

## Appendix D: Financial Procedure Note – Financial Systems and Procedures

### **1.0 Systems and Procedures**

#### **1.1 General**

Departments have many systems and procedures relating to the control of the Council's assets, including purchasing, costing and management systems. Departments are increasingly reliant on computers for their financial management information. The information must therefore be accurate and the systems and procedures sound and well administered. They should contain controls to ensure that transactions are properly processed and errors detected promptly.

The Section 151 Officer has a professional responsibility to ensure that the Council's financial systems are sound and should therefore be notified of any new developments or changes.

#### **1.2 Responsibilities of the Section 151 Officer:**

- To make arrangements for the proper administration of the Council's financial affairs, including to:
  - (a) issue advice, guidance and procedures for officers and others acting on the Council's behalf
  - (b) determine the accounting systems, form of accounts and supporting financial records
  - (c) establish arrangements for audit of the Council's financial affairs
  - (d) approve any new financial systems to be introduced
  - (e) approve any changes to be made to existing financial systems.

#### **1.3 Responsibilities of Directors of Services:**

- To ensure that accounting records are properly maintained and held securely.
- To ensure that vouchers and documents with financial implications are not destroyed, except in accordance with arrangements approved by the Section 151 Officer .
- To ensure that a complete audit trail, allowing financial transactions to be traced from the accounting records to the original document, and vice versa, is maintained.
- To incorporate appropriate controls to ensure that, where relevant:
  - (a) all input is genuine, complete, accurate, timely and not previously processed

- (b) all processing is carried out in an accurate, complete and timely manner
- (c) output from the system is complete, accurate and timely.
- To ensure that the organisational structure provides an appropriate segregation of duties to provide adequate internal controls and to minimise the risk of fraud or other malpractice.
- To ensure there is a documented and tested disaster recovery plan to allow information system processing to resume quickly in the event of an interruption.
- To ensure that systems are documented and staff trained in operations.
- To consult with the Section 151 Officer before changing any existing system or introducing new systems.
- To establish a scheme of delegation identifying officers authorised to act upon the Directors of Services' behalf in respect of payments, income collection and placing orders, including variations, and showing the limits of their authority.
- To supply lists of authorised officers, with specimen signatures and delegated limits, to the Section 151 Officer, together with any subsequent variations.
- To ensure that effective contingency arrangements, including back-up procedures, exist for computer systems. Wherever possible, back-up information should be securely retained in a fireproof location, preferably off site or at an alternative location within the building.
- To ensure that, where appropriate, computer systems are registered in accordance with data protection legislation and that staff are aware of their responsibilities under the legislation.
- To ensure that relevant standards and guidelines for computer systems issued by the Director of Service are observed.
- To ensure that computer equipment and software are protected from loss and damage through theft, vandalism, etc.
- To ensure that staff do not divulge their password and do not misuse any computer system. Officers who misuse computer systems may be judged guilty of gross misconduct and may be disciplined.
- To comply with the copyright, designs and patents legislation and, in particular, to ensure that:
  - (a) only software legally acquired and installed by the Council is used on its computers
  - (b) staff are aware of legislative provisions



- (c) in developing systems, due regard is given to the issue of intellectual property rights.

## **2.0 Income**

### **2.1 General**

Income can be a vulnerable asset and effective income collection systems are necessary to ensure that all income due is identified, collected, receipted and banked properly. It is preferable to obtain income in advance of supplying goods or services as this improves the Council's cashflow and also avoids the time and cost of administering debt recovery.

### **2.2 Responsibilities of the Section 151 Officer:**

- To agree arrangements for the collection of all income due to the Council and to approve the procedures, systems and documentation for its collection.
- To order and supply to departments all receipt forms, books or tickets and similar items and to satisfy himself or herself regarding the arrangements for their control.
- **To have the power to write off bad debts not exceeding £10,000, to write off bad debts between £100,001 and £20,000 in consultation with the Cabinet Portfolio Holder for Finance and Corporate Resources and to submit all bad debts exceeding £20,000 to the Cabinet for write off.**
- To ensure that appropriate accounting adjustments are made following write-off action.

### **2.3 Responsibilities of Directors of Service:**

- To establish a charging policy for the supply of goods or services, including the appropriate charging of VAT, and to review it regularly, in line with corporate policies.
- Except where charges are set by statute, to seek Cabinet approval to any new external charges and revisions to existing ones in consultation with the Section 151 Officer.
- To separate the responsibility for identifying amounts due and the responsibility for collection, as far as is practicable.
- To establish and initiate appropriate recovery procedures, including legal action where necessary, for debts that are not paid promptly.
- To issue official receipts or to maintain other documentation for income collection.
- To ensure that there are secure and appropriate controls in place for opening post which may contain payments, so that all income due to the Council is collected and properly accounted for.

- To hold securely receipts, tickets and other records of income for the appropriate period.
- To lock away all income to safeguard against loss or theft, and to ensure the security of cash handling.
- To ensure that income is paid fully and promptly into the appropriate Council bank account in the form in which it is received. Appropriate details should be recorded on to paying-in slips to provide an audit trail. Money collected and deposited must be reconciled to the bank account on a regular basis.
- To ensure income is not used to cash personal cheques or other payments.
- To supply the Section 151 Officer with details relating to work done, goods supplied, services rendered or other amounts due, to enable the Section 151 Officer to record correctly the sums due to the Council and to ensure accounts are sent out promptly. To do this, Directors of Services should use established performance management systems to monitor recovery of income and flag up areas of concern to the Section 151 Officer. Directors of Services have a responsibility to assist the Section 151 Officer in collecting debts that they have originated, by providing any further information requested by the debtor, and in pursuing the matter on the Council's behalf. Only up to approved levels of cash can be held on the premises.
- To keep a record of every transfer of money between employees of the Council. The receiving officer must sign for the transfer and the transferor must retain a copy.
- To recommend to the Section 151 Officer all debts to be written off and to keep a record of all sums written off up to the approved limit. Once raised, no bona fide debt may be cancelled, except by full payment or by its formal writing off. A credit note to replace a debt can only be issued to correct a factual inaccuracy or administrative error in the calculation and/or billing of the original debt.
- To notify the Section 151 Officer of outstanding income relating to the previous financial year as soon as possible after 31 March in line with the timetable determined by the Section 151 Officer.

### **3.0 Ordering and Paying for Work, Goods and Services**

#### **3.1 General**

Public money should be spent with demonstrable probity and in accordance with the Council's policies. Local authorities have a statutory duty to achieve best value in part through economy and efficiency. The Council's procedures should help to ensure that services obtain value for money from their purchasing arrangements. These procedures should be read in conjunction with the Council's Procurement Code of Practice on tenders and contracts.

Every officer and Member of the Council has a responsibility to declare any links or personal interests that they may have with purchasers, suppliers and/or

contractors if they are engaged in contractual or purchasing decisions on behalf of the Council, in accordance with appropriate codes of conduct.

Official orders must be in a form approved by the Section 151 Officer. Official orders must be issued for all work, goods or services to be supplied to the Council, except for supplies of utilities, periodic payments such as rent or rates, petty cash purchases or other exceptions specified by the Section 151 Officer.

Apart from petty cash and other payments from advance accounts, the normal method of payment from the Council shall be by cheque or other instrument or approved method, drawn on the Council's bank accounts by the Section 151 Officer. The use of direct debit shall require the prior agreement of the Section 151 Officer.

Official orders must not be raised for any personal or private purchases, nor must personal or private use be made of Council contracts.

### **3.2 Responsibilities of the Section 151 Officer:**

- To ensure that all the Council's financial systems and procedures are sound and properly administered.
- To approve any changes to existing financial systems and to approve any new systems before they are introduced.
- To approve the form of official orders and associated terms and conditions.
- To notify Directors of Services from time to time of any exemptions to the need for placing orders.
- To make payments from the Council's funds on the Director of Service's authorisation that the expenditure has been duly incurred in accordance with financial regulations.
- To make payments, whether or not provision exists within the estimates, where the payment is specifically required by statute or is made under a court order.
- To make payments to contractors on the certificate of the appropriate Head of Service, which must include details of the value of work, retention money, amounts previously certified and amounts now certified.
- To provide advice and encouragement on making payments by the most economical means.
- To ensure that a budgetary control system is established that enables commitments incurred by placing orders to be shown against the appropriate budget allocation so that they can be taken into account in budget monitoring reports.

### 3.3 Responsibilities of Directors of Services:

- To adhere to the Council's Contract Standing Orders Standing Orders and the Procurement Code of Practice
- To ensure that unique pre-numbered official orders are used for all goods and services, other than for exceptions specified by the Section 151 Officer.
- To ensure that orders are only used for goods and services provided to the department. Individuals must not use official orders to obtain goods or services for their private use.
- To ensure that official orders are raised for goods and services supplied to the Council at the time of order and not issued retrospectively.
- To ensure that only those staff authorised by him/her sign orders and to maintain an up-to-date list of such authorised staff, including specimen signatures identifying in each case the limits of their authority. The authoriser of the order should be satisfied that the goods and services ordered are appropriate and needed, that there is adequate budgetary provision and that quotations or tenders have been obtained if necessary.
- To ensure that goods and services are checked on receipt to verify that they are in accordance with the order. This check should, where possible, be carried out by a different officer from the person who authorised the order. Appropriate entries should then be made in inventories or stores records.
- To ensure that payment is not made unless a proper VAT invoice has been received, checked, coded and certified for payment, confirming:
  - (a) receipt of goods or services
  - (b) that the invoice has not previously been paid
  - (c) that expenditure has been properly incurred and is within budget provision
  - (d) that prices and arithmetic are correct and accord with quotations or contracts and discounts have been taken where available
  - (e) correct accounting treatment of tax
  - (f) that the invoice is correctly coded
  - (g) that appropriate entries will be made in accounting records.
- To ensure that two authorised members of staff are involved in the ordering, receiving and payment process. If possible, a different officer from the person who signed the order, and in every case, a different officer from the person checking a written invoice, should authorise the invoice.

- To ensure that the department maintains and reviews periodically a list of staff approved to authorise invoices. Names of authorising officers together with specimen signatures and details of the limits of their authority shall be forwarded to the Section 151 Officer.
- To ensure that payments are not made on a photocopied or faxed invoice, statement or other document other than the formal invoice. Any instances of duplicate payments should be reported to the Section 151 Officer.
- To encourage suppliers of goods and services to receive payment by the most economical means for the Council. It is essential, however, that payments made by direct debit have the prior approval of the Section 151 Officer.
- To ensure that the department obtains best value from purchases by taking appropriate steps to obtain competitive prices for goods and services of the appropriate quality, with regard to the best practice principles and guidelines set out in the Council's Procurement Code of Practice.
- To ensure that loans, leasing or rental arrangements are not entered into without prior agreement from the Section 151 Officer. This is because of the potential impact on the Council's borrowing powers, to protect the Council against entering into unapproved credit arrangements and to ensure that value for money is being obtained.
- To notify the Section 151 Officer of outstanding expenditure relating to the previous financial year as soon as possible after 31 March in line with the Final Accounts timetable produced by the Section 151 Officer.
- With regard to contracts for construction and alterations to buildings and for civil engineering works, to document and agree with the Head of Financial Services the systems and procedures to be adopted in relation to financial aspects, including certification of interim and final payments, checking, recording and authorising payments, the system for monitoring and controlling capital schemes and the procedures for validation of subcontractors' tax status.
- To notify the Section 151 Officer immediately of any expenditure to be incurred as a result of statute/court order where there is no budgetary provision.
- To ensure that all appropriate payment records are retained and stored for the defined period, in accordance with the Council's document retention policies.

#### **4.0 Payments to Employees and Members**

##### **4.1 General**

Staff costs are the largest item of expenditure for most local authority services. It is therefore important that payments are accurate, timely, made only where they are due for services to the Council and that payments accord with individuals'

conditions of employment. It is also important that all payments are accurately and completely recorded and accounted for and that Members' allowances are authorised in accordance with the scheme adopted by Full Council.

#### **4.2 Responsibilities of the Section 151 Officer:**

- To arrange and control secure and reliable payment of salaries, wages, compensation or other emoluments to existing and former employees, in accordance with procedures prescribed by him/ her, on the due date.
- To record and make arrangements for the accurate and timely payment of tax, superannuation and other deductions.
- To make arrangements for payment of all travel and subsistence claims or financial loss allowance.
- To make arrangements for paying Members travel or other allowances upon receiving the prescribed form, duly completed and authorised.
- To provide advice and encouragement to secure payment of salaries and wages by the most economical means.
- To ensure that there are adequate arrangements for administering superannuation matters on a day-to-day basis.
- To publish details of allowances paid to Members in accordance with the Local Authorities (Members' Allowances) (England) Regulations 2003.

#### **4.3 Responsibilities of Directors of Services:**

- To ensure appointments are made in accordance with the regulations of the Council and approved establishments, grades and scale of pay and that adequate budget provision is available.
- To notify the Section 151 Officer of all appointments, terminations or variations which may affect the pay or pension of an employee or former employee, in the form and to the timescale required by the Section 151 Officer.
- To ensure that adequate and effective systems and procedures are operated, so that:
  - payments are only authorised to bona fide employees
  - payments are only made where there is a valid entitlement
  - conditions and contracts of employment are correctly applied
  - employees' names listed on the payroll are checked at regular intervals to verify accuracy and completeness.
- To send an up-to-date list of the names of officers authorised to sign records to the Section 151 Officer, together with specimen signatures. Any payroll

provider should have signatures of personnel officers and officers authorised to sign timesheets and claims.

- To ensure that payroll transactions are processed only through the payroll system. Directors of Services should give careful consideration to the employment status of individuals employed on a self-employed consultant or subcontract basis. The Inland Revenue applies a tight definition for employee status, and in cases of doubt, advice should be sought from the Section 151 Officer.
- To certify travel and subsistence claims and other allowances. Certification is taken to mean that journeys were authorised and expenses properly and necessarily incurred, and that allowances are properly payable by the Council, ensuring that cost-effective use of travel arrangements is achieved. Due consideration should be given to tax implications and that the Section 151 Officer is informed where appropriate.
- To ensure that the Section 151 Officer is notified of the details of any employee benefits in kind, to enable full and complete reporting within the income tax self-assessment system.
- To ensure that all appropriate payroll documents are retained and stored for the defined period in accordance with the document retention schedule.

#### **4.4 Responsibilities of Members:**

- To submit claims for Members' travel and subsistence allowances on a monthly basis and, in any event, within one month of the year end.

#### **5.0 Taxation**

##### **5.1 General**

Like all organisations, the Council is responsible for ensuring its tax affairs are in order. Tax issues are often very complex and the penalties for incorrectly accounting for tax are severe. It is therefore very important for all officers to be aware of their role.

##### **5.2 Responsibilities of the Section 151 Officer:**

- To complete all Revenue and Customs returns regarding PAYE.
- To complete a monthly return of VAT inputs and outputs to Revenue and Customs.
- To provide details to Revenue and Customs regarding the Construction Industry Tax deduction scheme.
- To maintain up-to-date guidance for Council employees on taxation issues in the accounting manual and the tax manual.

- To review the Council's VAT partial exemption status on at least an annual basis.

### **5.3 Responsibilities of Directors of Services:**

- To ensure that the correct VAT liability is attached to all income due and that all VAT recoverable on purchases complies with Revenue and Customs regulations.
- To ensure that, where construction and maintenance works are undertaken, the contractor fulfils the necessary Construction Industry Tax deduction requirements.
- To ensure that all persons employed by the Council are added to the Council's payroll and tax deducted from any payments, except where the individuals are bona fide self-employed or are employed by a recognised staff agency.
- To follow the guidance on taxation issued by the Section 151 Officer in the Council's accounting manual and VAT manual.

## **6.0 Trading Accounts and Business Units**

### **6.1 General**

Trading accounts and business units have become more important as local authorities have developed a more commercial culture. Under best value, authorities are required to keep trading accounts for services provided on a basis other than straightforward recharge of cost. They are also required to disclose the results of significant trading operations in the BVPP.

### **6.2 Responsibilities of the Section 151 Officer:**

- To advise on the establishment and operation of trading accounts and business units.

### **6.2 Responsibilities of Directors of Services:**

- To consult with the Section 151 Officer where a business unit wishes to enter into a contract with a third party where the contract expiry date exceeds the remaining life of their main contract with the Council. In general, such contracts should not be entered into unless they can be terminated within the main contract period without penalty.
- To observe all statutory requirements in relation to business units, including the maintenance of a separate revenue account to which all relevant income is credited and all relevant expenditure, including overhead costs, is charged, and to produce an annual report in support of the final accounts.
- To ensure that the same accounting principles are applied in relation to trading accounts as for other services or business units.
- To ensure that each business unit prepares an annual business plan.



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## INTERNAL AUDIT CHARTER AND 2011/12 AUDIT PLAN

To: **Governance and Audit Committee: 15<sup>th</sup> March 2011**

By: **Chief Executive Designate**

Subject: **REPORT OF THE HEAD OF THE AUDIT PARTNERSHIP INTERNAL AUDIT STRATEGY AND AUDIT PLAN FOR 2011/12**

Classification: **Unrestricted**

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**Summary:** **This report gives Members a summary of the way in which internal audit function provided by the East Kent Audit Partnership intends to deliver its service for the period 1 April 2011 to 31 March 2012 and details of the coverage it intends to provide controls assurance on.**

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### **1.0 Introduction and Background**

- 1.1 The purpose of the Council's Governance and Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 1.2 To assist the Committee meet its terms of reference with regard to the internal control environment reports are regularly produced on the work and remit of Internal Audit. The purpose of this report is to consider for adoption the East Kent Audit Partnership Audit Charter, Strategy and Internal Audit Plan of work for the forthcoming year.

### **2.0 Audit Charter**

- 2.1 The Audit Charter establishes the purpose, authority, objectives and responsibility of the East Kent Audit Partnership, in providing an Internal Audit function to the partner councils. The Audit Charter is attached as Annexe 1 to this report.
- 2.2 The Audit Charter sets out the Terms of Reference, Organisational Relationships and Independence, Competence and Standards of Auditors, the Audit Process and details the process for making amendments in the future.
- 2.3 The Audit Charter is an important document setting out the expectations of how the Internal Audit function will be delivered. Not only does having a charter and keeping it up to date assist the Council in complying with best practice, but by considering the Audit Charter, the Governance and Audit Committee is also demonstrating its effectiveness by ensuring that these mechanisms are in place and are working effectively

### **3.0 Audit Strategy**

- 3.1 The Internal Audit Strategy, attached as Annexe 2, details how the East Kent Audit Partnership will provide the Internal Audit function for the year to 31<sup>st</sup> March 2012. The strategy sets out the resources required across the four partnership sites and details how the resource requirements will be met.

