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Date: 17 September 2012
Our ref: Governance and Audit agenda
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GOVERNANCE AND AUDIT COMMITTEE

25 SEPTEMBER 2012

A meeting of the Governance and Audit Committee will be held at **7.00 pm on Tuesday, 25 September 2012 (Training at 6.30pm)** in the Austen Room, Council Offices, Cecil Street, Margate, Kent.

Membership:

Councillor Worrow (Chairman); Councillors: Binks (Vice-Chairman), Campbell, Day, Lodge-Pritchard, Moore, W Scobie, S Tomlinson and M Tomlinson

A G E N D A

Item No

1. **NATIONAL FRAUD INITIATIVE**

To receive a presentation from Zoe Harrison, Senior Incomes Officer, Financial Services, Thanet District Council

2. **APOLOGIES FOR ABSENCE**

3. **DECLARATIONS OF INTEREST**

4. **MINUTES OF PREVIOUS MEETINGS**

To approve minutes of previous meetings of the Governance and Audit Committee, as follows:

4a **MEETING HELD ON 27 JUNE 2012** (Pages 1 - 8)

4b **MEETING HELD ON 21 AUGUST 2012** (Pages 9 - 12)

5. **GOVERNANCE AND AUDIT COMMITTEE ACTION PLAN** (Pages 13 - 20)

6. **ROLE OF DEPUTY S151 OFFICER**

Sue McGonigal to give Members clarification of this role.

7. **ANNUAL GOVERNANCE REPORT 2011/12** (Pages 21 - 48)

8. **COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS** (Pages 49 - 56)

9. **FINAL AUDITED STATEMENT OF ACCOUNTS 2011/2012** (Pages 57 - 62)

Statement of Accounts attached separately

Item
No

10. **ANNUAL GOVERNANCE STATEMENT 2011/12** (Pages 63 - 82)
11. **QUARTERLY GOVERNANCE PROGRESS REPORT** (Pages 83 - 124)
12. **INTERNAL AUDIT PROGRESS REPORT** (Pages 125 - 142)
13. **TREASURY MANAGEMENT UPDATE REPORT FOR THE FIRST QUARTER, 2012**
(Pages 143 - 150)
14. **FUTURE ITEMS OR TRAINING FOR THE COMMITTEE**

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 27 June 2012 at 7.00 pm in Austen Room, Council Offices, Cecil Street, Margate, Kent.

Present: Councillor John Worrow (Chairman); Councillors Binks, Campbell, Lodge-Pritchard, Moore, Moores, W Scobie, S Tomlinson and M Tomlinson

220. ALSO PRESENT:

Harvey Patterson – Corporate and Regulatory Services Manager
Sarah Martin – Financial Services Manager & Deputy s151 Officer
Nikki Morris – Business Support and Compliance Manager
Andy Mack - District Auditor – Audit Commission
Lisa Robertson – Audit Manager – Audit Commission
Simon Webb – Audit Manager – East Kent Audit Partnership
Christine Parker - Head of the East Kent Internal Audit Partnership

221. GOVERNANCE AND AUDIT QUIZ

A pre-meeting training presentation was given.

222. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Day.

Substituting for Councillor Day was Councillor Moores.

223. DECLARATIONS OF INTEREST

There were no declarations of interest.

224. MINUTES OF PREVIOUS MEETING

The minutes of the Governance and Audit Committee meeting held on 20 March 2012, were approved and signed by the Chairman.

225. ACTION POINTS FROM PREVIOUS MEETING

Referring to the action plan item in respect of 'Internet Protocol' and the migration to 'Outlook' for email, some Members had concerns that this was still an ongoing problem for many of them and that it was unacceptable. Members advised that they were still unable to access, via the Members' Portal the modern.gov system which would enable access to private agenda packs containing exempt information. Nikki Morris, Business Support and Compliance Manager advised Members that she would speak with Sophie Chadwick, Contracts and Partnerships Relationship Manager who is co-ordinating these problems.

An update report is to be provided at the next meeting of the Governance and Audit Committee.

226. INTERNAL AUDIT PROGRESS REPORT

The 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 East Kent Audit Partnership to 31 March 2012.

Simon Webb, Audit Manager introduced the report to Members. There have been five internal audit assignments completed during the period. Of these two concluded Reasonable assurance, one concluded Substantial assurance and one resulted in a split assurance which was partly Reasonable and partly Limited assurance. One piece of work comprised of quarterly housing benefit testing for which an assurance level is not applicable. In addition, three follow up reviews were completed during this period.

In respect of the housing benefit testing, Simon Webb advised Members that over the course of the 2011/12 financial year the East Kent Audit Partnership has been completing a sample check of council tax, rent allowance and rent rebate and Local Housing Allowance benefit claims to support the Audit Commission's verification work. Members asked why an Assurance level for this work was not applicable. Simon Webb informed Members that an assurance level was not applicable to this type of work as it was not an audit of the whole system of control, but rather sample testing of benefit claims to provide an indication of the accuracy rate. A further query from Members concerned the nine claims that had failed due to procedural/data input errors which equalled a 20% failure rate. Simon Webb explained that these errors did not effect the subsidy claim or the amount of the payment to the claimant.

In total 45 benefit claims were checked across the two quarters and of these only one failed the criteria set by the Audit Commission's verification guidelines as the error identified impacted the subsidy claim – an error rate affecting subsidy, across the 45 claims tested, of only 2% which is the lowest error rate identified by the East Kent Audit Partnership testing at Thanet in recent years.

The payroll processes have continued to evolve since first introduced and many of the expected controls are effective, as demonstrated by staff at all four sites being paid on time each month. Action has been taken to control risks regarding some of the issues that were highlighted by partners during the settling in period, and further issues have been raised as a result of the audit. It is recognised that there are risks around the monthly process and risks around the key relationships; all partners are keen to see these resolved and the way forward agreed.

Members also queried the checking levels within the payroll system which the audit had commented were set too high and were advised that at present exception reports were produced on each payroll run of variances of 30% from the previous payroll run – this was considered too high a level as it meant that potentially too many errors would go undetected. The findings had shown that there is scope for improvement to strengthen the existing controls and reduce risk. The errors regarding the overpayment of allowances paid to leavers and the additional mileage payments made via the software error detected during this audit, contributed £4000 towards the audit.

Members asked about the process for debt reporting and whether this was only against targets. Simon Webb advised that yes, it was but that scope for improvement in this was part of the Management action plan to be considered over the next few months.

Referring to the Equality and Impact Assessment Members were concerned that their involvement was limited and that they did need to know their role. It was also noted that some Members had not attended the Members briefing which had included an item on equalities and diversity.

The report was received by Members.

227. INTERNAL AUDIT ANNUAL REPORT

Christine Parker outlined the report which provides a summary of the impact of the work of the East Kent Audit Partnership for the year to 31st March 2012.

The primary objective of Internal Audit is to provide independent assurance to Members, the Chief Executive, Directors and the Section 151 Officer on the adequacy and security of those systems on which the Authority relies for its internal control. The purpose of bringing forward an annual report to members is to:

- ***Provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment.***
- ***Present a summary of the internal audit work undertaken to formulate the opinion.***
- ***Draw attention to any issues the Head of the Audit Partnership judges particularly relevant to the preparation of the Governance Assurance Statement.***
- ***Compare actual audit activity with that planned, and summarise the performance of Internal Audit against its performance criteria.***
- ***Comment on compliance with the CiPFA Code of Practice for Internal Audit in Local Government, and report the results of the Internal Audit quality assurance programme.***

During 2011/2012, 101 recommendations were made in the agreed final audit reports to Thanet District Council. These are analysed as being High, Medium, or Low risk. Of these 101 recommendations 92% were said to be of a high risk or medium risk but none are so significant that they need to be escalated at this time.

Taken together 85% of the reviews accounted for substantial or reasonable assurance, whilst only 15% of reviews placed a limited assurance to management on the system of internal control in operation at the time of the review.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. The follow up review is then timed to allow the service manager sufficient time to make progress in implementing the agreed actions against the agreed timescales. The results of any follow up reviews yet to be undertaken will be reported to the quarterly committee at the appropriate time.

Expenditure and recharges for the year 2011-12 are all in line with the budget. The financial management of the Internal Audit cost centre held by Dover District Council has performed well and had delivered 14% savings against budget.

The East Kent Audit Partnership (EKAP) has been able to exceed its targets for financial performance for 2011-12 through careful financial management. The EKAP now has a track record for bringing down daily rates (see table below). This daily rate excludes any internal recharges that are added to the service by the Council, which are not under the control or management of the EKAP. This equates to a saving of £42.68 per day against the original target for 2011-12 of £300. 15/day; a total financial saving to Thanet District Council of £14,597.14 for 2011-12 (or 14% against the original budget of £300. 15/day).

Year	Cost / Audit Day
2006-07	£288
2007-08	£277
2008-09	£262 (Reserve Refunded to Partners)
2009-10	£281
2010-11	£268
2011-12	£257

The overall conclusion is that the internal Audit function provided by the EKAP has performed well against its targets for the year. Clearly there have been some adjustments to the original audit plan for the year 2011-12, however, this is as expected and there are no matters of concern to be raised at this time.

Some Members asked for clarification regarding the Internet and e-mail controls being given a status of Finalised and assurance level of Reasonable. Christine Parker advised that this was referring to the policies for each of the three councils and was more about how Thanet District Council is complying with them.

Other Members queried the reduction in days that were substantially reduced from previous years and asked whether this was adequate. Christine Parker informed Members that Thanet has an overall plan of 400 days, although part of this is used to undertake EK Services and East Kent Housing Audits. Christine confirmed that the Thanet audit plan is considered to be adequate in size.

Another concern raised by Members was 'Homelessness' which had received an original assurance level of Reasonable/No and had also been given two follow-up reviews which were completed. Simon Webb advised that this was still an area of concern and still unsatisfactory. The results of a further follow-up will be brought to the September Governance and Audit Committee meeting.

The report was received by Members.

228. AUDIT COMMITTEE UPDATE (TO AUDIT COMMITTEE)

Andy Mack, District Auditor from the Audit Commission outlined the report which updates Members on progress to date on the current audit plans and the audit and inspection work undertaken since the last update in March 2012.

As part of the Audit Commission's pre-statements work no issues required further reporting to management or the Audit Committee. The Audit Commission assessed that good arrangements are in place in the control environment operating at the Authority.

The transfer of the Audit Commission to 'Grant Thornton' would see changes over the next 18 to 24 months although continuity, especially in the early days of the contract, was expected. Significant fee savings were also expected.

Members agreed to note the report.

229. QUARTERLY GOVERNANCE PROGRESS REPORT

Nikki Morris, Business Support and Compliance Manager, summarised the report which provides Governance and Audit Committee with the progress on governance related issues.

The items covered in this report are:

- Corporate risk register
- Annual Governance Statement 2010/11 action plan.

The following are some questions raised by Members regarding the risk register and the action plan:

GV02 – Review staff against Child Protection training. *Why not started?*

Project being reviewed due to cost and staffing implications – in house training being considered as part of reducing costs.

Nikki Morris, Business Support and Compliance Manager advised that she had an update from Sarah Phippin, Community Development Officer, which she read to the Committee:- "Council staff are presently trained via 'on-line' learning and classroom based sessions, depending upon their level of contact with children. This is in need of being refreshed due to the changes that have happened nationally in relation to the Protection of Freedoms Bill which was given Royal Assent in May 2012. The original idea of a TDC officer being trained as a trainer has been placed on hold due to a reduction in officer numbers through resignation and retirement in the Community Development team, resulting in the Child Protection officer having to take on other duties for the time being. It is planned that once the Olympic Torch Relay has been to Thanet, work will begin on refreshing the training for staff".

The change to eCRB checks that has come from the new Protection of Freedoms Bill means that there are some staff that will require eCRB checks that haven't done so before. At present HR are compiling a list of staff who have been checked against those who need to be checked, and also when these checks were done (as they need to be renewed every three years). Once HR have compiled this list, managers will be informed and will need to let the relevant staff know. In conjunction with this, HR will be organising for three TDC officers to be trained as document checkers for any eCRB checks that need to be done for TDC. This will result in a saving for TDC of £5 per check that is done.

Some Members asked for clarification on who should have a 'CRB' check (Criminal Records Bureau) and at what level. It was explained that each organisation carries out their own CRB check, so one person could have several checks made.

BUS0003 - Members also asked the following: - *whether the Corporate Risk Register (CRR) was overloaded placing unreasonable demands on officers. It was suggested by Members that the Senior Management Team (SMT) take a more robust view and remove any unnecessary risks and control measures.*

Nikki Morris advised that she would discuss this with SMT.

FIN0005 – The Government expects councils to approve a new localised council tax discount scheme by 31 January 2013 for implementation with effect from 1 April 2013. The scheme is to deliver welfare entitlement savings of 10% whilst at the same time protecting payments to pensioners and other (yet to be defined) vulnerable groups. The implementation of the scheme is dependent on the software suppliers being able to make the necessary changes to the system within a very tight timeframe.

Members asked:- *what are the implications for staff?*

Sarah Martin, Financial Services Manager and Deputy S151 officer replied that training would be given to staff and they would be working with the software supplier.

CML050001 – Emergency Planning roles are ill defined. Business Continuity Plans are not sufficiently drafted or robustly tested; or are not sufficiently understood across the organisation.

The question asked by Members was:- *whether the Business Continuity Plans were wasted time or were they used in the superseding activities?*

Nikki Morris advised that the process had been superseded but, at that point in time it had been 80% complete. Emergency Planning and Business Continuity has now been handed to Paul Morgan, Emergency Planning and Inspection Engineer who is expected to have an update very shortly. Simon Webb added that Business Continuity Planning was also in the Audit Plan.

Members noted the content of the report and associated annexes.

230. DRAFT ANNUAL GOVERNANCE STATEMENT 2011-2012

Nikki Morris introduced the report which provides Governance and Audit Committee with the Draft Annual Governance Statement 2011/12.

The Annual Governance Statement is prepared using a method similar to that use in previous years, including:

- Managers providing an assurance statement as to the extent and quality of internal control arrangements operating within their departments for the year. The declaration covers a comprehensive list of those systems and procedures which deliver good governance. Managers are asked to declare any weaknesses in their governance arrangements.
- Service Managers reviewing the results of those declarations, identifying those issues which are significant or which are common to more than one area and discussing the outcomes with the Portfolio Holder with responsibility for each service area.
- Assurance statements from the Section 151 Officer, Monitoring Officer and the following key areas: performance management, procurement and risk management identifying any governance issues that have arisen and should be addressed in the forthcoming year.
- Statements from the shared service partners we work with on compliance with the governance arrangements in place.
- Reviewing the annual reports from Governance and Audit Committee, Overview and Scrutiny Panel and Standards Committee.
- Considering the Internal Audit Annual Report, and also the Section 151 Officer's report on the effectiveness of the internal audit arrangements in place.
- The council's Governance and Audit Committee considers the draft statement in June and is afforded the opportunity to give its input to the statement and to consider whether it accurately reflects the council's control environment.
- The Governance and Audit Committee approves the Annual Governance Statement in September and it is signed off by the Chief Executive/Section 151 Officer and Leader of the Council.

The Annual Governance Statement also includes 'Improvements During the Year' and 'Significant Governance Issues'. An 'Action Plan' will be compiled and regularly reported back to Governance and Audit Committee.

Members asked what the Senior Management Team strategy was for the continuing rise in the hours that staff work. The Council are reliant on staff working over and above their contracted hours which is no longer tenable.

Nikki Morris advised that this was an item on the Risk Register and also within section 9 of the Draft Annual Governance Statement.

Members also asked if any analysis of the hours worked had been undertaken to identify which officers regularly worked more than their contracted hours. Nikki Morris is to investigate this.

Moved by Councillor W Scobie and seconded by Councillor Campbell that:

“Members accept the draft Annual Governance Statement for 2011/12”

MOTION ADOPTED.

231. ANNUAL TREASURY MANAGEMENT REVIEW

Sarah Martin introduced the report which summarises Treasury Management activity and prudential/treasury indicators for 2011/12.

Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. The report provides details of the outturn position for treasury activities and highlights compliance with the Council’s policies previously approved by members. During 2011/12, the Council complied with its legislative and regulatory requirements.

At paragraph 2.2 to the report it shows details of the Housing finance reform which was implemented at the end of 2011/12 and abolished the housing subsidy system financed by central government and, consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council received, at the end of the year, a repayment of debt by the Department of Communities and Local Government of £925,000 which resulted in a corresponding decrease in its Capital Financing Requirement (CFR). (The Department also paid the breakage costs of £152,342.) There has been no impact on HRA revenue finances in 2011/12 due to compensating adjustments being made in the HRA determination.

The table below shows the net borrowing and the Capital Finance Requirement. In order to ensure that borrowing levels are prudent over the medium term the Council’s external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2011/12 plus the expected changes to the CFR over 2012/13 and 2013/14 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12.

	31 March 2011 Actual £000	31 March 2012 Budget £000	31 March 2012 Actual £000
Net borrowing position	13,944	28,064	7,445
CFR	43,864	47,468	42,250

Members asked that a column showing the date when a loan was taken out to be included in the Treasury Borrowing table in future. Sarah Martin advised that this could be done.

Moved by Councillor Campbell and seconded by Councillor Binks that:

“the Governance and Audit Committee:-

- Approve the actual 2011/12 prudential and treasury indicators in the report
- Note the annual treasury management report for 2011/12
- Recommend this report to Cabinet”

MOTION ADOPTED.

232. FUTURE ITEMS OR TRAINING FOR THE COMMITTEE

The results of the ‘Quiz’ are to be used to influence the training for the next meeting of the Governance and Audit Committee.

Meeting concluded : 8.10 pm

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 21 August 2012 at 7.00 pm in Council Chamber, Cecil Street, Margate, Kent.

Present: Councillor John Worrow (Chairman); Councillors Binks, Campbell, Day, Lodge-Pritchard, Moore, W Scobie, S Tomlinson and M Tomlinson

233. ALSO PRESENT:-

Harvey Patterson – Corporate and Regulatory Services Manager
Sarah Martin – Financial Services Manager & Deputy s151 Officer
Harpal Singh – Team Leader - Audit Commission

234. APOLOGIES FOR ABSENCE

No apologies for absence were received.

235. DECLARATIONS OF INTEREST

There were no declarations of interest.

236. STATEMENT OF ACCOUNTS 2011/12

This report presents the Statement of Accounts 2011/12 as presented to the auditors for Members of the Governance and Audit Committee to scrutinise and note.

Last year Members had received the Draft Statement of Accounts later but this year they were received several weeks prior to the meeting so that Members had an opportunity to read them in advance. Members were asked to bring any questions on the Statement of Accounts to this meeting when Sarah Martin, Financial Services Manager and Deputy s151 officer would provide answers where possible. The Statement of Accounts is to be brought back to the September meeting where any changes following the audit of the accounts would be notified to Members. The audited accounts must be approved by Members and published by 30 September 2012.

Sarah Martin, asked Members to raise any questions or queries during her presentation of the Statement of Accounts and they were as follows:-

1. HERITAGE ASSETS

The Council is now required to disclose separately its heritage assets. Heritage assets can be defined as a tangible or intangible asset that is intended to be preserved in trust for future generations because of its historical, artistic, scientific, technological, geophysical or environmental qualities and is held and maintained principally for its contribution to knowledge and culture. The Council has identified heritage assets to a value of £767k as at 31 March 2012. These relate to war memorials, public statues, artefacts or collections within museums, art collections and civic regalia.

Question:-

Who determines the value of these assets?

Answer:-

They have been properly valued and insured where appropriate. Advice was sought from KCC Museums Group and having gone through a 'Tender' process a

consultant had been appointed who carried out this work. Larger items were validated through auction houses.

2. *Is there a full list/inventory of the Council's Heritage Assets and can Members see it?*

Answer:-

Sarah said that yes, there is a list and a full breakdown will be provided to Members.

It was proposed by Councillor Mrs Tomlinson and seconded by Councillor Binks that:

"Members consider the 'Inventory' before it is taken to Overview and Scrutiny Committee should it be necessary"

AGREED.

3. BACKDROP TO 2011/12 ACCOUNTS

The continuing economic downturn and the reduction has resulted in reduced income levels for example from planning fees and land searches. The prolonged suppression of the Bank of England base rate has also resulted in reduced investment income. The Council have developed a range of saving options to mitigate the impact of the significant cuts in Government funding (5.3% cut in Formula Grant) and the capital programme was adjusted to accommodate the reduction in Capital Receipts.

Question:-

Members would like to understand the income trend against the key fees and charges over the last 5 years.

Answer:-

Sarah advised that this can be prepared for Members.

Questions:-

Would delays in the Capital Programme for future years be likely should the projected economic situation continue?

What method is used to prioritise those projects that stay in the programme and those that don't?

Answers:-

Members were advised that some projects had been dropped completely and some delayed and this will continue if capital receipts don't pick up.

Capital projects are scored against a set criteria giving priority to those with a health and safety issue or those that generate future income. A document will be circulated to Members showing this information.

An additional question raised by Members was:- 'Why don't Thanet District Council's Building Control seem to want to encompass new building techniques. Is anything in place to explain why the Council do not follow Canterbury, for example?'

Sarah informed Members that the Building Control Manager will be asked to respond to this question.

4. TRUST FUNDS

Trust funds consist of monies left in trust with the Authority and invested in accordance with specific bequests. The Council is sole trustee and only administers these funds, hence they do not form part of the Council's Accounts.

Question:-

Why does the Income and Expenditure vary so much for each Company involved in the Trust Funds?

Answer:-

Sarah advised that she would find out and get back to Members.

5. EXPLANATORY FOREWARD

Question:-

Members referred to the table on page 11 of the report and requested that the equivalent page from the previous year's accounts be included with the current year so that comparison can easily be made.

Answer:-

Sarah said that this would be done for Members.

6. COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

This shows a summary of the resources used and income generated by the Council's services. It includes all day-to-day expenditure and income on an accruals basis. Comparisons are shown for the previous year.

Referring to Gross expenditure, gross income and net expenditure on continuing operations Members queried the line containing 'Corporate and Democratic Core and asked:-

Question:-

What does this include?

Answer:-

A breakdown is to be provided to Members.

The same question was asked in relation to Environment and Regulatory Services.

A breakdown showing the comparison between years on Income was also requested.

7. Note 10. TAXATION AND NON-SPECIFIC GRANT INCOME

Members asked for a breakdown showing a comparison between ring-fenced and non-ring fenced grants between years.

Sarah advised that this will be provided.

8. Note 8. PROVISION FOR BAD DEBT AND DOUBTFUL DEBTS

The provision for bad and doubtful debts relating to the Housing Revenue Account is £599k as at 31 March 2012. The provision in 2010/11 was £551k.

