

Public Document Pack



Date: **18 June 2012**
Our ref: Governance and Audit/agendas
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GOVERNANCE AND AUDIT COMMITTEE

27 JUNE 2012

A meeting of the Governance and Audit Committee will be held at **7.00 pm on Wednesday, 27 June 2012 (Training at 6.30pm)** in the Austen Room, Council Offices, Cecil Street, Margate, Kent.

Membership:

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

A G E N D A

Item
No

1. **GOVERNANCE AND AUDIT QUIZ**
2. **APOLOGIES FOR ABSENCE**
3. **DECLARATIONS OF INTEREST**
To receive any declarations of interest. Members are advised to consider the extract from the Standard Board Code of Conduct for Members, which forms part of the Declaration of Interest Form at the back of this Agenda. If a Member declares an interest, they should complete that Form and hand it to the Officer clerking the meeting.
4. **MINUTES OF PREVIOUS MEETING** (Pages 1 - 10)
To approve the Minutes of the Governance and Audit Committee meeting held on 20 March 2012, copy attached.
5. **ACTION POINTS FROM PREVIOUS MEETING** (Pages 11 - 12)
6. **INTERNAL AUDIT PROGRESS REPORT** (Pages 13 - 24)
7. **INTERNAL AUDIT ANNUAL REPORT** (Pages 25 - 48)
8. **AUDIT COMMITTEE UPDATE** (Pages 49 - 62)
9. **QUARTERLY GOVERNANCE PROGRESS REPORT** (Pages 63 - 80)
10. **DRAFT ANNUAL GOVERNANCE STATEMENT 2011-2012** (Pages 81 - 98)

Item
No

11. **ANNUAL TREASURY MANAGEMENT REVIEW** (Pages 99 - 116)
 12. **FUTURE ITEMS OR TRAINING FOR THE COMMITTEE** (Pages 117 - 118)
- Declaration of Interest form - back of agenda**

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 20 March 2012 at 7.00 pm in Austen Room, Council Offices, Cecil Street, Margate, Kent.

Present: Councillor Jason Savage (Chairman); Councillors Campbell, Binks, Day, Edwards, Matterface, W Scobie, M Tomlinson and Worrow

204. ALSO PRESENT:

Dr. Sue McGonigal – Chief Executive and Chief Financial Officer
Harvey Patterson – Corporate and Regulatory Services Manager
Sarah Martin – Financial Services Manager & Deputy s151 Officer
Nikki Morris – Business Support and Compliance Manager
Harpal Singh – Team Leader - Audit Commission
Lisa Robertson – Audit Manager – Audit Commission
Simon Webb – Audit Manager – East Kent Audit Partnership
Madeline Homer – Community Services Manager
Craig George – Housing Services Manager

205. NATIONAL FRAUD INITIATIVE

The presentation on National Fraud Initiative was deferred until the 27 June 2012 meeting of the Governance and Audit Committee when more information will be available.

206. APOLOGIES FOR ABSENCE

Apologies were received from Councillor David Green.

Substitute for Councillor David Green was Councillor John Edwards.

Apologies were also received from Christine Parker, Head of East Kent Audit Partnership.

207. DECLARATIONS OF INTEREST

There were no declarations of interest.

208. MINUTES OF PREVIOUS MEETING

The minutes of the Governance and Audit Committee meeting held on 13 December 2011, were approved and signed by the Chairman.

209. ACTION POINTS FROM PREVIOUS MEETINGS

Referring to the action plan item in respect of 'Internet Protocol', Members had concerns 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. Harvey Patterson, Corporate and Regulatory Services Manager advised Members that this did form part of the rollout of the 'Microsoft Outlook' system which had encountered some problems leading to a two month delay.

A new programme of training for Members is to be arranged as soon as possible. Due to the limited number of desks in the 'Learning Resource Centre' it was suggested that

members indicate when they are intending to attend the training. This concern would be fed back to the 'trainers' so that numbers for each session can be monitored.

Harvey added that discussions were taking place with IT and it is hoped that the technical issues will be resolved shortly. Dr Sue McGonigal, Chief Executive advised that this 'action' would remain open.

Members agreed.

210. QUARTERLY INTERNAL AUDIT UPDATE 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 December 2011.

Simon Webb, Audit Manager introduced the report to Members. There have been seven Internal Audit assignments completed during the period. Of these two concluded Substantial assurance, four concluded Reasonable assurance, and one resulted in a split assurance which was partly Reasonable assurance and partly No Assurance. In addition, eight follow-up reviews have been completed during the period.