- 3.2 The Audit Plan for the year 2011 to 2012 is attached as Annexe 3 and has been produced from an audit software database (APACE) maintained by the EKAP which records our risk assessments on each service area based upon previous audit experience, criticality, financial risk, risk of fraud and corruption etc.
- 3.3 The plan has then been modified to reflect emerging risks and opportunities identified by the Chief Executive, Directors, the Council's Risk Registers.
- 3.4 Additionally, the plan is based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a three-year cycle of audits. In order to provide Members with assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations, a three-year strategic plan has been included in Annexe 3. This strategic plan also lists a small number of areas of the organisation's activities that will not be covered within the three-year cycle based upon the current level of audit resources.
- 3.5 To comply with the CiPFA Code of Practice for Internal Audit 2006, the agreed audit plan should cover a fixed period of no more than 1 year. Members are being asked to approve the 2011-12 plan at the present time and the 2012-13 plan (modified as necessary) will be presented for consideration in March 2012 and similarly the 2013-14 plan will be presented for consideration in March 2013. The purpose of showing an indicative 2012-13 and 2013-14 plan at this time is to provide Members with assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle.
- 3.6 The plan has been prepared in consultation with the Heads of Service and the Council's Statutory S151 Officer. The plan is also designed to meet the requirements expected by the Audit Commission for ensuring key controls are in place for its fundamental systems. This Committee is also part of the consultation process, and its views on the plan of work for 2011/12 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require.

#### **4.0 Head of Internal Audit's Opinion of the 2011-12 Internal Audit Plan.**

- 4.1 This report is presented to Members by the Council's Chief Executive Designate whose s.151 responsibility it is to maintain an effective internal audit plan. In the interests of openness and transparency and in order to enable Members to make an informed decision on the internal audit plan presented for their approval consideration should also be given to the opinion of the Head of Internal Audit on the effectiveness of the plan.
- 4.2 In the professional opinion of the Head of the East Kent Audit Partnership the draft 2011-12 internal plan presented for Members consideration represents an effective internal audit plan which ensures reasonable coverage of the vast majority of the Council's operations within a three year period. The Head of the East Kent Audit Partnership recommends to Members the approval of the 2011-12 internal audit plan.

#### **5.0 Corporate Implications**

##### **5.1 Financial Implications**

- 5.1.1 There are no additional financial implications arising directly from this report. The costs of the audit work will be met from the Financial Services 2010/11 budget and are detailed in the attached report.

5.1.2 The costs of an additional 30 days of internal audit work, which increases the size of the plan from 400 to 430 days, the additional resources need to be funded in 2011-12 and 2012-13 in recognition of the 90 days of planned 2009-10 internal audit work which were required to be diverted to a special investigation.

## 5.2 Legal Implications

5.2.1 The Council is required by statute (under the Accounts and Audit Regulations and section 151 of the Local Government Act 1972) to have an adequate and effective internal audit function.

## 5.3 Corporate Implications

5.3.1 Under the Local Code of Corporate Governance accepted by Cabinet on 31<sup>st</sup> December 2008, the Council is committed to comply with requirements for the independent review of the financial and operational reporting processes, through the external audit and inspection processes, and satisfactory arrangements for internal audit.

## 6.0 Recommendation

6.1 That Members approve to adopt the Internal Audit Charter.

6.2 That Members approve to adopt the Internal Audit Strategy for delivery of the internal audit service.

6.3 That Members approve the Council's Internal Audit Plan for 2011/12

Contact Officers:	Christine Parker, Head of the Audit Partnership, ext. 7190
	Simon Webb, Audit Manager, ext 7190
	Sue McGonigal, Chief Executive Designate (s.151 Officer) Ext. 7790

### **Annexe List:**

Annexe 1	East Kent Audit Partnership Charter
Annexe 2	East Kent Audit Partnership Strategy
Annexe 3	Thanet District Council draft 2010-11 Internal Audit Plan and 3 year strategic plan

### **Background Papers:**

Title	Details of where to access copy
Internal Audit Annual Plan 2010/11	Previously presented to and approved at the March 2010 Governance and Audit Committee meeting.
Internal Audit working papers	Held by the East Kent Audit Partnership.
Previous Audit Strategies	Previously presented to and approved at Governance and Audit Committee meetings.

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## **EAST KENT AUDIT PARTNERSHIP AUDIT CHARTER**

1. Introduction
2. Terms of Reference
  - 2.1 Strategy & Purpose
  - 2.2 Scope
  - 2.3 Authority
3. Organisational Relationships and Independence
  - 3.1 Audit Partnership Management and Staffing
  - 3.2 Relationship with Service Managers
  - 3.3 Relationship with Line Management
  - 3.4 Relationship with the Partners
  - 3.5 Relationship with Audit Committees
  - 3.6 Relationship with External Audit
  - 3.7 Relationship with Other Regulators, Inspectors and Audit Bodies
4. Competence and Standards of Auditors
  - 4.1 Competence
  - 4.2 Standards
  - 4.3 Quality Assurance
5. Audit Process
  - 5.1 Planning
  - 5.2 Documentation
  - 5.3 Consultation
  - 5.4 Reporting
  - 5.5 Follow-up
6. Amendment to Charter

## **1 Introduction**

- 1.1 This Charter establishes the purpose, authority, objectives and responsibility of the Audit Partnership, in providing an Internal Audit function within the Partner Councils.
- 1.2 The Audit Partnership is hosted by Dover District Council.
- 1.3 The Audit Partnership is sufficiently independent of the activities that it audits, and this enables the auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations.
- 1.4 The organisational status of the Audit Partnership is such that it is able to function effectively. The Head of Audit Partnership must be able to maintain their independence and report to members. The Head of Audit Partnership has sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with the senior management of the individual partners.
- 1.5 Accountability for the response to the advice and recommendations of the Audit Partnership lies with partner's own management.
- 1.6 The Audit Partnership reports to those committees charged with governance. The main objective is to independently contribute to the councils' overall process for ensuring that an effective internal control environment is maintained. The work of the Audit Partnership for each of the partner authorities is summarised into an individual annual report, which assists in meeting the requirements to make annual published statements on the internal control systems in operation.

## **2 Terms of Reference**

### **2.1 Strategy & Purpose**

Internal Audit is a statutory requirement under the Local Government Act 1972 (Section 151). It is the strategy of the Audit Partnership to comply with best practice as far as possible. The Audit Partnership has therefore adopted the best practice principles promoted by CiPFA. The definition of Internal Audit taken from their guidance is as follows:

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

This definition sets out the primary purpose of the Audit Partnership, but the guidance also recognises that other work may be undertaken which may include consultancy services and fraud-related work. Where relevant and applicable the Audit Partnership also follows the professional and ethical

standards of the Institute of Internal Auditors, being that many of the staff are members of this Institute.

## 2.2 **Scope**

### 2.2.1 Audit shall appraise and review:

- a) the completeness, reliability and integrity of information, both financial and operational,
- b) the systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by the management of the organisation, or externally,
- c) the means of safeguarding assets,
- d) the economy, efficiency and effectiveness with which resources are employed, and
- e) whether operations are being carried out as planned and objectives and goals are being met.

### 2.2.2 The scope of the Audit Partnership includes the review of all activities of the Partner Councils, without restriction. In doing this, the purpose of Audit is to:

- a) Advise the Chief Executive, Directors, Senior Managers and Audit Committee on appropriate internal controls and the management of risk,
- b) Assist the Chief Executive, Directors, Senior Manager and Audit Committee with the way that organisational objectives are achieved at operational levels,
- c) Assure the Chief Executive, Directors, Senior Managers and Audit Committee of the reliability and integrity of systems, and that they are adequately and effectively controlled,
- d) Alert the Chief Executive, Directors, Senior Managers and Audit Committee to any system weaknesses or irregularities.

### 2.2.3 In addition, the Audit Partnership may carry out special investigations as necessary, and agreed with the S151 Officer or Monitoring Officer as appropriate, in respect of cases of fraud, malpractice or other irregularity, or carry out individual ad hoc projects as requested by management and agreed by the Head of Audit Partnership and the partners' client officer.

## 2.3 **Authority**

### 2.3.1 The procedures for auditing the Council are included within each of the councils' Constitutions. This typically includes words to the effect that the Authority shall:

- a) Make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for the administration of those affairs, and
- b) Shall maintain an adequate and effective system of Internal Audit of their accounting records and control systems.

Additionally, there may be delegated authority to the Chief Executive and Directors to establish sound arrangements for the planning, appraisal, authorisation and control of the use of resources, and to ensure that they are working properly. Maintaining adequate and effective controls is necessary to:

- a) carry out activities in an orderly, efficient and effective manner,
  - b) ensure that policies and directives are adhered to,
  - c) ensure compliance with statutory requirements,
  - d) safeguard assets & to prevent fraud,
  - e) maintain complete and reliable records and information, and
  - f) prevent waste & promote best value for money.
- 2.3.2 The Audit Partnership is authorised to complete a programme of audit reviews within the Partner Councils through the delegation of powers to Dover District Council, as the Lead body for the Audit Partnership.
- 2.3.3 The Head of Audit Partnership works principally with a nominated officer, the Section 151 Officer, for each of the Partner councils, to ensure that a continuous internal audit review of the accounting, financial and other operations of the Council is performed. Progress on the work undertaken shall be submitted regularly to the appropriate committee with responsibility for Internal Audit.
- 2.3.4 All employees and Councillors shall comply with the requirements of the Council's internal and external auditors who have authority to:-
- a) enter at all reasonable times on any Council premises or land,
  - b) have access to all Council assets such as records, documents, contracts and correspondence, including computer hardware, software and data,
  - c) require and receive such explanations as are necessary concerning any matters under examination, and
  - d) require any employee of the Council to produce cash, stores or any other Council property under his/her control.
- 2.3.5 Employees and Councillors of any of the Partners may report any financial irregularity or suspected irregularities to the Head of Audit Partnership, who shall then ensure that the matter is dealt with in accordance with the individual Council's Anti Fraud and Corruption Strategy.

### **3 Organisational Relationships and Independence**

#### **3.1 Audit Partnership Management and Staffing**

The audit service is managed by the Head of Audit Partnership, who is responsible for providing a continuous internal audit service under the direction of the Section 151 Officers. The auditor assigned to each individual review is selected by the Head of Audit Partnership, based on their knowledge, skills, experience and discipline to ensure that the audit is conducted properly and in accordance with professional standards.

#### **3.2 Relationship with Service Managers**

- 3.2.1 It is the responsibility of management, not auditors, to maintain systems of internal control.
- 3.2.2 To preserve its independence and objectivity, staff involved in the Audit Partnership shall not have direct responsibility for, or authority over, any of the activities subject to audit review. Staff transferring to EKAP may not



review an area they were previously operationally responsible for, for a period of two years (current year plus one).

- 3.2.3 The involvement of an auditor through conducting an audit review, or providing advice, does not in any way diminish the responsibility of line management for the proper execution and control of their activities.
- 3.2.4 Co-operative relationships will be fostered with management to enhance the ability of the Audit Partnership to achieve its objectives effectively.
- 3.2.5 All employees should have complete confidence in the integrity, independence and capability of the Audit Partnership. We recognise that the relationship between auditors and service managers is a privileged one, and information gained in the course of audit work will be treated confidentially, and only reported appropriately.

### **3.3 Reporting Relationship with Line Management**

- 3.3.1 The Head of Audit Partnership will have regular monthly meetings with each of the Partner's Section 151 Officer / nominated client officer. Any events that may have an adverse affect on the audit plan, or a significant impact on the Council will be reported immediately.
- 3.3.2 Any high risk matters of concern, which have not been adequately dealt with after an appropriate period of time and after follow up, will be escalated to the Section 151 Officer / nominated client officer, who will be asked to decide for each high risk matter whether:
  - Resources should be allocated to enable the risk to be reduced in the agreed way, or
  - To approve that the risk will be accepted and tolerated, or
  - To determine some other action to treat the risk.

### **3.4 Reporting Relationship with the Partners**

- 3.4.1 The East Kent Audit Partnership overall performance is reported to all the partner authorities annually. Key performance measures and indicators have been agreed and these are also reported quarterly. As well as individual assurance reports, and the quarterly Audit Committee reports, an Annual Audit Report will:
  - Provide an individual summary of the work completed for each Partner,
  - Compare actual audit activity with that planned, and summarise the performance of the East Kent Audit Partnership against its performance criteria, and
  - Include the cost of the service for the partner.

### **3.5 Relationship with Audit Committees**

- 3.5.1 The East Kent Audit Partnership has a direct relationship with those charged with the responsibility for governance. Consequently, the Head of Audit Partnership issues a report summarising the results of its reviews to each meeting. The Annual Report is the foundation for both the opinions given through the Annual Governance Statement, which is published annually. The

Committee will also approve the Audit Partnership annual work plan for their Council.

- 3.5.2 The Head of Audit Partnership may escalate any high-risk matters of concern (that in his opinion have not been adequately actioned by management) directly to committee, should this ever become necessary.

### **3.6 Relationship with External Audit**

- 3.6.1 The Head of Audit Partnership will liaise with the Audit Commission to:

- Foster a co-operative and professional working relationship,
- Reduce the incidence of duplication of effort,
- Ensure appropriate sharing of information, and
- Co-ordinate the overall audit effort.

- 3.6.2 In particular the Head of Audit Partnership will:

- Discuss the annual Audit Plan with the Audit Commission to facilitate External Audit planning,
- Hold regular meetings to discuss performance and exchange thoughts and ideas,
- Make all Audit working papers and reports available to the Audit Commission,
- Receive copies of all relevant Audit Commission reports to Management, and
- Gain knowledge of the Audit Commission programme and methodology.

### **3.7 Other Regulators, Inspectors and Audit Bodies**

The Head of Audit Partnership will foster good relations with all other audit bodies, regulators and inspectors. In particular protocols regarding joint working, access to working papers, confidentiality and setting out the respective roles will be agreed where applicable. The EKAP will only become involved with external regulators and inspectors if expressly required by the partner authority as part of the agreed audit plan.

## **4 Competence and Standards of Auditors**

### **4.1 Competence**

The Head of Audit Partnership will ensure that those engaged in conducting audit reviews, possess the appropriate knowledge, qualifications, experience and discipline to carry them out with due professional care and skill.

### **4.2 Standards**

Regardless of membership, all auditors will be expected to work in accordance with the standards and practice statements issued by the Institute of Internal Auditors and CiPFA. The East Kent Audit Partnership strives to meet best practice as highlighted in paragraph 2.1. The auditors must also observe the Codes of Ethics of the Institute of Internal Auditors and CiPFA, which call for high standards of honesty, objectivity, diligence and loyalty in the performance of their duties and responsibilities.

### 4.3 **Quality Assurance**

The Head of Audit Partnership will maintain a process of review of the Internal Audit function to provide reasonable assurance that its work conforms to the relevant standards, and with the requirements of this Charter. The review process is to be ongoing and will include adequate supervision of the audit staff and of the audit work performed.

The Head of Audit Partnership will provide evidence as required to assist the Partners' reviews of the Effectiveness of Internal Audit to inform the Annual Governance Statement.

## 5 **Audit Process**

### 5.1 **Planning**

5.1.1 The audit process is to follow a planned approach based upon risk assessments. The planning framework comprises the following:

- A Strategic Plan, which ensures that coverage of each of the partner councils as a whole, over a time frame of three to five years, is maintained and reviewed annually.
- An Annual Plan for each partner, specifying the planned audits to be performed each year and the resource requirements for each planned audit review.

5.1.2 For each audit review undertaken, the planning framework comprises the following:

- An Audit Brief, specifying the objectives, scope and resources for the audit.
- Where appropriate either a detailed Audit Programme of tests to be conducted, or a CiPFA Audit Matrix of testing to follow.

The Audit Brief is prepared by the Head of Audit Partnership or Audit Managers and reviewed and agreed with the client manager prior to the commencement of the audit review (except where an unannounced visit is necessary).

### 5.2 **Documentation**

Audit working papers contain the principal evidence to support the report and they provide the basis for review of work. The Auditors employ an audit methodology that requires the production of working papers, which document the following:

- The samples of transactions collected when examining the adequacy, effectiveness and application of internal controls within the system.
- The results of the testing undertaken.
- Other information obtained from these examinations.
- Any e-mails, memos or other correspondence with the client concerning or clarifying the findings.
- A report summarising significant findings and recommendations for the reduction of risk or further control improvement.
- The Service Manager's response to the draft report and then agreed recommendations made in the final audit report.

### 5.3 Consultation

5.3.1 Prior to the commencement of an audit, the Head of Audit Partnership or Audit Manager will communicate by phone, e-mail or face to face meeting with the relevant Manager to discuss the terms of reference. Having agreed the proposed brief with the Manager, the Head of Audit Partnership or Audit Manager will:

- issue a copy of the proposed Audit Brief by e-mail, and
- where appropriate arranging a pre-audit meeting between the Service Manager and the Auditor to discuss the purpose, scope and expected timing of the work.

In the case of special investigations, such prior notification may not be given where doing so may jeopardise the success of the investigation. In such an event, the prior approval of the Chief Executive, Section 151 Officer or Monitoring Officer will be obtained.

5.3.2 During the conduct of reviews, Auditors are to consult orally and / or in writing with relevant staff to:

- ensure that information gathered is accurate and properly interpreted,
- allow Management to present adequate/reliable evidence to ensure a balanced judgment is formed,
- ensure recommendations add value, are cost effective and practicable, and
- keep Management informed of the progress of the audit.

### 5.4 Reporting

5.4.1 A written discussion document is prepared and issued by the responsible Auditor at the conclusion of each audit. Prior to its issue, the appropriate Audit Manager reviews the discussion document together with the supporting working papers. The purpose of this document is to allow the service manager the opportunity to challenge any of the findings of the review.

5.4.2 The draft document will contain an outline action plan listing proposed individual recommendations for internal control improvement. These recommendations are categorised to indicate whether there is a high, medium or low risk of the control objectives failing. It is at this stage that the Service Manager accepts or negotiates that the risks are in fact present, that they accept responsibility for the risks and discuss how they proposed to control them.

5.4.3 The document is then updated, and if changes are required following the discussion, is presented to the Service Manager as a Draft Report. On completion of the Action Plan, a final version of the report containing "Agreed Actions" is issued to the Service Manager with a copy to the relevant Director. Additional copies are circulated as agreed with each Partner Authority.

5.4.4 The agreed actions will be followed up, and high priority recommendations will be tested to ensure they have been effective after their due date has passed.

5.4.5 Audit reports are to be clear, objective, balanced and timely. They are to be constructed in a standardised format which will include:

- The objectives of the audit,
- The scope of the audit, and where appropriate anything omitted from the review,
- An overall conclusion and opinion on the subject area,
- Proposed actions for improvement,
- Service Manager's comments (where appropriate), and
- A table summarising all the Proposed/Agreed Actions, risk category, a due date and any management responses.

5.4.6 In addition to individual audit reports for each topic, the performance of the East Kent Audit Partnership is analysed and reviewed as described in section 3.4 of this Charter.