Members asked to see a paper showing a breakdown of the movement on the provision, including the write offs.

Sarah advised that the additional provision made for the year was £189k. A paper will be sent to Members showing details.

Moved by Councillor W Scobie and seconded by Councillor Binks that:

“the Governance and Audit Committee note the draft Statement of Accounts for 2011/12”

Members agreed.

Meeting concluded : 8.40 pm

Governance and Audit Committee Action Plan

G & A meeting	Action	Owner	Target date	Progress	Feedback / Comments
27-Jun-12	Inform Sophie Chadwick of member issues with Outlook	SG	25-Sep-12	C	Thorough Audit carried out to identify which Members were still having problems. As a result Members were invited to an Outlook training session with staff from TDC and EKS ICT. Most of the issues related to login difficulties and were resolved during the session or afterwards by ICT staff.
27-Jun-12	Liaise with Nick Hughes as to who is undertaking development work in EK Services for members to access the modern.gov system through the Members Portal.	SG	31-Dec-12	IP	A proposal has been put forward by modern.gov systems for an Extranet solution, which is being investigated by EKS ICT.
27-Jun-12	Following the Member Briefing on equality and diversity, any members that were absent should be made aware of their responsibilities under this Duty.	SC	25-Sep-12	C	The Equality Act 2010: Public Sector Equality Duty documents was made available to Members.
27-Jun-12	Members raised a question as to whether the corporate risk register (CRR) was being overloaded, and unreasonable demands were being made of officers. Suggested that SMT take a more robust approach to reviewing the CRR with a view to stripping out any unnecessary risks and control measures.	NM	25-Sep-12	C	Corporate Risk Register reviewed by Senior Management Team on the 23 August 2012.
27-Jun-12	With regards to the 'culture of long hours of working in many sections' within section 9 of the Draft AGS 2011/12. Members asked if SMT were pulling together a plan for how this is going to be dealt with.	NM	25-Sep-12	C	Covered within Annual Governance Statement 2011/12 action plan.
27-Jun-12	Members also asked if any analysis of the hours worked had been undertaken to identify which officers regularly worked more than their contracted hours.	NM	25-Sep-12		

G & A meeting	Action	Owner	Target date	Progress	Feedback / Comments
27-Jun-12	Table for Treasury Borrowing to include a column to show the date when the loans were taken out.	SM	25-Sep-12	C	Attached at Annex 1 is the council's Public Works Loan Board (PWLB) statement as at the 29 March 2012 (after the Housing Revenue Account (HRA) statement) which details each loan and its start and finish date. Please note we have another Lenders Option Borrowers Option (LOBO) loan taken out with Dexia on 9 June 2005.

Key:

SC Sarah Carroll
 SG Sue Glover
 SM Sarah Martin
 NM Nikki Morris

Key:

C Completed
 IP In progress
 O Ongoing

FIXED PAYMENTS DUE ON 31 Mar 2012

Reference Data	Date of Advance	Amount of Original Loan	Rate %	Period Years	Final Payment	Balance £ p	Principal £ p	Interest £ p	Total Due £ p
MAT 331 497161	07 May 2010	1,000,000.00	3.840	9	31 Mar 2019	960,035.60	0.00	18,432.69	18,432.69
Totals (1 loan)						960,035.60	0.00	18,432.69	18,432.69

FIXED PAYMENTS DUE ON 01 Apr 2012

Reference Data	Date of Advance	Amount of Original Loan	Rate %	Period Years	Final Payment	Balance £ p	Principal £ p	Interest £ p	Total Due £ p
MAT 401 496099	15 Oct 2009	4,000,000.00	3.570	10	01 Oct 2019	3,840,142.40	0.00	68,546.54	68,546.54
MAT 401 496100	15 Oct 2009	2,000,000.00	4.040	20	01 Oct 2029	1,920,071.20	0.00	38,785.44	38,785.44
MAT 401 496101	15 Oct 2009	2,000,000.00	4.220	40	01 Oct 2049	1,920,071.20	0.00	40,513.51	40,513.51
Totals (3 loans)						7,680,284.80	0.00	147,845.49	147,845.49

FIXED PAYMENTS DUE ON 03 May 2012

Reference Data	Date of Advance	Amount of Original Loan	Rate %	Period Years	Final Payment	Balance £ p	Principal £ p	Interest £ p	Total Due £ p
MAT 503 497160	07 May 2010	1,000,000.00	2.750	5	03 May 2015	960,035.60	0.00	13,200.49	13,200.49
Totals (1 loan)						960,035.60	0.00	13,200.49	13,200.49

FIXED PAYMENTS DUE ON 30 Jun 2012

Reference Data	Date of Advance	Amount of Original Loan	Rate %	Period Years	Final Payment	Balance £ p	Principal £ p	Interest £ p	Total Due £ p
MAT 631 452544	20 Jun 1983	2,500,000.00	10.125	30	31 Dec 2012	598,328.58	0.00	30,290.38	30,290.38
MAT 631 458104	25 Feb 1986	2,000,000.00	10.375	28	31 Dec 2013	1,920,071.20	0.00	99,603.70	99,603.70
MAT 631 482265	12 Mar 1999	608,133.00	4.875	25 1/2	30 Jun 2024	583,829.33	0.00	14,230.83	14,230.83
MAT 631 482266	12 Mar 1999	1,891,867.00	4.875	25 1/2	30 Jun 2024	1,816,259.67	0.00	44,271.32	44,271.32
MAT 631 494307	24 Jan 2008	4,000,000.00	4.420	28	31 Dec 2035	3,840,142.40	0.00	84,867.15	84,867.15
Totals (5 loans)						8,758,631.18	0.00	273,263.38	273,263.38

FIXED PAYMENTS DUE ON 05 Aug 2012

Reference Data	Date of Advance	Amount of Original Loan	Rate %	Period Years	Final Payment	Balance £ p	Principal £ p	Interest £ p	Total Due £ p
ANN 205 429349	25 Sep 1973	24,500.00	11.625	60	05 Aug 2033	21,467.39	120.52	1,247.80	1,368.32
Totals (1 loan)						21,467.39	120.52	1,247.80	1,368.32

FIXED PAYMENTS DUE ON 15 Sep 2012

Reference Data	Date of Advance	Amount of Original Loan	Rate %	Period Years	Final Payment	Balance £ p	Principal £ p	Interest £ p	Total Due £ p
MAT 315 498992	15 Sep 2011	4,000,000.00	3.310	10	15 Sep 2021	3,840,142.30	0.00	63,554.35	63,554.35
Totals (1 loan)						3,840,142.30	0.00	63,554.35	63,554.35
GRAND TOTALS (12 Loans)						22,220,596.87	120.52	517,544.20	517,664.72

ANNUAL GOVERNANCE REPORT 2011/2012

To: **Governance and Audit Committee – 25 September 2012**

Main Portfolio Area: **N/A**

By: **Audit Manager, Audit Commission**

Classification: **Unrestricted**

Summary: **To provide Governance and Audit Committee with an annual governance report, summarising the findings from the 2011/12 audit**
For Information

1.0 Introduction

1.1 To meet the requirements of the Code of Audit Practice, the Audit Commission is required to:

- give an opinion on whether the Council has presented fairly the financial position within the financial statements; and
- issue a conclusion on the arrangements in place to ensure economy, efficiency and effectiveness in the Council's use of resources.

2.0 The Current Situation

2.1 The Annual Governance Report prepared by the Audit Commission is attached as Annex 1 to this report.

3.0 Recommendations

That the Committee:

- 3.1 takes notes of the adjustments to the financial statements included in the Annual Governance Report (appendix 2 to the Audit Commission report);
- 3.2 approves the letter of representation (appendix 3 to the Audit Commission report);
- 3.3 agrees its response to the proposed action plan (appendix 5 to the Audit Commission report).

Contact Officer:	Andy Mack, District Auditor, Audit Commission
Reporting to:	Sarah Martin - Financial Services Manager & Deputy S151

Annex List

Annex 1	Audit Commission Annual Governance Report 2011/12
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Annual governance report

Thanet District Council

Audit 2011/12

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Agenda Item 7
Annex 1



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

As at 11 September 2012, I expect to issue an unqualified audit opinion.

I am grateful for the help and support of officers throughout the audit. They have been diligent in preparing working papers, responding to audit queries and processing audit amendments.

In overall terms my assessment is that the Council has a good understanding of its underlying financial position and sound financial systems. I did however identify material amendments during the audit which impacted on the Balance Sheet, Movement in Reserves and Cash Flow statements, as well as a number of notes to the accounts. I have set more information on the key changes made in the detailed section of this report and Appendix 2.

The number and scale of amendments arising during the audit was greater than at most other Councils which I audit. In my view this reflects:

- The scale and complexity of accounts at Thanet: By district council standards, the Council is large, complex and multi-faceted with several major partnerships and other projects in progress.
- Stretched capacity within the finance team: Compared to some other councils, the team working on accounts is relatively small and has a wide range of responsibilities in addition to accounts preparation.

Recommendation

Reduce the number of amendments made to the draft accounts in future years by:

- reviewing and strengthening the accounts closedown process
- identifying resource requirements for closedown and where appropriate strengthening capacity within the finance team.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

- The Council continues to demonstrate effective arrangements for budget and financial management. It achieved its financial targets for 2011/12 and has delivered efficiency savings across a range of service areas. As a result it was able to increase General Fund and Earmarked Reserves by £2 million.
- The Council have identified a budget gap over the next 3 years of £1,400,000. There is a robust Medium Term Financial Strategy in place and the development of a service review programme which means that the Council is reasonably placed to meet the challenges of the next two to three years. Beyond 2015, however, the Council faces a range of uncertainties around its funding and income streams, as well as national cost pressures including local business rate retention and universal tax credit.

Recommendation

Ensure that both Members and officers retain a strong focus on strong financial management and service efficiencies.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

I ask the Governance and Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 2);
- approve the letter of representation (appendix 3), on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 5).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

My work on the financial statements is now substantially complete. The main areas of work which remain outstanding are:

- response from those charged with governance regarding assurance mechanisms;
- consideration of any issues raised by local electors; and
- closing procedures including agreement of revised statements to our expected changes.

I anticipate that any remaining work will be completed during September. I will then issue my audit opinion by the 30 September 2012 statutory deadline, after the financial statements and the letter of representation have been approved by the Committee.

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Uncorrected errors

I have not identified any errors which management have declined to amend.

Corrected errors

The finance team produced a complete set of draft accounts for the 30 June 2012 deadline. Before we began the audit in mid July, the team subsequently reviewed and updated the draft accounts. This included amendments to both the primary financial statements and disclosure notes. This type of internal review represents good practice, although should be done before the 30 June deadline rather than after.

We completed our on-site audit work between mid July and mid August 2012. We have set out details of the amendments made as a result of the audit in Appendix 2.

The large number of amendments has required additional audit input, in terms of identifying the issues, auditing the revised figures and ensuring that the final statements reflect all expected changes. My estimate is that this will result in an increased audit fee for the year of £5,000. Further details are set out in Table 5.

Significant risks and my findings

I reported to you in my February 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>HRA reform</p> <p>The government plans to reform local authority housing finance by adopting a self financing model from 1 April 2012. This will be through a one-off settlement payment to or from central government on or before 28 March 2012. This will adjust the HRA debt of the Authority. Payments from government will in most cases be used to redeem an equal percentage of all PWLB debt held by the Council. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.</p>	<p>I have evaluated management's oversight of HRA reforms and the transactions required by the Council. I have agreed the detail of the receipt to the DCLG notification.</p> <p>My testing has not identified any significant issues to bring to your attention.</p>
<p>Housing ALMO</p> <p>On 1 April 2011 the Council transferred its housing management services to a joint East Kent Housing ALMO. The ALMO will not have any significant assets, but will reflect any movements in the pension fund deficit post after 1 April 2011 in its balance sheet. It will also include all housing management staff cost expenditure in its accounting statements.</p> <p>There is a risk that the Council's share of the ALMO balance sheet entries and expenditure will not be correctly included in its accounting statements. There is a further risk that we cannot obtain</p>	<p>I reviewed the entries included in the Council's financial statements in respect of its share of the ALMO.</p> <p>My testing has not identified any significant issues to bring to your attention.</p>

Risk

sufficient assurance over the ALMOs accounting entries, which will not be recorded in the Council's financial ledger.

Valuation of property, plant and equipment (PPE)

The Authority is required to value most types of PPE at fair value (except for infrastructure, community assets and assets under construction which are valued at historic cost).

Accounting for PPE crosses over many areas within the financial statements and the values at Thanet DC are significant and include more specialist items such as the harbour and golf club. On the basis that the accounting is complex and includes material estimations, there is potential for material error.

Finding

I reviewed the valuation of PPE entries included in the Council's financial statements.

My testing has not identified any significant issues to bring to your attention.

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any weaknesses in internal control during the audit that are relevant to preparing the financial statements.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I have set out other matters to bring to your attention in table 2 below:

Table 2: **Other matters**

Issue	Finding
Related Party Transaction Returns	I have evaluated the Council's arrangements for identifying and disclosing related parties within its financial statements. Although appropriate arrangements are in place, at the time of audit, a number of returns from members were outstanding. I am satisfied that this does not materially impact on my opinion. It is important however that all Members ensure that they comply with Council policy and disclosure on Related Party Transactions.

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. The Council submitted its return to Department of Communities and Local Government 24 August, three weeks after the submission deadline of 27 July. As at 11 September 2012, I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 30 September 2012.

Value for money

I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my February 2012 Audit Plan, I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing the risk I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 3: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Financial Position: The external financial environment remains a very challenging one across local government. The need to maximise the efficient use of resources cuts across all of the Council's operations.</p> <p>In particular, the existing Medium Term Financial Strategy for Thanet DC includes assumptions of over £1m relating to services to be transferred into East Kent Services. As this programme is no longer due to take a place, there is a budget gap in the medium and long</p>	<ul style="list-style-type: none"> The Council continues to demonstrate effective arrangements for budget and financial management. There is regular and effective in year monitoring and an appropriate level of reporting to Members. The Council achieved its financial targets for 2011/12 and has delivered efficiency savings across a range of service areas. As a result it was able to increase General Fund and Earmarked Reserves by £2,069,000. The Council is well placed to meet financial challenges over the next two to three years and a service review programme is being developed to identify the savings required to address the budget gap of £1,400,000 left by not proceeding with the proposed transfer programme to East Kent Services. Beyond 2015, the Council faces a

Criteria	Risk	Findings
	<p>term to be addressed. Members and officers are continuing to explore new ways of working and to identify efficiencies in business planning and in service delivery. The focus will need to be achieving the balance between savings and service quality.</p>	<p>range of uncertainties around its funding and income streams, as well as cost pressures including those relating to the local business rates retention scheme and the local council tax support scheme. These are likely to require difficult decisions around future spending. It is vital therefore that Members and officers remain focused on the delivery of the Medium Term Financial Strategy and the Council's efficiency agenda.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>		<p>The Council has sound arrangements for the prioritisation of resources with a sound budget and robust Medium Term Financial Strategy. These are underpinned by the 2012-2016 Corporate Plan which takes a strategic approach to matching spending to the needs of the population.</p> <p>There is a good alignment between the Corporate Plan and the Medium Term Financial Strategy, both of which are focused on identifying alternative ways of delivering services and reducing high spend areas without compromising on quality. Examples of action already taken include new staffing structure, zero-based budgeting exercise, cost comparison exercise and collaborative working such as East Kent Housing.</p>

Fees

I reported my planned audit fee in the February 2012 Audit Plan.

The actual audit fee is £5,000 greater than the planned fee.

Table 4: Fees

	Planned fee 2011/12 (£)	Actual fee 2011/12 (£)
Audit	£145,825	£150,825
Claims and returns	£ 40,000	£ 40,000
Total		

The Audit Commission has paid a rebate of £11,666 to reflect attaining internal efficiency savings, reducing the expected net amount payable to the Audit Commission to £139,159.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF THANET DISTRICT COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Thanet District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Thanet District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer’s Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Thanet District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Thanet District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of Thanet District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack, Officer of the Audit Commission

Audit Commission,
1st Floor, Millbank Tower,
Millbank, London,
SW1P 4HQ

Date:

Appendix 2 – Corrected errors

I identified the following errors during the audit plus a number of internal inconsistencies and presentational improvements. Management have addressed all areas in the revised financial statements.

		2011/12 Statement of comprehensive income and expenditure		2011/12 Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
MMI Insurance Liability: Movement in Reserves, Comprehensive Income and Expenditure Account, Balance Sheet and note 41.	MMI Insurance Liability has historically been included as a contingent liability and was so in the draft accounts. Based on information provided in MMI's latest accounts, and the outcome of a recent Supreme Court Judgement, a provision is now required in respect of MMI. This will be funded from earmarked reserves.	Net cost of services £596,000			Provisions £596,000
Heritage Assets: Movement in Reserves, Balance Sheet, Note 11 and Note 12.	Heritage assets were correctly included in the balance sheet for 2011/12. However, the 2010/11 comparatives were not restated to reflect the £209,000 relevant assets. In addition adjustments were noted to correctly reflect £62,000 impairment (instead of depreciation), update accounting policy for de-minimis level and provide further detail of valuation.	There is no net impact on the 2011/12 statement of comprehensive income and expenditure or the balance sheet.			
Accumulated Depreciation: Movement in Reserves, Statement of Comprehensive income and expenditure,	For assets disposed of there was 501,000 for accumulated depreciation that was credited to the Revaluation Reserve that should have been netted against the overall impairment charge for a		Net cost of services £501,000	Revaluation Reserve £501,000	

		2011/12 Statement of comprehensive income and expenditure	2011/12 Balance sheet
Balance Sheet, Cashflow and Note 24	<p>downward revaluation that went to the Comprehensive Income and Expenditure</p> <p>Also Impairments totalling £899,000 were incorrectly taken to the HRA instead of the Revaluation Reserve.</p>	HRA £899,000	Revaluation Reserve £899,000
Property, Plant and Equipment: Note 11 and 20	<p>Note 11 omitted disclosure of capital commitments.</p> <p>Note 11 and 20 incorrectly included Right to Buy properties held for sale and sold within the year as operating assets rather than assets held for sale.</p>	There is no net impact on the 2011/12 statement of comprehensive income and expenditure or the balance sheet.	
Short Term Investments: Balance Sheet, Cashflow statement and Note 19	£11,678,000 included in short term investments are those due to mature within 3 months. These should be disclosed as cash and cash equivalents.	There is no net impact on the 2011/12 statement of comprehensive income and expenditure or the balance sheet.	
Government Grants Received in Advance: Balance Sheet and Note 33	<p>£3,781,000 government grants received in advance are all disclosed as long term. However, £1,559,000 are actually short term.</p> <p>Note 33 overstates other contributions by £1,214,000.</p>	There is no net impact on the 2011/12 statement of comprehensive income and expenditure or the balance sheet.	
Future Assumptions and Post Balance Sheet Events: Notes 4 and 5	<p>The draft statements included items under Post Balance Sheet Events which do not meet the accounting definition of such.</p> <p>In addition, the accounts need to be updated to reflect the Secretary of State decision, made in August 2012, on the Compulsory Purchase Order</p>	There is no net impact on the 2011/12 statement of comprehensive income and expenditure or the balance sheet.	

		2011/12 Statement of comprehensive income and expenditure	2011/12 Balance sheet
	for Dreamland		
Financial Instruments: Note 15 and 43	Financial Instruments disclosures were not initially in line with the CIPFA code of practice. In particular, trade debtors of £1,498,000 and trade creditors of £2,117,000 were omitted.	There is no net impact on the 2011/12 statement of comprehensive income and expenditure or the balance sheet.	
Remuneration of Employees: Note 31	The remuneration tables incorrectly excluded added pension benefit and salary disclosures for two staff members.	There is no net impact on the 2011/12 statement of comprehensive income and expenditure or the balance sheet.	
Pensions disclosures: Note 39 and 47	The pensions note did not reflect updated disclosure requirements within the CIPFA code. Also opening balances were incorrectly reduced by £271,000 rather than as part of in year adjustments.	There is no net impact on the 2011/12 statement of comprehensive income and expenditure or the balance sheet.	

Appendix 3 – Draft letter of management representation

Thanet District Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Thanet District Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Irregularities

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

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

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Thanet District Council

I confirm that the this letter has been discussed and agreed by the Governance and Audit Committee on 25 September 2012

Sue McGonigal CPFA

Chief Executive and s151 Officer

Date:

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under 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.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated 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 that contain basic principles and essential procedures with which auditors must 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 for local government bodies issued by the Audit Commission and approved by Parliament.

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 relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

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 to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

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 of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 5 - Action Plan

Recommendations

Recommendation 1

Reduce the number of amendments made to the draft accounts in future years by:

- reviewing and strengthening the accounts closedown process
- identifying resource requirements for closedown and where appropriate strengthening capacity within the finance team

Responsibility	Financial Services Manager and Deputy Section 151 Officer
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Priority	High
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Date	2012/13 Accounts Preparation
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Comments	An internal action plan is being developed to address this
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Recommendation 2

Ensure that both Members and officers retain a strong focus on strong financial management and service efficiencies.

Responsibility	Financial Services Manager and Deputy Section 151 Officer
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Priority	High
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Date	Ongoing
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Comments	Ongoing training and engagement of members will be provided.
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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS

To: **Governance and Audit Committee – 25 September 2012**

Main Portfolio Area: **Financial Services**

By: **Financial Services Manager**

Classification: **Unrestricted**

Summary: The purpose of this report is to seek Members' approval to a draft response from the Chair of the Audit Committee to the Audit Commission regarding compliance with International Auditing Standards.

For Decision

1.0 Introduction and Background

- 1.1 As part of the 2011/12 final accounts audit process, the external auditor is required to comply with a number of International Standards on Auditing and needs to obtain an understanding from 'those charged with governance' of the processes regarding fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. This covers the opinion on the Council's 2011/12 accounts.
- 1.2 The proposed draft response from the Governance and Audit Committee is attached at Appendix 1.

2.0 Options

- 2.1 That Members approve the response to be provided by the Governance and Audit Committee.
- 2.2 That Members do not approve the response to be provided by the Governance and Audit Committee. This is not recommended as this letter is required as part of the audit process and could result in the council attaining qualified accounts.

3.0 Corporate Implications

3.1 Financial

- 3.1.1 There are no financial implications arising directly from this report.

3.2 Legal

- 3.2.1 The International Auditing Standards requires those charged with governance to provide assurance on the processes regarding fraud and internal control which may affect the financial statements.

3.3 Corporate

- 3.3.1 The council needs to ensure that it receives unqualified accounts and this letter contributes to this process.