For the six months to 31st December 2011, 298.4 chargeable days were delivered against the planned target of 342 which equates to 87.25% plan completion. The financial performance of the East Kent Audit Partnership is ahead of target at the present time and expected to deliver a further saving to the Council.

Members had concerns regarding the assurance level received in respect of 'Homelessness' which had received a Reasonable/No assurance level. Simon advised Members that this audit examined and evaluated the procedures and controls established by management, in respect of the following business objectives:

- To maximise housing options and choices for all homeless households, and provide a better range and supply of accommodation for homeless people.
- To prevent households becoming homeless wherever possible, particularly through the provision of improved advice services, and closer working with the private rented sector.
- To provide a cost effective, accessible, sympathetic and thorough service for people who experience homelessness.
- End the use of bed and breakfast accommodation, other than in an emergency.
- Ensure that homeless households receive appropriate support to access and maintain accommodation.
- Ensure equality of access and service provision for all service users.
- Monitor performance and work within Best Practice in all aspects of homelessness.

Simon added that this was primarily a good news story as it has improved considerably and management can place Reasonable Assurance that the Council are complying with the statutory requirements in respect of homeless persons and in respect of the system of controls for housing homeless persons in bed and breakfast accommodation.

However their audit found that Management can place No Assurance on the governance of the financial arrangements with the Old Schools Lodge and the use of the lodge as temporary accommodation for homeless people.

The Homelessness process is generally working well and much progress has been made to implement the recommendations of the previous audit reviews. Monitoring of sundry debtors has been simplified to enable the part time Housing Options Officer to monitor all

outstanding rent deposit debtors. Furthermore progress is being made to enable the council to provide temporary insecure tenancies and opportunities to utilise Private Sector Leasing Schemes are being explored. Arrangements with local bed and breakfast accommodation venues have also improved. There is however still concern regarding the level of usage of bed and breakfast accommodation and the increased costs arising now that the Old School Lodge is no longer being used to provide temporary accommodation.

Whilst some progress has been made investigating the deficit charges made by the Hostel operators in previous years this has yet to be resolved satisfactorily and further action is proposed by the Council which will be followed up by Internal Audit later in the year .

Madeline Homer, Community Services Manager explained that the Old School Lodge, originally TDC, was contracted with Amicus Horizon to provide temporary accommodation necessary for homeless persons. Amicus Horizon applied to Kent County Council to become a provider of accommodation and this created confusion in the use of the Old School Lodge.

Craig George, Housing Services Manager updated Members on the current situation adding that the deficit funding from Old Schools Lodge is being dealt with and Amicus Horizon have been written to and did provide accounts for the Old Schools Lodge. However, these were insufficient to confirm the deficit funding required and so further correspondence has been sent advising them that they must provide independently audited accounts that certify the amount of deficit funding required for the years 2006/07, 2007/08 and 2008/09. The Council will be pursuing rigorously reimbursement of monies.

Referring back to the 2006/07, 2007/08 and 2008/09 deficit Members asked whether processes were now in place. Craig advised that the issue in 2006 was that processes had been in place but they had not been challenged nearly enough. Sue added that in 2007/08 the problem had been recognised and work started to resolve it. Since that time an enhanced procurement team has ensured that substantial improvements have been made with advice and guidance being given.

Some Members felt that more people in the procurement team was not necessarily the answer but that the Council should ensure that a process was in place and was robust enough. Sue replied that people apply the processes and regular verification that those processes were being followed was implemented.

In referring to the Summary of High Priority Recommendations after Follow Up, members asked whether the item on Planning with a revised target date of 31 March 2012 was on time. Simon said that this would require further follow-up work. Other Members asked why no 'end date' had been provided regarding Equality and Diversity which is a service given Limited Assurance. Simon explained that this had involved a long lead in time and the results of the follow-up work would be provided at the June committee meeting.

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

“6.1 that the report be received by Members

and

6.2 that any changes to the agreed 2011-12 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved”

MOTION ADOPTED.

211. INTERNAL AUDIT CHARTER AND 2012/13 AUDIT PLAN

Simon Webb, Audit Manager outlined the report which gives Members a summary of the way in which the internal audit function provided by the East Kent Audit Partnership intends to deliver its service for the period 1 April 2012 to 31 March 2013 and details of the coverage it intends to provide controls assurance on.

To assist the Committee meet its terms of reference with regard to the internal control environment reports are regularly produced on the work and remit of Internal Audit.