## 5.5 Follow Up

5.5.1 The Audit Partnership will follow up on management action arising from its assignments. Each individual recommendation is recorded on the specialist auditing software used. Each recommendation is classified as to whether it is high, medium or low risk. The due date for implementation and the responsible person are also recorded.

5.5.2 Following the last due date within the Action Plan, the auditors follow up whether or not action has been taken to reduce the identified risk. They ask the responsible officer for each individual recommendation whether:

- a. The control improvement has successfully been implemented
- b. Progress is being made towards implementing the control improvement
- c. No action has yet occurred due to insufficient time or resources
- d. That after agreeing the action, the risk is now being tolerated
- e. That the control improvement is no longer relevant due to a system change
- f. Other reason (please specify).

5.5.3 Further testing will be carried out where necessary to independently confirm that effective action has in fact taken place.

5.5.4 A written summary of the results of the follow up action is issued to the relevant Service Manager and Director, and where appropriate a revised assurance level is issued. The results of follow-up reviews and the revised assurance opinions issued are also reported to members.

5.5.5 Any areas of concern after follow up, where it is thought that management has not taken appropriate action, will be escalated to senior management as described in paragraph 3.3.2 of this Charter.

## 6 Amendment to Charter

Amendment of this Charter is subject to the approval of the Partners' Audit Committees, Chief Executives, Section 151 Officers and the Head of Audit Partnership.

February 2011

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## **INTERNAL AUDIT STRATEGY**

2011-12

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February 2011

## **1. Introduction**

The four East Kent authorities Canterbury City Council (CCC), Dover District Council (DDC), Shepway District Council (SDC), and Thanet District Council (TDC) formed the East Kent Audit Partnership (EKAP) in order to deliver a professional, cost effective, efficient, internal audit function. A key aim for the EKAP is to build a resilient service that provides opportunities to port best practice between the four sites, acting as a catalyst for change and improvement to service delivery as well as providing assurance on the governance arrangements in place.

The Internal Audit Strategy is a high level statement of how the EKAP will provide the internal audit service and it is updated annually.

## **2. Governance Arrangements and Key Relationships**

The four East Kent districts have entered into a collaboration agreement for the provision of one shared Internal Audit Service. The Statutory Officer responsible for ensuring an effective internal audit service is the s.151 Officer for each council. Together under the agreement, the four s.151 Officers form the "Client Officer Group" which is the key governance reporting line for the EKAP. The Client Officer Group meets collectively twice yearly with the Head of Audit Partnership to consider the strategic direction and development of the partnership and any performance matters.

In order to maximise resources between External Audit and Internal Audit, the Head of Audit Partnership and Audit Commission Audit Managers try to take into account where their resources can maximise coverage, avoid duplication of effort and ensure the Audit Commission can place reliance on Internal Audit work, where they can.

The Head of Audit Partnership has a line reporting relationship directly to the Director of Governance the Council's Monitoring Officer. This will change from April 2011 to the Director of Finance. Other key relationships for the EKAP are defined in the approved Audit Charter.

## **3. Internal Audit Strategy and Planning Approach 2011-12**

### **3.1 Internal Audit Objectives**

The EKAP seeks to deliver effective outcomes by;

- Understanding the four partner councils, their needs and objectives,
- Understanding its position with respect to other sources of assurance and to plan our work accordingly,
- Embracing change and working with the four councils to ensure our work supports management,
- Adding value and assisting the partners in achieving their objectives,
- Being forward looking, knowing where the partners wish to be and being aware of the local and national agenda, and their impact,
- Being innovative and challenging,
- Helping to shape the ethics and standards of the four councils, and
- Sharing best practice and assisting with the joint working agenda.



### 3.2 Audit Planning Methodology and Scope of Coverage

The Audit Strategy focuses internal audit effort on the risks of the four partner's objectives and priorities. It also seeks to add value to the partners by reviewing areas that most support management in meeting their objectives. The Strategic Audit Plan is designed to implement the Audit Strategy and sets out a broad rolling programme of work over a three to five year period. The strategic plan is revised in January annually, to take into account the new priorities and risks of each authority.

The Head of Audit Partnership works together with the Audit Managers to consult relevant service managers and heads of service at each site to assist in formulating the strategic audit plans. Each council's corporate aims and objectives, individual service plans, risk registers, time spent on previous audits, any problems encountered, and level and skill of service staff involved are taken into account and information is entered into the audit software. All areas as identified in the strategic plan are then subject to a risk assessment to identify their risk level and whether or not they are to be included in the proposed annual plan. The audit plans are generated from the audit software based on the risk scores of each area of activity identified through the consultation process.

The resultant initial audit plan derived from the above process is taken forward for further consultation with the individual authorities and is ultimately approved at the relevant March audit committee.

The annual audit plans for the current year, are subject to ongoing progress review with the key client officer for each authority and formal quarterly update reports to Members via the relevant audit committee. An annual report summarising performance for the authority and for the EKAP against the agreed audit plan and local performance indicators is published annually in June.

The EKAP is committed to continuous improvement and has standardised all the working practices across the partnership. The Internal Audit team has access to a common Audit Manual to ensure that the same processes are operational across all the partner sites. The Audit Manual is subject to (at least) annual review. The EKAP seeks to ensure continuous improvement by obtaining regular feedback on the service and making comparisons to best practice and the CIPFA Code, with particular emphasis on maximising performance levels.

### 3.3 Strategic Audit Plans

The overall coverage will need to encompass the whole range of risks which the EKAP has identified as being principal to the achievement of each partner's objectives and priorities. The Strategic Plan is therefore based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a three-year cycle of audits to provide assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations. This strategic plan also lists a small number of areas of the organisation's activities that will not be covered within the three-year cycle based upon the current level of audit resources, and for these lower risk areas of business a four or five-year rolling cycle is proposed.

Reviews will assess the risks, plans, systems, procedures and controls with a view to provide an opinion on the control environment and make recommendations to management for any improvement.

The relevant draft strategic audit plan for 2011-14 is attached as ANNEX C.

### 3.4 Annual Audit Plan 2011-12

To comply with the CiPFA Code of Practice for Internal Audit 2006, the agreed audit plan should cover a fixed period of no more than 1 year. The purpose of showing an indicative 2012-13 and 2013-14 plan within this strategy is to provide assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle.

The proposed Annual Audit Plan for 2011-12 has been prepared in consultation with the individual Directors and the Council's Statutory S151 Officer. The plan is also designed to meet the requirements expected by the Audit Commission for ensuring key controls are in place for its fundamental systems. The relevant audit committee is also part of the consultation process, and its views on the plan of work for 2011/12 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require.

The relevant draft annual audit plan for 2011-12 is attached as ANNEX C.

### 3.5 Audit Plan Resource Requirements

Each authority within the partnership requires a different number of audit days to resource their agreed annual audit plan. The emphasis within each of the authority's plan is assurance related. The Internal Audit function will contribute to each of the partner's overall governance & financial assurance processes. This will be achieved through the following:

- Issuing a formal report following each review, including giving an assurance level to each review.
- Analysis of assurance levels, ensuring progress is made at the follow up stage where possible.
- Quarterly reporting to Audit Committees, including an overall annual report at the year-end.
- Liaison with the External Auditors throughout the year.
- Liaison with appropriate officers for each authority to identify specific risk to them, and focusing audit work appropriately.
- Supporting Partners' governance, performance and risk strategies by collecting evidence during reviews to show that their officers consider these aspects as an integral part of their "day job".
- Working with relevant staff to ensure that the systems documentation required to assist External Audit give assurance over the operation of key controls over the material systems, is reviewed and maintained, with tests and any changes fully documented.
- Contributing to and evidencing the Annual Governance Statement from the audit work performed throughout the year in accordance with each authority's processes.

### 3.6 Staff Resources

Dover District Council is the host authority for the shared internal audit service therefore it employs or contracts with all the staff engaged to deliver the service. The current team is made up of nine full or part time staff all providing a range of skills and abilities within the Internal Audit profession. Those staff accredited to a professional body are required to record their Continued Professional Development (CPD) in order to evidence that they maintain their skills and keep up to date. Additionally, the staff are bound by the professional standards and code of ethics for their professional body, either CIPFA, the ACCA or the IIA.

A mix of permanent staff and external contractors will provide the resources required to fill the required number of chargeable audit days. Internal Audit staff will be appropriately qualified and have suitable, relevant experience. Appropriate professional qualifications are ACCA, IIA or AAT. The DDC appraisal scheme including an assessment of personal development and training needs will be utilised to identify technical, professional, interpersonal and organisational competencies. Having assessed current skills a personal development plan will be agreed for all EKAP staff intended to fill any skill gaps.

The Dover District Council's Personal Performance Review process will be the key driver to identifying any skill gaps, and training, where appropriate, will be investigated at an individual level, as well as across the team, and on a Kent wide basis (through collaborative arrangements at Kent Audit Group). In the short-term, the specialised computer audit skills gap may be addressed through the engagement of contractors for specialist work, and where possible, a team member will shadow the "expert" to gain additional skills.

## 4. Additional Services

### 4.1 Special Investigations and Fraud Related Work

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. The prevention and detection of fraud and corruption is ultimately the responsibility of management within the four partner authorities. However, EKAP is aware of its role in this area and will be alert to the risk of fraud and corruption when undertaking its work. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or the discovery of any areas where such risks exist.

Consequently, a provision for any additional time in the event of fraud related work being required has not been included in any of the annual audit plans. Any special investigations which the EKAP is requested to undertake may be accommodated from re-allocating time within the relevant partner's own plan, or through buying in additional resource to either investigate the case, or to back-fill whilst partnership staff carry out the investigation. The provision of resources decision will be made on a case-by-case basis in conjunction with the relevant partner's s.151 Officer and other management as necessary. An added advantage due to the flexibility of the arrangements within the EKAP means that we are able to use auditors who are not known at an authority to complete special investigations as this strengthens independence.

## **4.2 Ad Hoc / Consultancy Work**

A contingency has not been included in any of the partners' plans. Therefore if work has not been included in the plan from the outset, a variation will need to be agreed for any subsequently requested work, to re-allocate time within the relevant partner's own plan, or through buying in additional resource, or to back-fill whilst partnership staff carry out the assignment. The decision will be made in conjunction with the relevant partner's s.151 Officer and other management as necessary

## **4.3 Value for Money (VFM) Reviews**

VFM relates to internal audit work that assesses the economy, efficiency and effectiveness of an activity. The work of EKAP is planned to take account of VFM generally, indeed this is supported by the objective to port best practice between sites where appropriate. Also, some agreed audit plans have a specific provision for VFM reviews (or a review of VFM arrangements). Where possible VFM reviews will be run concurrently with other sites within East Kent where this is deemed to be most beneficial to participating authorities. The EKAP staff are alert to the importance of VFM in their work, and to report to management any examples of actual or possible poor VFM that they encounter in the course of their duties.

## **5. Independence**

The EKAP will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements. Where possible the EKAP staff will have no direct operational responsibilities. Additionally, new staff joining EKAP will not carry out an audit for at least two years on an area they previously had operational responsibility for. The EKAP staff maintain their declarations of interest using the Dover District Council corporate system.

## **6. Quality assurance**

The quality assurance arrangements for the EKAP include all files being subject to review by either the Audit Manager for the site and/or by the Head of Audit Partnership (especially if the review has 'no' or 'limited' assurance). This review ensures that the work undertaken complies with the standards defined in the CIPFA Code of Practice. In addition to the ongoing review of the quality of individual working papers and reports and performance against the balanced scorecard of performance indicators; an annual assessment of the effectiveness of Internal Audit is undertaken separately by each of the partner authorities.

## **7. Review of the Internal Audit Strategy**

This strategy will be reviewed annually, with the next review due in January/February 2012.

**References:** Audit Charter, Audit Manual, CIPFA Code of Practice for Internal Audit 2006

**Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C**

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
<b>Financial Systems:</b>							
Capital	2009-10	Reasonable	8	3	<b>Risk</b> – MAS critical to the production of the Financial Statements <b>SRR</b> – Accuracy of assumptions within MTFP (FCS0001)		8
Treasury Management	2009-10	Substantial	8	3	<b>Risk</b> – Potentially Limited scope for safe investments in the current economic climate. <b>SRR</b> – Accuracy of assumptions within MTFP (FCS0001)		8
Car Parking and PCNs	2010-11	Reasonable				10	
Bank Reconciliation	2010-11	Substantial				6	
Creditors and CIS	2010-11	Substantial				9	
External Funding Protocol	2010-11	Reasonable				10	
Main Accounting System	2009-10	Substantial	8	3	<b>Risk</b> – MAS critical to the production of the Financial Statements. <b>SRR</b> – Accuracy of assumptions within MTFP (FCS0001) <b>CP:</b> Theme 6 – Develop the Council’s finance system.		10
Miscellaneous Income/Cash Collection and Internet payments	2009-10	Substantial				10	
Budgetary Control	2008-09	Substantial	10	3	<b>Risk</b> – MAS critical to the budgeting processes <b>SRR</b> – Accuracy of assumptions within MTFP (FCS0001). <b>SRR</b> – Failure to deliver balanced budget (FCS0003). <b>SRR</b> – Inconsistent application of		10

Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C

Plan Area	Year last audited	Previous Assurance level	2011-12 Planned Days	Quarter Prioritised for 2011-12	Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)	2012-13 Planned Days	2013-14 Planned Days
					corporate standards, policies and procedures (LDS0001).		
Insurance	2008-09	Reasonable	8	2	<b>Risk</b> – Potential to be over or under insured against risks. <b>SRR</b> – Inconsistent application of corporate standards, policies and procedures (LDS0001).		
<b>Residual Housing Systems:</b>							
Homelessness	2010-11	Reasonable/Limited	6	1	<b>Risk</b> – Rising costs in this area during uncertain economic climate <b>CP:</b> Theme 4 – Helping to reduce levels of homelessness	10	
Rent Deposit Scheme	2010-11	Limited					6
Right to Buy	2005-06	Substantial	7	1	<b>Risk</b> – Not audited within the last three years. <b>SRR</b> – Shared Services Programme (FCS0015).		7
HRA Business Plan	2010-11	Substantial					8
<b>Governance Related:</b>							
Data Protection; Freedom of Information; and Information Management.	2009-10	Limited Reasonable Substantial					10
Asset Management	2010-11	Reasonable					10

Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C

Plan Area	Year last audited	Previous Assurance level	2011-12 Planned Days	Quarter Prioritised for 2011-12	Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)	2012-13 Planned Days	2013-14 Planned Days
Members' Code of Conduct and Standards Arrangement	2010-11	Reasonable					8
Officers' Code of Conduct and Whistle blowing Arrangements	2010-11	Substantial					8
Local Code of Corporate Governance	2009-10	Substantial				6	
Performance Management/Validation	2010-11	Reasonable				10	10
VfM Strategy	2008-09	Reasonable				10	
Anti-Money Laundering	2008-09	Substantial	5	1	<p><b>Risk</b> – Potential for external fraud during uncertain economic climate.</p> <p><b>SRR</b> – increased risk of fraud (FCS0015).</p> <p><b>SRR</b> – Inconsistent application of corporate standards, policies and procedures (LDS0001).</p>		
Complaints Monitoring	2004-05	Reasonable	8	4	<p><b>Risk</b> – Potential for increase in complaints due to service cutbacks.</p> <p><b>SRR</b> – Inconsistent application of corporate standards, policies and procedures (LDS0001).</p> <p><b>CP:</b> Theme 6 – develop a communications strategy.</p>		
RIPA	2006-07	Reasonable	8	1	<p><b>Risk</b> – Potential non-compliance with legislation.</p> <p><b>SRR</b> – Inconsistent application of corporate standards, policies and procedures (LDS0001).</p>		

Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C

Plan Area	Year last audited	Previous Assurance level	2011-12 Planned Days	Quarter Prioritised for 2011-12	Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)	2012-13 Planned Days	2013-14 Planned Days
Partnerships	2008-09	Reasonable	10	3	<b>Risk/Opportunity</b> – Emerging ‘Big Society’ agenda. <b>SRR</b> – Partnerships (FCS0020). <b>SRR</b> – Inconsistent application of corporate standards, policies and procedures (LDS0001).		
Scheme of Officer Delegations	2008-09	Reasonable				8	
Climate Change	2008-09	N/A	8	2	<b>Risk</b> - The Council in not seen to be a leader on climate changes within the Community. <b>SRR</b> – Unable to change behaviours internally or locally (FCS0011). <b>CP</b> : Theme 6 – Implement the Climate Change Strategy	10	
Business Continuity	2008-09	Limited	6	3	<b>Risk</b> – Unproven ability to recover key systems in the event of failure. <b>SRR</b> – BCP not sufficiently drafted or robustly tested ( FCS0010). <b>CP</b> : Theme 6 – Managing resources and governing the business.	10	
Corporate/Governance and Audit Committee	2010-11	N/A	32	1 to 4	Meetings with s.151 officer, production of Ctte reports and attendance at Committee meetings.	32	32
Risk Management	2009-10	Reasonable	10	4	<b>CP</b> : Theme 6 – Managing resources, finance, performance and governing the business. <b>SRR</b> – Inconsistent application of corporate standards, policies and procedures (LDS0001).	8	
<b>Other:</b>							



Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C

Plan Area	Year last audited	Previous Assurance level	2011-12 Planned Days	Quarter Prioritised for 2011-12	Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)	2012-13 Planned Days	2013-14 Planned Days
Liaison with the External Auditors	2010-11	N/A	3	1 to 4	<b>Opportunity</b> – Co-ordinate internal and external audit work.	3	3
Previous Year Work in Progress b/fwd	2010-11	N/A	10	1	Completion of 2010-11 work in progress as at 31 <sup>st</sup> March 2011	10	10
Follow-up	2010-11	N/A	27	1 to 4	<b>Opportunity</b> – To confirm the implementation of recommendations & update assurance.	27	25
<b>Contract Audits:</b>							
CSO Compliance	2009-10	Reasonable				10	
Contract Monitoring	2010-11	Reasonable					10
Receipt and Opening of Tenders	2007-08	Reasonable	6	1	<b>SRR</b> – Importance of procurement an contract monitoring (FCS0002). <b>SRR</b> – Inconsistent application of corporate standards, policies and procedures (LDS0001). <b>CP:</b> Theme 6 – Achieve good value for money and governing the business.		6
Procurement Strategy and e-procurement	2010-11	2010-11 WIP					10
<b>Service Level:</b>							
Cemeteries and Crematoria	2010-11	2010-11 WIP					10
Child Protection	2009-10	Reasonable				10	
Cliftonville Renewal Area/Margate Central	2007-08	Limited	10	2	<b>CP:</b> Theme 4 - Change the nature of the Housing market in Cliftonville, increase home ownership and reduce HMOs.		

Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C

Plan Area	Year last audited	Previous Assurance level	2011-12 Planned Days	Quarter Prioritised for 2011-12	Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)	2012-13 Planned Days	2013-14 Planned Days
Community Safety	2008-09	Substantial	10	1	<b>Risk</b> – Reducing grant provision from Central Government. <b>CP:</b> Theme 2 – Reducing Anti-Social Behaviour.		
Coast Protection	2010-11	2010-11 WIP					10
CCTV	2007-08	Substantial	8	1	<b>CP:</b> Theme 2 – New business plan for CCTV.		8
Dog Warden Service and Litter Enforcement	2008-09	Reasonable	8	4	<b>CP:</b> Theme 3 – campaign towards littering & dog fouling.		
Electoral Registration	Pre 2004-05	To be Assessed	10	2	<b>Risk</b> - District elections and Referendum in May 2011. Not audited within the last three years. <b>CP:</b> Theme 6 – Involving people.		
Environmental Health – Food Safety	2009-10	Reasonable				10	
Environmental Health – Public Health Burials	2010-11	Limited					8
Environmental Health – Pest Control	2009-10	Reasonable	8	1	<b>Risk/Opportunity</b> – Risk of infestation (particularly) in deprived areas. <b>CP:</b> Theme 3 – Improve public perception of the appearance of streets.		
Environmental Health – Health and Safety/Public Protection	Pre 2004-05	To be Assessed				10	
Emergency Planning	2009-10	Reasonable				10	
Equality and Diversity	2010-11	Limited					8

Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C

Plan Area	Year last audited	Previous Assurance level	2011-12 Planned Days	Quarter Prioritised for 2011-12	Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)	2012-13 Planned Days	2013-14 Planned Days
Events Management	2010-11	Reasonable				10	
Grounds Maintenance	2009-10	Reasonable				10	
Heritage; and Disabled Facilities Grants	Pre 2004-05 2010-11	To be Assessed Substantial	8 Heritage	1	<b>Risk</b> – Not audited within the last three years. Potential for external fraud during uncertain economic climate.		8 DFGs
Inventories of Portable Assets	Pre 2004-05	To be Assessed	8	1	<b>Risk</b> – Loss of Council assets and Potential for external fraud during uncertain economic climate. <b>SRR</b> – increased risk of fraud (FCS0015). <b>SRR</b> – Inconsistent application of corporate standards, policies and procedures (LDS0001).		8
Land Charges	2008-09	Reasonable	8	4	<b>Risk</b> – Compliance with legislation and source of income		
Licensing	2007-08	Substantial	10	4	<b>Risk</b> – Compliance with legislation and source of income		
Museums	2006-07	Limited					
Let Properties and Concessions	2009-10	Reasonable				10	
Maritime – Visiting Yachts and Ancillary Services	2010-11	Reasonable					7

Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C

Plan Area	Year last audited	Previous Assurance level	2011-12 Planned Days	Quarter Prioritised for 2011-12	Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)	2012-13 Planned Days	2013-14 Planned Days
Maritime – Permanent Berths and Car Parking	2010-11	Reasonable					7
Maritime – Port Operations	2005-06	Reasonable	10	2	<b>Risk</b> – Not audited within the last three years. <b>CP:</b> Theme 1 – Develop a business plan for Ramsgate Port.		
Maritime – Marina Pricing Structure	2010-11	Reasonable	10	2	<b>Risk</b> – The pricing structure does not adequately take account of expenditure commitments and income stream levels. <b>CP:</b> Theme 1 – Develop a business plan for Ramsgate Marina.		
Members' Allowances and Expenses	2010-11	Reasonable					8
Mortgages (consider delaying next audit beyond 2012-13 due to very low number of transactions and Substantial assurance level).	2009-10	Substantial				5	
Planning, Building Control; and s.106 agreements	2010-11	Reasonable Reasonable Substantial					20
Regeneration	Pre 2004-05	To be Assessed	10	3	<b>Risk</b> – Not audited within the last three years. <b>CP:</b> Theme 1 – Support Inward Investment		
Sports and Leisure	2009-10	Substantial /Limited				15	
VAT	2009-10	Audited by CCC				10	

Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C

Plan Area	Year last audited	Previous Assurance level	2011-12 Planned Days	Quarter Prioritised for 2011-12	Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)	2012-13 Planned Days	2013-14 Planned Days
Visitor Information Arrangements	2006-07	Limited	8	4	<b>Risk</b> – Not audited within the last three years. <b>CP:</b> Theme 1 – Thriving coastal towns aspiration.		
Waste Management and Street Cleansing	2010-11	Substantial				15	10
Youth Development Strategy	2008-09	Reasonable				8	
<b>Sub Total Authority Planned Days:</b>			<b>314</b>			<b>332</b>	<b>311</b>
<b>East Kent HR Partnership</b>							
Recruitment	2007-08	Reasonable				5	
Absence Management, Annual Leave and Flexi Leave	2007-08	Reasonable	5	4	<b>Risk</b> – Rising sickness levels and potential for employee fraud during uncertain economic climate. <b>SRR</b> – Council reliance on staff working longer than contracted hours (FCS0013). <b>SRR</b> – increased risk of fraud (FCS0015). <b>SRR</b> – Shared Services Programme (FCS0015). <b>SRR</b> – Inconsistent application of corporate standards, policies and procedures (LDS0001). <b>CP:</b> Theme 6 – managing staff and assets to ensure we deliver VfM		
Payroll, SMP and SSP	2010-11	Reasonable	5	2	<b>Risk</b> – transfer of payment to KCC and potential for employee fraud during uncertain economic climate. <b>SRR</b> – increased risk of fraud	5	5

**Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C**

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
					(FCS0015). <b>SRR</b> – Shared Services Programme (FCS0015). <b>CP:</b> Theme 6 – managing staff and assets to ensure we deliver VfM.		
Employee Health, Safety and Welfare	2009-10	Limited	8	2	<b>Risk</b> – Possible Corporate Manslaughter implications. <b>SRR</b> – absence of H&S risk assessments (ENV0001). <b>CP:</b> Theme 6 – managing staff and assets to ensure we deliver VfM.	8	
Employee Allowances and Expenses	2009-10	Reasonable	5	3	<b>Risk</b> – transfer of payment to KCC and potential for employee fraud during uncertain economic climate. <b>SRR</b> – increased risk of fraud (FCS0015). <b>SRR</b> – Shared Services Programme (FCS0015). <b>SRR</b> – Inconsistent application of corporate standards, policies and procedures (LDS0001). <b>CP:</b> Theme 6 – managing staff and assets to ensure we deliver VfM.		
Employee Benefits-in-Kind	2010-11	Limited					8
HR Systems Development	New Audit Area	Not Applicable	5	2	<b>Risk/Opportunity</b> - Establishment of controls within emerging systems. <b>SRR</b> – Shared Services Programme (FCS0015).		
<b>Sub Total EKHRP Planned Days:</b>			<b>28</b>			<b>18</b>	<b>13</b>
<b>EK Services:</b>							

Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C

Plan Area	Year last audited	Previous Assurance level	2011-12 Planned Days	Quarter Prioritised for 2011-12	Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)	2012-13 Planned Days	2013-14 Planned Days
Housing Benefits – Payment	2009-10	Substantial				5	
Housing Benefits – Overpayments	2009-10	Substantial	5	4	<b>Risk</b> – Significant area of Council expenditure. <b>SRR</b> – increased risk of fraud (FCS0018). <b>SRR</b> – Shared Services Programme (FCS0015).		8
Housing Benefits – Fraud Investigations Unit	2009-10	Reasonable	5	3	<b>Risk</b> – Potential for increased external fraud during uncertain economic climate <b>SRR</b> – increased risk of fraud (FCS0018). <b>SRR</b> – Shared Services Programme (FCS0015).		
Housing Benefits – Admin & Assessment	2010-11	Substantial				10	
Housing Benefits – Quarterly Testing	2010-11	N/A	20	1 to 4	<b>Risk/Opportunity</b> - Quarterly benefit testing of claims to support the external auditors work and inform the training programme. <b>SRR</b> – Shared Services Programme (FCS0015).	20	20
Council Tax	2010-11	Substantial				10	
Business Rates	2010-11	Substantial	8	2	<b>Risk</b> – MAS/Income System critical to the production of the Financial Statements. <b>SRR</b> – Shared Services Programme (FCS0015).		8
Customer Services/Gateway	2008-09	Substantial	5	2	<b>Risk/Opportunity</b> – Essential Customer interface. <b>SRR</b> – Shared Services Programme (FCS0015). <b>CP:</b> Theme 6 – Review face to face		

**Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C**

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
					service delivery across Thanet.		
Debtors and Rechargeable Works	2009-10	Reasonable	5	2	<b>Risk</b> – MAS critical to the production of the Financial Statements. <b>SRR</b> – Accuracy of assumptions within MTFP (FCS0001). <b>SRR</b> – Shared Services Programme (FCS0015).		5
ICT – Change Controls	2007-08	Reasonable					5
ICT – File Security	2007-08	Reasonable					5
ICT – Network Security	2009-10	Reasonable				5	
ICT – Procurement and Disposal	2007-08	Reasonable				5	
ICT – Internet and e-mail	2007-08	Reasonable	5	4	<b>Risk</b> – Key system which supports all Council service delivery. <b>SRR</b> – Shared Services Programme (FCS0015). <b>CP</b> : Theme 6 – managing assets to ensure we deliver VfM.		
ICT – Management and Finance	2007-08	Reasonable	5	2	<b>Risk</b> – Key system which supports all Council service delivery. <b>SRR</b> – Shared Services Programme (FCS0015). <b>SRR</b> – Data Protection Breach arising from loss of ICT equipment and/or data (LDS0002). <b>CP</b> : Theme 6 – managing assets to ensure we deliver VfM.		
ICT – Physical and Environment	2007-08	Reasonable	5	3	<b>Risk</b> – Key system which supports all Council service delivery. <b>SRR</b> – Shared Services Programme (FCS0015). <b>CP</b> : Theme 6 – managing assets to		



Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C

Plan Area	Year last audited	Previous Assurance level	2011-12 Planned Days	Quarter Prioritised for 2011-12	Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)	2012-13 Planned Days	2013-14 Planned Days
					ensure we deliver VfM.		
ICT – Software Licensing	2007-08	Reasonable				5	
ICT – PC Controls and Application Controls	2007-08	Reasonable					5
<b>Sub Total EK Services Planned Days:</b>			<b>63</b>			<b>60</b>	<b>56</b>
<b>East Kent Homes (ALMO):</b>							
ALMO Governance	New Audit Area	To be Assessed	3	3	<b>SRR – Shared Services Programme (FCS0015). CP: Theme 4 – Delivering a quality landlord service to tenants.</b>		
Internal Controls and Finance Systems	New Audit Area	To be Assessed	3	2	<b>SRR – Shared Services Programme (FCS0015). CP: Theme 4 – Delivering a quality landlord service to tenants.</b>		
Interfaces with Finance and ICT Systems	New Audit Area	To be Assessed	2	2	<b>SRR – Shared Services Programme (FCS0015). CP: Theme 4 – Delivering a quality landlord service to tenants.</b>		2
Audit Ctte/EA Liaison/Follow-up	New Audit Area	To be Assessed	1	1 to 4	<b>SRR – Shared Services Programme (FCS0015). CP: Theme 4 – Delivering a quality landlord service to tenants.</b>	1	1
Rent Accounting	2010-11	Substantial	3	2	<b>Risk – MAS/Income System critical to the production of the HRA Financial Statements. SRR – Shared Services Programme (FCS0015). CP: Theme 4 – Delivering a quality landlord service to tenants.</b>		3
Rent Collection and Debt	2010-11	Substantial	5	2	<b>Risk – MAS/Income System critical to</b>		5

Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C

Plan Area	Year last audited	Previous Assurance level	2011-12 Planned Days	Quarter Prioritised for 2011-12	Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Strategic Risk Register (SRR); Link to Corporate Plan (CP)	2012-13 Planned Days	2013-14 Planned Days
Management (incl. Write-offs)					the production of the HRA Financial Statements. <b>SRR</b> – Shared Services Programme (FCS0015). <b>CP:</b> Theme 4 – Delivering a quality landlord service to tenants.		
Responsive Repairs	2010-11	Reasonable				5	
Planned and Cyclical Repairs	2010-11	Reasonable				5	
Leasehold Services	2010-11	Reasonable					8
Health and Safety (Fire, Gas etc)	2010-11	Reasonable				4	
Sheltered and Supported Housing (including Supporting People)	Pre 2004-05	To be Assessed				5	
Void Property management	2010-11	Reasonable					1
Tenancy and Estate Management	Pre 2004-05	To be Assessed	8	2	<b>Risk</b> – Housing supply may not meet local demand. <b>SRR</b> – Shared Services Programme (FCS0015). <b>CP:</b> Theme 4 – Delivering a quality landlord service to tenants.		
<b>Sub Total East Kent Homes Planned Days:</b>			<b>25</b>			<b>20</b>	<b>20</b>
<b>Total Planned Days</b>			<b>430</b>			<b>430</b>	<b>400</b>

**Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C**

**Notes:**

1. The draft internal audit plan for 2011-11 has been prepared with regard to the risks and opportunities identified within the Council's Strategic Risk Register (SRR) as at January 2011. If the above plan is accepted as presented, the following risks which are identified with the Strategic Risk Register will not be covered by internal audit reviews in 2011-12 for the reasons stated below:

<b>Strategic Risk</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>Year next audit proposed</b>	<b>Reason not included within the 2011-12 internal audit plan:</b>
<b>Risk Ref : CM0001 (Residual Rating 3) – Treat.</b> External Funding	2010-11	Reasonable	2012-13	This area has been audited within the last twelve months with a conclusion of 'Reasonable Assurance' and a follow-up audit is scheduled for Quarter 4 of 2010-11.
<b>Risk Ref : FCS0004 (Residual Rating 4) – Treat.</b> Performance Management	2010-11	2010-11 WIP in Quarter 4	2012-13	This area is being audited during Quarter 4 of 2010-11 and a follow-up audit will then take place in 2011-12.
<b>Risk Ref : FCS0005 (Residual Rating 4) – Treat.</b> Pension Liability	N/A	N/A	N/A	The KCC Superannuation fund is the subject of external review by actuaries. This is not considered to be an area in which an audit review could meaningfully add value.
<b>Risk Ref : FCS0011 (Residual Rating 2) – Treat.</b> Conflicting Priorities	2010-11	2010-11 WIP in Quarter 4	2012-13	This area is being covered as part of an audit of Performance Management during Quarter 4 of 2010-11 and a follow-up audit will then take place in 2011-12.
<b>Risk Ref : FCS0017 (Residual Rating 3) – Treat.</b> Viability/structure of the residual Council following the shared services programme.	N/A	N/A	N/A	This is not considered to be an area in which an audit review could meaningfully add value.
<b>Risk Ref : FCS0019 (Residual Rating 2) – Treat.</b> Limited internal specialist support (engineers, property and legal) at peak times.	N/A	N/A	N/A	This is not considered to be an area in which an audit review could meaningfully add value.
<b>Risk Ref : REG0019 (Residual Rating 4) – Treat.</b> Asset Management	2010-11	Reasonable	2013-14	This area has been audited within the last twelve months with a conclusion of 'Reasonable Assurance' and a follow-up audit is scheduled for Quarter 1 of 2011-12.

**Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C**

<b>Strategic Risk</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>Year next audit proposed</b>	<b>Reason not included within the 2011-12 internal audit plan:</b>
<b>Risk Ref : REG0019 (Residual Rating 4) – Treat.</b> Emergency Planning	2009-10	Reasonable	2012-13	This area was last audited in December 2009 with a conclusion of 'Reasonable Assurance' and a follow-up audit is currently taking place in January 2011.

**Notes continued:**

2. In accordance with the Cipfa Code of Practice for Internal Audit 2006, the audit plan should cover a fixed period of no more than 1 year. Members are only being asked to approve the 2011-12 plan at the present time and the 2012-13 plan (modified as necessary) will be presented for consideration in March 2012. The purpose of showing a draft 2012-13 and 2013-14 plans at this time is to provide Members with assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within the three-year cycle specified within the Council's Audit Strategy.
3. If the above plan is accepted as presented, the following audits areas will not have been covered within a three-year cycle:

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>Year next audit proposed</b>	<b>Planned days</b>
Museums	2006-07	Limited	Yet to be determined	10
Recruitment (deleted from 2010-11 plan due to very low levels of recruitment)	2007-08	Reasonable	2012-13	5
Scheme of Officer Delegations	2008-09	Reasonable	2012-13	8
Youth Development Strategy	2008-09	Reasonable	2012-13	8
Sheltered and Supported Housing (including Supporting People)	Pre 2004-05	To be Assessed	2012-13	5
VfM Strategy	2008-09	Reasonable	2012-13	8

**Thanet District Council Annual Audit Plan 2011- 2012 & 3 Year Strategic Plan 2011-14 – ANNEX C**

Environmental Health – Health and Safety/Public Protection	Pre 2004-05	To be Assessed	2012-13	10
ICT – Change Controls (partially covered by series of ICT audits in 2011-12 and 2012-12)	2007-08	Reasonable	2013-14	7
ICT – File Security (partially covered by series of ICT audits in 2011-12 and 2012-12)	2007-08	Reasonable	2013-14	7
ICT – Procurement and Disposal (partially covered by series of ICT audits in 2011-12)	2007-08	Reasonable	2012-13	7
ICT – Software Licensing (partially covered by series of ICT audits in 2011-12)	2007-08	Reasonable	2012-13	7
ICT – PC Controls and Application Controls (partially covered by series of ICT audits in 2011-12 and 2012-12)	2007-08	Reasonable	2013-14	7

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## INTERNAL AUDIT PROGRESS REPORT

To: **Governance and Audit Committee: 15<sup>th</sup> March 2011**

By: **Chief Executive Designate (s.151 Officer): Sue McGonigal**

Subject: **INTERNAL AUDIT PROGRESS REPORT OF THE HEAD OF THE AUDIT PARTNERSHIP.**

Classification: **Unrestricted**

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**Summary:** This report gives Members a summary of the internal audit work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 31<sup>st</sup> December 2010.

### For Information

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#### **1.0 Introduction**

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 31<sup>st</sup> December 2010.

#### **2.0 Audit Reporting**

2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to each member of Corporate Management Team, as well as an appropriate manager for the service reviewed. Attached as Appendix 1 to the EKAP report is a summary of the Action Plans agreed in respect of the reviews covered during the period.

2.2 Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.

2.3 An Assurance Statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be Substantial, Reasonable, Limited or No assurance.

2.4 Those services with either Limited or No Assurance are monitored, and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of Assurance to either Reasonable or Substantial. A list of those services currently with such levels of assurance is attached as Appendix 2 to the EKAP report.

2.5 The purpose of the Council's Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial

performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

- 2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

### **3.0 Summary of Work**

- 3.1 There have been nine Internal Audit assignments completed during the period. Of these: two concluded Substantial assurance, two concluded Reasonable Assurance, one concluded Limited Assurance, and one review resulted in a split Assurance level. Additionally, there were three audit assignments for which an assurance level was not applicable. Summaries of the report findings and the recommendations made are detailed within Annex 1 to this report.