3.4 Equity and Equalities

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

3.5 Risks

3.5.1 Failure to approve will result in qualified accounts.

4.0 Recommendation(s)

4.1 That Members approve the response to be provided by the Governance and Audit Committee.

5.0 Decision Making Process

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

5.2 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:	Sarah Martin, Financial Services Manager
Reporting to:	Philip Hamberger, Director of Corporate Services and Transformation

Annex List

Annex 1	Draft letter of response
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Mr A Mack
District Auditor
Audit Commission
16 South Park
SEVENOAKS
Kent
TN13 1AN

10 September 2012

Re: Compliance with International Auditing Standards

Dear Mr Mack

Thank you for requesting my assistance with your current work on the 2011/12 accounts.

The Governance and Audit Committee, which was formed in 2006, has a comprehensive and varied remit which includes oversight of the council's governance and risk management processes, internal audit findings and other matters, such as the council's Treasury Management Strategy and Anti-Fraud and Corruption Policy. Within the detailed Terms of Reference assurance is given that the Committee will follow the CIPFA best practice model.

In order to adequately discharge their role to ensure that the processes are not only adequate but are complied with and weaknesses remedied in a timely fashion, Members are provided regular training on all of the key areas that fall within the Committee's responsibilities. This is seen as being of such importance that the agenda for many if not most of the Committee meetings has been adapted to enable the first half hour of every meeting to be devoted to training time, with additional training sessions having been organised to deal with particularly complex topics, such as the Statement of Accounts and treasury management. Matters relating to the process of identifying and reporting the risk of fraud and possible breaches of internal control regularly feature as part of these sessions and all Committee members are regularly reminded of the council's Whistleblowing Policy.

The specific work that the Committee considered at its meetings during 2011/12 which relate to the points that you raise within your report, included:

- approving the council's Local Code of Corporate Governance and Governance Framework;
- approving the council's Risk Management Strategy and Process, and discussing emerging key business risks;
- approving the council's Anti-Fraud and Corruption Policy, which includes the Whistleblowing Code;



- discussing the Internal Audit Manager's Annual Audit report, and agreeing to the Annual Audit Plan, ensuring that high-risk areas and measures to ensure ethical behaviour are adequately covered;
- reviewing reports on progress against the Audit Plan and implementation of agreed Internal Audit recommendations;
- discussion as to how internal audit work is undertaken, and in particular how key risks are managed; and
- considering the action plan to address matters of concern arising from the Annual Governance Statement.

Management have put in place measures to assess the risk that the financial statements may be materially misstated due to fraud that includes the operation of a robust key control framework within the council's financial procedures that has met with favourable internal audit reports, which gives sufficient assurance that the risk is negligible. The key control framework includes adequate segregation of duties within the Accountancy team, and an active personal development plan which means that sufficient members of the section are adequately skilled to not only perform the functions of their role, but be alert to any anomalies that could indicate a misstatement due to fraud. A devolved budget management system is operated which means that managers at all levels have sight of financial transactions being passed through the Income and Expenditure Accounts, which will minimise any rogue payments going un-noticed. Senior management reviews of the draft financial statements are also undertaken which would aid with the identification of any material inconsistencies.

Over and above the controls built into the financial procedures, further assurance can be gained from the thorough review programme undertaken by Internal Audit, who offer a proactive, independent and effective scrutiny of the council's financial processes. The Head of Internal Audit has access to me as the Chair of Governance and Audit at all times, to further strengthen their freedom to report any suspicions of fraud.

The commitment of members and management to dealing with fraud and strengthening internal control is reflected in the commitment given to governance and risk control generally. Dedicated staff resource has been built into the organisational structure to promote good governance and risk management.

In terms of communicating to staff and members the commitment to good governance and anti-fraud principles, a number of different media are used including the Thanet Online Matters [TOM] Intranet site; the Managers' Exchanges and formal staff and member development sessions. Issues relating to the process of identifying and reporting the risk of fraud, possible breaches of internal control and other business proactive and ethical behaviour regularly feature as part of these.

In reply to your question about reported frauds within the financial year in question; to my knowledge there have been no actual, suspected or alleged frauds reported.

I can confirm that as Chair of the Governance and Audit Committee through making enquiries of relevant officers I have gained assurance that the relevant laws and regulations have been complied with by having regard to:

- an experienced, well-resourced in-house legal team with a budget to commission specialist advice as and when required;
- legal implications of key decisions and actions being included in reports wherever necessary, with draft reports being considered by the legal team and Senior Management Team prior to being published;

- the council having comprehensive Financial Regulations and Contract Procedure Rules in place to ensure that they meet best practice standards. These documents, along with the Scheme of Delegation, set the framework for ensuring that transactions are undertaken and decisions are made in accordance with statutory requirements.

Finally, I can confirm that those charged with governance are not on notice of any possible or actual instances of non-compliance with such laws and regulations which should be considered in compilation of the financial statements.

Please find the completed questions on fraud attached as Appendix 1 to this letter.

Should you need any further assurance please do not hesitate to contact me.

Yours sincerely,

Councillor Worrow
Chair of the Governance and Audit Committee

Appendix 1

No.	Questions for those charged with governance.	Those charged with governance response
1	Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?	No
2	<p>Do you suspect fraud may be occurring within the Authority?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks within the Authority? ➤ Do you have any concerns that there are areas within your Authority that are at risk of fraud? ➤ Are there particular locations within the Authority where fraud is more likely to occur? 	<p>We do not suspect that fraud may be occurring, however, we are aware that the possibility of fraud could be higher in the current economic climate and are therefore making sure that adequate controls are in place to both minimise the risk of fraud and detect any that may be occurring. The possibility of fraud is probably higher within benefits and therefore specialised staff are employed in this area to deal with this.</p>
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> ➤ If not where are the risk areas? ➤ What other controls are in place to help prevent, deter or detect fraud? 	<p>The Internal Audit plan looks at the key internal controls on a regular basis and the results of these audits show that the Council has good control measures in place. Managers are aware of the need for segregation of duties and these are in place wherever resources allow. The authorise signatory forms limit access to systems and certain processes dependent on the nature of an individual's role, thus preventing someone from having inappropriate access to the financial systems. Staff receive regular briefings on being alert to fraud.</p>
4	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> • What concerns about fraud are staff expected to report? 	<p>The Council's whistleblowing policy is widely publicised and officers feel comfortable at raising concerns where appropriate. Staff are expected to raise concerns whenever they suspect something untoward is going on.</p>
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your Authority?</p> <ul style="list-style-type: none"> • How are the risks relating to these posts identified, assessed and managed? 	<p>Those posts with responsibility for dealing with large sums of money are considered to be high risk posts (e.g, Treasury Management Officer, Creditors Officer, Income Officer). All treasury transactions require a second authoriser and all cheque runs/BACS runs are authorised by a manager. There are segregation of duties controls between the income and creditors sections. Leave must be taken as appropriate which ensures that such officers don't have total control over these areas.</p>

6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> • How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>Members are expected to disclose any transactions they have entered into of a related party nature. There is one current police investigation involving a member. With regard to EK Housing, they have their own governance arrangements which are subject to Internal Audit scrutiny.</p>
7	<p>Are you aware of any entries made in the accounting records of the Authority that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> ➤ Are there particular balances where fraud is more likely to occur? ➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Authority? ➤ Could a false accounting entry escape detection? If so, how? ➤ Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud? 	<p>I am not aware of any false or intentionally misleading entries within the accounting records, nor any assets, liabilities or transactions that were improperly included or omitted from the accounts. System controls and segregation of duties should ensure that false accounting entries do not escape detection. Revenues and Benefits are the area where the risk of fraud is highest but staff specialising in fraud are employed in this area.</p>
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> ➤ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>I am not aware of any such issues</p>

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FINAL AUDITED STATEMENT OF ACCOUNTS 2011/12

To: **Governance and Audit Committee – 25 September 2012**

Main Portfolio Area: **Financial Services**

By: **Financial Services Manager**

Classification: **Unrestricted**

Summary: For Members to approve the audited Statement of Accounts for 2011/12.

For Decision

1.0 Introduction

- 1.1 The Accounts and Audit (England) Regulations require the Governance and Audit committee to approve the accounts by 30 September. The accounts must also be published by this date.
- 1.2 The draft Statement of Accounts for 2011/12 were scrutinised by Members of this Committee on 21 August 2012. These accounts have now been audited and a number of amendments have been made as a result. Members are now asked to approve the audited accounts.

2.0 Statement of Accounts

- 2.1 All recommended amendments identified during the audit and referred to in Appendix 2 to the Annual Governance Report have been adjusted for. A table summarising the changes is attached at Annex 1 to this report to aid clarity.
- 2.2 The majority of the adjustments have not had a net impact on the 2011/12 Comprehensive Income and Expenditure Statement or Balance Sheet. However, adjustments have been required for the following that have impacted on these statements:
 - Accumulated depreciation of £501k on disposed assets has been moved from the Revaluation Reserve (Balance Sheet) to the Net Cost of Services (Comprehensive Income and Expenditure Statement);
 - Impairments of £899k have been moved from the Housing Revenue Account to the Revaluation Reserve (Balance Sheet);
 - Accumulated gains of £1.015m on the disposal of HRA assets have now been offset against the impairment through the Revaluation Reserve (Balance Sheet). This offsets the two adjustments above.
 - The MMI insurance liability in respect of asbestos related claims has been historically shown as a contingent liability. Based on the outcome of a recent

Supreme Court judgement, a provision of £596k is now required as the transfer of economic benefits now appears probable. This is shown in both the Comprehensive Income and Expenditure Statement and the Balance Sheet. This sum has been taken from the Customer Services Reserve. This reserve is used to offset significant variations in benefit subsidy and in previous years any underspends that arose in this area had been set aside in this reserve. The balance on the reserve after this adjustment will be £426k which should be sufficient as a contingency for future years.

- 2.3 As highlighted within the Annual Governance Report, the number and scale of amendments arising during the audit was greater than expected. This was due both to the complexity of the Council's accounts and also to stretched resources within the Finance team due to maternity leave, long term sickness and the loss of a key member of staff. An action plan will now be developed to review the final account process and to realign existing resources to strengthen the capacity within the Finance team.

3.0 Options

- 3.1 That Members approve the audited accounts.
- 3.2 That Members do not approve the audited accounts.

4.0 Corporate Implications

4.1 Financial and VAT

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

4.2 Legal

- 4.2.1 The Council has a statutory responsibility under the Accounts and Audit Regulations to publish the 2011/12 accounts by 30 September 2012, together with the auditor's report.

4.3 Corporate

- 4.3.1 Under the Local Code of Corporate Governance accepted by Cabinet on 10 November 2004, the Council is committed to publish and make available reports that give an objective and understandable account of its activities, achievements, financial position and performance.
- 4.3.2 The published accounts must have been subject to Member scrutiny and must give a true and fair view of the council's financial position and its income and expenditure for the year.

4.4 Equity and Equalities

- 4.4.1 There are no equity or equality issues arising from this report

5.0 Recommendations

- 5.1 **That Governance and Audit Committee approve the Statement of Accounts for 2011/12.**

Annex List

<i>Annex 1</i>	<i>Summary of amendments to the draft Statement of Accounts 2011/12</i>
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Contact Officer:
Sarah Martin, Tel. (01843) 577617.

Background Papers: Financial Services' working papers

Summary of amendments to Draft Statement of Accounts 2011/12

Prior Year Restatements:

Amount £000's	Reason	Disclosure Note	Core Statement	Heading
209	Recognition of heritage assets during 2010/11 instead of 2011/12 (amendment affects both financial years)	Note 11 - Property, Plant & Equipment Note 12 - Heritage Assets Note 24A - Revaluation Reserve	Movement in Reserves Comprehensive Income & Expenditure Balance Sheet	Other Comprehensive Income & Expenditure Surplus/Deficit on Revaluation of Non Current Assets Heritage Assets & Revaluation Reserve

Accounting Errors:

Amount £000's	Reason	Disclosure Note	Core Statement	Heading
- 501	Impairment charged to Cost of Services instead of being offset by balances in the Revaluation Reserve	Note 24A & 24B - Revaluation Reserve & CAA Note 25A - Non Cash Movement Adjustment	Movement in Reserves Comprehensive Income & Expenditure Balance Sheet Cash Flow	Surplus/Deficit on the Provision of Services Cost of Services Revaluation Reserve/Capital Adjustment Account Net Surplus/Deficit on the Provision of Services
- 899	Impairment charged to Cost of Services instead of being offset by balances in the Revaluation Reserve	Note 24A & 24B - Revaluation Reserve & CAA Note 25A - Non Cash Movement Adjustment	Movement in Reserves Comprehensive Income & Expenditure Balance Sheet Cash Flow	Surplus/Deficit on the Provision of Services Cost of Services Revaluation Reserve/Capital Adjustment Account Net Surplus/Deficit on the Provision of Services

			Housing Revenue Account	HRA Expenditure & Surplus/Deficit for the Year
1,015	Accumulated gains on disposal of HRA assets to be offset against impairment through Revaluation Reserve	Note 24A & 24B - Revaluation Reserve & CAA	Balance Sheet	Revaluation Reserve/Capital Adjustment Account
596	Set up of provision for MMI Mesothelioma claims	Note 7 - Earmarked Reserves Note 22 - Provisions Note 23 - Usable Reserves Note 25A - Non Cash Movement Adjustment	Movement in Reserves Comprehensive Income & Expenditure Balance Sheet Cash Flow	Surplus/Deficit on the Provision of Services Cost of Services Earmarked Reserves/Provisions Net Surplus/Deficit on the Provision of Services

Line & Disclosure Note Amendments:

Page	Amount £000's	Reason	Disclosure Note	Core Statement	Heading
61	227	Reflection of Grant Receipts in Advance under new heading (balances previously included under 'Creditors')	Note 21 - Creditors Note 33 - Grant Income	Balance Sheet	Creditors/Grant Receipts in Advance
	11,678	Call account deposits miscoded to short term investment instead of cash and cash equivalents	Note 19 - Cash & Cash Equivalents Note 26 - Investing Activities	Balance Sheet Cash Flow	Short Term Investments/Cash & Cash Equivalents Investing Activities
	1,559	Short Term Grants Receipts in Advance included in Long Term total		Balance Sheet	Current Liabilities/Long Term Liabilities
	62	Depreciation of rides for Dreamland to be treated as impairment	Note 11 - Property, Plant & Equipment		
	-	Reclassifications between lines within disclosure note only	Note 21 - Creditors		
	2,117	Reclassification of payments due to Other Local Authorities as trade creditors (disclosure note only)	Note 15 - Financial Instrument Balances		Financial Liabilities (Current)

Amount £000's	Reason	Disclosure Note	Core Statement	Heading
1,498	Reclassification of HRA tenant, charitable and home safety loans as trade debtors (disclosure note only)	Note 15 - Financial Instrument Balances Note 43 - Financial Instrument Risks		Loans and Receivables (Current & Long Term) Trade Debtors
- 674	Inclusion of MRP to make note more relevant (disclosure note only)	Note 35 - Capital Expenditure & Financing		Explanation of Movements in Year
- 575	Reflect in year HRA disposals under PPE note instead of Held for Sale	Note 11 - Property, Plant & Equipment Note 20 - Current Assets Held for Sale		
1,214	Error in total of 'other contributions credited to services' (note only)	Note 33 - Grant Income		
145	Pension benefits upon loss of office for two employees omitted from table and amendments to numbers and totals of exit packages	Note 31 - Remuneration of Employees		
271	Revised pension disclosures and amendments to reflect £271k as an in year rather than a prior year adjustment	Note 39 - Pension Costs		
-	Revised disclosure regarding Dreamland CPO following release of the Secretary of State's decision	Note 5 - Post Balance Sheet Events		
-	Amendments within 2011/12 movement in the year columns only	Note 23 - Usable Reserves		

ANNUAL GOVERNANCE STATEMENT 2011/2012

To: **Governance and Audit Committee – 25 September 2012**

Main Portfolio Area: **Business Services**

By: **Business Support and Compliance Manager**

Classification: **Unrestricted**

Summary: **To provide Governance and Audit Committee with the Annual Governance Statement 2011/12 for approval.**

For Decision

1.0 Introduction and Background

- 1.1 The Accounts and Audit Regulations 2003 (amended 2006) introduced the requirement for a Statement on Internal Control (SIC) to be prepared by local government bodies from the financial year 2003/2004.
- 1.2 From 2007/2008 this process changed and the council was required to prepare an Annual Governance Statement (AGS) which must be included within the Financial Statement and should be signed by the Leader and Chief Executive.
- 1.3 The Accounts and Audit (England) Regulations 2011 have been published. The new regulations applied from the financial year 2010/2011. The changes to the regulations meant that the AGS should accompany the Statement of Accounts and does not need to be included within the body of this document. This meant that the AGS is separate from the accounts for the purpose of external audit.
- 1.4 The other change was to the approval process and timeframe. Governance and Audit Committee consider the draft AGS and assurance gathering process in June. The AGS is then audited and Members made aware of the findings of the audit, which enables Governance and Audit Committee Members to make an informed decision when approving the AGS in September.

2.0 The Current Situation

- 2.1 The Annual Governance Statement, which is attached at **Annex 1**, should reflect the corporate governance environment of the council as detailed in the adopted Local Code of Corporate Governance. In essence, the AGS is the formal statement that recognises, records and publishes the council's governance arrangements.
- 2.2 The AGS is a key corporate document, and the Leader and Chief Executive have joint responsibility as signatories for its accuracy and completeness. In order to ensure that the AGS accurately reflects our Governance Framework, a number of sources of assurance were gathered to feed into the preparation of the document (see Annex 1 section 3). Following the approval process it will be formally signed as required.
- 2.3 The Draft AGS came before the Governance and Audit Committee on the 27 June 2012, and was agreed with no recommended changes. This was then provided to the Audit Commission for them to audit.

2.4 An action plan for the 'significant governance issues' identified has been prepared which is attached at **Annex 2**. Following approval of the AGS this action plan will be entered into the performance management system and reported back to this Committee on a regular basis.

3.0 External audit

3.1 The Audit Commission have had the opportunity to audit the Draft AGS and any comments are contained within the Annual Governance Report 2011/2012 which is included as a separate item within the 25 September 2012 Governance and Audit Committee agenda.

4.0 Options

4.1 That Members approve the Annual Governance Statement 2011/2012 and associated action plan.

4.2 That Members do not approve the Annual Governance Statement 2011/2012. This is not recommended as the AGS reinforces the council's governance arrangements.

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 Accounts and Audit Regulations and other accounting guidance requires the council to follow prescribed formats in the completion of the Annual Governance Statement.

5.3 Corporate

5.3.1 The Annual Governance Statement is a corporate document and as such should be owned by all senior officers and members of the authority.

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 approve the AGS will diminish the council's governance arrangements.

6.0 Recommendation(s)

6.1 That Members approve the Annual Governance Statement for 2011/2012 and associated action plan.

7.0 Decision Making Process

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

7.2 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:	Nikki Morris, Business Support and Compliance Manager, DDI 01843 577625
Reporting to:	Barry Mileham, Business Information and Improvement Manager

Annex List

Annex 1	Annual Governance Statement for 2011/2012
Annex 2	Annual Governance Statement 2011/2012 action plan

Background Papers

Title	Details of where to access copy
Completed assurance statements	Through Business Services
Governance Framework and Local Code of Corporate Governance	Through Business Services / Internet / TOM & Members Portal

Corporate Consultation Undertaken

Monitoring Officer	Harvey Patterson, Corporate and Regulatory Services Manager
Finance	Sarah Martin, Financial Services Manager
Legal	Gary Cordes, Legal Services Manager
Communications	Paul Lawes, Corporate Communication Officer

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Annual Governance Statement 2011/12

1.0 SCOPE OF RESPONSIBILITY

- 1.1 Thanet District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Thanet District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Thanet District Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
- 1.3 Thanet District Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Framework Delivering Good Governance in Local Government. A copy of the Local Code is available on our website or can be obtained from the council offices, Cecil Street, Margate, Kent, CT9 1XZ. This statement explains how Thanet District Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of an Annual Governance Statement.

2.0 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Thanet District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Thanet District Council for the year ended 31 March 2012 and up to the date of approval of the Statement of Accounts.

3.0 METHODOLOGY FOR PREPARING THE ANNUAL GOVERNANCE STATEMENT

- 3.1 The Annual Governance Statement is prepared using a method similar to that used in previous years, including:
- Managers providing an assurance statement as to the extent and quality of internal control arrangements operating within their departments for the year. The declaration covers a comprehensive list of those systems and procedures which deliver good governance. Managers are asked to declare any weaknesses in their governance arrangements.
 - Service Managers reviewing the results of those declarations, identifying those issues which are significant or which are common to more than one area and discussing the outcomes with the Portfolio Holder with responsibility for each service area.
 - Assurance statements from the Section 151 Officer, Monitoring Officer and the following key areas: performance management, procurement and risk management identifying any governance issues that have arisen and should be addressed in the forthcoming year.

- Statements from the shared service partners we work with on compliance with the governance arrangements in place.
- Reviewing the annual reports from Governance and Audit Committee, Overview and Scrutiny Panel and Standards Committee.
- Considering the Internal Audit Annual Report, and also the Section 151 Officer's report on the effectiveness of the internal audit arrangements in place.
- The council's Governance and Audit Committee considers the draft statement in June and is afforded the opportunity to give its input to the statement and to consider whether it accurately reflects the council's control environment.
- The Governance and Audit Committee approves the Annual Governance Statement in September and it is signed off by the Chief Executive / Section 151 Officer and Leader of the Council.

4.0 THE GOVERNANCE FRAMEWORK

4.1 There are a number of key elements to the systems and processes that comprise the council's governance arrangements, which are set out below.

4.1.1 There is a clear vision of the council's purpose and intended outcomes for citizens and service users that is clearly communicated.

- The Vision for Thanet was adopted by Council in July 2009. This document sets out the future plans for what Thanet will look and be like in 2030. It was consulted on widely with staff and members, the residents' panel, partners and stakeholders.
- The council identified and communicated its aims and ambitions for Thanet for 2011 - 2012 through an Interim Corporate Plan. In April 2012 a new Corporate Plan was approved setting out the council's aims and objectives for the next four years and contains eleven priorities which will be supported by operational plans.

4.1.2 Arrangements are in place to review the council's vision and its implications for the council's governance arrangements.

- The Corporate Plan will be reviewed annually to take into account progress against the eleven priorities and outcomes of the annual budget setting process. Each review will evaluate and determine if there are any implications for the council's governance arrangements with appropriate amendments being made as necessary.

4.1.3 Arrangements exist for measuring the quality of services, for ensuring there are delivered in accordance with the council's objectives and for ensuring that they represent the best use of resources.