- 3.2 In addition, six follow-up reviews have been completed during the period. Of these, two related to an areas which was originally assessed as giving rise to a partially Limited assurance and the assurance levels for these business areas remains unchanged.

- 3.3 The Thanet District Council audit plan for 2010-11 was 85.05% complete as at 31<sup>st</sup> December 2010. The performance figures for the East Kent Audit Partnership for 2010-11 show excellent performance against target.

### **4.0 Options**

- 4.1 That Members consider and note the internal audit update report.
- 4.2 That the changes to the agreed 2010-11 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved.
- 4.3 That the changes to the agreed 2010-11 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report are not approved.
- 4.4 That Members consider (where appropriate) requesting an update from the relevant Director/s to the next meeting of the Committee in respect of any areas identified as still having either limited or no assurance following follow-up.
- 4.5 That Members consider registering their concerns with Cabinet in respect of any areas of the Council's corporate governance, control framework or risk management arrangements in respect of which they have on-going concerns after the completion of internal audit follow-up reviews and update presentations from the relevant Director.

### **5.0 Corporate Implications**

#### **5.1 Financial Implications**

- 5.1.1 There are no financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2009-10 and 2010-11 budgets.

#### **5.2 Legal Implications**



5.2.1 The Council is required by statute (under the Accounts and Audit Regulations and section 151 of the Local Government Act 1972) to have an adequate and effective internal audit function.

5.3 Corporate Implications

5.3.1 Under the Local Code of Corporate Governance accepted by Cabinet on 8<sup>th</sup> December 2009, the Council is committed to comply with requirements for the independent review of the financial and operational reporting processes, through the external audit and inspection processes, and satisfactory arrangements for internal audit.

6.0 Recommendations

6.1 That the report be received by Members.

6.2 That the changes to the agreed 2010-11 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved.

Contact Officers:	Christine Parker, Head of the Audit Partnership, ext. 7190
	Simon Webb, Audit Manager, ext 7190
	Sue McGonigal, Chief Executive Designate (s.151 Officer) Ext. 7790

**Annex List:**

Annex 1	East Kent Audit Partnership Update Report – 15-03-2011
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**Background Papers:**

<b>Title</b>	<b>Details of where to access copy</b>
<i>Internal Audit Annual Plan 2010-11</i>	Previously presented to and approved at the 16 <sup>th</sup> March 2010 Governance and Audit Committee meeting
<i>Internal Audit working papers</i>	Held by the East Kent Audit Partnership



## INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

### 1.0 INTRODUCTION AND BACKGROUND

1.1 This report provides Members with an update of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 31<sup>st</sup> December 2010.

### 2.0 SUMMARY OF REPORTS

Service / Topic	Assurance level
2.1 Creditors and Construction Industry Scheme (CIS)	Substantial
2.2 HRA Business Plan	Substantial
2.3 Planning; Building Control; and s.106 agreements	Reasonable Substantial Substantial
2.4 Leasehold Services	Reasonable
2.5 Members Allowances	Reasonable
2.6 Equality and Diversity	Limited
2.7 Shared Revenues and Benefits with Dover District Council – ICT Controls	Not Applicable
2.8 Shared Revenues and Benefits with Dover District Council – Service Level Agreement	Not Applicable
2.9 Shared Payroll Controls	Not Applicable

#### **2.1 Creditors and Construction Industry Scheme (CIS) – Substantial Assurance:**

##### 2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that invoices are adequately checked prior to being paid.

##### 2.1.2 Summary of Findings

Testing completed during this review found that a sound system of control is currently being managed and achieved. All of the necessary key controls of the system were in place.

##### 2.1.3 Management Response

As a result of the substantial assurance, a management response is not required.

## 2.2 Housing Revenue Account (HRA) Business Plan – Substantial Assurance:

### 2.2.1 Audit Scope

To ensure that the Council maintains a Housing Revenue Account in accordance with section 74 of the Local Government and Housing Act 1989 and that the current business plan clearly demonstrates that the Council can maintain its properties to the Decent Homes Standard for the full 30 years of the plan (which runs to 2036).

### 2.2.2 Summary of Findings

The HRA Business Plan provides a clear vision of the aims and objectives of the service, which has been evidenced by the areas reviewed by the Auditor.

The current HRA business plan is for a six year term commencing in 2010 with an associated thirty year financial projection. The impact of both the recent Comprehensive Spending Review and proposed Government changes to local authority housing terms of tenure and rental levels are not yet fully known at the time of this review and it should be acknowledged that these changes will almost certainly impact upon the current plan and that some projects and schemes may not be achievable as currently forecast.

### 2.2.3 Management Response

As a result of the substantial assurance, a management response is not required.

## 2.3 Planning, Building Control and s.106 Agreements – Reasonable/Substantial/Substantial Assurance:

### 2.3.1 Audit Scope

Planning Applications: To ensure that planning application procedures, including those in respect of fees and collection of income, are in accordance with Statute, and the organisation's Standing Orders and Financial Regulations.

Building Control Applications: To ensure that Building Control procedures are operated in accordance with the Building Act 1984, and the organisation's Financial Regulations and approved policy.

Section 106 Agreements: To ensure that Section 106 agreements are used where appropriate in planning applications and that all legal requirements are adhered to. All income / benefits from the agreement are received and conditions imposed are complied with to the benefit of the district.

### 2.3.2 Summary of Findings

- a. **Planning Applications** - Management can place Reasonable Assurance on the system of internal controls in operation.
- b. **Building Control Applications** - Management can place Substantial Assurance on the system of internal controls in operation.
- c. **S.106 Agreements** - Management can place Substantial Assurance on the system of internal controls in operation.

#### a. **Planning:**

Most of the expected controls are in full operation; however recommendations for improvement have been made in connection with declaration of interests and buildings of a special architectural or historical interest.

As identified in the previous audit, income reconciliations between Acolaid and Cedar e-financials are not undertaken.

**b. Building Control:**

Building Control is scheduled to be included within Tranche One of the East Kent Services (EKS). It is therefore paramount that full income reconciliations between Acolaid and Cedar e-financials are undertaken to ensure accurate and timely processing.

Once again the service area has shown a high level of compliance in line with CiPFA control testing undertaken. It should be noted however that the Acolaid System is not updated to reflect payments of Sundry Debtor invoices that have been raised, primarily for inspections.

**c. S.106 Agreements:**

Testing was undertaken to ensure that the creation, recording, monitoring, income receipts and expenditure of S106 Agreement monies was inline with the expected controls and the agreement.

This has resulted in a high level of compliance which is reflected in the level of assurance. However, it has been identified from the register that four S106 receipts received have not been spent by the set deadline.

The Council has in place a Section 106 Agreement for the Kent International Airport, Manston. Key elements of this S106 were reviewed and which confirmed Operator compliance, Council monitoring, recording of income and expenditure and the distribution of the monies received.

**2.3.3 Management Response**

Management welcomes the findings of the internal audit review and the associated assurance which has been concluded. The recommendations identified during the audit have been agreed and a timetable established for their implementation.

**2.4 Leasehold Services – Reasonable Assurance:**

**2.4.1 Audit Scope**

To ensure that the service costs incurred by the Council in respect of properties within the Housing Portfolio, for which the Council owns the freehold, and which are occupied on lease, or have been sold are appropriately re-charged to the tenants/leaseholders/owners in accordance with statutory provisions and Council policy.

**2.4.2 Summary of Findings**

The leaseholder charges process is generally working well and most of the expected controls are effective. There have been notable changes made since the last audit in 2006 when limited assurance was given. The improvements made to the overall control environment impacting on the 2009/10 service charge accounts are sufficient to provide a greater level of assurance.

#### 2.4.3 Management Response

Management welcomes the findings of the internal audit review and the increase level of assurance in this area. A timetable has been established for the implementation of the recommendations agreed as part of the review.

### **2.5 Members' Allowances – Reasonable Assurance:**

#### 2.5.1 Audit Scope

To ensure that Members' allowances are calculated and paid in accordance with the prevailing regulations.

#### 2.5.2 Summary of Findings

The Members Allowances process is generally working well and most of the expected controls are effective. Improvements have been identified regarding the availability of auditable evidence to demonstrate the effective implementation of some of the controls.

A project is currently underway to introduce the payment administration of member expenses into the CIVICA workflow process. Controls will be programmed to replace the elements of manually handled claims and to ensure compliance with the Scheme is maintained and can be easily monitored and reported on.

#### 2.5.3 Management Response

Democratic Services are currently in the process of redesigning the Members' Expenses form to make it more robust and as mentioned above we are also developing a CIVICA workflow process for Member Expenses claims.

It is hoped that these measures will ensure continued compliance with the scheme and will contribute to the section achieving a substantial level of assurance in the future.

### **2.6 Equality and Diversity – Limited Assurance:**

#### 2.6.1 Audit Scope

To ensure that services address the different needs that customers have. Customers' needs differ for a variety of reasons: these could include (but are not restricted to) age, ethnic background, their ability to access services or their ability to participate in the life of their community.

#### 2.6.2 Summary of Findings

Management can place Limited Assurance on the Council's current compliance with level three of the 'Equalities Standard for Local Government' and it is felt that the Council would struggle to attain level two at the current time. As part of this review the new Government legislation on Equalities was also examined to determine how well equipped the Council is adhering to the requirements of The Equalities Act 2010 and the Public Service Duties 2011.

There is currently not a dedicated Equalities Officer in post since the previous officer left approximately eighteen months ago. During this time the Council's responsibilities in respect of equalities and diversity have been dispersed amongst a number of officers. Consequently the Council's Corporate Equality Plan, Equalities and Diversity Policy and Action Plan are now out of date and in need of review. The revised Equality Plan will now be based on level two of the Equality Standard and new legislation.

There is an Equalities and Diversities Group that consists of a representative from each service area. This group meets each quarter and aims to ensure that equalities and diversity is co-ordinated and communicated across departments. Unfortunately this group no longer has the involvement of a Director and Cabinet Portfolio holder demonstrating the priority assigned to other issues at the current time.

An essential part of the 'Equalities Standard for Local Government' is the implementation of Equalities Impact Assessments (EIA's) that contain targets based on equality objectives for each service area that are fed into the service plans and the Corporate Equalities and Diversity Plan. Unfortunately, whilst a number of EIA's have been developed, these are now out of date. It has been acknowledged that work is required to implement new EIA's and update the existing ones and this is currently the main topic of the Equalities and Diversity Group.

The Council has undertaken some excellent work in understanding the community of Thanet and has produced a State of Thanet Report that contains numerous data on age, gender, disabilities etc that can be used by a number of services throughout the Council and, if kept up to date, should prove a valuable tool in understanding the needs of the community. As the society becomes increasingly more diverse, it becomes more important that the Council reflects the diversity of its population and ensures that the public services meet these diverse needs. Therefore it is important the Council continues to train those officers engaged in frontline service delivery to work with the local people and identify local priorities and design Council services to meet the needs of the people it serves.

There are a number of officers throughout the Council who engage with external organisations and the voluntary community sector who can demonstrate some tangible outcomes in respect of equality and diversity issues. For example, supporting and working with the Migrant help line and being awarded the 'Two Ticks' symbol in recognition of its commitment to employing individuals with disabilities. It is understood that as a result of the comprehensive spending review that these services may be affected should grant funding be reduced or withdrawn altogether. Management may need to reconsider the priority given to Equalities over the coming months as some services may be adversely affected.

The Government has introduced a New Equalities Act 2010 and will implement The Public Sector Equality Duty in April 2011. This requires all public bodies to publish a range of equality data relating to both its workforce and the services they provide. This must be published in an open and transparent manner and made freely available to third parties who are able to reuse this data to hold public bodies to

account. Therefore the Council must ensure that it has good, up to date information on which to base its equality objectives which they will be expected to publish in April 2012.

### 2.6.3 Management Response

In November 2006, Thanet was assessed as having achieved Level 2 of the Equality Standard and it was intended that an application should be made for Level 3, However, due to capacity issues the application was placed on hold. In April 2009, the Equality Framework for Local Government replaced the Equality Standard. The new standard, based on three levels 'developing, achieving & excellent' was introduced and councils migrated - those that achieved levels 1 & 2 would be treated as developing. In considering an application under the new scheme it proved timely for Audit to review our current position to enable an informed decision as to the success of any future application and to ensure our compliance with the New Equalities Act 2010 and the Public Services Duties.

The recommendations from the audit are welcomed and a report will be submitted to Cabinet in the Summer of 2011 to agree a position as to whether an application for the next level should be progressed. In the meantime recommendations will be taken forward, including the undertaking of Equalities Impact Assessment, EIA's. Assessments have now been completed for all harmonised terms and conditions and the Budget 2011/12.

## **2.7 Shared Revenues and Benefits with Dover District Council (ICT Controls) – An assurance level is not applicable for this work::**

2.7.1 The purpose of this assignment was to provide an independent assessment of the ICT controls and risks to the two East Kent cluster councils arising from the merger of the Civica (IBS) systems for Dover and Thanet to facilitate the proposed Shared Revenue and Benefits service

2.7.2 The merging of the Revenue and Benefits ICT databases has been successful due to managing those issues that existed and arose during the project through monitoring progress, regular meetings in house, project meetings together as a team, and also communicating regularly with Civica.

## **2.8 Shared Revenues and Benefits with Dover District Council (Service Level Agreement) – An assurance level is not applicable for this work::**

2.8.1 The purpose of this assignment was to provide guidance to the two East Kent cluster councils in respect of the Service Level Agreement to be considered as part of the merger of the Civica (IBS) systems for Dover and Thanet for the proposed Shared Revenue and Benefits service.

2.8.2 The draft version of the proposed service level agreement between Dover District Council and Thanet District Council was evaluated by EKAP and the resultant queries and suggestions for improvement were raised with management at the two partner sites.

## **2.9 Shared Payroll Controls – An assurance level is not applicable for this work:**

2.9.1 The aim of this assignment was to assist the EKHRP in establishing an effective suite of controls over the Shared Payroll service that will be used for all four of the East

Kent cluster councils from the client side in respect of the payroll service being provided by Kent County Council. The overarching aim of these payroll controls is to keep errors on the payroll to a minimum thus ensuring staff are paid correctly.

- 2.9.2 The proposed controls established across the shared payroll function were examined and audit recommendations made to strengthen the control environment where required.

### 3.0. **FOLLOW UP OF AUDIT REPORT ACTION PLANS:**

- 3.1 As part of the period's work, six follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

Service/ Topic		Original Assurance level	Revised Assurance level	No of Recs Implemented		No of Recs Outstanding /In Progress	
a)	CSO Compliance	Limited	Reasonable	H	4	H	0
				M	5	M	0
				L	0	L	0
b)	Local Code of Corporate Governance	Substantial	Substantial	H	0	H	0
				M	1	M	1
				L	1	L	0
c)	Child Protection	Reasonable	Reasonable	H	0	H	4
				M	0	M	5
				L	0	L	0
d)	Thanet Leisure Force	Substantial/ Limited	Substantial/ Limited	H	0	H	4
				M	1	M	1
				L	0	L	0
e)	Housing Benefits – Fraud Investigation Unit	Reasonable	Reasonable	H	2	H	4
				M	3	M	1
				L	0	L	0
f)	Information Mngmt; FOI; and Data Protection	Substantial Reasonable Limited	Substantial Reasonable Limited	H	1	H	4
				M	0	M	5
				L	1	L	0

- 3.2 Details of each of the individual High priority recommendations outstanding after follow-up are included at Appendix 2 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 officer and Member's of the Governance Committee.

The purpose of escalating outstanding high-risk matters is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.



3.3 As highlighted in the above table, those areas previously reported as having either Limited or No assurance have been reviewed and Members are advised as follows:

a) CSO Compliance:

A significant amount of work has been undertaken by the Council to address the issues highlighted at the time of the original audit in the summer of 2010. CMT receive monthly reports of Council spend, analysed by department, which enables them to identify and challenge any areas of concern.

d) Thanet Leisure Force:

It is acknowledged, that whilst five recommendations are still outstanding, progress towards their completion is ongoing and that whilst work schedules have delayed their implementation they are still a priority for completion.

f) Data Protection:

Slippage has occurred on implementation dates originally agreed with regards to those recommendations specifically relating to the Data Protection element of the report. Management response within the attached action plan does however provide confidence that the actions taken to date demonstrate commitment to addressing the issues, albeit it is taking longer than originally proposed.

#### **4.0 WORK-IN-PROGRESS:**

4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Cemeteries and Crematoria, Coast Protection, Performance Management, Members' Code of Conduct and Standards Arrangements, Procurement, Car Parks, and Waste Management (Vehicle Fleet Management).

#### **5.0 CHANGES TO THE AGREED AUDIT PLAN:**

5.1 The 2010-11 internal audit plan was agreed by Members at the meeting of this Committee on 16<sup>th</sup> March 2010.

5.2 The Head of the Audit Partnership meets on a monthly basis with the Section 151 or delegated officer to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments have been made to the plan during the course of the year as some high profile projects or high-risk areas have been requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Appendix 4.

#### **6.0 FRAUD AND CORRUPTION:**

There are no known instances of fraud or corruption to bring to Members attention at the present time.

#### **7.0 UNPLANNED WORK:**

During the period under review 4.85 days of audit time was spent in assisting a Council appointed independent investigator in respect of a Standards Complaint, the results of which were considered by the Council's Standards Committee.

## **8.0 INTERNAL AUDIT PERFORMANCE**

- 8.1 For the nine month period to 31<sup>st</sup> December 2010, 374.69 chargeable days were spent out of a planned total of 440.57. Approximately 85.05% of the plan has therefore been completed. All of the recommendations made within reports to management have been accepted by them.
- 8.2 The financial performance of the EKAP is on target and there are no concerns to highlight at this time.
- 8.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has established a range of performance indicators which it records and measures. The performance against each of these indicators for the third quarter of 2010-11 is attached as Appendix 5. There are no concerns regarding the resources engaged or outputs achieved at this time, and the East Kent Audit Partnership is performing well at this time against its targets for the 2010-11 financial year.
- 8.4 The EKAP audit maintains an electronic client satisfaction questionnaire which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service. Current feedback arising from the customer satisfaction surveys is featured in the Balanced Scorecard attached as Appendix 5.

### **Attachments**

- Appendix 1 Summary of High priority recommendations resulting from the period's work.
- Appendix 2 Summary of High priority recommendations outstanding after follow-up.
- Appendix 3 Summary of services with Limited / No Assurances
- Appendix 4 Progress to 31<sup>st</sup> December 2010 against the agreed 2010-11 Audit Plan.
- Appendix 5 EKAP Balanced Scorecard of Performance Indicators to 30th December 2010.
- Appendix 6 Assurance statements

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS RESULTING FROM THE PERIOD'S WORK - APPENDIX 1**

RECOMMENDATION/ WEAKNESS	AGREED ACTION, RESPONSIBILITY & TARTGET DATE	RESPONSIBILITY AND TARGET DATE
<b>Members' Allowances – January 2011</b>		
<p>The project plan and acceptance of the CIVICA process proposed by March 2011 should reflect the current working practice control elements to ensure the effectiveness of the control environment is maintained.</p> <p>Use of the CIVICA workflow system should ensure activity processes highlight specific criteria within the Members Allowance Scheme. Process prompts should be in place to ensure compliance is achieved and/or Councillors are challenged where necessary.</p>	<p>This risk will be addressed when Democratic Services introduce the CIVICA workflow process in time for the new intake of Councillors after the election on 5 May 2011.</p>	<p>Date: May 2011 Committee Services Manager (NH).</p>
<b>Leasehold Services – February 2011</b>		
<p>Document the Leasehold Service Charge process to ensure the continuity and consistency of process and to also demonstrate working practice compliance to current legislation.</p>	<p>Document the process within a flowchart.</p>	<p>Date: 31.3.11 Housing Maintenance Manager / Leasehold Management Officer</p>
<p>Reconciliation input sheets should be completed for each data source. The result should confirm the source data total reconciles with the totals on the excel spreadsheet once costs have been input to individual accounts. Any discrepancies between totals should be investigated and recorded.</p>	<p>Implement reconciliation input sheets for 2010-11 service charges.</p> <p><u>Audit comment:</u> Implementation date accepted as this links into the timetable for issue of the leasehold charge accounts</p>	<p>Date: 31.8.11 Housing Maintenance Manager / Leasehold Management Officer</p>

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS RESULTING FROM THE PERIOD'S WORK - APPENDIX 1**

RECOMMENDATION/ WEAKNESS	AGREED ACTION, RESPONSIBILITY & TARTGET DATE	RESPONSIBILITY AND TARGET DATE
<b>Equality and Diversity – February 2011</b>		
Management should ensure that the Equalities Policy, Equalities Action Plan and Corporate Equity Plan are reviewed and the outcomes of the previous documents reported. Once these documents are updated they should be made available to the public and to staff.	Current review of old actions.  In 2011/12 develop new Corporate Equality Plan to align with the Corporate Planning Cycle – 4 year rolling plan of a 2012/2015.	March 2011 Internal E&D Group  March 2012 Internal E&D Group
The Council must ensure that priority attention is given to Equalities and Diversity throughout the Council, especially in light of the recent changes in legislation and the introduction of Public Service Duties ensuring it is equipped to deal with the legal requirements.	Equalities Action Plan updated to ensure compliant with statutory/legal requirements.  EKHR to provide workforce data :Public Services Duties	March 2011 Internal E&D Group  Head of the EKHR Partnership (JOS)
The Equalities and Diversity Group should establish a schedule for managers to identify the areas that require an Equalities Impact Assessment to be carried out and identify the responsible officers to undertake this duty.	EIA completed for harmonised Terms & Conditions  Timetable for EIAs re. new posts/restructure	Complete  Subject to appointment of top tier in new corporate structure - May 2011
To ensure that all agreed actions decided at the Equalities and Diversity Group are implemented efficiently and effectively, members should take ownership responsibility and report outcomes in a timely manner.	Actions from minutes implemented.	On-going Internal E&D Group
The Council must ensure that it continues to update the State of District Report and communicates this effectively internally and externally, ensuring that it is able to provide clear relevant and reliable information about its aims and objectives should the council ever be held to account for any information published.	Report designed to be updated automatically via external data-links. Annual refresh.	On-going Performance Information Officer

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS RESULTING FROM THE PERIOD'S WORK - APPENDIX 1**

RECOMMENDATION/ WEAKNESS	AGREED ACTION, RESPONSIBILITY & TARTGET DATE	RESPONSIBILITY AND TARGET DATE
<b>HRA Business Plan – February 2011</b>		
The Council must ensure that the developed framework within its HRA Business Plan, (that is ultimately the vision of the service), is continued when the Housing ALMO goes live.	The service provided by the ALMO will be detailed in the agreed Delivery Plan and monitored by the Housing Manager. The ALMO will contribute to the BP review thereby buying to the agreed vision	Delivery Plan – July 2011. BP Review Dec 2011  Housing Manager
The Council's HRA Business Plan will require review when the ALMO goes live, which is anticipated to be in April 2011. Ownership of the HRA Business Plan should remain with the Council, with the ALMO working towards the objectives.	The ALMO needs a settling in period of at least 6 months before the BP is usefully reviewed.	Dec 2011  Housing Manager
<b>Planning, Building Control and s.106 Agreements</b>		

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS RESULTING FROM THE PERIOD'S WORK - APPENDIX 1**

RECOMMENDATION/ WEAKNESS	AGREED ACTION, RESPONSIBILITY & TARTGET DATE	RESPONSIBILITY AND TARGET DATE
<p><u>Planning:</u></p> <p>Three reports should be obtained on a monthly basis from the income section within accountancy from the Paris Income System.</p> <ul style="list-style-type: none"> <li>• All Cheque payments received in that period.</li> <li>• All Adelante payments received in that period.</li> <li>• All Kiosk payments received within that period.</li> </ul> <p>Once all three Paris Income reports have been agreed to the E-Fins system, reconciliation to Acolaid can be completed. The new cross references in place by having the application number on cheque payments along with the individual receipt number will identify those payments that are either missed due to timing or by incorrect coding. The Adelante and Kiosk payments should also be easier to reconcile with the receipt number entered on to Acolaid. It should be noted, that without the cross reference between the income systems full reconciliation is virtually impossible as many of the transactions are for the same value.</p>	<p>Initial meeting with Income Section has been undertaken. Income Section is unable to produce monthly reports but will train BSM to extract reports via Paris.</p> <p>Following IT difficulties Paris has finally been installed on BSM's PC and dates will be scheduled for training asap with Income.</p>	<p align="center">August 2011 Business Support Manager (HW)</p>
<p><u>Building Control:</u></p> <p>Reconciliation between Acolaid and Efins should be undertaken to ensure that all income has been accounted for.</p>	<p>Agreed in principle, however with the Service scheduled to be part of the next EKS Tranche the best use of resources would be to fully implement the reconciliations upon commencement as all three partners use the same building control software.</p>	<p align="center">June 2011 Building Control Manager (GM)</p>

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS RESULTING FROM THE PERIOD'S WORK - APPENDIX 1**

RECOMMENDATION/ WEAKNESS	AGREED ACTION, RESPONSIBILITY & TARTGET DATE	RESPONSIBILITY AND TARGET DATE
<p>The Council should investigate the possibility of including in the Section 106 Agreement clauses that allow the monies to be spent by the local authority if not used by a set time period by the County Council. For example: -</p> <ul style="list-style-type: none"> <li>• Section 106 agreement to spend monies within five years of receipt. First four years for Highways by KCC, if not used transfer to the Council for use within Affordable Housing.</li> </ul>	<p>This has been investigated but is not legally possible.</p>	<p>No Action Possible.</p>
<p>At six monthly intervals finance, planning, KCC (Highways), Leisure and Housing should review the s.106 schedule and document when, and on what subject, spend will occur.</p>	<p>Agreed</p>	<p>May 2011 Planning Applications Manager (ST)</p>

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP - APPENDIX 2**

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
<b>Child Protection – January 2011</b>		
Establishment posts should be categorised using the regulated and controlled activity criteria	EKHRP will support the organisation to identify and recommend to CMT the posts that should be categorised as requiring CRB checks.  <b>Target Date:</b> September 2010  <b>Responsibility:</b> EKHRP Operations Manager (SG) / EKHRP Learning and Development Case Consultant (JC)	The new process and policy is currently awaiting confirmation from the HR Strategic Board and then CMTs.  By March 2011
The new duties to refer information to the ISA when a member of staff leaves the employment of TDC in 'certain circumstances' should be incorporated into documented Leaver procedures and supporting working practices.	The safeguarding regulation introduced in October 2009 continues to apply. Procedures will therefore incorporate this requirement  <b>Target Date:</b> August 2010 <b>Responsibility:</b> EKHRP Operations Manager (SG) / EKHRP Learning and Development Case Consultant (JC)	This is currently being incorporated into the processes and will be completed by 31 January 2011.
<b>Housing Benefit Fraud Investigation Unit – January 2011</b>		
The Fraud Investigation Operational Risk Log should capture the issues identified within this report.	Operational Risk Log to be updated with high risk issues.  <b>Target Date:</b> July 2010  <b>Responsibility:</b> Counter Fraud and Quality Control Manager / Senior Investigation Officer	Shared Services will influence plans on how operational risk management is demonstrated at service level.
Health and Safety risk assessment should be undertaken to assess the corporate requirements and the feasibility of introducing a corporate risk register of known dangerous or high risk properties and/or people.	Recommendation accepted. Implementation will be considered in consultation with appropriate parties.  <b>Target Date:</b> 31 October 2010.	Currently not being progressed as discussions are taking place at the H&S committee as to how this could be taken forward linking into a revised lone working policy which the EKHRP



**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP - APPENDIX 2**

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
	<p><b>Responsibility:</b> Head of Human Resources Partnership / H&amp;S Officer</p>	<p>is currently reviewing. It is going back to the H&amp;S committee in March 2011.</p> <p>The EKHRP is also currently investigating the costs of a centralised system to manage the risk register across the authorities.</p>
<p><b>Thanet Leisure Force – February 2011</b></p>		
<p>The terms and conditions of the Lease require updating with regards to: -</p> <ul style="list-style-type: none"> <li>• The removal of Northdown House within the Lease as all services under the agreement have ceased.</li> <li>• The removal of the interest on rent arrears Item 5.19.1 as no rent is payable.</li> <li>• Removal of annual payment of £45,000 to be used solely towards the repairs to the buildings, Item 6.3, as this figure is disproportionately low to the actual cost incurred by TLF. The new Lease agreement should include a new maintenance matrix.</li> <li>• Removal of the Westbrook Loggia storage facility stated within the Third Schedule if, as planned, the facility will not be used on completion of works within Hartsdown Park.</li> <li>• The Fourth Schedule within the lease agreement should be removed, with the aim of collaborative working between the two partners for completion of major works.</li> </ul>	<p>Review and amend the Lease in negotiation with Thanet Leisure Force to agree the removal of facilities no longer required and provisions that are no longer applicable as detailed in no.1, adding in new services now being provided.</p> <p>£45,000 repairs payment to be mainstreamed into annual management grant.</p> <p><b>Target Date:</b> 31 October 2010.</p> <p><b>Responsibility:</b> Cultural Manager/Director of Environmental Services /TLF Managing Director/ Financial Services Manager</p>	<p>Proposed amendments to lease and management agreement agreed between TDC &amp;TLF.</p> <p>Northdown House to be retained in lease. Awaiting public consultation on community use arrangements by TLF in Northdown House.</p> <p>Cabinet approved revised term of 20 year lease for TLF. (Linked to new pool scheme).</p>
<p>A full schedule of required, but not essential capital works should be developed jointly between the Council and TLF. On completion Capital Funding bids should be made with an aim of reducing the responsive non-budgeted repairs.</p>	<p>Schedule of Works compiled, costed and prioritised within a 5year plan</p> <p>Prioritised capital Funding bids developed</p>	<p>Current work on schedule suspended awaiting outcome of asset transfer discussions.</p> <p>Ramsgate Pool to be excluded due to</p>

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP - APPENDIX 2**

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
	<p><b>Target Date:</b> 31 October 2010.</p> <p><b>Responsibility:</b> Building Control &amp; Property Manager/ Warren Reeves TLF</p> <p>Cultural Manager in liaison with Finance Manager (HRA, Capital and External Funding)</p>	<p>closure of pool linked to new pool development.</p> <p>New capital funding bid approved. £50k from 2011/12 onwards for capital maintenance.</p>
<p>The grant conditions should be updated with a new management agreement reflecting the following points:</p> <ul style="list-style-type: none"> <li>-</li> <li>• The requirement to provide the Director of Finance &amp; Deputy Chief Executive, with an Operationally Strategy on an annual basis should be removed and replaced with the requirement for the policy to be agreed by the TLF board that includes representation from the Council.</li> <li>• The requirement to provide the Director of Finance &amp; Deputy Chief Executive, with a Marketing Plan on an annual basis should be removed and replaced with the requirement for the policy to be agreed by the TLF board that includes representation from the Council.</li> <li>• The requirement to undertake monthly quality audits should be removed and replaced with the requirement to maintain high standards via implementation of Customer Care Policies with complaints monitored by the TLF board.</li> <li>• The requirement to provide the Director of Finance &amp; Deputy Chief Executive, quarterly accounts should</li> </ul>	<p>The Management Agreement to be reviewed in negotiation with TLF incorporating the proposed changes</p> <p>The final revised management agreement to be approved by the TLF Board and TDC Cabinet</p> <p><b>Target Date:</b> 31 October 2010.</p> <p><b>Responsibility:</b> Cultural Manager/ Director of Environmental Services /TLF Managing Director Director of Environmental Services / TLF Managing Director</p>	<p>Changes as set out to Management agreement agreed by TDC &amp; TLF and revisions drafted</p> <p>Formal approval of revised management agreement delayed. Timetable to be revised, linked to outcome of asset transfer discussions</p> <p>Cabinet approved revised term of 20 year lease for TLF. (Linked to new pool scheme)</p>

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP - APPENDIX 2**

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
<p>be removed and replaced with the requirement for the monitoring of finances to be undertaken by the TLF board that includes representation from the Council.</p> <ul style="list-style-type: none"> <li>• The requirement to provide audited annual accounts prior to each years grant application should be removed and replaced with the requirement to provide the Section 151 Officer a copy of the annual audited accounts for noting.</li> <li>• The current structure requirement for the Board should be reviewed upon clarification on the minimum requirement when IPS's are governed by the Charity Commission rather than the FSA. However, representation from the Council should always be set as a minimum of two as the current grant conditions state.</li> <li>• The requirement to provide charging policies within the Operational Strategy should be removed and replaced with the requirement that the board approves all pricing structures which includes representation from the Council.</li> <li>• The set requirement of 500 hours to be made available free of charge to the Council should be removed and replaced with an emphasis moving towards partnership working which would benefit both organisations.</li> <li>• The requirement to provide the Director of Finance &amp; Deputy Chief Executive with an annual report should be removed as the new bimonthly meeting process significantly reduces its requirement or impact.</li> </ul> <p>The requirement for regular weekly meetings between Director of Finance, Deputy Chief Executive and the MD of TLF should be removed.</p>		

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP - APPENDIX 2**

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
<p>To ensure full compliance with VAT legislation, and that the most tax efficient route is taken in future payment structures, the revised conditions of grant, and supporting documentation to be agreed with the Council's Financial Services Manager.</p>	<p>The Management Agreement to be reviewed in negotiation with TLF incorporating the proposed changes including liaison with the Financial Services Manager to ensure the most efficient VAT treatment.</p> <p>The final revised management agreement to be approved by the TLF Board and TDC Cabinet.</p> <p><b>Target Date:</b> 31 October 2010.</p> <p><b>Responsibility:</b> Director of Environmental Services/Financial Services Manager</p>	<p>Initial VAT advice has been sought. Actions arising include exploring options of TDC purchasing utilities &amp; energy on behalf of TLF.</p> <p>External specialist advice to be sought to ensure the principles of the current management and lease arrangement (based on pepper corn rent) and the payment of an annual grant rather than management fee does not compromise the Council's position on partial exemptions while achieving the most tax efficient structure.</p>
<p><b>Information Management, FOI and Data Protection – February 2011</b></p>		
<p>The internet/Intranet should include an overarching statement on corporate responsibility and compliance requirements that links the associated legislation together (DPA/FOI/EIR). The current information should be reviewed to ensure DPA is given adequate emphasis and coverage to inform staff and the public alike.</p>	<p>The Acting Legal Services Manager (GC) and Litigation Solicitor (PR) met on 28<sup>th</sup> July to consider how best to address the issue of how FOI and data protection matters should be handled across the Council. A further meeting is scheduled to take place on 25 August between Head of Legal Services, the Acting Legal Services Manager and Peter Reilly, senior litigation solicitor, to commence work on an action plan that will ensure all recommendations in the report are implemented by the end of 2010</p> <p>The corporate response period for reviews/appeals to be reviewed and raised to maximum permitted by ICO and FOI Act 2000 – i.e. 40 days</p> <p><b>Target Date:</b> December 2010</p>	<p>Draft statements for both internet and intranet now prepared in light of current DPA information on TOM and to link in with other policy documents being drafted. Next steps: to agree draft versions with Comms ready for CMT approval; then to website.</p>

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP - APPENDIX 2**

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
<p>A Data Protection Policy should be compiled to reflect corporate and legislative requirements. Responsibilities and accountabilities will need to be defined to assist in raising the profile, requirements and risk management in support of compliance to the DPA.</p> <p>Mechanisms should be included to ensure consistency can be demonstrated within associated working practices of all service units.</p>	<p><b>Responsibility:</b> Head of Legal &amp; Democratic Services / Acting Legal services Manager</p> <p>The Acting Legal Services Manager (GC) and Litigation Solicitor (PR) met on 28<sup>th</sup> July to consider how best to address the issue of how FOI and data protection matters should be handled across the Council. A further meeting is scheduled to take place on 25 August between Head of Legal Services, the Acting Legal Services Manager and Peter Reilly, senior litigation solicitor, to commence work on an action plan that will ensure all recommendations in the report are implemented by the end of 2010</p> <p>The corporate response period for reviews/appeals to be reviewed and raised to maximum permitted by ICO and FOI Act 2000 – i.e. 40 days</p> <p><b>Target Date:</b> December 2010</p> <p><b>Responsibility:</b> Head of Legal &amp; Democratic Services / Acting Legal services Manager</p>	<p>Draft DPA policies and procedures now compiled; draft security policy almost complete (subject to approvals as 3 above). Responsibilities and accountabilities will be defined and reinforced within policies and via appropriate training and awareness program being devised between Acting LSM and Comms, so as to ensure full coverage and consistent approach across all service units.</p>
<p>Publication of the DPA Policy should be appropriately communicated to staff to raise awareness of its release.</p>	<p>The Acting Legal Services Manager (GC) and Litigation Solicitor (PR) met on 28<sup>th</sup> July to consider how best to address the issue of how FOI and data protection matters should be handled across the Council. A further meeting is scheduled to take place on 25 August between Head of Legal Services, the Acting Legal Services Manager and Peter Reilly, senior litigation solicitor, to commence work on an action plan that will ensure all recommendations in the report are implemented</p>	<p>Acting LSM and Comms are working on an awareness raising strategy to include a 'DPA Awareness Week' and presentation by Acting LSM to Managers' Conference (a draft of which is almost complete and ready for finalisation with Comms), in addition to planned training for all staff handling personal data within TOC. Acting LSM</p>