- Performance progress is tracked through monthly monitoring of key performance indicators, service tasks and projects. Progress against the council's Corporate Plan is reported quarterly to Cabinet. Additionally, monthly service reports summarise all key projects, tasks and performance measures specific to each service. The performance framework is operated on PerformancePlus™, a performance management system.

4.1.4 The roles and responsibilities of the executive, non-executive, scrutiny and officer functions are clearly defined, with clear delegation arrangement and protocols for effective communication.

- Roles and responsibilities for Cabinet, Council, Overview and Scrutiny and all committees of the council, along with officer functions are defined and documented, with clear delegation arrangements and protocols for effective communication within the council's Constitution. The Constitution is regularly reviewed and updated.

- 4.1.5 Codes of conduct defining the standards of behaviour for members and officers are in place, conform to appropriate ethical standards, and are communicated and embedded across the council.
- Codes of conduct defining the standards of behaviour for members, staff, our partners and the community have been developed and communicated and are available on the council's website and intranet site, Thanet Online Matters (TOM). These include Members' Code of Conduct, Code of Conduct for Staff, Anti-fraud and Corruption Policy, member and officer protocols and regular performance appraisals linked to service and corporate objectives.
- 4.1.6 Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks.
- The council has established policies and procedures to govern its operations. Key within these are the Financial Procedure Rules, Procurement Strategy and Contract Standing Orders, Risk Management Strategy, Codes of Conduct for Members and Officers, Anti-Fraud and Corruption Policy, Anti-Bribery Policy, Whistleblowing Code and Human Resources policies. Ensuring compliance with these policies is the responsibility of everyone throughout the council. These key controls are subject to periodic review, including that by Internal Audit, and are updated to ensure that they are relevant to the needs of the organisation.
 - Contract Standing Orders set out the rules governing the procurement process to ensure that value for money is achieved whilst meeting all legal and statutory requirements and minimising the risk of fraud or corruption. The council's Procurement Strategy is a high level view of how to promote effective procurement across the whole organisation. It outlines what good procurement means in Thanet and details the supporting framework. This Strategy is underpinned by the Procurement Code of Practice which is a step-by-step guide for all purchasing activities providing information, advice and guidance for officers responsible for spending the council's money.
 - A risk management framework has been in place across the council for some years with the objective of embedding effective risk management practices at both strategic and operational levels. The Risk Management Strategy and Process documents are reviewed on an annual basis and approved by the Governance and Audit Committee.
- 4.1.7 The council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- The council's financial management arrangements conform to CIPFA standards. The Chief Executive (Section 151 Officer) has statutory responsibility for the proper management of the council's finances and is the chair of the Senior Management Team (SMT). The management of the council's finances within departments is devolved to service managers through the Scheme of Delegation for Financial Authority and Accountability. Service managers further devolve decision making to managers and business unit managers through departmental schemes of management.
 - The Financial Services Team provide detailed finance protocols, procedures, guidance and training for managers and staff. The structure of the Financial Services Team ensures segregation of duties and all committee reports are reviewed by the appropriate Financial Services staff.

- The internal audit function is an independent appraisal process and for this council is provided by the East Kent Audit Partnership, who have direct access to members. They undertake reviews which provide management with a level of assurance on the adequacy of internal controls and of risks to the council's functions / systems. They give sound objectivity as well as benefiting from a large resource-pool which brings with it a good level of robustness. Throughout the year, the internal auditors have performed a wide range of reviews covering both financial matters and other more service / output specific objectives, including value for money assessments. The conclusion is a report that is produced for management, which includes an assessment of the level of assurance that can be derived from the system of internal controls related to the service that is reviewed.

4.1.8 The core functions of an audit committee are undertaken.

- The role of the Governance and Audit Committee is set out in the Constitution and one of its key roles is to provide independent assurance of the adequacy of the risk management framework and the associated control environment. It is a committee comprising nine council members independent of the executive, and oversees the internal audit function and considers all relevant reports of the external auditor.
- The terms of reference for the Governance and Audit Committee are prepared in line with 'CIPFA's Audit Committees – Practical Guidance for Local Authorities' and are reviewed annually whilst undertaking the self assessment into the committee's effectiveness and achievements against its terms of reference.

4.1.9 Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

- The council has in place a Monitoring Officer and Deputy Monitoring Officer. The Monitoring Officer has a duty to report on any actual or likely decision which would result in an unlawful act or maladministration. All decisions to be taken by members are supported by a legal assessment provided by the appropriate officer.
- The council has in place a Responsible Finance Officer and Deputy under Section 151 of the Local Government Act 1972. This role ensures lawfulness and financial prudence of decision making, has responsibility for the administration of the financial affairs of the council and provides advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues.

4.1.10 Arrangements for whistleblowing and for receiving and investigating complaints from the public are in place and well publicised.

- The council has in place a Whistleblowing Code whereby staff and others can report concerns about various sorts of wrongdoing or alleged impropriety. The Whistleblowing Code was approved by Governance and Audit Committee, as part of the council's Anti-Fraud and Corruption Policy. The Code is available on the website and is also proactively communicated to those contracting with the council.
- Thanet District Council wants to provide the best service it can to the community and has a Customer Feedback process in place, which includes complaints, compliments, service requests, member contact and comments. Service improvements take place as a direct result of customer feedback received and are published on the council's website and Members' Portal.

4.1.11 Arrangements exist for identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.

- Member Briefing sessions are programmed on a quarterly basis to ensure that members are properly equipped to effectively fulfil their responsibilities in the governance of the council's operations.

- As part of the annual appraisal process, training and development needs of staff are identified and a development plan is drawn up to meet those needs.
 - Following a major restructure, the council is developing a new culture change programme, which is supported by all of the SMT. This programme will enable a greater focus on organisational development, service development and performance management.
- 4.1.12 Clear channels of communication with all sections of the community and other stakeholders are in place, ensuring accountability and encouraging open consultation.
- The council has increased the level of community input into its decision making processes by increasing the number and variety of opportunities made available to the community. This includes online conversations and feedback as well as focus groups, workshops and the more traditional methods such as postal questionnaires. Although in recent months a greater emphasis has been placed on online consultation and social media.
 - The council has a well-established and effective consultation function which includes a wide range of consultation methods to ensure that as many groups and individuals as possible are able to participate. Before undertaking any consultation or communication, action plans are completed by the Corporate Communications Officers to detail exactly how key groups will be targeted. The council delivers an extensive programme of consultations throughout the year.
 - The council also regularly communicates and consults with residents online via the council website through social media such as Twitter and Facebook, through local press, via secondary and primary schools, through local forums and organisations and also through the Thanet wide communications database. This database is made up of residents across Thanet who have registered an interest in being kept up to date with any new council projects, campaigns and consultations.
- 4.1.13 Governance arrangements in respect of partnerships and other group working incorporate good practice and are reflected in the council's overall governance arrangements.
- Partnership working is governed by agreements, protocols or memoranda of understanding relevant to the type of work or relationship involved. The council's Contracts and Partnership Relationship Manager ensures that all are fit for purpose and the council's interests are protected.

5.0 REVIEW OF EFFECTIVENESS

- 5.1 Thanet District Council has responsibility for conducting, at least annually, a review of effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the East Kent Audit Partnership's annual report, and also by comments made by the Audit Commission and other review agencies and inspectorates.
- 5.2 The process that has been applied by the council in maintaining and reviewing the effectiveness of the governance framework, includes the following:
- 5.2.1 The Authority
- The council's internal management processes are reviewed regularly and any changes or updates are communicated through staff development sessions and any management training that is undertaken.

5.2.2 The Cabinet

- The Cabinet is responsible for the majority of the functions of the authority, within the budget and policy framework set by Full Council. Executive decisions can be taken by the Cabinet and Cabinet Members acting under delegated powers, depending upon the significance of the decision being made.
- The Forward Plan lists the key decisions to be taken by Cabinet over the forthcoming four months. The plan is updated around the middle of each month to take effect from the 1st of the following month.

5.2.3 The Governance and Audit Committee

- The council has an established Governance and Audit Committee, which is independent of the executive function of the council, and is responsible for overseeing internal and external audit, risk management processes and reviewing the adequacy of internal controls.

5.2.4 The Overview and Scrutiny Panel

- The Overview and Scrutiny Panel consists of 15 non-executive members and is appointed on a proportional basis, with political groups represented in the same proportion as on Full Council. It does not have any decision-making powers, but monitors the performance of the Leader and Cabinet and scrutinises services and policies throughout the district (both member and officer).

5.2.5 The Standards Committee

- The Standards Committee is established by Full Council and is responsible for promoting and maintaining high standards of conduct amongst councillors. In particular, it is responsible for advising the council on the adoption and revision of the Members' Code of Conduct and for monitoring the operation of the Code.

5.2.6 The Chief Financial Officer

- The role of the Chief Financial Officer is a fundamental building block of good corporate governance. The two critical aspects of the role are stewardship and probity in the use of resources; and performance, extracting the most value from the use of those resources.

5.2.7 The Monitoring Officer

- The Monitoring Officer has a duty to keep under review the operation of the Constitution to ensure it is lawful, up to date and fit for purpose.

5.2.8 The internal audit function

- The internal audit function is undertaken by the East Kent Audit Partnership, which provides this service to not only Thanet District Council but also Dover and Shepway District Councils, and Canterbury City Council. Internal audit is an independent appraisal function, which seeks to provide management with a level of assurance on the adequacy of internal controls and of risks to the council's functions / systems.

6.0 INTERNAL AUDIT STATEMENT

- 6.1 During 2011/12 the Internal Auditors completed 334.79 days of review, which was spent undertaking 24 audits. Of these 10 were assessed as being able to offer substantial levels of assurance; 7 reasonable assurance; 2 limited assurance and one was found to have a partial 'no' assurance. 4 audits on quarterly housing benefit testing, and other topics did not merit an assurance level and there were no audits at work in progress stage at year-end. Taken together 85% of the reviews accounted for substantial or reasonable assurance, whilst 15% of reviews placed a limited or partially no assurance to management on the system of internal control in operation at the time of the review.
- 6.2 Additional work outside of these percentages includes work in progress at the year-end or work not giving rise to an assurance. Where appropriate, the audit report provides management with a set of recommendations that are designed to address weaknesses in the system of internal control. The outcomes of these internal audit reviews are reported to the Governance and Audit Committee on a quarterly basis, giving members an opportunity to understand the council's compliance with key controls and to discuss any areas of concern with the Auditors.
- 6.3 The council has very high levels of assurance in respect of all of its main financial systems and the majority of its governance arrangements. Almost all of the main financial systems, which feed into the production of the council's Financial Statements, have achieved a substantial assurance level following audit reviews. The council can therefore be very assured in these areas.
- 6.4 In contrast, the areas where improvement is required and which are considered to be the primary areas of concern arising from 2011/12 audits are:
- Homelessness – Partial No Assurance.
 - Payroll – Partial Limited Assurance;
- 6.5 Each of these areas is due to be followed up early in the 2012-13 plan of work. Consequently there is nothing of significant concern that needs to be escalated at this time.

7.0 IMPROVEMENTS DURING THE YEAR

- 7.1 Restructure
- Faced with dramatic reductions in available resources, all publicly funded organisations had to look at what they spend their money on and whether it represented good value for money. The council undertook a comprehensive and thorough review of how, what and why services are provided. From this work it became clear that different ways of working were needed for the council to be able to target its reducing resources to its priorities and to seek and achieve maximum value for money for the tax payers of Thanet. A comprehensive restructure commenced at the beginning of the 2011/12 to achieve this objective.
- 7.2 Corporate Plan 2012-16
- Following on from the council's Interim Corporate Plan for 2011-12, a major new document, setting out what the council aims to achieve over the next four years, has been agreed. The development of the Corporate Plan for 2012-16 began under the council's previous Conservative administration who decided to make it much more strategic than previous plans. This work was continued by the Labour group, who took control of the council in December 2011. Independent councillors were also consulted on the draft plan.
 - The document was also shaped by the results of the Putting U in the budget consultation, in which 76% of those who responded said that feeling safe from crime and anti-social behaviour was a key priority for them. This was followed by 67% who chose clean streets as a priority, with job prospects the third most popular choice, selected by 47% of respondents. Each of these priorities are reflected in the proposed Corporate Plan.

- The plan contains a total of 11 priorities for the council:
 1. to support the growth of our economy and the number of people in work
 2. to tackle disadvantage across our district
 3. to support our community and voluntary organisations
 4. to make our district a safer place to live
 5. to work to improve parking and transportation in our district
 6. to make our district cleaner and greener and lead by example on environmental issues
 7. to plan for the right number and type of homes in the right place (with appropriate tenure) to create sustainable communities in the future

 8. to support excellent and diverse cultural facilities and activities for our residents and visitors
 9. to support a broad range of sports, leisure and coastal activities
 10. to influence the work of other agencies to ensure the best outcomes for Thanet
 11. to protect and preserve our public open spaces
- This strategic document will be complemented by service plans which will set out specific goals and targets for completion each year.

7.3 Financial Procedure Rules

- In April 2011 the Financial Procedure Rules for the council were reviewed and communicated across the organisation. Financial management covers all financial accountabilities in relation to the running of the council including the policy framework and budget. The Financial Procedure Rules are a set of regulations which provide the framework for managing the council's financial affairs. They identify the financial responsibilities of Full Council, the Cabinet, the Section 151 Officer, second tier Service Managers and other employees. They apply to every member and officer of the council, and anyone acting on the council's behalf.

7.4 Budget Manager's Handbook

- The Budget Manager's Handbook was introduced in April 2011 to assist officers in their role as a budget manager. It outlines the budget management responsibilities and gives some background information to help carry out these responsibilities.
- The Accountants provide support to officers. Regular drop-in surgeries were set up for additional training or to talk through finance related problems. Finance also hold regular Budget Managers Forums which all budget managers are required to attend. Topical issues are discussed at these forums and also include an element of refresher training. Finance will also organise more specific training where required.

7.5 Anti-bribery policy

- The Anti-bribery policy and procedures were communicated to everyone within the council in June 2011. These provide a coherent and consistent framework to enable the council's members and employees understand and implement arrangements enabling compliance. In conjunction with related policies and key documents, it will also enable members and employees to identify and effectively report a potential breach.

7.6 Staff Declarations of Interest

- Council employees must give notice in writing of any financial or non-financial interests which are clear and substantial and which could bring about a conflict with the Authority's interests. The council's corporate process was reviewed and updated in November 2011 and communicated through the intranet. A register of Declarations of Interest recorded by officers of Thanet District Council is kept in the Monitoring Officer's office.

7.7 Risk Management Strategy and Process

- Risk management in Thanet District Council is about improving our ability to deliver our objectives by managing our threats, enhancing our opportunities and creating an environment that adds value to ongoing activities. The council's Risk Management Strategy and Process documents were reviewed and the amendments agreed by the Governance and Audit Committee at its September 2011 meeting.

7.8 Gifts and Hospitality

- As employees in the public service, officers should question the need for gifts or hospitality. A member of the public would rightly be suspicious of any employee who received gifts or excessive hospitality in the course of their normal working relationship. Again, the council's process was reviewed in November 2011. A register of all gifts and hospitality recorded by Officers of Thanet District Council is kept in the Monitoring Officer's office.

7.9 Data protection training

- The corporate Data Protection policy and procedures were launched in November 2011. Thanet District Council must ensure all personal information is processed in accordance with the Data Protection Act 1998. The policy explains how members and officers are expected to comply with the Act. The council must comply with this policy to ensure the Data Protection Act is not breached. Any breach of the Act has serious consequences for the organisation and its customers.

7.10 Local Code of Corporate Governance and Governance Framework

- Good management, good performance and good financial controls all lead to good governance, and enable the council to engage with the public and ultimately demonstrate good outcomes for the community. The council pursues its ambitions as set out in the Corporate Plan effectively, whilst demonstrating our governance principles and management processes through the Local Code of Corporate Governance. Each year the Governance Framework and the Local Code are reviewed to ensure they are fit for purpose, and are agreed by the Governance and Audit Committee.

7.11 External Funding Protocol

- At the December 2011 meeting of the Governance and Audit Committee, a presentation was given by the Financial Services Manager on the revised External Funding Protocol. This was also shared with staff council on TOM, the intranet site.
- External funding is an important source of income to the council, but funding conditions need to be carefully considered to ensure that they are compatible with the aims and objectives of the council. Grants provided by the council help to deliver corporate priorities and outcomes, but it is important that these grants are managed responsibly and offer value for money. There is a need for a protocol that standardises processes relating to external funding and the payment of grants to ensure consistency and clarity and to protect the council from unidentified risks.

7.12 i-Net

- The Improvement Forum group was reviewed to ascertain if it was still fit for purpose and how to move forward with the improvement programme over the next year. Considering outcomes as well as officer and SMT feedback, a proposal was agreed to disband the group and widen the focus on improvement to the entire organisation (in line with the culture change programme), through an on-line and physical suggestion scheme as well as informal drop-in sessions to discuss hot topics of the day. This was launched in March 2012 as i-NET and ideas for improvement are submitted then passed to SMT to provide strategic direction on how to take them forward. In addition, requests for IT project work will also use this mechanism to ensure a more holistic approach to improvement activities across the council.

8.0 ANNUAL REPORTS - GOVERNANCE AND AUDIT COMMITTEE, OVERVIEW AND SCRUTINY PANEL AND STANDARDS COMMITTEE

- 8.1 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. Detailed below are improvements that were identified through this process.
- 8.1.1 Should there be a change to the committee's membership during a committee cycle, new members should be given an induction prior to attendance at their first meeting. At the beginning of each new committee cycle, all members of the committee should be given a refresher/induction on the roles and responsibilities of the Governance and Audit Committee.
- 8.1.2 Investigate ways of reminding managers of the importance of completing the customer feedback questionnaires following an internal audit.
- 8.1.3 During the self assessment, the Terms of Reference for the committee were reviewed and three changes were recommended which should enable improvements to the assurance process provided by the Governance and Audit Committee on the council's governance arrangements.
- 8.1.4 Investigate ways of ensuring that member substitutes are adequately aware of the committee's roles and responsibilities to ensure that the committee can reasonably achieve against its Terms of Reference.
- 8.2 Thanet District Council's Overview and Scrutiny Panel is entitled to make an annual report to the Annual Meeting of Council. The report summarises the key achievements of the Overview and Scrutiny Panel during 2011/12 and indicates the panel's suggested priorities for 2012/13. Going forward into 2012/13 the following actions are required:
- 8.2.1 The panel need to work on reviewing Working Parties' terms of reference to reflect any changes to the work allocated to them. Members need to ensure that any sub committees created by the panel in 2012/13 have clearly defined terms of reference.
- 8.2.2 Since a number of Working Parties had little success to report on for 2011/12, this might be an opportune time to reflect on the approach for setting up sub committees for the panel.
- 8.2.3 The annual meeting of the panel establishes the Overview and Scrutiny Panel's work programme for 2012/13. Any new Working Parties that have their terms of reference set out by the panel will need to consider how the work programme could best be accomplished.
- 8.2.4 The panel may wish to identify any members' training needs in relation to overview and scrutiny, determine training strategies and facilitate training for panel members in order to improve their contribution to the scrutiny process. Any identified training needs could be included in the council wide Member Learning & Development Programme for 2012/13.
- 8.3 The annual report of the Standards Committee summarises the work of the committee for the year and provides assurance that the Standards Committee and its sub-committees during 2011 were complying with their statutory responsibilities. The conclusion from the annual report is given below:
- 8.3.1 It is anticipated that the new standards regime will come into force on 1 July 2012. The committee is aware that its current composition will not survive the changes brought in by the Localism Act 2011. The committee is mindful of new requirements for a different style of Standards Committee. The committee still has a role to play in recommending to the council a new Code of Conduct and how it considers arrangements which are required to be put in place under the Localism Act will work. It is hoped that this report will provide a benchmark between the current and future system.

9.0 SIGNIFICANT GOVERNANCE ISSUES

9.1 The identified areas detailed below have arisen from our numerous assessments into the council's governance arrangements for 2011/12 and have been deemed to be significant by SMT and will be addressed during 2012/13.

9.2 An action plan will be compiled and regularly reported to the Governance and Audit Committee. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

9.3 Identified issues are:

9.3.1 Staff related

- Staff turnover reports were not available from the I-Trent system. A key indicators report is scheduled to be developed during 2012/13 for all Districts.
- The operation and adequacy of corporate induction arrangements should be reviewed during 2012/13.
- There appears to be growing incidents of officers working long hours, which is exacerbated by staff reductions and a lack of alignment of workloads. This includes attendance at evening meetings.

9.3.2 Corporate processes

- The action to review corporate business continuity processes and plans needs to be completed in 2012, and individual service plans need to be reviewed and brought up to date as part of this.
- The council has introduced new health and safety procedures during the year, although preparing and updating appropriate risk assessments remains an area for further development. The introduction of health and safety maps for each service assists with these, but there has still to be a shift in culture across the council that sees the approach to risk being embedded with managers and staff.
- Although training has been provided on the public service equality duty and guidance circulated, this is still an area for further development across the council in 2012. As budget reductions continue, the potentially disproportionate impact on protected groups remains a significant issue. Senior management will need to ensure that staff at all levels are developed in this area.

9.3.3 Major projects

- The council is involved in a number of projects and initiatives that are complex in nature, carry the risk of a great financial loss, of a high value or dependant upon working with partners to achieve. There also appears an ease at which new projects are added to work plans.

9.3.4 Corporate issues

- There is a continued need to ensure there is a common platform for corporate standards and codes between the council and its shared service partners to ensure compliance with good governance arrangements.
- The political instability of a hung council requires greater detail in support of individual decisions.

10.0 ASSURANCE SUMMARY

- 10.1 Good governance is about running things properly. It is the means by which the council shows it is taking decisions for the good of the people of the area, in a fair, equitable and open way. It also requires standards of behaviour that support good decision making – collective and individual integrity, openness and honesty. It is the foundation for the delivery of good quality services that meet all local people's needs. It is fundamental to showing that public money is well spent. Without good governance, councils will struggle to improve services.
- 10.2 From the review, assessment and monitoring work undertaken and supported by the ongoing work undertaken by Internal Audit, we have reached the opinion that, overall, key systems are operating soundly and that there are no fundamental control weaknesses.
- 10.3 We can confirm, to the best of our knowledge and belief, and there having been appropriate enquiries made, that this statement provides an accurate and fair view.

Signed by:
Councillor Clive Hart
Leader of the Council
by the 30 September 2012

Signed by:
Dr Sue McGonigal
Chief Executive & Chief Financial Officer
by the 30 September 2012

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Annual Governance Statement 2011/12 action plan

Issue identified	Action owner	Action to be taken	On CRR	Start date	Due date
Staff related					
Staff turnover reports are not available from the I-Trent system. A key indicators report is scheduled to be developed during 2012/13 for all Districts.	Karen Paton	EKHR Partnership to report Workforce Information through Performance Board, including turnover.	No	Jul-12	Mar-13
The operation and adequacy of corporate induction arrangements should be reviewed during 2012/13.	Sarah Carroll	Undertake a review of the current induction process and toolkit, for managers to deploy.	No	Aug-12	Dec-13
There appears to be growing incidents of officers working long hours, which is exacerbated by staff reductions and a lack of alignment of workloads. This includes attendance at evening meetings	Juli Oliver-Smith	Regular review of sickness absence data by Performance Board.	Yes	Sep-12	Mar-13
	Philip Hamberger	Review officer attendance at evening meetings and staff working patterns and draw up an action plan for way forward.		Sep-12	Mar-13
	Mark Seed	Stress Audit being undertaken to inform an improvement plan - to be monitored through the Health and Safety Committee		Jul-12	Mar-13
Corporate processes					
The action to review corporate business continuity processes and plans needs to be completed in 2012, and individual service plans need to be reviewed and brought up to date as part of this.	Paul Morgan	Review and consolidation of business continuity plans progressing with due date as Service Plan 2012-13	Yes	Apr-12	Mar-13
The council has introduced new health and safety procedures during the year, although preparing and updating appropriate risk assessments remains an area for further development. The introduction of health and safety maps for each service assists with these, but there has still to be a shift in culture across the council that sees the approach to risk being embedded with managers and staff.	Mark Seed	The embedding of H&S actions is being monitored by the H&S committee, but is also subject to a recent follow-up audit that will come to the next meeting of the H&S Committee. In addition, it is proposed to have an annual H&S week to coincide with the European Safety Week, and this will provide an opportunity on top of normal systems to encourage managers to undertake or revise risk assessments.	Yes	Jul-12	Mar-13
Although training has been provided on the public service equality duty and guidance circulated, this is still an area for further development across the council in 2012. As budget reductions continue, the potentially disproportionate impact on protected groups remains a significant issue. Senior management will need to ensure that staff at all levels are developed in this area.	Sarah Carroll	Toolkit developed to provide guidance to staff in requirement of Public Sector Equality Duty, needs communicating through Staff Development and Managers Exchange.	Yes	Sep-12	Dec-
		Framework for progressing Equalities to be reviewed, including resources.		Aug-12	Oct-13

Issue identified	Action owner	Action to be taken	On CRR	Start date	Due date
Major projects					
The council is involved in a number of projects and initiatives that are complex in nature, carry the risk of a great financial loss, of a high value or dependant upon working with partners to achieve. There also appears an ease at which new projects are added to work plans.	Sarah Martin	Management Accountants working very closely with services as business partners to gain a full understanding of projects / initiatives and financial impacts.		Aug-12	Mar-13
		Performance Board regularly review performance against corporate, service plan and project targets.		Aug-12	Mar-13
Corporate issues					
The political instability of a hung council requires greater detail in support of individual decisions.	Sue McGonigal	Senior Officers have been reminded of the need to be thorough when drafting reports, so that all pertinent information is presented to Cabinet, Council and Committees. In addition, decision notices completed for Cabinet member decisions will, in future, be accompanied with the same level of detail and calibre of information that would ordinarily be provided in a formal report. Senior Officers have been tasked with ensuring that managers within their services are made aware of this. The quality of reports will be monitored over the course of the next 12 months to identify any training needs arising or areas for further improvement.	No	Jul-12	Jul-13
There is a continued need to ensure there is a common platform for corporate standards and codes between the council and it's shared service partners to ensure compliance with good governance arrangements.	Karen Paton	Regular update of evolving and changes to TDC standards/code will continue via scheduled EKS/EKHR Client meetings including agreeing arrangements for shared service staff training as deemed necessary to the requirement and to the same level afforded TDC staff.	Yes	Jul-12	Mar-13

QUARTERLY GOVERNANCE PROGRESS REPORT

To: **Governance and Audit Committee – 25 September 2012**

Main Portfolio Area: **Business Services**

By: **Business Support and Compliance Manager**

Classification: **Unrestricted**

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

For Information and Decision

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 (CRR)
- 2.2 Risk Management Strategy and Process annual review

2.0 The Current Situation

2.1 Corporate risk register

2.1.1 Following the discussion in connection with the Corporate Risk Register at the June Governance and Audit Committee, the CRR has been reviewed by the Senior Management Team.

2.1.2 Attached at **annex 1** is a copy of the CRR. 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.

2.2 Risk Management Strategy and Process - annual review

2.2.1 The current Risk Management Strategy (Version 8), was agreed by Governance and Audit Committee (29 September 2011) and Cabinet (17 November 2011). The Risk Management Process (Version 5) was agreed by Governance and Audit Committee also on the 29 September 2011. Both documents are available on the Internet, Intranet and Members Portal.

2.2.2 A review has taken place of both the Strategy and Process documents and there are only some minor changes recommended at this time, which are shown as track changes on the attached documents. (Risk Management Strategy – Version 9 at **Annex 2** and Risk Management Process – Version 6 at **Annex 3**).

3.0 Options

3.1 That Members note annex 1 and approve the changes to the Risk Management Strategy (annex 2) and Process (annex 3) documents and recommend that the Strategy be sent to the 8 November 2012 Cabinet for approval.

3.2 That Members make any further recommended changes to the Risk Management Strategy and Process documents.

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 Risk Management Strategy and Process documents will assist the council in providing the processes necessary to manage risk and therefore aid in achieving its objectives.

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 approve the changes to the Risk Management Strategy and Process documents and recommend that the Strategy be sent to the 17 November 2011 Cabinet for approval.

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.

Contact Officer:	Nikki Morris, Business Support and Compliance Manager, DDI 01843 577625
Reporting to:	Barry Mileham, Business Information and Improvement Manager, DDI 01843 577620

Annex List

Annex 1	Corporate Risk Register
Annex 2	Risk Management Strategy (Version 9)
Annex 3	Risk Management Process (Version 6)

Corporate Consultation Undertaken

Finance	Sarah Martin, Financial Services Manager
Legal	Gary Cordes, Legal Services Manager
Communications	Paul Lawes, Corporate Communication Officer

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
RI001 Review frequency: Half-yearly Risk Status: Treat Page 85	The Council relies on staff consistently working for longer than their contracted hours.	Increasingly due to staff numbers having reduced to make budget savings.	<ul style="list-style-type: none"> * Increased sickness absence * Increased levels of overtime request * Potential health and safety issues * Breach of contract * Impact on service delivery * Staff dissatisfaction * Recruitment and retention issues * Impact on VFM 	Sarah Carroll	9 P(3) I(3)	9 P(3) I(3)	RI001.04 Report workforce information through Performance Board to identify issues and trends <i>In Progress (15% complete)</i> Target date: 31-Mar-13 Review frequency: Quarterly RI001.06 Prepare and deliver improvement programme informed by feedback <i>In Progress (10% complete)</i> Target date: 31-Mar-14 Review frequency: Quarterly RI001.08 Use stress audit to inform an improvement plan <i>Approved (0% complete)</i> Target date: 31-Dec-12 Review frequency: Quarterly	Karen Paton Barry Mileham Mark Seed	4 P(2) I(2)

Annex 1
Agenda Item 11

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
<p>RI005</p> <p>Review frequency: Annually</p> <p>Risk Status: Treat</p>	<p>* The Council is involved in a number of partnerships including a shared services programme with other LAs, 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>* Partners financial difficulties</p> <p>* Partners political difficulties</p> <p>* Partners dissatisfied with performance/quality of service</p> <p>* Non-compliance with Equality Act and PSED by partners and third party providers.</p>	<p>* Shared service programme fails to deliver effectively to improve services and save money in shared areas - for example, TDC invests more time and resource into partnerships than the benefit received.</p> <p>* Council invests more time and resource into partnerships than the benefit received</p> <p>* Breach of a main statutory responsibility</p> <p>* Lack of DPA compliance by other shared service authorities when using TDC personal data puts TDC at risk of breach of DPA with attendant risk of ICO penalty up to £500,000</p> <p>* Do not have capacity within resources to ensure compliance</p> <p>* Disinvestment in partnerships</p> <p>* Failing to make reasonable adjustments</p> <p>* Partnership arrangements providing inaccessible services and/or failure to respond appropriately to access complaints</p> <p>* Exhibiting discriminatory practices contrary to Equality Act & PSED requirements</p> <p>* Making non-compliant business/service decisions</p> <p>* Partner(s) decide to withdraw from a shared service</p>	<p>* Financial loss, wasted resources, or loss of funding</p> <p>* Additional financial responsibilities for remaining partners</p> <p>* Effort expended on other / lower priorities</p> <p>* Inability to meet targets</p> <p>* Reduction of service quality/performance</p> <p>* Differing priorities - so effort is expended on other/lower priorities</p> <p>* Expend extra effort to manage partnership arrangements</p> <p>* Dissatisfaction/Frustration and loss of confidence</p> <p>* Need to unwind and reverse strategic direction</p> <p>* Failure of statutory responsibilities</p> <p>* Partners direction changes adversely</p> <p>* Unitary model imposed</p> <p>* Political unrest</p> <p>* Differing priorities</p> <p>* Direction of partnership changes</p> <p>* Withdrawal of partners</p> <p>* Expend extra effort to manage partnership arrangements</p> <p>* Legal costs</p> <p>* Cancellation of projects</p> <p>* Governance issues arising from unclear partnership agreements and lack of exit strategy</p>	Karen Paton	<p>9</p> <p>P(3) I(3)</p>	<p>12</p> <p>P(3) I(4)</p>	<p>RI005.02 Maintain clientside capacity for effective partnership management</p> <p><i>In Progress (80% complete)</i></p> <p>Target date: 31-Mar-13</p> <p>Review frequency: Half yearly</p> <p>RI005.03 Review governance arrangements & monitoring after transfer of HR to EK Services</p> <p><i>In Progress (5% complete)</i></p> <p>Target date: 31-Oct-12</p> <p>Review frequency: Quarterly</p> <p>RI005.06 Donna Reed to attend Senior Management Team and Managers Exchange</p> <p><i>Implemented</i></p> <p>Target date: 31-Mar-13</p> <p>Review frequency: Half yearly</p> <p>RI005.07 On-going work at CEx level for increasing partnership working</p> <p><i>In Progress (75% complete)</i></p> <p>Target date: 31-Mar-13</p> <p>Review frequency: Half yearly</p> <p>RI005.08 Use the performance management process to monitor the achievements of partnerships</p>	<p>Sophie Chadwick</p> <p>Sophie Chadwick</p> <p>Sue McGonigal</p> <p>Sue McGonigal</p> <p>Sophie Chadwick</p>	<p>3</p> <p>P(1) I(3)</p>

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
Page 87							<p><i>In Progress (75% complete)</i> Target date: 31-Mar-13 Review frequency: Half yearly</p>		
							<p>RI005.09 Record the governance arrangements and agreed benefits / purpose of partnerships <i>In Progress (40% complete)</i> Target date: 31-Mar-13 Review frequency: Annually</p>	Sophie Chadwick	
							<p>RI005.10 Request outline business case to be produced to highlight resource requirements up front <i>Implemented</i> Target date: 30-Sep-12 Review frequency: Monthly</p>	Sarah Carroll	
							<p>RI005.11 Write procurement strategy to be reviewed annually <i>In Progress (30% complete)</i> Target date: 31-Mar-13 Review frequency: Annually</p>	Karen Paton	
							<p>RI005.12 Contract/ partnership management to ensure arrangements for compliance PSED & Equality Act <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Annually</p>	Sophie Chadwick	

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
Page 88							<p>RI005.13 Ensure all staff know about compliance with Equality duty <i>In Progress (50% complete)</i> Target date: 31-Mar-13 Review frequency: Half yearly</p>	Sophie Chadwick	
							<p>RI005.14 Continued attendance at East Kent Chief Exec forum <i>In Progress (50% complete)</i> Target date: 31-Mar-13 Review frequency: Half yearly</p>	Sue McGonigal	
							<p>RI005.15 Continued client side meetings <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Annually</p>	Sophie Chadwick	
							<p>RI005.16 Undertake annual review of partnering for sensitivity and risk <i>In Progress (50% complete)</i> Target date: 31-Mar-13 Review frequency: Annually</p>	Sophie Chadwick	
							<p>RI005.17 Refresh Partnership Framework and update Partnership Register <i>In Progress (20% complete)</i> Target date: 31-Mar-13 Review frequency: Annually</p>	Sophie Chadwick	

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
RI007 Review frequency: Half-yearly Risk Status: Treat	With the need for the Council to reduce expenditure, and amend processes as a result of this, there is an increased likelihood of industrial action.	* Failure to follow agreed industrial relations consultation mechanism * Lack of compliance with agreed processes for staffing issues * Challenge to business decisions by staff * Increase in applications to Employment Tribunals	* Worsening employee/ industrial relations * Damage to Reputation * Financial Cost * Political controversy	Karen Paton	6 P(3) I(2)	6 P(3) I(2)	RI007.01 Robust HR policies and procedures <i>In Progress (80% complete)</i> Target date: 31-Mar-13 Review frequency: Annually	Karen Paton	4 P(2) I(2)
							RI007.02 Performance monitoring of workforce information <i>In Progress (15% complete)</i> Target date: 31-Mar-13 Review frequency: Quarterly	Karen Paton	
							RI007.03 Culture Change Programme <i>In Progress (50% complete)</i> Target date: 31-Mar-13 Review frequency: Quarterly	Barry Mileham	
							RI007.04 Ongoing Employee Council forum meetings <i>Implemented</i> Target date: 31-Mar-12 Review frequency: Annually	Sarah Carroll	
							RI007.05 Learning & Development programme <i>In Progress (20% complete)</i> Target date: 31-Mar-13 Review frequency: Quarterly	Barry Mileham	
							RI007.06 Management Development programme	Barry Mileham	

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
							<i>In Progress (50% complete)</i> Target date: 31-Mar-13 Review frequency: Quarterly		
RI008 Review frequency: Half-yearly Risk Status: Treat	Health and safety procedures are not followed.	Member of staff injured undertaking Council duties	* Possible corporate manslaughter * Failure of statutory requirements * Insurance claim against the Council * Loss of reputation * Adverse media * Financial/ reputational loss due to change in HSE requirements	Mark Seed	9 P(3) I(3)	6 P(2) I(3)	RI008.01 Use Health and Safety weeks to improve knowledge <i>In Progress (20% complete)</i> Target date: 31-Dec-13 Review frequency: Half yearly RI008.02 Liaise with EKHRP to review H&S risk assessment process <i>In Progress (75% complete)</i> Target date: 31-Mar-13 Review frequency: Half yearly RI008.03 Maintain Health & Safety Committee <i>In Progress (10% complete)</i> Target date: 31-Mar-13 Review frequency: Half yearly RI008.04 Liaise with EKHRP to implement recommendation from 2009 internal audit <i>In Progress (90% complete)</i> Target date: 31-Jan-13 Review frequency: Half yearly	Mark Seed Mark Seed Mark Seed	3 P(1) I(3)

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
<p>RI010</p> <p>Review frequency: Half-yearly</p> <p>Risk Status: Treat</p>	<p>There is a mismatch between the large number of assets owned by the council and the low level of funding available to maintain these appropriately. This increases the investment needs for the future to keep these fit for purpose, and to prevent the development of significant health and safety risks. This is particularly relevant for fixed assets that do not generate significant income, but still need to be maintained.</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 disposals. Further during recession, our tenants in community buildings are requesting reduced rents, creating more budget pressures.</p>	<ul style="list-style-type: none"> * Gradual deterioration in quality and utility * Decrease in value of property * Loss of income * Potential health and safety issues * Political impact * Loss of reputation * Adverse publicity * Impact on VfM * Complaints 	Mark Seed	<p>12 P(3) I(4)</p>	<p>9 P(3) I(3)</p>	<p>RI010.01 Draft & Implement Asset Management Strategy <i>In Progress (50% complete)</i> Target date: 31-Jul-14 Review frequency: Half yearly</p> <p>RI010.02 Prioritise maintenance spending on assets to increase revenue returns <i>In Progress (25% complete)</i> Target date: 31-Mar-14 Review frequency: Half yearly</p>	<p>Mark Seed</p> <p>Mark Seed</p>	<p>4 P(2) I(2)</p>
<p>RI011</p> <p>Review frequency: Yearly</p> <p>Risk Status: Treat</p>	<p>Emergency Plans and Functional Plans are out of date, and need annual review. Business Continuity plans are out of date, and need annual review.</p>	<p>A business continuity incident occurs and the organisation fails to respond effectively An emergency incident occurs and the organisation fails to respond effectively because the emergency plan is inadequate</p>	<ul style="list-style-type: none"> * Confusion occurs over responsibilities, and Council doesn't contribute as required * Lack of clear understanding links to mixed messages internally and externally * Impact on key services, service failure * Impact on vulnerable people * Potential health and safety issues * Possible corporate manslaughter * Drop in standards * Possible breach of contract 	Mike Humber	<p>16 P(4) I(4)</p>	<p>6 P(2) I(3)</p>	<p>RI011.01 Review and revise the council's BCP <i>In Progress (30% complete)</i> Target date: 31-Mar-13 Review frequency: Quarterly</p> <p>RI011.02 Test effectiveness of BCP and Major Emergency Plans <i>In Progress (10% complete)</i> Target date: 31-Mar-13 Review frequency: Quarterly</p> <p>RI011.03 Undertake annual review of Emergency Plans and Functional Plans <i>In Progress (50% complete)</i> Target date: 31-Mar-13 Review frequency: Quarterly</p>	<p>Paul Morgan</p> <p>Paul Morgan</p> <p>Paul Morgan</p>	<p>3 P(1) I(3)</p>

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
RI012 Review frequency: Quarterly Risk Status: Treat	Requirement to roll-out new waste and recycling collection system by December 2013	Failure to complete roll-out of required waste & recycling system by December 2013	* Financial penalties under East Kent five-way agreement * Reputational damage * Reduced recycling rates * Political controversy	Jay Jones	9 P(3) I(3)	9 P(3) I(3)	RI012.01 Implement effective management of project <i>Implemented</i> Target date: 30-Sep-12 Review frequency: Monthly RI012.02 Procurement of waste collection fleet <i>In Progress (10% complete)</i> Target date: 30-Sep-13 Review frequency: Quarterly	Jay Jones Jay Jones	6 P(2) I(3)
RI013 Review frequency: Quarterly Risk Status:	Market conditions prevent the Council from realising the value of its East Kent Opportunities assets	Market values remain depressed over the medium or long term	* Inability to sell or let property on realistic terms * Loss of income * Frustration of capital asset strategy * Reputational loss * Failure to meet obligations * Damaged Partner relationships	Madeline Homer	9 P(3) I(3)	9 P(3) I(3)	RI013.01 Monitor implementation of management plan <i>In Progress (5% complete)</i> Target date: 31-Mar-13 Review frequency: Quarterly	Madeline Homer	3 P(3) I(1)
RI015 Review frequency: Half-yearly Risk Status: Treat	Housing Intervention Project fails to achieve outcomes	* Government policy works against local initiatives (eg Benefit changes adversely affects people's ability to pay for housing) * Judicial review of selective licensing decides against our model for housing intervention * Double dip recession adversely impacts on housing affordability * Loss of staffing resources	* Cliftonville West housing market remains unbalanced * Reputational damage * The Council is unable to deliver the project * Political Controversy	Tanya Wenham	9 P(3) I(3)	9 P(3) I(3)	RI015.01 Monitor effects of Policy & adjust practices <i>In Progress (30% complete)</i> Target date: 31-Mar-13 Review frequency: Quarterly RI015.02 Lobbying of appropriate department of central government via MPs <i>Approved (0% complete)</i> Target date: 31-Dec-13 Review frequency: Quarterly	Tanya Wenham Madeline Homer	6 P(2) I(3)

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
<p>RI017</p> <p>Review frequency: Quarterly</p> <p>Risk Status: Treat</p>	Failure to make progress on the Dreamland site	<ul style="list-style-type: none"> * Planning appeal determination rules against the Council's Compulsory Purchase Order (CPO) * Planning appeal determination rules in favour of the Council's Compulsory Purchase Order (CPO) but the owners start a legal challenge against the determination * Insufficient funding from the Council 	<ul style="list-style-type: none"> * Further delays to start of work on the site * Further costs * Reputational damage * Political controversy 	Robert Hetherington	8 P(2) I(4)	8 P(2) I(4)	<p>RI017.01 Clear recording of TDC decisions <i>In Progress (25% complete)</i></p> <p>Target date: 31-Mar-13</p> <p>Review frequency: Monthly</p> <p>RI017.02 Regular monitoring of Dreamland project <i>In Progress (10% complete)</i></p> <p>Target date: 31-Dec-16</p> <p>Review frequency: Quarterly</p>	Robert Hetherington	4 P(1) I(4)
<p>Priority</p> <p>Review frequency: Quarterly</p> <p>Status:</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 may also include the possibility of one of the council's major customers going out of business. This is further impacted by the current economic volatility - 'credit crunch'.	<ul style="list-style-type: none"> * Assumptions made in the Medium Term Financial Strategy differ from actual or something unexpected significantly impacts on the plan * Further funding cuts by central government 	<ul style="list-style-type: none"> * Impact on reserves * Requirement for remedial action * Supplementary precept * Need to prioritise / rationalise some areas * Stop doing certain things * Impact on service delivery - cuts in services, staff reductions, inability to achieve objectives * Complaints * Adverse media 	Sarah Martin	12 P(4) I(3)	6 P(2) I(3)	<p>RI018.01 Regularly attending finance groups to obtain insight into positions on government funding <i>In Progress (25% complete)</i></p> <p>Target date: 31-Mar-13</p> <p>Review frequency: Quarterly</p> <p>RI018.02 Implement reviews to identify efficiencies and economies <i>In Progress (10% complete)</i></p> <p>Target date: 31-Oct-12</p> <p>Review frequency: Monthly</p> <p>RI020.01 Monitoring of Council's financial Position <i>In Progress (50% complete)</i></p> <p>Target date: 31-Mar-13</p> <p>Review frequency: Monthly</p>	Sarah Martin	4 P(2) I(2)

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
RI019 Review frequency: Half-yearly Risk Status: Treat	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.	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.	Increase in incidence of successful frauds against the Council	Sarah Martin	12 P(4) I(3)	6 P(3) I(2)	RI019.01 Ensure anti-fraud policies remain fit for purpose <i>In Progress (50% complete)</i> Target date: 31-Dec-12 Review frequency: Half yearly	Sarah Martin	3 P(3) I(1)
							RI019.02 Raise staff awareness of fraud risks <i>In Progress (80% complete)</i> Target date: 31-Dec-12 Review frequency: Half yearly	Sarah Martin	
							RI019.03 Provide regular training to managers re fraud awareness <i>In Progress (75% complete)</i> Target date: 31-Mar-13 Review frequency: Quarterly	Sarah Martin	
							RI019.04 Carry out checks of ghost employees <i>Implemented</i> Target date: 30-Apr-12 Review frequency: Half yearly	Sarah Martin	

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
<p>RI020</p> <p>Review frequency: Quarterly</p> <p>Risk Status: Treat</p>	<p>The Council fails to approve a new localised council tax discount scheme by 31 January 2013 for implementation with effect from 1 April 2013. The scheme is to deliver welfare entitlement savings of 10% whilst at the same time protecting payments to pensioners and other (yet to be defined) vulnerable groups. The implementation of a revised scheme is dependent on the software suppliers being able to make the necessary changes to the system within a very tight timeframe.</p>	<p>* The council's software supplier is unable to make the necessary changes within the required deadline.</p> <p>* Members fail to agree a scheme that delivers the required level of savings.</p>	<p>The council would need to find the savings required (which are approximately £230k) from within existing budgets or from raising council tax.</p>	<p>Sarah Martin</p>	<p>9</p> <p>P(3) I(3)</p>	<p>6</p> <p>P(2) I(3)</p>	<p>RI020.01 Monitoring of Council's financial Position <i>In Progress (50% complete)</i> Target date: 31-Mar-13 Review frequency: Monthly</p>	<p>Sarah Martin</p>	<p>4</p> <p>P(2) I(2)</p>
<p>PA025</p> <p>Frequency: early</p> <p>Status: Treat</p>	<p>In this current economic climate, an officer or member may be more inclined to offer or accept a bribe.</p>	<p>The Council may not have sufficient resource dedicated to anti-bribery measures to deal with any increase in bribery activity.</p>	<p>Increase in offering or acceptance of bribes by officers or members.</p>	<p>Sarah Martin</p>	<p>6</p> <p>P(3) I(2)</p>	<p>6</p> <p>P(3) I(2)</p>	<p>RI021.01 Raise staff awareness of anti-bribery policy & procedure <i>In Progress (50% complete)</i> Target date: 31-Dec-12 Review frequency: Annually</p> <p>RI021.02 Provide regular managers anti-bribery training <i>In Progress (50% complete)</i> Target date: 31-Dec-12 Review frequency: Half yearly</p> <p>RI021.03 Ensure Anti-bribery policy remains fit for <i>In Progress (50% complete)</i> Target date: 31-Dec-12 Review frequency: Half yearly</p>	<p>Matthew Sanham</p> <p>Matthew Sanham</p> <p>Matthew Sanham</p>	<p>4</p> <p>P(2) I(2)</p>

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
							RI021.04 Raise Members' awareness <i>Implemented</i> Target date: 30-Sep-12 Review frequency: Half yearly	Matthew Sanham	

Risk Management Strategy

Version 9
November 2012



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Foreword

Risk management is an important aspect of all our lives. We are exposed to risk both in terms of **threats** to service provision and from the potential of **lost opportunities**. It is essential that we can demonstrate to our citizens that we are fully considering the implications of risk as we deliver our business for the benefit of the residents of our community.