**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP - APPENDIX 2**

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
	<p>by the end of 2010</p> <p>The corporate response period for reviews/appeals to be reviewed and raised to maximum permitted by ICO and FOI Act 2000 – i.e. 40 days</p> <p><b>Target Date:</b> December 2010</p> <p><b>Responsibility:</b> Head of Legal &amp; Democratic Services / Acting Legal services Manager</p>	<p>has already asked Comms to ensure that OPA policy is communicated to all new staff as part of their formal induction process.</p>
<p>Risk management of DPA legislation should be assessed and appropriately reported via the corporate risk management database, the RiskWeb system.</p>	<p>The Risk Officer will be asked to provide advice on including DPA as a corporate risk on the RiskWeb system.</p> <p><b>Target Date:</b> December 2010</p> <p><b>Responsibility:</b> Head of Legal &amp; Democratic Services / Acting Legal services Manager</p>	<p>The Acting LSM will meet with the Risk Officer to determine what DPA corporate risk elements should be included on RiskWeb". This should take place only after the DPA policies and procedures have been formally agreed.</p>

**SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED – APPENDIX 3**

<b>Service</b>	<b>Reported to Committee</b>	<b>Level of Assurance</b>	<b>Management Action</b>	<b>Follow-up Action Due</b>
Homelessness and the Rent Deposit Scheme	January 2011	Reasonable/ Limited	On-going management action in progress to remedy the weaknesses identified.	Quarter 1 of the 2011-12 Plan
Public Health Burials	January 2011	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress
Employee Benefits-in-Kind	January 2011	Limited	On-going management action in progress to remedy the weaknesses identified.	Spring 2011
Equality and Diversity	March 2011	Limited	On-going management action in progress to remedy the weaknesses identified.	Spring 2011

**PROGRESS TO DATE AGAINST THE AGREED 2010-11 AUDIT PLAN – APPENDIX 4**

Area	Original Planned Days	Revised Budgeted Days as at 31-12-10	Actual days to 31-12-10	Status and Assurance Level
<b>FINANCIAL SYSTEMS:</b>				
Housing Benefits – Shared Revenues and Benefits Database with Dover District Council	5	3.2	3.2	Finalised
Housing Benefits – Quarterly Testing	20	14.09	14.09	2009-10 Quarter 4 – Finalised 2010-11 Quarter 1 – Finalised 2010-11 Quarter 2 - Finalised
Payroll	5	3.47	3.47	Work-in-Progress
Car Parking and PCNs	8	8	0.17	Work-in-Progress
Bank Reconciliation	5	5.91	5.91	Finalised - Substantial
Creditors and CIS	8	8	5.85	Finalised - Substantial
Miscellaneous Income/Cash Collection	8	0	0	Fund from 2011-12 plan
Financial Stewardship	8	6.1	6.1	Finalised
Council Tax	12	12.68	12.68	Finalised – Substantial
Business Rates	12	8.32	8.32	Finalised - Substantial
External Funding Protocol	8	4.35	4.35	Finalised – Reasonable
<b>HOUSING SERVICES:</b>				
Housing Rents	10	9.89	9.89	Finalised – Substantial
Housing Repairs and Maintenance	10	10.73	10.73	Finalised - Reasonable
Leasehold Services	10	10	7.8	Finalised - Reasonable
HRA Business Plan	8	8.23	8.23	Finalised - Substantial
Rent Deposit Scheme/Homelessness	5	7.63	7.63	Finalised – Reasonable/Limited
Housing Estate Management	8	0	0	Fund from 2011-12 plan
<b>ICT SYSTEMS:</b>				
ICT Change Control and File Security	8	0	0	Fund from 2011-12 plan
<b>HUMAN RESOURCES RELATED:</b>				
Recruitment and CRB	8	0.17	0.17	Delete from plan due to low levels of recruitment at the present time. CRB element covered by Child Protection audit.
Employee Benefits-in-Kind	8	12.61	12.61	Finalised - Limited



Area	Original Planned Days	Revised Budgeted Days as at 31-12-10	Actual days to 31-12-10	Status and Assurance Level
<b>GOVERNANCE RELATED:</b>				
Asset Management	8	12.23	12.23	Finalised - Reasonable
Members' Code of Conduct and Standards Arrangements	8	7	3.08	Work-in-Progress
Officers' Code of Conduct and Whistleblowing Arrangements	8	7.64	7.64	Finalised - Reasonable
Performance Management	9	9	0.17	Work-in-Progress
Corporate/CMT/Committee	30	32	28.91	Work-in-Progress throughout 2010-11
East Kent Shared Services – Validation of Performance Indicators for Tranche 1 Services	2	3.27	3.27	Finalised
<b>CONTRACT RELATED:</b>				
Contract Standing Order Compliance	10	0	0	Fund from 2011-12 plan
Contract Monitoring	10	9	6.33	Finalised - Reasonable
Procurement	10	5.95	0.15	Work-in-Progress
<b>SERVICE LEVEL:</b>				
Accommodation Strategy	7	5.04	5.04	Finalised - Substantial
Members' Allowances	8	8	7.13	Finalised - Reasonable
Public Health Burials	6	7.05	7.05	Finalised - Limited
Coast Protection/Management	9	9	0.71	Work-in-Progress
Cemeteries and Crematorium	9	9	1.3	Work-in-Progress
Planning and Building Control (including s.106 Agreements)	20	15	13.54	Finalised – Reasonable/Substantial
Events Management	10	10.43	10.43	Finalised - Reasonable
Electoral Registration	8	0	0	Delete from plan to accommodate higher risk reviews. Include in 2011-12 plan.
Equality and Diversity	8	8.63	8.63	Finalised - Limited
Thanet Works	9	14.84	14.84	Finalised - Reasonable
Disabled Facilities Grants	9	9.57	9.57	Finalised - Substantial
Maritime – Visiting Yachts and Ancillary Services	10	11.34	11.34	Finalised - Reasonable
Maritime – Permanent Berths and let Properties	10	10.89	10.89	Finalised - Reasonable
Waste Management	10	10	0.17	Work-in-Progress

Area	Original Planned Days	Revised Budgeted Days as at 31-12-10	Actual days to 31-12-10	Status and Assurance Level
<b>OTHER</b>				
Liaison With Audit Commission	5	2	1.46	Work-in-Progress throughout 2010-11
Follow-up Reviews	13	25	24.3	Work-in-Progress throughout 2010-11
<b>FINALISATION OF 2009-10 AUDITS</b>				
Child Protection	20.57	41.31	7.38	Finalised – Reasonable
Homelessness			0.39	Finalised - Limited
Housing Benefit – Fraud Investigation Arrangements			1.11	Finalised – Reasonable
Thanet Leisure Force			6.75	Finalised – Substantial/Limited
Information Management, FOI and Data Protection			12.89	Finalised – Substantial/Reasonable/Limited
CSO Compliance			0.61	Finalised – Limited
Green Waste Service			4.36	Finalised – Substantial
Local Code of Corporate Governance			0.10	Finalised - Substantial
Choice Based Lettings			7.72	Finalised - Substantial
<b>UNPLANNED WORK</b>				
Creative Margate Consultancy Arrangements (Balance of time from 2009-10 audit)	0	0.07	0.07	Finalised - Limited
Overtime	0	6.01	6.01	Finalised – Reasonable
External Funding – ERDF Grants	0	13.07	13.07	Finalised – Reasonable
Standards Investigation	0	4.85	4.85	Finalised
<b>Total (Including 10.57 days brought forward from 2009-10)</b>	<b>440.57</b>	<b>440.57</b>	<b>374.69</b>	<b>85.05% Complete as at 31-12-10</b>
<b>UNPLANNED ADDITIONAL WORK</b>				
Meridian Village	2	2	2.07	Audit verification of costs deductible from income arising from development
Interreg Grant – Customer Services	4	4	0	First Level Controller sign off charged to project
Interreg Grant – Tudor House	4	4	3.11	First Level Controller sign off charged to project
Interreg Grant – Maritime (Off-Shore Wind Farm)	4	4	0.34	First Level Controller sign off charged to project

**BALANCED SCORECARD – QUARTER 3**

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>
	<b>Quarter 3</b>				
Chargeable as % of available days	87%	75%	Cost per Audit Day (Reported Annually)		£300
Chargeable days as % of planned days	85%	75%			
Follow up Reviews;					
<ul style="list-style-type: none"> <li>• Issued</li> <li>• Not yet due</li> <li>• Now overdue for Follow Up</li> </ul>	26 10 3	- - 0			
Percentage compliance with the CIPFA Code for Internal Audit 2006	97%	97%			

**BALANCED SCORECARD – QUARTER 3**

<u>CUSTOMER PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>	<u>INNOVATION &amp; LEARNING PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>
	Quarter 3			Quarter 3	
Number of Satisfaction Questionnaires Issued;	34		Percentage of staff qualified to relevant technician level	76%	75%
Number of completed questionnaires received back;	13		Percentage of staff holding a relevant higher level qualification	32%	32%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	24%	24%
<ul style="list-style-type: none"> <li>• Interviews were conducted in a professional manner</li> </ul>	100%	100%	Number of days technical training per FTE	3.05	3.5
<ul style="list-style-type: none"> <li>• The audit report was 'Excellent or Very Good'</li> </ul>	100%	90%	Percentage of staff meeting formal CPD requirements	32%	32%
<ul style="list-style-type: none"> <li>• That the audit was worthwhile.</li> </ul>	100%	100%	Number of business efficiency/ service Improvement recommendations introduced	19	-



## AUDIT ASSURANCE

### Definition of Audit Assurance Statements

#### **Substantial Assurance**

From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

#### **Reasonable Assurance**

From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

#### **Limited Assurance**

From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

#### **No Assurance**

From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

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## AUDIT COMMISSION PROGRESS REPORT

To: **Governance and Audit Committee: 15 March 2011**

By: **Chief Executive Designate**

Classification: **Unrestricted**

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**Summary:** **To present the Audit Commission's Progress Report 2010/2011.**

### **For Information**

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#### **1.0 Introduction**

1.1 To update Members on progress to date on the current audit plans. Audit and Inspection work undertaken since the last update in September 2010.

#### **2.0 Corporate Implications**

2.1 Financial

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

2.2 Legal

2.2.1 There are no legal implications arising directly from this report.

2.3 Corporate

2.3.1 The report summarises progress to date on current audit plans.

2.4 Equity and Equalities

2.4.1 There are no equity and equalities implications arising from this report.

#### **3.0 Recommendation**

**3.1 That Members note the report.**

Contact Officer: Sue McGonigal, Chief Executive Designate (s.151 Officer) Ext. 7790

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# Audit Commission Progress Report

**Thanet District Council**

**Audit 2010/11**



**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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# Introduction

- 1** Our audit is designed to meet the requirements of the Audit Commission's Code of Audit Practice. Under the Code we are required to:
  - give our opinion on whether the financial statements present fairly the financial position and the income and expenditure for the year; and
  - issue a conclusion on whether the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2** We design a programme of work to address the significant operational and financial risks facing you, which impact on our responsibilities. This report outlines progress against the 2010/11 audit plan.
- 3** We will issue quarterly update reports throughout the audit year to keep the Audit and Compliance Committee informed of progress.

# Overview

4 This report sets out progress with the 2009/10 and 2010/11 audits. Further details of specific work undertaken are set out in Appendix 1.

## 2009/10

5 We have now completed our 2009/10 audit. The results of this are set out in:

- Our 2009/10 Annual Audit Letter (as presented to the last Governance and Audit Committee)
- Our 2009/10 Annual Report on the Certification of Grant Claims (see separate report on this committee agenda)

## 2010/11 annual accounts, including early work on IFRS restatement

6 Our detailed programme for the audit of your 2010/11 financial statements is set out in our opinion Audit Plan. This is included as a separate item on this agenda.

7 A key area on which we will focus for this year's audit is the Council's restatement of its accounts under International Financial Reporting Accounts (IFRS). We are scheduled to audit the 2009/10 restated accounts during March 2011.

8 Although the Council has a clear plan in place, IFRS is technically complex, new and will stretch capacity across all councils. Given the need for the Council to deliver the major budget cuts required by the comprehensive spending review when capacity is already stretched, our assessment is that this represents a 'red risk' (e.g high risk) area for Thanet. We have held regular discussions with the Head of Finance and she has taken action to strengthen the team including employing an external consultant to assist with specialist technical areas. It is important that the Council deliver on its planned programme between now and the end of June.

9 We will provide a further update on our work at the June meeting of the Audit and Compliance Committee. We will provide our opinion on the completed IFRS accounts by 30 September 2011.

## **Other matters of interest to the accounts: Proposed changes to the Accounts and Audit Regulations**

**10** In On 24 January 2011 the Department for Communities and Local Government (DCLG) published a consultation on its website: Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended - consultation. It is proposed the revised regulations are implemented with effect from 31 March 2011 i.e. for 2010/11 accounts.

**11** The proposed changes include a revised procedure for the approval and publication of statements of accounts and other accounting statements, so that members give their approval in the knowledge of the audit findings. The closing date for the consultation is 4 March 2011

**12** There are a number of proposed revisions but the approval and publication of statements probably has the biggest potential impact for the Council.

**13** We are in discussion with officers about the impact on their closedown process, as well as on reporting requirements for this Committee. We have agreed that we will keep to existing timetables for the handover of draft accounts and working papers to the audit team and for the timetable for the audit.

### **2010/11 VFM Conclusion**

**14** In 2010/11 the Audit Commission has introduced a new approach to its value for money assessment. In summary, the new approach is intended to be proportionate and risk based. This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

**15** Further details are set out in our Audit Plan, which is reported separately on this agenda.

## Recent Publications

**16** This section of the update report provides reference to our national reports that may be of particular interest to members of the Audit and Compliance Committee. For more information on these publications, please visit the audit commission website [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

### **International Financial Reporting Standards: reporting on operating segments (October 2010)**

**17** The latest technical briefing paper in our series on implementing International Financial Reporting Standards (IFRS) in local government is 'Reporting on operating segments: Countdown to IFRS in local government'. The paper covers principles and practical issues that authorities should consider when reporting on operating segments.

### **Protecting the Public Purse (October 2010)**

**18** In our report Protecting the public purse: fighting fraud against local government and local taxpayers, we describe what has happened in the field of fraud detection and prevention since 2009 and set out the findings from our recent fraud survey. We identify more fraud risks and urge local councils and related bodies to focus on them

**19** Last year England's councils detected around £99 million worth of benefit fraud, over £15 million worth of council tax fraud, and £21 million worth of other types of fraud including false insurance claims, and abuse of the disabled parking 'blue badge' scheme. In addition nearly 1,600 homes have been recovered by councils with a replacement cost of approximately £240 million.

**20** We also describe the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. Our updated checklist gives organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud.

## Appendix 1 – Delivery of audit plan

21 The table below sets out the agreed work programme included in the 2009/10 and 2010/11 audit plans, with progress to date

Area of work identified in Audit Plan	Planned Output	Actual Output
<b>2009/10 plan</b>		
2009/10 Audit Fee Letters	March 2009	March 2009
2009/10 East Kent Partnership Review	Jan-Mar 2010	February 2010
2010/11 Audit Fee Letters	March 2010	April 2010
2009/10 Opinion Audit Plan	April 2010	April 2010
2009/10 Annual Governance Report	September 2010	September 2010
2009/10 Opinion and VFM Conclusion	September 2010	September 2010
2009/10 Whole of Government A/c's return	October 2010	October 2010
2009/10 Organisational Assessment	October 2010	No longer applicable
2009/10 Annual Audit Letter	November 2010	November 2010
2009/10 Annual Grant Claims Report	December 2010	February 2011
<b>2010/11 plan</b>		
2010/11 Audit Plan	March 2011	March 2011
2011/12 Audit Fee Letters	June 2011	
2010/11 Annual Governance Report	September 2011	
2010/11 Opinion and VFM Conclusion	September 2011	
2010/11 Whole of Government A/c's return	September 2011	
2010/11 Annual Audit Letter	November 2011	
2010/11 Annual Grant Claims Report	January 2012	





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## AUDIT PLAN

To: **Governance and Audit Committee: 15 March 2011**

By: **Chief Executive Designate**

Classification: **Unrestricted**

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**Summary:** **To present the Audit Commission's Audit Plan 2010/2011**

### **For Information**

---

#### **1.0 Introduction**

1.1 The plan sets out the audit work that the Audit Commission proposed to undertake for the audit of the Council's financial statements for 2010/11.

#### **2.0 Corporate Implications**

2.1 Financial

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

2.2 Legal

2.2.1 There are no legal implications arising directly from this report.

2.3 Corporate

2.3.1 This report summarises the audit work proposed for the financial statement for 2009/10.

2.4 Equity and Equalities

2.4.1 There are no equity and equalities implications arising from this report.

#### **3.0 Recommendation**

**3.1 That Members note the report.**

Contact Officer: Sue McGonigal, Chief Executive Designate (s.151 Officer) Ext. 7790

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# Audit Plan

**Thanet District Council**

**Audit 2010/11**



**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

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# Introduction

**This plan sets out the audit work that I, as your District Auditor, propose to undertake with my team for the audit of financial statements and the value for money conclusion 2010/11.**

**1** The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

# Responsibilities

**The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.**

**2** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

**3** I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

## Fee for the audit

4 I propose a fee for the audit of £153,500. This compares with my initial estimate for the combined audit and inspection programme of £162,652. It also compares with a scale fee for the audit of £147,960. Further analysis is set out below.

Table 1: **Audit and inspection fees 2009/10 and 2010/11**

Area of work	2009/10 Actual fee	2010/11 Initial estimate Apr 2010	2010/11 Revised estimate Jan 2011
	£	£	£
Audit	145,000	153,500	153,500
Inspection	9,152	9,152	0
Total	154,152	162,652	153,500

5 Compared to my original estimate, I have reduced the overall audit and inspection fee for 2010/11 by £9,152.

6 I am pleased to report that the Audit Commission will also be issuing you with rebates in respect of two elements of the audit:

7 Firstly, as reported in my initial fee letter of April 2010, the Commission has issued a rebate for the cost of the one off first year audit of IFRS. At Thanet, this represents a rebate of £8,518 against the figures above.

8 In addition, the Commission has now concluded its consultation on changes to 2010/11 fees. Thanet District Council will receive a further rebate of £2,219 reflecting the new approach to local VFM audit work.

9 These changes demonstrate our commitment to providing an efficient audit service and to passing back savings to councils where we can.

10 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit; and
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS).

**11** Where these assumptions are not met, I will be required to undertake additional work which may result in an increased audit fee. Where this is the case, I will discuss this first with the Director of Finance and Corporate Resources and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

**12** Further information on the basis for the fee is set out in Appendix 1.

### **Specific actions Thanet District Council could take to reduce its audit fees**

**13** The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support. There are no areas where I recommend you take action or can improve which would result in a reduced fee at the moment.

# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**14** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

### **Materiality**

**15** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

### **Identifying opinion audit risks**

**16** I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

**17** Appendix 2 to this report sets out those areas where we require a formal response from the Audit Committee as part of completing our work. We would appreciate it if members could discuss the matters raised and provide a formal response either through email or letter by 30 April 2011.

## Identification of specific risks

**I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.**

Table 2: **Specific and significant risks**

Specific and significant opinion risks identified to date

Risk area	Audit response
<p><b>Implementation of IFRS</b></p> <p>The 2010/11 financial statements will be produced in accordance with International Financial Reporting Standards (IFRS). The new standards will require restatement of both opening and closing balances from the previous year as well as additional disclosures. There is a risk that the Council's capacity pressures in finance will impact on the success in preparing the necessary information in time.</p>	<p>We will monitor the Council's progress in introducing IFRS as set out in its implementation plan. We will undertake specific work to review the restated balances from 2009/10 and to review the treatment of complex transactions such as leases. We will assess your progress during the year and report back on the findings to your Audit Committee.</p>
<p><b>New payroll system</b></p> <p>2010/11 is the first year of operation of the shared East Kent payroll service, provided by KCC. There is a risk that the new system does not provide the anticipated level of performance.</p>	<p>We will undertake specific work to review the system in place and controls being operated. We will rely on internal audit work in this area, where possible. We will assess arrangements during the year and report back any findings to the Audit Committee.</p>
<p><b>East Kent Opportunities</b></p> <p>I reviewed and am satisfied with the accounting treatment adopted in respect of EKO in 09/10. However, the accounting may be more complex 2010/11 under International Financial Reporting Standards, particularly in relation to future land disposals.</p>	<p>We will undertake specific work to review the Council's proposed accounting treatment of EKO under IFRS.</p>
<p><b>Relates Party Transaction Returns (RPT's)</b></p> <p>Although officers have established appropriate arrangements for the collection of RPT data, obtaining all members' returns appears to remain a difficult exercise.</p>	<p>We will review progress against the planned timetable for returns and report back any findings to the Audit Committee.</p>

# Testing strategy

**On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.**

**18** I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

**19** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of restatement of 2009/10 accounts from UK GAAP to IFRS.
- Review of IFRS accounting policies
- Bank reconciliation.
- Year-end feeder system reconciliations.

.Where I identify other possible early testing, I will discuss it with officers.

**20** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use Internal Audit's work on shared payroll controls.

**21** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of the KCC auditor for the pension fund.

**22** I also plan to rely on the work of experts in the following areas:

- Gerard Eves - valuers
- Barnett Waddingham - pension fund actuary

## Changes to International Standards on Auditing (ISAs)

**23** My audit of your financial statements is governed by a framework established by International Standards on Auditing (ISAs). These set out the basic principles and essential procedures which govern my work.

**24** As with all guidance and frameworks, auditing standards are frequently revised and updated, often in a piecemeal fashion. However, in 2009, the auditing profession completed a comprehensive project to enhance the clarity of all of the ISAs. This is known as the Clarity Project.

**25** One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by

reducing the ambiguity within the existing ISAs and improving their overall readability and understandability.

**26** The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they request from you. Appendix 3 sets out the main changes you will see.



# Value for money conclusion

## **I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.**

**27** In 2010/11 the Audit Commission has introduced a new approach to its value for money assessment. In summary, the new approach is intended to be proportionate and risk based. This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

## **Value for money risks**

**28** I will plan a programme of VFM audit work based on my risk assessment. At your Council, I envisage that we will focus on:

- your medium term financial strategy and savings plans;
- financial standing, including resilience of future cost efficiency plans; and
- development of shared service arrangements

**29** The work will not be scored, but we will report back on our findings, including examples of good practice and any areas for improvement. We will minimise the burden for you from this work, by making use as far as possible of existing Council information. We will aim to provide helpful and constructive feedback during and at the end of the audit.

## Key milestones and deadlines

**The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.**

**30** The key stages in producing and auditing the financial statements are in Table 2.

**31** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**32** Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

---

Table 3: **Proposed timetable**

<b>Activity</b>	<b>Date</b>
Control and early substantive testing	Jan 2011 - May 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	14 July 2011
Start of detailed testing	14 July 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	September 2011 (G&A committee date tbc)
Issue opinion and value for money conclusion	By 30 September 2011

# The audit team

**Table 3 shows the key members of the audit team for the 2010/11 audit.**

Table 4: **Audit team**

Name	Contact details	Responsibilities
Andy Mack District Auditor	a-mack@audit- commission.gov.uk 0844 798 2846	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Lisa Robertson Audit Manager	l-robertson@audit- commission.gov.uk 0844 798 1378	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

## Independence and objectivity

**33** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**34** I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 4.

## Meetings

**35** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 5.

## Quality of service

**36** I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

**37** If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit

Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

38 My team will discuss and agree reports with the right officers before issuing them to the Governance and Audit Committee.

Table 5: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum [optional]	November 2011
Annual audit letter	November 2011

## Appendix 1 - Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

### Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
  - good quality working papers and records to support the financial statements by 27 June 2011;
  - information asked for within agreed timescales;
  - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

## Appendix 2 - Audit of Thanet District Council's Financial Statements - Compliance with International Auditing Standards

In order to comply with a number of International Standard on Auditing I am required to obtain an understanding of the following:

1) How those charged with governance exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- identifying and responding to risks of fraud in the organisation;
- communication to employees of views on business practice and ethical behaviour; and
- communication to those charged with governance the processes for identifying and responding to fraud.

2) How the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.

3) Whether you have knowledge of any actual, suspected or alleged frauds

4) How you gain assurance that all relevant laws and regulations have been complied with.

Please discuss the current arrangements and provide a formal response to Lisa Robertson ([l-robertson@audit-commission.gov.uk](mailto:l-robertson@audit-commission.gov.uk)) by letter or email by 30 April 2011.

## Appendix 3 - Changes to International Standards on Auditing (ISAs)

The main changes you will see as a result of changes to International Standards on Auditing (ISAs) are as follows:

### **Journals**

I will be required to review all material year-end adjustment journals. I can do this by using IT interrogation tools, depending on the compatibility of your general ledger software. Deborah Moorhouse, your Engagement Manager, will discuss a suitable approach to this work soon.

### **Related Party Transactions**

I am required to review your procedures for identifying related party transactions and to obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in your financial statements are complete and accurate.

### **Accounting Estimates**

I will be required to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates and the controls you have put in place;
- whether you use an expert to assist you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact) ;  
and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

### **Deficiencies in internal control**

A new standard (ISA 265) has been introduced relating to how I must communicate deficiencies in Internal Control to 'those charged with governance' and the Trust's management.

If I identify a deficiency in any of your internal controls during my audit, I will undertake further audit testing to decide whether the deficiency is

significant. If I decide the deficiency is significant, I will report it in writing to your Audit Committee as 'those charged with governance'.

### **Impact on Audit Fees**

It is likely that these changes to the auditing standards will increase the audit procedures that I will need to carry out. However, as previously advised, the Audit Commission will use its own efficiency savings to absorb the cost of any additional requirements.



## Appendix 4 - Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Governance and Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be

justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last 2 years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

## Appendix 5 - Working together

### Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 6: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive & S151 officer	DA and AM	April and November	General update plus: April - Audit Planning November - Annual Audit Letter
Financial Services Manager	AM and Team Leader (TL)	Quarterly	General update plus: March - Interim June - Accounts Planning September - Annual Governance Report November - Annual Audit Letter
Finance Team	AM and TL	January	Accounts de-brief and audit planning
Audit Committee	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Annual Audit Letter Qtrly updates including other issues as appropriate

### Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.



## Appendix 6 Glossary

### **Annual audit letter**

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

### **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

### **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

### **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

### **Auditing standards**

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

## **Members**

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

## **Regularity (of expenditure and income)**

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

## **Statement on internal control/Annual Governance Statement**

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

## **Whole of Government Accounts**

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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## AUDIT COMMISSION - CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT

To: **Governance and Audit Committee: 15 March 2011**

By: **Chief Executive Designate**

Classification: **Unrestricted**

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**Summary:** **To present the Audit Commission's Annual Report on Certification of Claims and returns 2009/2010**

### **For Information**

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#### **1.0 Introduction**

1.1 The report summarises the findings from the certification of 2009/10 claims.

#### **2.0 Corporate Implications**

2.1 Financial

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

2.2 Legal

2.2.1 There are no legal implications arising directly from this report.

2.3 Corporate

2.3.1 This report summarises the audit work proposed for the financial statement for 2009/10.

2.4 Equity and Equalities

2.4.1 There are no equity and equalities implications arising from this report.

#### **3.0 Recommendation**

**3.1 That Members note the report.**

Contact Officer: Sue McGonigal, Chief Executive Designate (s.151 Officer) Ext. 7790

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# Certification of claims and returns - annual report

Thanet District Council

Audit 2009/10



**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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# Summary

**Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions for these grants.**

**This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.**

## Certification of claims

**1** Thanet District Council receives significant funding from various grant paying departments. The grant paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

**2** In 2009/10, my audit team certified 6 claims with a total value of over £104 million. Of these, we carried out a limited review of three claims and a full review of three claims. (Paragraph 11 explains) All claims were certified without qualification. Amendments were required in relation to the housing and council tax benefit subsidy and the pooling of housing capital receipts. Appendix 1 sets out a full summary.

## Significant findings

**3** I am pleased to note that there are no significant findings arising from our grant certification work that I need to bring to the attention of those charged with governance.

## Certification fees

**4** The fees I charged for grant certification work in 2009/10 were £40,357 (2008/09 = £37,346)

# Background

5 The Council claims funding for specific activities from grant paying departments. As this is significant to the Council's income, it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim.

6 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Thanet District Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

7 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

8 The key features of the current arrangements are as follows.

- For claims and returns below £125,000 the Commission does not make certification arrangements.
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

# Findings

## Control environment

**9** I have considered the control environment for each of the claims. This includes an assessment of compilation arrangements, adequacy of working papers, expertise of preparers, level of review and prior year issues. I concluded that there were two claims for which this could not be relied upon in 2009/10 and would therefore require a full review.

**10** A full review was required for the following claims:

- Housing Benefit and Council tax subsidy: we do not assess the control environment as detailed case testing is required at all authorities.
- National Non-Domestic Rates: a full review was undertaken due to the introduction of a new payment deferral scheme with increased risk of error is year one relating to specific eligibility requirements and method of calculation.
- Housing Subsidy Base Data Return: a full review was undertaken as a response to the errors identified in analysis cells in 2008/09, as reported in the annual grants report.

## Key findings

**11** For 2009/10, we have reviewed and certified the following government grant claims.

- National Domestic Rates Return
- Disabled Facilities Grant
- HRA subsidy base data return
- HRA subsidy
- Housing and Council Tax Benefit Subsidy
- Pooling of capital receipts

**12** As summarised in Appendix 1, amendments were made to two claims (housing subsidy base data return and housing and council tax benefit subsidy). No qualification letters were issued. For the amended claims, we have set out our key findings below.

### Housing and council tax benefit subsidy claim

**13** This claim is by far the Council's largest grant claim totalling £76 million in 2009/10. As a result of audit, the claim was reduced by £3,957 and certified without qualification.

**14** A key element of our certification approach involves taking a sample of benefit cases from the entries on an authority's subsidy claim form and undertaking detailed testing on these cases using workbooks. The focus of



testing is to consider whether benefit has been awarded in accordance with regulations, and that benefit has been recorded correctly for subsidy purposes.

**15** Our testing identified errors in the following areas. For each area, the claim was amended accordingly:

- **Reconciliation of claim to system reports:** the HRA rent rebate headline cell was £3,714 greater than the amount reconciled to system reports. The Council agreed to amend the claim accordingly.
- **Offsets for tenancy move:** one case (£48) in our initial testing identified that the system had not properly offset over and underpayments on a tenancy move from AN (non-referred HA) to AX (referred HA). 100% testing of such instances was undertaken identifying one further error of £336.
- **Earned income input:** our initial testing identified two cases where earned income was incorrectly input from wage slips resulting in an amendment to the claim of £930. Additional 40+ testing did not identify any further errors.
- **Rent Officer Referrals:** our initial case testing identified one instance where expenditure had been classified as new scheme when a current Rent Officer Determination (ROD) was not in place and no referral had been made by 31 May 2010. Additional 40+ testing of new scheme expenditure cases did not identify any further errors. Our review of the systems in place confirms the Council has comprehensive arrangements in place to ensure ROD's are referred on a timely basis. We have therefore assessed this as an isolated error.
- **Expenditure move:** Our initial case testing identified one instance where an expenditure move was not correctly dealt with by system (resulting in unoffset entries in overpayments and the headline cell). Additional 40+ testing of new scheme expenditure cases did not identify any further errors. Our review of the systems in place confirms the Council has arrangements in place to identify such instances as part of its ongoing checking in this area. We have therefore assessed this as an isolated error.

### **HRA subsidy base data return**

**16** In reviewing the dwelling analysis and supporting records, we noted that a minor error has been made when calculating the number of properties with 2 bedrooms (cell F010RI) and 3 bedrooms (cell F011RI). This related to one property only and was amended by Council accordingly.

## Appendix 1 Summary of 2009/10 certified claims

### Claims and returns above £500,000

Claim	Certified value £	Adequate control environment	Amended	Qualification letter
Housing and council tax benefit	76,386,624	N/A	Yes - decrease of £3,957 to subsidy	No
National non-domestic rates	27,270,134	No - first year of payment deferral scheme	No	No
Disabled Facilities Grant	897,000	Yes	No	No
HRA base data	N/A - data return only	No - errors in analysis cells last year	Yes - classification of 1 property amended	No

### Claims between £125,000 and £500,000

Claim	Value £	Amended	Qualification Letter
HRA Subsidy	- 320,715	No	No
Pooling housing capital receipts	301,370	No	No

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## **Exclusion of Public and Press**

To: **Governance and Audit Committee**

By: **Democratic Services and Scrutiny Manager**

Classification: **Unrestricted**

Ward: **All Wards**

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**Summary:** This report seeks the Committee's approval to exclude the public and press from the meeting on agenda items 18 and 19 as they contain exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended)

## **For Decision**

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### **1.0 Introduction**

The public must be excluded from meetings whenever it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential or exempt information would be disclosed.

#### ***Exempt information – discretion to exclude public***

Subject to Article 6 of the Human Rights Act 1998 (right to a fair trial) the public may be excluded from meetings whenever it is likely in view of the nature of the business to be transacted or the nature of the proceedings that exempt information would be disclosed.

#### ***Meaning of confidential information***

Confidential information means information given to the Council by a Government Department on terms which forbid its public disclosure or information which cannot be publicly disclosed by Court Order.

### **2.0 Exempt information**

The full rules are set out in Part V and Schedule 12A Local Government Act 1972 (as Amended) and the Relevant Authorities (Standards Committees) Regulations 2001.

### **3.0 Reason for Exempt Item**

The report author has classified Agenda Items 18 and 19 as disclosing exempt information under Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended) thereby excluding the press and public from the meeting whilst this item is debated.

### **4.0 Corporate Implications**

#### **4.1 Financial**

There are no direct financial implications.

#### 4.2 Legal

As per Schedule 12A of the Local Government Act 1972 (as amended).

#### 4.3 Corporate

None.

#### 4.4 Equity and Equalities

There are no specific equity and equality considerations that need to be addressed in this report.

#### 5.0 Recommendation

That the public and press be excluded from the meeting on agenda items 18 and 19 as they contain exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

#### 6.0 Decision Making Process

This Committee must agree the recommendation if the press and public are to be excluded.

Contact Officer:	Glenn Back, Democratic and Scrutiny Manager
Reporting to:	Harvey Patterson, Head of Legal & Democratic Services and Monitoring Officer

#### ***Corporate Consultation Undertaken***

Finance	<i>Sarah Martin, Financial Services Manager</i>
Legal	<i>Peter Reilly, Acting Legal Services Manager and Litigation Solicitor</i>

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

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

# Agenda Item 19 Annex 1

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## THANET DISTRICT COUNCIL DECLARATION OF INTEREST FORM

### Do I have a personal interest?

You have a **personal interest** in any business of your authority where it relates to or is likely to affect:

- a) An interest you must **register**.
- b) An interest that is not on your register, but where the well-being or financial position or you, members of your family (spouse; partner; parents; in laws; step/children; nieces and nephews), or people with whom you have a close association (friends; colleagues; business associates and social contacts that can be friendly and unfriendly) is likely to be affected by the business of your authority more than it would affect the majority of:
  - Inhabitants of the ward or electoral division affected by the decision (in the case of the authorities with electoral divisions or wards.)
  - Inhabitants of the authority's area (in all other cases)

These two categories of personal interests are explained in this section. If you declare a personal interest you can remain in the meeting, speak and vote on the matter, unless your personal interest is also a prejudicial interest.

### Effect of having a personal interest in a matter

You must declare that you have a personal interest, **and the nature of that interest**, before the matter is discussed or as soon as it becomes apparent to you except in limited circumstances. Even if your interest is on the register of interests, you must declare it in the meetings where matters relating to that interest are discussed, unless an exemption applies.

### When an exemption may be applied

An exemption applies where your interest arises solely from your Membership of, or position of control or management on:

1. Any other body to which you were appointed or nominated by the authority.
2. Any other body exercising functions of a public nature (e.g. another local authority)

### Is my personal interest also a prejudicial interest?

Your personal interest will also be a **prejudicial interest** in a matter if all of the following conditions are met:

- a) The matter does not fall within one of the **exempt categories** of decisions
- b) The matter affects **your financial interests** or relates to a **licensing or regulatory matter**.
- c) A member of public, who knows the relevant facts, would **reasonably think your personal interest is so significant** that it is likely to prejudice your judgement of the public interest.

### What action do I take if I have a prejudicial interest?

- a) If you have a **prejudicial interest** in a matter being discussed at a meeting, you must declare that you have a prejudicial interest as the nature of that interest becomes apparent to you.
- b) You should then leave the room, **unless members of the public are allowed to make representations, give evidence or answer questions about the matter**, by statutory right or otherwise. If that is case, you can also attend the meeting for that purpose.
- c) However, you must immediately leave the room once you have finished or when the meeting decides that you have finished (if that is earlier). You cannot remain in the public gallery to observe the vote on the matter.

d) In addition you must not seek to **improperly influence** a decision in which you have a prejudicial interest.

**This rule is similar to your general obligation not to use your position as a Member improperly to your or someone else's advantage or disadvantage.**

**What if I am unsure?**

If you are in any doubt, Members are strongly advised to seek advice from the Monitoring Officer or the Democratic Services Manager well in advance of the meeting.

**DECLARATION OF PERSONAL AND, PERSONAL AND PREJUDICIAL INTERESTS**

**MEETING** .....

**DATE**..... **AGENDA ITEM** .....

**IS YOUR INTEREST:**

**PERSONAL**

**PERSONAL AND PREJUDICIAL**

**NATURE OF INTEREST:**

.....  
.....  
.....

**NAME (PRINT):** .....

**SIGNATURE:** .....

Please detach and hand this form to the Committee Clerk when you are asked to declare any interests.