The council introduced its first Strategy for addressing risk management in November 2004. Since then, steady progress has been made in embedding risk management throughout the council, and risk management is now an integral part of our service planning process and project management toolkit.

Ultimately, **effective risk management** will help to ensure that the council **maximises its opportunities**, and **minimises the risks it faces**, thereby improving our ability to **deliver our priorities and improve outcomes**.

Councillor [Michelle Fenner](#)
Cabinet Portfolio Holder
Member Risk Champion

Deleted: Martin Wise

Sue McGonigal
Chief Executive (Section 151 Officer)
Officer Risk Champion

Statement of Commitment

Thanet District Council is committed to adopting best practice in the identification, evaluation and cost effective control of risks to ensure that they are reduced to an acceptable level or eliminated, and also maximise opportunities to achieve the council's objectives and deliver core service provisions. It is acknowledged that some risks will always exist and will never be eliminated.

All employees must understand the nature of the risk and accept responsibility for risks associated with their area of work. In doing this they will receive the necessary support, assistance and commitment from senior management and members.

The council's risk management objectives are a long term commitment and an inherent part of good management and governance practices. The objectives need the full support of members and active participation of managers.

The council, as a corporate body, is bound by legal obligations to provide for the health and safety of its members, employees and those that it serves. The council is also obliged to protect its material assets and to minimise its losses and liabilities.

Definitions

Governance

Governance is the system by which local authorities fulfil their purpose and achieve their intended outcomes for citizens and service users and operate in an effective, efficient, economic and ethical manner. Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users.

Ensuring that the right thing, is done in the right way, for the right people, in an open, honest and timely manner.

Risk

Risk is the chance or possibility of loss, damage, injury or failure to achieve objectives caused by an unwanted or uncertain action or event. Risk management is the planned and systematic approach to the identification, evaluation and control of risk. The objective of risk management is to secure the assets and reputation of the organisation and to ensure the continued financial and organisational well-being of the council.

Risk the **chance** of something happening that will have an **impact** on the **council's business or objectives**.

Risk Management

Good risk management is about identifying what might go wrong, what the consequences might be of something going wrong and finally, deciding what can be done to reduce the possibility of something going wrong. If it does go wrong, as some things inevitably will, making sure that the impact is kept to a minimum.

Risk management should ensure that an organisation makes cost effective use of a risk framework that has a series of well-defined steps. The aim is to support better decision making through a good understanding of risks and their likely impact.

Risk management should be a continuous and developing process which runs throughout the organisation's strategy and the implementation of that strategy, methodically addressing all risks surrounding the council's activities past, present and future.

The process of identifying and managing risk, is to increase the probability of success and reduce the opportunity of failure.

Our Objectives

Thanet District Council is committed to establishing and maintaining a systematic approach to the identification and management of risk.

The council's risk management objectives are to:

- Ensure that risk management is clearly and consistently integrated and evidenced in the culture of the council.
- Manage risk in accordance with best practice.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Consider compliance with health and safety, insurance and legal requirements as a minimum standard.
- Prevent death, injury, damage and losses, and reduce the cost of risk.
- Inform policy and operational decisions by identifying risks and their likely impact.
- Raise awareness of the need for risk management by all those connected with the council's delivery of service.

These objectives will be achieved by:

- Clearly defining the roles, responsibilities and reporting lines within the council for risk management.
- Including risk management issues when writing reports and considering decisions.
- Continuing to demonstrate the application of risk management principles in the activities of the council, its employees and members.
- Reinforcing the importance of effective risk management as part of the everyday work of employees and members.
- Maintaining a register of risks linked to the council's business, corporate and operational objectives, also those risks linked to working in partnership.

- Maintaining documented procedures of the control of risk and provision of suitable information, training and supervision.
- Maintaining an appropriate system for recording health and safety incidents and identifying preventative measures against recurrence.
- Preparing contingency plans to secure business continuity where there is a potential for an event to have a major impact upon the council's ability to function.
- Monitor arrangements continually and seek continuous improvement.

Our Approach

It is essential that a single risk management approach be utilised at all levels throughout the council. By effectively managing our risks and opportunities, which is all part of good governance, we will be in a stronger position to deliver our objectives, provide improved services to the public, work better as a partner with other organisations and achieve value for money. This approach to risk management will inform the council's business processes, including:-

- Strategic planning
- Financial planning
- Service planning
- Policy making and review
- Performance management
- Project management
- Partnership working

For those with responsibility for achieving objectives, responsibility also lies for identifying and assessing risks and opportunities; developing and implementing controls and warning mechanisms; and reviewing and reporting on progress. The identified risks and relevant control measures will be managed through a database holding the council's Risk Register.

Some objectives could be reliant upon external groups that the council may work with, such as other organisations, partners, contractors etc. This partnership working could affect the achievement of an objective and therefore the risk management process has been incorporated into the way the council works within these partnerships through the Partnership Framework.

The management of risk will become an integral part of corporate policy decisions and the initiation of major projects, which will include a statement on risk to help inform the decision making process.

This will assist members and officers to ensure that new risks are detected and managed, by providing more detail on the process for managing risk, where each stage builds upon the other and provides basic practical guidance on how to identify, assess and treat risks, and monitor their progress. To assist with this approach to risk management and to ensure consistency across the council, a guidance document on the risk management process has been prepared, which will be reviewed on an annual basis and reported to the Governance and Audit Committee for approval and adoption.

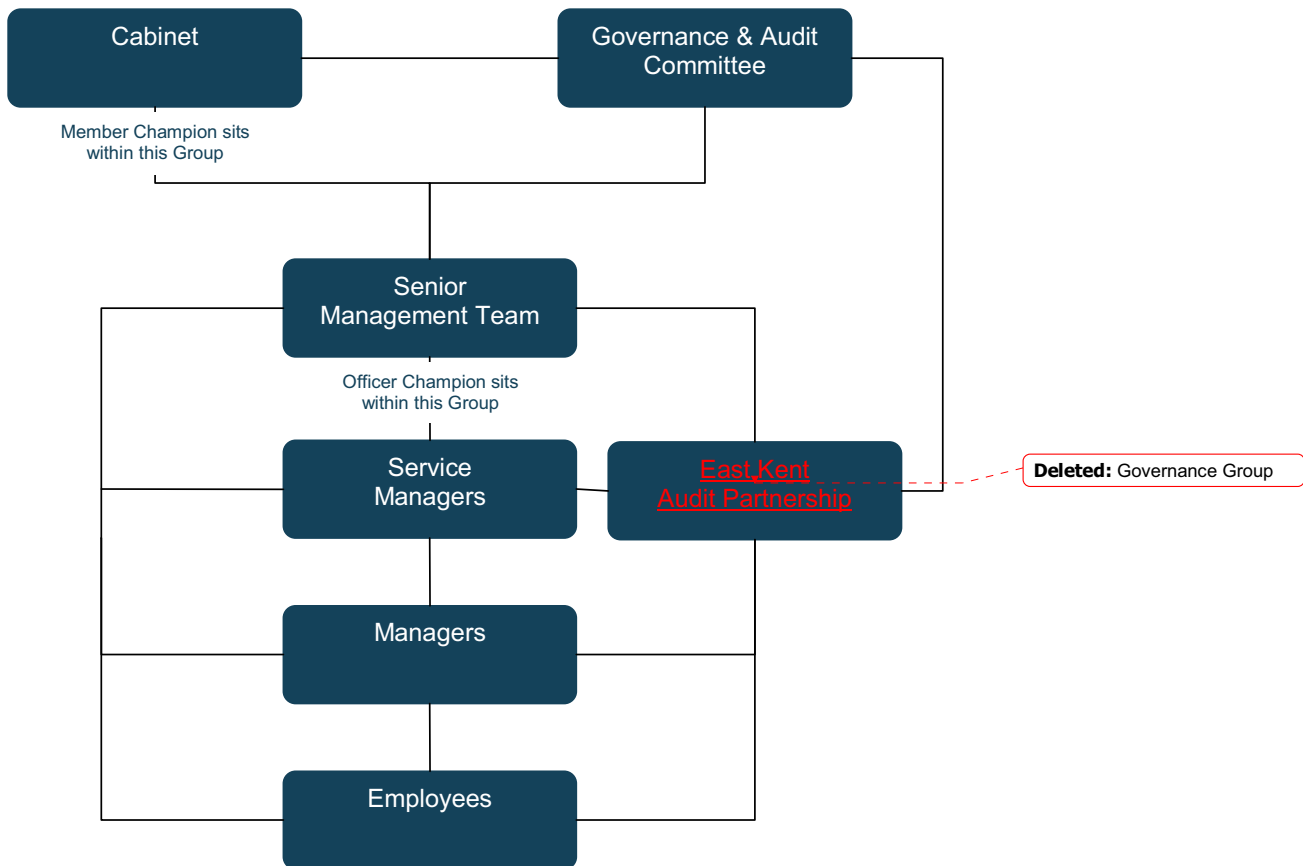
The Benefits



Roles and Responsibilities

Responsibility for risk management should run throughout the council. Clear identification of roles and responsibilities will ensure the successful adoption of risk management and demonstrate that it is embedded in the culture of the council.

Everyone has a role to play in the risk management process.



GROUP OR INDIVIDUAL	ROLE
Member Champion	Gain an understanding and promote risk management and its benefits throughout the council, ensuring members take risk management into consideration when making decisions.
Cabinet and Elected Members	Oversee the effective management of risk throughout the council, and gain an understanding of its benefits, ensuring officers develop and implement an all encompassing approach to risk management.
Governance and Audit Committee	Provide independent assurance of the risk management framework and associated control environment, independent scrutiny of the council's financial and non-financial performance, and oversee the financial reporting process.
Senior Management Team	Gain an understanding and promote the risk management process and its benefits, oversee the implementation of the risk management strategy and agree any inputs and resources required supporting the work corporately. Support the development of the risk management process, share experience on risk, and aid / advise in the review of risk management issues. Identify areas of overlapping risk and share good practice on all aspects of risk management.
Officer Champion	Champion the risk management process throughout the council with both members and officers, ensuring the process is embedded and effective.
Section 151 Officer	Ensure that the risk management processes are considered as specified in the Finance Procedure Rules.
Service Managers	Ensure that the risk management process is promoted, managed and implemented effectively in their service areas within the organisation. Liaising with external agencies to identify and manage risk. Disseminating relevant information to service managers and employees.
Managers	Raise awareness, manage and implement the risk management process effectively in their service areas, recommending any necessary training for employees on risk management. Incorporating risk ownership through the appraisal scheme with employees and share relevant information with colleagues in other service areas.
Employees	Manage risk effectively in their jobs, liaising with their line manager to assess areas of risk in their job. Identify new or changing risks in their job and feed these back to their line manager.
East Kent Audit Partnership	Challenge the risk management process, including the identification and evaluation of risk and provide assurance to officers and members on the effectiveness of controls.
Business Support and Compliance Manager	Support the council and its services in the effective development, implementation and review of the council's risk management processes. Identify and communicate risk management issues to services, and assist in undertaking risk management activity through training or direct support.

Links to Governance issues

Internal Control

Controls

Ensure that the processes and procedures operate in an orderly and efficient manner, statutory and management requirements are complied with, assets are safeguarded, completeness and accuracy of records are secured and identifies and corrects when something has gone wrong.

Systems of internal control

A term to describe the totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

Control environment

The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- establishing and monitoring the achievement of the organisations objectives;
- the facilitation of decision ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- ensuring the economic, effective and efficient use of resources and ensuring continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- the financial management of the organisation and the reporting of financial management;
- the performance management of the organisation and the reporting of performance management.

Managers will be responsible for ensuring that proper controls are in place to ensure that resources are used appropriately, to provide value for money and delivery of the council's objectives. The controls will be reported through the Annual Governance Statement, to ensure that the systems and services they are responsible for deliver consistent, predictable, effective results in or to meet service or corporate objectives.

An audit process exists which independently monitors the controls and procedures across the council to enhance value for money, ensure systems' reliance, minimise risk and act upon suspicion of fraud or corruption. External Audit relies on the audit processes in place in formulating their opinion of the council's control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives.

Deleted: The Audit Commission

Performance Monitoring

Performance monitoring of risk management activity will ensure that the treatment of risk remains effective and the benefits of implementing risk control measures outweigh the costs of doing so. Performance monitoring is a continual review not only of the whole process, but also of individual risks or projects and of the benefits gained from implementing risk control measures. The section regarding the communications process includes reporting, which aids the achievement of performance monitoring.

Project Management

Ensuring that we are capable of delivering major and complex projects across many of our services is key to achieving the council's objectives. Achievement of these projects is only possible because good managers take the time to plan, organise and manage their projects well. A project management toolkit has been established for the council, which draws on many areas of good practice that already exist across the council and provides a practical reference point for managers and staff embarking on projects. This tool includes provision for undertaking and continually reviewing the risk management process throughout the life of the project.

Data Quality

The council needs to ensure that the data we use for performance monitoring and to inform decision making is accurate, reliable and fit for purpose. If the information is misleading, decision making may be flawed, resources may be wasted, poor services may not be improved and policy may be ill-founded. These could represent significant risks to the council. There is also a danger that good performance may not be recognised and rewarded. The council has a Data Quality framework which sets out the measures in place to ensure that data is fit for purpose. ▼

Deleted: This framework is reviewed annually by the Governance and Audit Committee.

Anti-Fraud and Corruption

The council has an anti-fraud and corruption framework, which will direct the council towards ensuring a professional and ethical approach to combating fraud. The council has adopted a strategic approach in order to minimise the risk of losses through fraud and corruption.

To further ensure a comprehensive approach to tackling fraud and corruption, it is paramount that the full range of action is taken, integrating all the different strands. The council recognises that this is an ongoing process, with each element building and feeding back to others in a continuous improvement cycle.

Whistleblowing

Thanet District Council is committed to the highest possible standards of propriety and accountability in the conduct of its activities for the community. Employees are often the first to realise that something wrong may be happening within the council. The Whistleblowing Code is intended to help employees who have concerns over any potential wrong-doing within the council.

Anti Bribery

The council is committed to the prevention, deterrence and detection of bribery. We have zero-tolerance towards bribery. We aim to maintain anti bribery compliance 'business as usual', rather than as a one off exercise.

Money Laundering

The council's policy is to do all that it can to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

Business Continuity

The business continuity process is essentially risk management applied to the whole organisation and its ability to continue with its service provision in the event of a catastrophic event. The council must ensure risk management processes are applied throughout the business continuity lifecycle.

Reporting

The structure for reporting risk management effectively could exist as follows:-

Timeframe	Description	Involvement from
Every 12 weeks within meeting cycle	Review of the Corporate Risk Register	Senior Management Team, Governance Board
Annually September	Review of the risk management strategy and process document to identify and agree major changes	Governance & Audit Committee Cabinet
Quarterly June September December March	Risk Register reports to member committee with responsibility for risk management	Governance & Audit Committee
Ad hoc	Risk / Opportunity reviews	Risk / Control measure owners

Deleted: (Governance Board)

Document History

Version	Date	Agreed by	Minute ref
V1	18 Oct 2004 1 Nov 2004 9 Nov 2004	Corporate Risk Management Group Heads of Service Management Team	CRMG 31 201/04-05 222/04-05
V2	1 Mar 2006 24 Jan 2006 7 Feb 2006 23 Feb 2006	Corporate Risk Management Group Finance, Best Value and Performance Review Panel Cabinet Council	CRMG 63 R186 2005/06 C/05 2005/06 66 2005/06
V3	6 Feb 2007 22 Feb 2007	Cabinet Council	C/07 2006/07 67 2006/07
V4	27 Sep 2007 1 Nov 2007 18 Dec 2007	Governance and Audit Committee Cabinet Council	R114 C11 61
V5	18 August 2008 24 September 2008 6 November 2008	Governance Group Governance and Audit Committee Cabinet	GOV08 R115 CR6
V6	1 September 2009 29 September 2009 5 November 2009	Governance Group Governance and Audit Committee Cabinet	GOV05 36. 126
V7	6 September 2010 28 September 2010 11 November 2010	Governance Group Governance and Audit Committee Cabinet	GOV04 102. 66.
V8	29 September 2011 17 November 2011	Governance and Audit Committee Cabinet	182. 165.
V9	23 August 2012 25 September 2012 15 November 2012	Senior Management Team Governance and Audit Committee Cabinet	TBC TBC TBC

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Risk Management Process

Version 6
September 2012



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1. Introduction

Risk management is both a statutory requirement and an indispensable element of good management. As such, its implementation is crucial to the council and essential to its ability to discharge its various functions.

This risk management process has been designed to support members and officers in ensuring that the council is able to fully discharge its risk management responsibilities in a consistent manner. The Risk Management Strategy outlines the objectives, benefits and approach to the process to ensure that risks, both positive and negative, are successfully managed.

Risk management in Thanet District Council is about improving our ability to deliver outcomes for the community by managing our threats, enhancing our opportunities and creating an environment that adds value to ongoing activities.

Risk management is a key part of corporate governance. Corporate governance is the way an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. Good risk management will help identify and deal with key corporate risks facing the organisation in the pursuit of its goals and is a key part of good management, not simply a compliance exercise.

To help with the process, this guidance document describes a simple methodology working through the following questions:

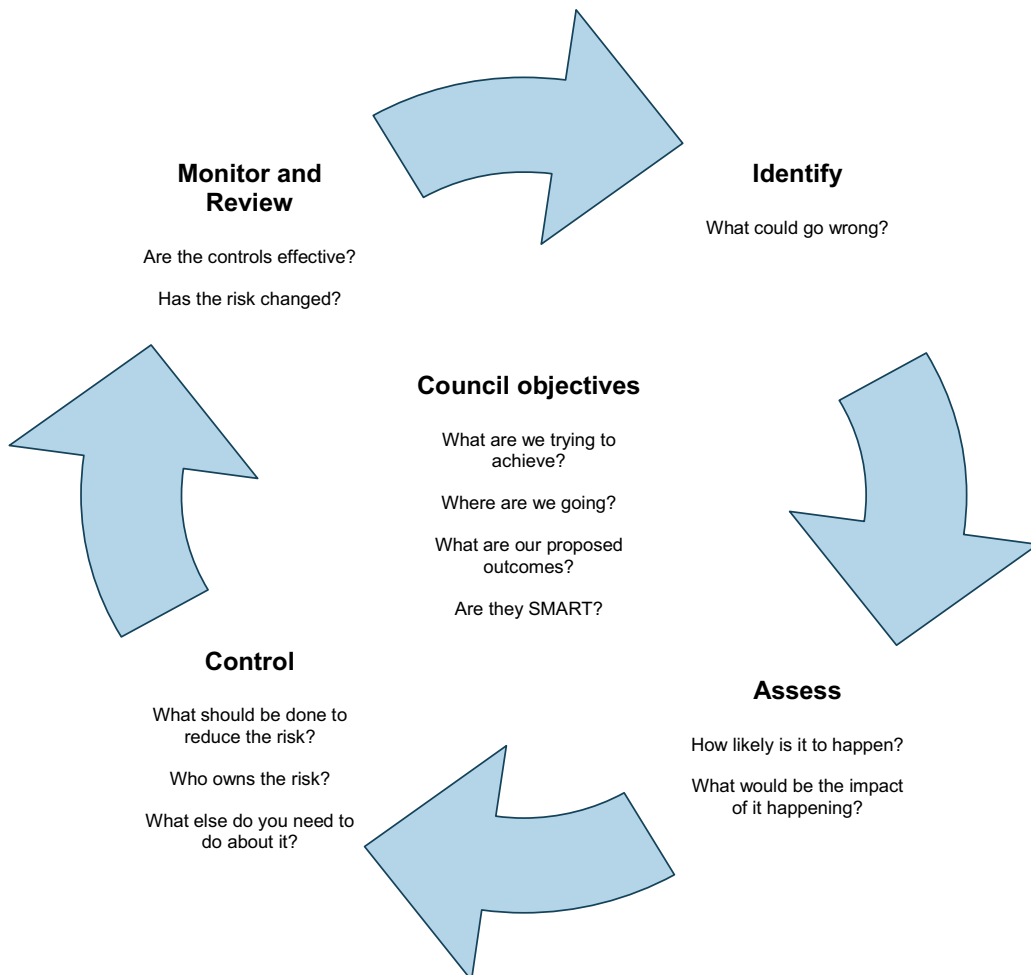
- Are your objectives SMART?
 - Specific
 - Measurable
 - Achievable
 - Realistic
 - Time bound
- What could go wrong?
- How likely is it to happen?
- What would be the impact of it happening?
- What should be done to reduce the risk?
- Who owns the risk?
- What else do you need to do about it?

2. Risk Management Process

The starting point for risk management is a clear understanding of what the organisation is trying to achieve. Risk management is about managing the threats that may hinder delivery of our priorities and core service provisions, and maximising the opportunities that will help to deliver them. Therefore, effective risk management should be clearly aligned to the following processes:

- Strategic planning
- Financial planning
- Policy making and review
- Performance management
- Project management
- Partnership working

and should take into account the environment within which the council operates.



2.1 Identify

Identify the potential risks or opportunities that may arise. Where taking risks that may benefit the organisation, managing these opportunities increases the chance of success and reduces the possibility of failure. By managing our opportunities well, we will be in a better position to provide improved services and better value for money.

It may help to use the following structure to describe risks and opportunities “If then”.

For example:

“If we do not review and manage our budget, then there is a risk that we will overspend.”

“If the implementation of the new system is achieved according to the action plan, then the overall process will be more effective.”

Risks will be considered under the following headings:

- **Corporate** - those which could impact across the whole council arising from a major event. These should be assessed by the Senior Management Team and then reported to the Governance and Audit Committee on a regular basis.
- **Operational** - those resulting from inadequate or failed internal processes, people and systems or from external events. In some instances operational risks may escalate to become corporate.
- **Partnership** - those associated with achieving the outcomes set by the partnership. It is essential that the risks the council may face when entering into a partnership are clearly identified and managed prior to the partnership being initiated.
- **Project risks** - those associated with achieving a project within the required time, costs and resources, regardless of its size. Risks associated with the project, both negative and positive, must be clearly identified and managed. (Further information can be obtained from the Project Management Toolkit).

Deleted: Corporate

Each risk needs to be allocated an owner who will be responsible for and lead on the management of that risk, taking forward any required action to minimise the risk.

2.2 Assess

Having identified the risks, it is then necessary to assess which are going to pose the greatest threat or opportunity, by looking at both the **probability** of the risk occurring and the **impact** that might result, producing the overall **risk rating**. These scores are not intended to provide precise measurements of risk but to provide a useful basis for identifying vulnerabilities or opportunities, ensuring that any necessary actions are undertaken.

Developing a standard methodology to score risks is intended to help ensure consistent, meaningful scores that can be used to assess risks.

The risk rating needs to be regularly reviewed to check that existing controls are effective and to assess any changes should new controls be established and the score should be amended to reflect this.

Table 1 - Probability

Rating	Score	Indicative Guidelines – provided as examples	
		Threat	Opportunity
Very likely	4	<ul style="list-style-type: none"> • More than a 75% chance of occurrence. • Regular occurrence. • Circumstances frequently encountered. 	<ul style="list-style-type: none"> • Favourable outcome is likely to be achieved in one year. • Better than 75% chance of occurrence.
Likely	3	<ul style="list-style-type: none"> • 41% - 75% chance of occurrence. • Likely to happen at some point in the next 3 years. • Circumstances occasionally encountered. 	<ul style="list-style-type: none"> • Reasonable prospects of favourable results in one year. • 41% - 75% chance of occurrence.
Unlikely	2	<ul style="list-style-type: none"> • 10% - 40% chance of occurrence. • Only likely to happen once every 3 or more years. • Circumstances rarely encountered. 	<ul style="list-style-type: none"> • Some chance of favourable outcome in medium term. • 10% - 40% chance of occurrence.
Remote	1	<ul style="list-style-type: none"> • Less than a 10% chance of occurrence. • Has never happened before. • Circumstance never encountered. 	<ul style="list-style-type: none"> • Less than a 10% chance of occurrence.

Table 2 - Impact

Rating	Score	Indicative Guidelines – provided as examples	
		Threat	Opportunity
Major	4	<ul style="list-style-type: none"> • Major loss of service for more than 5 days. • One or more fatalities. • Major financial variation of more than £300k. • Major national news item. • Major impact on time / costs / resources. • Affect the whole council. 	<ul style="list-style-type: none"> • Major improvement to services, generally or across a broad range. • Major improvement to health, welfare and safety. • Positive national press, national award or recognition, elevated status by national government. • Producing more than £100,000
Serious	3	<ul style="list-style-type: none"> • Loss of service for 3 to 5 days. • Major injury to an individual / several people. • Financial variation between £150k and £300k. • Major local news / professional press item. • Serious impact on time / costs / resources. • Affect many service areas of the council. 	<ul style="list-style-type: none"> • Major improvement to critical service area. • Serious improvement to health, welfare and safety. • Recognition of successful initiative. • Sustained positive recognition and support from local press. • Producing up to £100,000.
Significant	2	<ul style="list-style-type: none"> • Loss of service for 2 to 3 days. • Severe injury to an individual / several people. • Financial variation of £50k to £150k. • Local news / minor professional press items. • Controllable impact on time / costs / resources. • Affect 1 or few service areas of the council. 	<ul style="list-style-type: none"> • Significant improvement to service area. • Significant improvement to health, welfare and safety. • Recognition of successful initiative. • Positive recognition and support from local press.
Minor	1	<ul style="list-style-type: none"> • Brief disruption to service for less than 1 day. • Minor injury to an individual. • Financial variation of less than £50k. • Minimal news / press impact. • Minimal impact on time / costs / resources. • Affect Project Team only. 	<ul style="list-style-type: none"> • Improvement to a process within a service area.

Table 3 – Risk Matrix

Probability	Very likely (4)	Medium-Low (4)	Medium-High (8)	High (12)	High (16)
	Likely (3)	Medium-Low (3)	Medium-High (6)	Medium-High (9)	High (12)
	Unlikely (2)	Low (2)	Medium-Low (4)	Medium-High (6)	Medium-High (8)
	Remote (1)	Low (1)	Low (2)	Medium -Low (3)	Medium-Low (4)
	Minor (1)	Significant (2)	Serious (3)	Major (4)	
			Impact		

2.3 Control

This stage of the process is to decide on a course of action to address the risks identified, to ensure that they do not develop into an issue, where the potential threat is realised. There are four approaches that can be taken to address the risks that have been identified and assessed, these being terminate, transfer, treat and tolerate

Table 4 – Risk Appetite

Level of Risk	Level of Concern	Recommended review pattern	Approach option(s) available	Other actions required
High	Very concerned	1 – 2 months	Terminate Transfer Treat	Report to Governance and Audit Committee
Medium-High	Concerned	3 – 4 months	Terminate Transfer Treat	
Medium-Low	Tolerate	5 – 6 months	Terminate Transfer Treat Tolerate	If accepted, must have contingency plans in place
Low	Content	7 – 8 months	Tolerate	Treat, if cost effective

Table 5 – Risk control approaches

APPROACH	DESCRIPTION
Terminate	A decision is made not to undertake the activity that is likely to trigger the risk. Where the risks outweigh the possible benefits, terminate the risk by doing things differently and thereby removing the risk.
Transfer	Share the exposure, either totally or in part, with a partner or contractor, or through insurance. Any partnership will need to be carefully monitored as it may not be possible to transfer all risks and certain aspects may remain, such as loss of reputation.
Treat	The most common approach is to introduce preventative actions to reduce the probability or impact if the risk occurs and maximise the potential for success.
Tolerate	The ability of an effective action against some risks may be limited or the cost of taking such action may be disproportionate to the potential benefits gained.

Control measures are concerned with the actions taken to reduce the probability or impact of risks, not wholly to terminate or transfer.

2.4 Monitor and Review

Few risks remain static. New issues and risks are likely to emerge and existing risks may change. Having identified the risks, assessed them and put control measures in place, it is essential that they are routinely monitored. (See table 4 – recommended review pattern).

Risk management needs to be seen as a continuous process. It is essential that the incidence of risk be reviewed to see whether it has changed over time. Risk management is a dynamic process – new risks will be identified, some will be terminated and control measures will need to be updated in response to changing internal and external events. The assessment of probability and impact will also need to be reviewed, particularly in light of our own management actions.

Monitoring progress and regular reviews provides:

- Assurance that progress is being made towards controlling risks
- Assurance that controls are effective
- Knowledge of any changes to the risk brought about by shifting circumstances or business priorities.

When undertaking the monitor and review process, guidance is given below on the sorts of questions that should be taken into account:

- Are the risks still relevant?
- Has anything occurred that could impact on them?
- Are performance indicators appropriate?
- Are the controls in place effective?
- Have risk scores changed, and if so are they decreasing or increasing?
- If risk profiles are increasing, what further controls might be needed?
- If risk profiles are decreasing, can controls be relaxed?

The monitoring and review process should be integrated into existing business processes so that it adds value and supports the successful achievement of objectives and is not just seen as a 'bolt on'. Where objectives have not been achieved or are not on course to be achieved, the cause(s) should be investigated to inform and improve the risk assessment process.

3. Categories of risk

Categories are widely used to identify sources of risk, some will be of greater concern at the corporate level and some at the operational level, however there is no clear distinction and all levels of management should be concerned, to varying degrees, with the majority of categories.

These risks can be categorised as follows: -

CATEGORY	DESCRIPTION	INDICATIVE GUIDELINES (given as examples)
Political	those associated with a failure to deliver either local or central government policy.	<ul style="list-style-type: none"> • Wrong political priorities • Not meeting government agenda • Too slow or failure to modernise • Decision based on incorrect information • Unfulfilled promises to electorate • Community planning oversight / errors
Economic	those affecting the ability of the council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance or the consequences of proposed investment decisions.	<ul style="list-style-type: none"> • General/regional economic problems • Missed business and service opportunities • Failure of major projects • Failure to prioritise, allocate appropriate budgets and monitor • Inadequate control over expenditure or income • Inadequate insurance cover
Social	those relating to the effects of changes in demographic, residential or socio-economic trends on the council's ability to deliver its objectives.	<ul style="list-style-type: none"> • Failing to meet the needs of disadvantaged communities • Failures in partnership working • Problems in delivering life-long learning • Impact of demographic change • Crime and disorder
Technological	those associated with the capacity of the council to deal with the pace / scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the	<ul style="list-style-type: none"> • Breach of confidentiality • Failure in communications • Insufficient disaster recovery for key data/systems • Failure of big technology related project • Breach of security of networks

CATEGORY	DESCRIPTION	INDICATIVE GUIDELINES (given as examples)
	council's ability to deliver its objectives.	<ul style="list-style-type: none"> and data • Failure to comply with IT Security Policy
Legislative	those associated with current or potential changes in national or European law.	<ul style="list-style-type: none"> • Inadequate response to new legislation • Not meeting statutory duties/deadlines • Failure to implement legislative change • Misinterpretation of legislation • Exposure to liability claims e.g. motor accidents, wrongful advice • Breach of confidentiality / Data Protection Act
Environmental	those relating to environmental consequences of progressing the council's corporate objectives (e.g. in terms of energy, efficiency, pollution, recycling, etc).	<ul style="list-style-type: none"> • Impact on sustainability initiatives • Impact of planning & transportation policies • Noise, contamination and pollution • Crime & Disorder Act implications • Inefficient use energy and water • Incorrect storage/disposal of waste
Competitive	those affecting the competitiveness of the service (in terms of cost of quality) and / or its ability to deliver best value.	<ul style="list-style-type: none"> • Take over of services by government • Failure of bids for government funds • Failure to show value for money • Accusations of anti-competitive practices
Customer / Citizen	those associated with the failure to meet the current and changing needs and expectations of customer and citizens.	<ul style="list-style-type: none"> • Lack of appropriate consultation • Bad public and media relations
Reputation	those relating to public confidence and failure to recruit high calibre staff.	<ul style="list-style-type: none"> • Adverse media attention • Policies misunderstood or misinterpreted • Negative implications identified by other which have not been previously considered • Failure to keep partners on side • Breach of confidentiality • Lack of business continuity plan • Failure to maintain and upkeep land and property
Partnership	those associated with working in partnership with another organisation.	<ul style="list-style-type: none"> • Non compliance with procurement policies • Poor selection of partner • Poor contract specification,

CATEGORY	DESCRIPTION	INDICATIVE GUIDELINES (given as examples)
		deficiencies <ul style="list-style-type: none"> • Failure of partner to deliver • Inadequate contract terms & conditions • Bad management of partnership working

4. Risk Register

It is good governance for the council to maintain and review a register of its corporate and operational risks assigning named individuals as responsible officers. The Risk Register is a tool for capturing important information about a risk or opportunity, and is a continual process. New risks will be identified, some will be terminated, control measures will need to be updated in response to changing internal and external events.

The data contained within the risk register will be used to inform our performance reporting process. Also, as detailed within the risk management strategy, the Governance and Audit committee will be regularly informed on the content of the corporate risk register.

To meet this requirement, the council has a database in place (~~INPHASE~~) to hold this information, which is linked to the corporate objectives. This database is available via the Intranet.

Deleted: RISKWeb

Deleted: Training can be arranged via Nikki Morris (full details given below).

5. Summary

This guidance document is intended to provide a simple methodology to help with the risk management process. It may be helpful to understand how managing risk through this process fits in with the overall approach to managing risk throughout the council. Details of this can be found in the 'Risk Management Strategy'.

Risk management is not the responsibility of just a few specialists, it must be seen as a responsibility for all members and officers.

For any further advice or assistance, please contact:
 Nikki Morris
 Business Support and Compliance Manager
 Email : nikki.morris@thanet.gov.uk
 DDI : 01843 577625

6. Document History

Version	Date	Agreed by	Minute ref
V1 (RMS)	18 Oct 2004 1 Nov 2004 9 Nov 2004	Corporate Risk Management Group Heads of Service Management Team	CRMG 31 201/04-05 222/04-05
V2 (RMS)	1 Mar 2006 24 Jan 2006 7 Feb 2006 23 Feb 2006	Corporate Risk Management Group Finance, Best Value and Performance Review Panel Cabinet Council	CRMG 63 R186 2005/06 C/05 2005/06 66 2005/06
V3 (RMS)	6 Feb 2007 22 Feb 2007	Cabinet Council	C/07 2006/07 67 2006/07
V1 (RMP)	27 Sep 2007	Governance and Audit Committee	R114
V2	18 August 2008 24 September 2008	Governance Group Governance and Audit Committee	GOV08 R115
V3	1 September 2009 29 September 2009	Governance Group Governance and Audit Committee	GOV05 36.
V4	6 September 2010 28 September 2010	Governance Group Governance and Audit Committee	GOV04 102.
V5	29 September 2011	Governance and Audit Committee	182.
V6	23 August 2012 25 September 2012	Senior Management Team Governance and Audit Committee	TBC TBC

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INTERNAL AUDIT PROGRESS REPORT

To: **Governance and Audit Committee: 25th September 2012**

By: **Head of the Audit Partnership: Christine Parker**

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

Classification: **Unrestricted**

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 30th June 2012.

For Information

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 30th June 2012.

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.

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 five internal audit assignments completed during the period. Of these: three concluded Reasonable assurance. The remaining two pieces of work were of a nature for which an assurance level is not applicable i.e. quarterly housing benefit claim testing. Summaries of the report findings are detailed within Annex 1 to this report.
- 3.2 In addition, two follow-up reviews have been completed during the period.
- 3.3 For the three months to 30th June 2012, 76.71 chargeable days were delivered against the planned target of 320 days which equates to 23.97% plan completion.
- 3.4 The financial performance of the EKAP is on target at the present time.

4.0 Options

- 4.1 That Members consider and note the internal audit update report.
- 4.2 That the changes to the agreed 2012-13 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved.
- 4.3 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.
- 4.4 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 2012-13 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 8th 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 any changes to the agreed 2012-13 internal audit plans, 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 (s.151 Officer) Ext. 7002

Annex List:

Annex 1	East Kent Audit Partnership Update Report – 25-09-2012
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Background Papers:

Title	Details of where to access copy
<i>Internal Audit Annual Plan 2012-13</i>	Previously presented to and approved at the 20 th March 2012 Governance and Audit Committee meeting
<i>Internal Audit working papers</i>	Held by the East Kent Audit Partnership

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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 30th June 2012

2.0 SUMMARY OF REPORTS

	Service / Topic	Assurance level
2.1	East Kent Housing – Finance & ICT Controls	Reasonable
2.2	East Kent Housing – Tenant Health & Safety	Reasonable
2.3	Visitor Information Arrangements	Reasonable
2.4	EK Services – Housing Benefit Quarterly Testing (Qtr 4 of 2011-12)	Not Applicable
2.5	EK Services – Housing Benefit Quarterly Testing (Qtr 1 of 2012-13)	Not Applicable

2.1 East Kent Housing (Finance & ICT Controls) – Reasonable Assurance:

2.1.1 Audit Scope

To ensure that all East Kent Housing (EKH) finances and resources are completely and accurately controlled and accounted for through sound financial, ICT controls and interfaces.

2.1.2 Summary of Findings

The staff involved in the financial processes within East Kent Housing Limited (EKH) have a sound knowledge of the systems in place. As a result of the tests undertaken only five minor recommended improvements have been identified to assist in strengthening the sound controls already in place.

During the review the Head of Finance was arranging for the Finance Officer to have view access to the *NatWest Bankline* system to streamline the bank reconciliation process. There are controls in place that ensure that only Senior Managers are able to transfer monies from the organisation's bank account. A second authorisation is required if payments exceed £500. Controls have been put in place to ensure that the officer who can instigate a transaction on the 'Sage 50' accounting system used by EKH is not able to authorise payments in or out of the bank accounts, therefore suitable segregation of duties are present.

There is only one interface procedure undertaken and that is between EKH and Kent County Council (KCC) for Payroll, HMRC and Pension. Controls have been put in place to ensure that there is appropriate authorisation for KCC to make BACS payments to employees of EKH and also to HMRC in accordance with the SLA between the two organisations.

Responsibility for the EKH network has been assigned to East Kent Services (EKS). There is a Service Level Agreement between the two organisations, which describes the services to be provided by EKS to EKH in respect of ICT and telephony. The Offices at Shorncliffe are protected by a keypad entry system so no unauthorised persons are able to enter the premises. All EKH staff must be registered on the EKS. LOCAL domain and require a username and password to access the EKS server.

The organisation's Main Accounting System (Sage 50) runs on a virtual Windows server located in the server room at Thanet District Council (TDC). The software and database are located on the C Drive of this server and require an additional user name and password. Currently only the Head of Finance and the Finance Officer have access to this software.

Back up is part of the normal TDC cycle, which is incremental, every night together with a full back up every week. The back-up files are stored off site in a fireproof safe.

At the time of audit fieldwork, EKH was approaching the end of its first financial year there was emerging evidence of work in progress and further decisions to be made within EKH Finance which could support a conclusion of Substantial Assurance once the recommendations contained within the audit report have been implemented and had sufficient time to become embedded.

2.2 East Kent Housing (Tenant Health & Safety) – Reasonable Assurance:

2.2.1 Audit Scope

To ensure that the health and safety of tenants is safeguarded.

2.2.2 Summary of Findings

The majority of the expected internal controls are operating consistently to ensure that the health and safety of tenants is safeguarded. There are however some areas of weakness which are currently being addressed.

As was to be expected with the formation of a new organisation to manage the Council's Housing stock, East Kent Housing are currently seeking to implement consistent policies and procedures in this area utilizing the examples of best practice present at each of the four partner Council sites.

For example; the costs associated with the gas boiler servicing contract used by three Councils to monitor the contract appear very high in comparison with the in-house monitoring undertaken by the fourth partner Council and there is therefore scope for cost efficiencies in this area which East Kent Housing are actively pursuing.

Whilst Gas Safety checks are promptly undertaken for almost all Council properties – and any instances in which access to the property is an issue are promptly dealt with - none of the partner Council's currently have a gas safety policy. A contractor is employed to monitor the gas servicing contract in three authorities, however utilising

their services does not in itself negate the statutory responsibilities that the authorities have regarding gas safety.

None of the Council's have a complete asbestos register and in addition to this the asbestos that has been identified is not being regularly reviewed to ensure that the condition has not deteriorated.

At the time of the Audit, there was also an inconsistent approach to fire risk assessments throughout East Kent Housing with only three of the partner authorities ensuring that fire safety checks are carried out on a regular basis. East Kent Housing have an action plan in place to address this issue by porting best practice between the partner sites.

2.3 Visitor Information Arrangements – Reasonable Assurance:

2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council's Visitor Information Services are operated in an efficient and effective manner which safeguards Council assets (income, stock, reputation etc.) and minimises risk.

2.3.2 Summary of Findings

The Visitor Information Arrangements and processes are generally working well and most of the expected controls are effective.

The level of information being maintained to monitor and/or report on the Margate Visitor Information Centre activities is excellent. Overall, effective systems, processes and controls are in operation with just the one area of weakness regarding the need to improve controls over stock. A wealth of information is available for visitors to Thanet via Information Technology, publications and a physical high profile presence.

A higher level of assurance may be achievable within this operational area once the benefits of implementing the EPOS (Electronic Point of Sale) system are fully realised and embedded with the Margate Visitor Information Centre activities. It is proposed to include a review of the EPOS control system as part of the EKAP's recommendation follow up process, allowing a period of embedding and familiarisation with the new system

2.4 EK Services Housing Benefit Quarterly Testing (Quarter 4 of 2011-12):

2.4.1 Over the course of the 2011/12 financial year the East Kent Audit Partnership has completed a sample check of council tax, rent allowance and rent rebate and Local Housing Allowance benefit claims to support the Audit Commission's verification work.

For the fourth quarter of 2011/12 financial year (January to March 2012) 20 claims including new and change of circumstances of each benefit type were selected by using Excel software to randomly select the various claims for verification.

Of the claims which were tested, two (10%) were found to have failed the criteria set by the Audit Commission's verification guidelines as the errors found impact on the subsidy claim. A further three claims were found to have data quality errors, however these have no effect on the subsidy claim or the amount payable to the claimant; the issues have been raised with the Quality Team and corrective action has been taken to amend the claims.

Overall for 2011/12 there have been 105 benefit claims checked by internal audit, out of which there have been nine failures identified that affect the subsidy claim. In total this represents a failure rate of 8.6% which is a very positive decrease from the previous year's figure of 15%.

2.5 EK Services Housing Benefit Quarterly Testing (Quarter 1 of 2012-13):

2.5.1 Over the course of the 2012/13 financial year the East Kent Audit Partnership will be completing a sample check of council tax, rent allowance and rent rebate and Local Housing Allowance benefit claims to support the Audit Commission's verification work.

For the first quarter of 2012/13 financial year (January to March 2012) 20 claims including new and change of circumstances of each benefit type were selected by using Excel software to randomly select the various claims for verification.

In total 20 benefit claims were checked and of these all (100%) were found to have passed the criteria set by the Audit Commission's verification guidelines. No errors were found that would impact on the subsidy claim. As no data quality errors were found either this is an extremely positive result for quarter 1.

3.0. FOLLOW UP OF AUDIT REPORT ACTION PLANS:

3.1 As part of the period's work, three 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	Original Number of Recs		No of Recs Outstanding	
a)	Contract Monitoring	Reasonable	Reasonable	H	3	H	0
				M	2	M	0
				L	0	L	0
b)	Employee Health & Safety	Reasonable	Reasonable	H	1	H	1
				M	8	M	7
				L	0	L	0

3.2 Details of any individual High priority recommendations outstanding after follow-up are included at Appendix 1 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 Members' of the Governance and Audit 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.

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: Museums, Thanet Leisure Force, Car Parking Income and Enforcement, Dog Warden & Litter Enforcement, Data Protection, East Kent Housing (Tenancy & Estate Management), Payroll, Council Tax, and Commercial Properties and Concessions.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

- 5.1 The 2012-13 internal audit plan was agreed by Members at the meeting of this Committee on 20th March 2012.
- 5.2 The Head of the Audit Partnership meets on a monthly basis with the Section 151 Officer or their nominated representative 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 3.

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:

There was no unplanned work arising during the period quarter to bring to Members attention at the present time.

8.0 INTERNAL AUDIT PERFORMANCE

- 8.1 For the three months to 30th June 2012, 76.71 chargeable days were delivered against the planned target of 320 days which equates to 23.97% plan completion.
- 8.2 The financial performance of the EKAP is on target at the present 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 2012-13 is attached as Appendix 5. The East Kent Audit Partnership has performed well against its targets for the 2011-12 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 4.

Attachments

- Appendix 1 Summary of High priority recommendations outstanding after follow-up.
- Appendix 2 Summary of services with Limited / No Assurances
- Appendix 3 Progress to 30th June 2012 against the agreed 2012-13 Audit Plan.
- Appendix 4 EKAP Balanced Scorecard of Performance Indicators to 30th June 2012.
- Appendix 5 Assurance statements

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP - APPENDIX 1

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
Employee Health & Safety – August 2012		
<p>Once the Health and Safety Maps have been implemented, they should be regularly reviewed and these reviews documented to evidence ownership, engagement and assurance that the service areas within the Council are operating safely in accordance with legal responsibilities</p>	<p>Brief to be prepared for ICT to obtain access for EKHRP to SharePoint where H&S maps are uploaded.</p> <p>Short questionnaire on H&S maps to be developed for evaluation purposes and linked to a training needs analysis.</p> <p>Responsibility: EK Human Resources</p> <p>Target date: 31/3/12</p>	<p>Questionnaire on H&S maps to be developed by EKHR.</p> <p>Revised Target Date: October 2012</p>

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED – APPENDIX 2

Service	Reported to Committee	Level of Assurance	Management Action	Follow-up Action Due
Homelessness	March 2012	Reasonable/ No Assurance	On-going management action in progress to remedy the weaknesses identified.	Work-in-Progress
Payroll	June 2012	Reasonable/ Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-Progress as part of planned 2012-13 audit review

PROGRESS TO DATE AGAINST THE AGREED 2012-13 AUDIT PLAN – APPENDIX 3

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-06-2012	Status and Assurance Level
FINANCIAL SYSTEMS:				
Car Parking & Enforcement	12	12	0.17	Work-in-Progress
Capital	5	5	0	Quarter 3
Treasury Management	5	5	0	Quarter 3
Bank Reconciliation	5	5	0	Quarter 3
Creditors and CIS	8	8	0	Quarter 3
External Funding Protocol	8	8	0	Quarter 3
Miscellaneous Income/Cash Collection and Internet Payments	8	8	0	Quarter 3
VAT	8	8	0	Quarter 3
RESIDUAL HOUSING SERVICES:				
Housing Allocations/ Choice Based Lettings	10	10	0	Quarter 4
GOVERNANCE RELATED:				
Data Protection	10	10	7.18	Work-in-Progress
Provision for either a VfM Strategy audit/VfM project works or a Project Management audit	10	10	0	Quarter 4
Partnerships and Shared Services Monitoring	10	10	0.24	Work-in-Progress
Scheme of Officer Delegations	7	0	0	Deleted from plan to accommodate unplanned work
Risk Management	10	10	0.24	Quarter 4
Corporate Advice/SMT	2	2	0.37	Work-in-Progress throughout 2012-13
s.151 Officer Meetings and Support	9	9	2.18	Work-in-Progress throughout 2012-13
Governance & Audit Committee Meetings and Report Preparation	12	12	3.88	Work-in-Progress throughout 2012-13
Audit Plan and Preparation Meetings	9	9	0	Work-in-Progress throughout 2012-13
CONTRACT RELATED:				
CSO Compliance	12	12	2.45	Work-in-Progress
SERVICE LEVEL:				
Child Protection and CRB Checks	9	9	0	Quarter 4

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-06-2012	Status and Assurance Level
Dog Warden & Litter Enforcement	8	8	5.85	Work-in-Progress
Env Health - Food Safety and AirPort Health Control	10	10	0	Quarter 4
Env Health - Health & Safety	8	8	0	Quarter 3
Business Continuity & Emergency Planning	8	8	0.24	Quarter 3
Grounds Maintenance	10	10	0.24	Work-in-Progress
Dalby Square Heritage Grants (Advice on control framework)	3	3	1.18	Work-in-Progress
Museums	10	10	2.20	Work-in-Progress
Commercial Properties and Concessions	10	10	0	Work-in-Progress
Thanet Leisure Force	12	12	0.37	Work-in-Progress
Visitor Information Arrangements	10	10	11.82	Finalised - Reasonable
Waste Management	10	10	9.71	Finalised - Reasonable
Youth Development Strategy	8	0	0	Deleted from plan to accommodate unplanned work
OTHER :				
Liaison With External Auditors	3	3	0	Work-in-Progress throughout 2012-13
Follow-up Reviews	20	20	2.33	Work-in-Progress throughout 2012-13
UNPLANNED WORK:				
Housing Repairs & Maintenance	0	15	26.61	Work-in-Progress
FINALISATION OF 2011-12 AUDITS:				
Days under delivered in 2011-12	0	0	-7.21	Finalised
EAST KENT HR PARTNERSHIP:				
Recruitment	5	5	0	Quarter 4
Payroll, SMP and SSP	5	5	0	Work-in-Progress
Pay & Reward - Equality Impact Assessment	8	8	0	Work-in-Progress
HR Systems Development – i-Trent	3	3	0	Work-in-Progress
TOTAL - THANET DISTRICT COUNCIL RESIDUAL DAYS	320	320	76.71	23.97% Complete as at 30-06-2012
EK SERVICES:				
Housing Benefits – Payment	5	5	0	Quarter 4

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-06-2012	Status and Assurance Level
Housing Benefits – Admin & Assessment	10	10	0	Quarter 4
Housing Benefits – Quarterly Testing	20	20	11.9	Work-in-Progress throughout 2012-13
Council Tax	10	10	0.02	Work-in-Progress
ICT – Network Security	5	5	0	Quarter 4
ICT – Procurement and Disposal	5	5	0.20	Work-in-Progress
ICT – Software Licensing	5	5	0	Quarter 3
Carry forward from last year	8.4	8.4	6.29	Finalised
Total EK Services	68.4	68.4	18.41	
EAST KENT HOUSING:				
Repairs and Maintenance – Planned, Responsive and Cyclical repairs.	7.5	7.5	0	Quarter 4
Sheltered and Supported Housing	4	4	0	Quarter 3
Audit Committee/Follow-up work	1	1	1.11	Work-in-Progress throughout 2012-13
Tenancy & Estate Management	7.5	7.5	0.19	Work-in-Progress
Carry forward from last year	4.33	4.33	1.98	Finalised
Unplanned – Advice & Assistance on drafting the current and former tenant arrears policies.	0	0	0.61	Work-in-Progress
Total East Kent Housing	24.33	24.33	3.89	
UNPLANNED ADDITIONAL WORK				
Interreg Grant – Tudor House	4	4	1.35	Work-in-Progress throughout 2012-13
Interreg Grant – Maritime (Off-Shore Wind Farm)	4	4	0.03	Work-in-Progress throughout 2012-13
Interreg Grant – Maritime (Yacht Valley)	4	4	0.03	Work-in-Progress throughout 2012-13
English Heritage Grant - Margate Arts Heritage and Culture Project	0.5	0.5	2.06	Finalised

BALANCED SCORECARD – QUARTER 1

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2012-13 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2012-13 Actual</u>	<u>Target</u>
	Quarter 1				
Chargeable as % of available days	84%	80%	Cost per Audit Day (Reported Annually)		£309.15
Chargeable days as % of planned days					
CCC	16.08%	25%			
DDC	21.18%	25%			
SDC	28.76%	25%			
TDC	23.97%	25%			
EKS	10.73%	25%			
EKH	6.86%	25%			
Overall	20.93%	25%			
Follow up/ Progress Reviews;					
• Issued	13	-			
• Not yet due	18	-			
• Now overdue for Follow Up	10	2			
Percentage compliance with the CIPFA Code for Internal Audit 2006	97%	97%			

BALANCED SCORECARD – QUARTER 1

<u>CUSTOMER PERSPECTIVE:</u>	<u>2012-13 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2011-12 Actual</u>	<u>Target</u>
	Quarter 1			Quarter 1	
Number of Satisfaction Questionnaires Issued;	19		Percentage of staff qualified to relevant technician level	86%	75%
Number of completed questionnaires received back;	7 =37%		Percentage of staff holding a relevant higher level qualification	37%	32%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	0%	24%
<ul style="list-style-type: none"> • Interviews were conducted in a professional manner 	100%	100%	Number of days technical training per FTE	0.31	3.5
<ul style="list-style-type: none"> • The audit report was 'Excellent or Very Good' 	100%	90%	Percentage of staff meeting formal CPD requirements	37%	32%
<ul style="list-style-type: none"> • That the audit was worthwhile. 	86%	100%			



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.

TREASURY MANAGEMENT UPDATE FOR QUARTER 1, 2012

To: **Governance and Audit Committee – 25th September 2012**

Main Portfolio Area: **Finance**

By: **Capital & Treasury Finance Officer**

Classification: **Unrestricted**

Summary: This report is to update the Governance and Audit Committee with the Treasury Management activity that has occurred for the quarter ended 30th June 2012.

For Information

1.0 Introduction and Background

1.1 The CIPFA (the Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (TMSS, annual and mid year reports). This report therefore ensures this council is implementing best practice in accordance with the Code.

2.0 Economic Background for Q/E 30 June 2012

2.1 In the quarter ended 30 June 2012:

- The economic outlook has generally weakened;
- Demand on the high street was volatile, as a result of temporary distortions;
- Employment rose and unemployment fell, but earnings growth remained weak;
- Inflation continued to fall;
- The Bank and the HM Treasury announced measures to help the UK banking sector;
- The Monetary Policy Committee (MPC) indicated another tranche of quantitative easing (QE);
- Gilt yields fell on the back of deteriorating economic data and safe-haven flows from the euro-zone;
- Sentiment towards the Eurozone alternately rose on the announcement of measures to address the crisis, but then fell back as measures disappointed.

2.2 The weakening business surveys since the start of Q1 suggests that the economy will be lucky to escape a third successive quarterly contraction (output shrunk by 0.4% in Q3 FY 11/12 and 0.3% in Q4 FY 11/12). Admittedly, the CIPS/Markit surveys in April and May were at a level consistent with quarterly expansion, albeit of only 0.2%.

However, the extra bank holiday for the Queen's Jubilee at the start of June had a detrimental impact on output.

- 2.3 The CIPS surveys does exclude the retail sector and high street spending, which performed strongly in May on the official measure, following a weak, poor-weather driven performance in April. Evidence for early June from the CBI's Distributive Trades Survey suggests that the Jubilee holiday may have boosted spending. Nevertheless, consumer confidence showed no signs of breaking out of its long-depressed state.
- 2.4 The labour market continued to perform relatively better, with the Labour Force Survey measure of unemployment falling by 51,000 in the period February-April. However, the narrower claimant count measure of unemployment did rise by 8,000 in May, the largest increase since September 2011.
- 2.5 Pay growth remained weak. Annual growth of overall average earnings rose from 0.8% to 1.9% in April as the poor bonus season ended. Excluding bonuses, growth was only 1.8%. Given the rate of inflation over this period, real pay continued to fall on an annual basis, an underlying drag on the consumer and therefore growth.
- 2.6 House prices trended downwards. The Nationwide measure fell in two of the three months from April to June, with the annual rate of house price inflation declining from -0.7% in May to -1.5% in June. The less timely Halifax measure also saw an overall decline in prices over April and May.
- 2.7 Banks' funding costs eased over the quarter, reflecting actions by the Bank of England and Treasury to boost liquidity. Two initiatives were announced in June - a 'funding for lending' scheme which would allow banks to temporarily "swap" their assets with the Bank of England in return for money they could lend to customers, and an emergency scheme that offered six-month low-cost liquidity to banks in tranches of £5bn a month.
- 2.8 Costs, however, remained elevated and banks began to pass higher costs onto borrowers. Borrowing rates on most types of new mortgages picked up in April and May.
- 2.9 Trade data showed a sharp deterioration in April. The UK posted its second largest monthly trade deficit on record, driven in large part by a widening of the gap between exports and imports with countries outside the EU. Exports to the Eurozone also fell, with weakness extending from the peripheral countries to what had previously been perceived as strong economies like Germany.
- 2.10 The latest public finance figures also disappointed. While April's budget surplus was the largest on record, this was flattered to the tune of £28bn by the transfer of a share of the assets of the Royal Mail's pension fund to the public sector. Once allowance was made for this, net borrowing for the first two months of the financial year was almost £4bn higher than the equivalent period in 2011/12.
- 2.11 Inflation fell further in the second quarter. CPI inflation fell from 3.5% in March to

2.8% in May, driven by declines in fuel and food prices. Core inflation fell from 2.5% to 2.2%.

- 2.12 The most striking development in inflationary pressures was in the price of oil, which fell from \$125 at the beginning of April to around \$96 at the end of June, its lowest level since early 2011.
- 2.13 Consistent with the decline in inflation, medium-term indicators of inflation suggested that underlying price pressures remained weak. Household respondents to June's YouGov/Citigroup inflation expectations survey predicted the annual rate of inflation in a year's time would be 2.4%, the lowest year-ahead expectation since April 2010.
- 2.14 The MPC voted narrowly against pursuing more quantitative easing (QE) at its June meeting. The consensus view was that the MPC would decide on further purchases in July. The Governor of the Bank of England said in June that, as a consequence of the Eurozone crisis, he was already more pessimistic than suggested by the forecasts published in the Bank's Inflation Report only six weeks earlier.
- 2.15 As a result of, safe-haven flows from the Eurozone and the impact of QE, government bond yields fell during the quarter, with ten year yields at one point dropping below 1.5%, their lowest level ever.
- 2.16 After signs of acceleration in Q4 FY 11/12, the US economy's recovery lost momentum. Total non-farm payroll employment was up only 69,000 in May, following a similarly weak rise in April of 77,000. US retail sales values fell in April and May.
- 2.17 Market sentiment towards the Eurozone remained volatile as successive 'rescue packages' first raised, and then disappointed, expectations. The economic news suggested that the Eurozone economy contracted sharply in the second quarter, while Eurozone unemployment rose to 11.1% in May, the highest rate since the creation of the euro in 1999.

3.0 Interest Rate Forecast at 30 June 2012

3.1 The Council's treasury advisor, Sector, provides the following forecast:

	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%
5yr PWLB rate	2.10%	2.20%	2.20%	2.30%	2.40%	2.50%	2.60%	2.80%	3.00%	3.20%	3.40%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%
25yr PWLB rate	4.20%	4.30%	4.30%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%
50yr PWLB rate	4.30%	4.40%	4.40%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%

3.2 The Sector central forecast is for the first increase in Bank Rate to be in the first quarter of 2014 but there is downside risk to this projection. With growth predictions

for the U.K continuing to be reduced on an almost monthly basis by both the Office for Budget Responsibility and economic commentators generally, and financial markets unconvinced that politicians have resolved the Euro-one sovereign debt crisis in the medium-term, we are likely to continue to experience high levels of volatility.

Sector's Summary Outlook at 30 June 2012

3.3 The outlook for the global economy remains clouded with uncertainty. The UK economy has struggled to generate a sustained recovery so this offers little hope for a strong recovery in 2012, and possibly even into 2013. Consumer and business confidence levels are generally low and it is not easy to see potential for a significant increase in the growth rate in the short term.

3.4 Eurozone

- Regular Euro-zone summits have yet to put in place the building blocks for a long-term recovery;
- The outcome of the French and Greek elections have emphasised the desire of the southern nations states and France to see more of a growth agenda than has been prevalent of late and also a potential move towards fiscal union;
- Cash outflows from banks have generally been from the southern nation states to Germany, Holland, Denmark and Finland.
- The Germans remain reticent about fiscal union of any sort;
- In the first week of July, the ECB cut the base lending rate to 0.75% from 1% whilst the deposit rate was reduced to zero.

3.5 US

- Economic prospects have disappointed in recent weeks with the key non-farm payroll monthly figures tending to dip below 100,000 new jobs. For a proper, robust recovery, something in the order of 200,000 new jobs needs to be created each month.
- Operation Twist remains in place, ensuring that long term funding costs are forced down as well as the loose monetary policy at the short end of the curve;
- However, in a typically fraught election year, the US still has to address reducing the huge total of public debt and annual deficits but that will have to wait until 2013 at the earliest;
- Presidential elections are due in November 2012.

3.6 China

- Falling inflation has opened the way for relaxing credit restrictions to boost growth, which has been flagging;
- Current expectations are that it will maintain a reasonable rate of growth, though less than in previous years.

3.7 UK

- Austerity measures, aimed at getting the public sector deficit into order over the next four years, may start losing support unless the economy starts to revive soon;
- Some £80bn is going to be made available by the Government to the banks to parcel through to business but it is not clear that all of this will be taken up;
- The housing market, a gauge of consumer confidence, remains subdued although house prices are being supported by the weak £ relative to some of the other main currencies;
- Economic forecasts for 2012 and beyond have been revised lower on a near quarterly basis;

- The Bank of England embarked on a £50bn third round of Quantitative Easing (QE) at the start of July to stimulate economic activity. It is unlikely to be the last tranche of QE and the total now stands at £375bn;
- Inflation has eased from its peak of 5.2% (CPI) in September 2011, now standing at 2.8% with the outlook brighter given commodity and oil prices seem to be in decline, at least for the moment
- “Safe haven” status has underpinned demand for gilts and kept yields at historic lows. It is unlikely that we will see a material change in the near term.

Sector’s forward view at 30 June 2012

3.8 Economic forecasting remains difficult with so many external influences weighing on the UK. Key areas of uncertainty include:

- The impact of the Euro-zone crisis on financial markets and the banking sector;
- The impact of the UK Government’s austerity plan on confidence and growth;
- Monetary policy action failing to stimulate growth in western economies;
- The potential for weak growth or recession in the UK’s main trading partners - the EU and US;

3.9 The overall balance of risks remains weighted to the downside. Sector believes that the longer run trend is for gilt yields and PwLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. However, near-term, QE is likely to depress yields and further QE thereafter may lead to a reassessment of Sector’s central forecast.

3.10 Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before early 2014 as very limited indeed. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

4.0 Annual Investment Strategy

4.1 The Treasury Management Strategy Statement (TMSS) for 2012/13, which includes the Annual Investment Strategy, was approved by the Council on 19 January 2012. It sets out the Council’s investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

4.2 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep investments short term with a maximum duration of 3 months.

4.3 This limit will apply to all entities on the suggested Sector Credit List with the following exceptions:

1. UK Government and related entities such as Local Authorities.
2. UK semi-nationalised institutions (Lloyds / RBS). We continue to view the current significant UK ownership of these entities as providing significant comfort to investors.
3. Money Market Funds.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2012. During that quarter strong cash-flow enabled the Council to (i) extend the notice period on one of its bank accounts from 10 to 35 days, and (ii) place both term and notice deposits with a semi-nationalised bank with varying maturities under one year.

5.0 New Borrowing and Debt Rescheduling

- 5.1 The council has not taken on any new borrowing for the quarter ended 30th June 2012.
- 5.2 Debt rescheduling opportunities have been limited in the current economic climate and structure of interest rates following increases in PWLB new borrowing rates in October 2010. During the quarter ended 30th June 2012, no debt rescheduling was undertaken by the council.
- 5.3 A portion of the council's PWLB debt matures at the end of 2012 and options (including rescheduling and repayment) will be reviewed in due course in line with market conditions.

6.0 Compliance with Treasury and Prudential Limits

- 6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.
- 6.2 During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

6.0 Options

- 6.1 That the Governance and Audit Committee notes this report.

7.0 Corporate Implications

7.1 Financial and VAT

- 7.1.1 There are no financial or VAT implications arising directly from this report.

7.2 Legal

- 7.2.1 There are no legal implications arising directly from this report.

7.3 Corporate

- 7.3.1 This report is being brought before Members of the Governance and Audit Committee as recommended by the CIPFA Code of Practice as being best practice.

7.4 Equity and Equalities

- 7.4.1 There are no equality or equity issues arising directly from this report.

8.0 Recommendation

- 8.1 That the Governance and Audit Committee notes this report.

9.0 Decision Making Process

9.1 There is no decision to be made and this report is for reference only.

10.0 Disclaimer

10.1 Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

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