The Audit Charter establishes the purpose, authority, objectives and responsibility of the East Kent Audit Partnership, in providing an Internal Audit function to the partner councils and the Strategy details how the East Kent Audit Partnership provides the Internal Audit function for the year to 31 March 2013. It also sets out the resources required across the four partnership sites and details how the resource requirements will be met.

The audit plan has been prepared in consultation with Heads of Service and the Council Statutory S151 Officer and discussions with business managers across the authority. The plan is also designed to meet the requirements expected by the Audit Commission for ensuring key controls are in place for its fundamental systems.

A question was raised by Members regarding the Financial Systems in relation to car parking and enforcement and whether this referred to paid parking or parking in general. Simon confirmed that this was paid car parking. The assurance level for External Funding Protocol was 'reasonable' and Members asked where this could be improved. Simon advised that although the audit had concluded 'reasonable' assurance, provided all the new controls are adhered to then this could be improved.

Equalities and Diversity had no planned audit days although having received a 'Limited' assurance and Members queried this. Simon advised that this would be part of the 'follow up' audit. This also applied to the Leasehold Services.

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

Members agree the following recommendations:

- “6.1 approve to adopt the Internal Audit Charter
- 6.2 approve to adopt the Internal Audit Strategy for delivery of the internal audit service
- 6.3 approve the Council's Internal Audit Plan for 2011/12”

MOTION ADOPTED.

212. 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:

- 2.1 Corporate risk register
- 2.2 Annual Governance Statement
- 2.3 Programme of Reports
- 2.4 Terms of reference – annual review
- 2.5 Data Quality Framework

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

BUS0003 – The Council relies on staff consistently working for longer than their contracted hours.

The target date on the risk register, reference BUS0003, is currently 31 March 2012 and Members queried this?

Sue McGonigal (Chief Executive) advised Members that the target date needed to be changed. Sue added that Managers now have access to Senior Management Team and work has been done with HR to improve skills.

Members also asked how additional work can be done when the Council are down in numbers structurally and perhaps a list should be made of the things that the Council cannot do anymore.

Sue McGonigal, in response advised that the Council were looking to do things differently with teams being merged so providing a dual service. Saving targets still needed to be made in excess of £1 million pounds over the next couple of years.

Nikki Morris, Business Support and Compliance Manager brought Members' attention to an additional risk that had been highlighted. This referred to the Council's software supplier for a new localised council tax discount scheme which is expected to be implemented by April 2013. The risk register reference is FIN0005.

BUS030001 – The Council is involved in a number of partnerships including a shared services programme with other Local Authorities, 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.

Members asked:- A strategic business case had been agreed for the Council to be involved in Shared Services, why was it necessary to keep reviewing it?

In answering Sue McGonigal advised that although the governance arrangements were now in place it was time to review them.

BUS020001 – Managers may not have or use performance information effectively as a management tool.

A question raised by Members was:- in developing a culture change programme to monitor behaviours did the Council receive resistance or were people generally on board in developing this change?

The culture change programme was felt to be a 'good news story'. Sue McGonigal added that the review of performance processes would involve a competency based appraisal scheme. It could include people's general 'cheerfulness' on the job and a customer satisfaction outcome. This would be developed over an 18 month period with 40 staff cascading the training out. Feedback so far had demonstrated that performance and motivation had improved.

CRS0001 – There are corporate standards, policies and procedures which need to be understood and applied consistently throughout the Council. The organisation has a history of focusing on delivery, not corporateness and there could be tensions, particularly with capacity constraints around key areas of focus.

Harvey Patterson, Corporate and Regulatory Services Manager updated Members on this item. The control measures assigned to this risk have been applied and processes are now in place for dealing with this risk. He added that we are now much more corporately compliant; although one of the areas of concern was the decision making process. Training to ensure this process is understood is to be provided to Members and Managers. The Forward Plan document has significantly improved giving a complete overview of key issues and the meeting path and dates.

The Corporate Report Template confuses users who now have to consult with Finance and Legal before a report can be placed on an agenda. This is to be discussed at Cabinet Agenda Conference and questions and answers will be brought back to this Committee.

The following was asked by Members in relation to the Annual Governance Statement - GV05 – Formal Procurement Programme (BUS03):-

The problem has been that on repairs and maintenance tenders specifications have not been accurate in the past and where in the process could this be picked up at an earlier stage?

Sue McGonigal assured Members that the procurement processes had been strengthened and a qualified engineer now leads a merged team.

Nikki Morris asked Members to consider the Terms of Reference for the Governance and Audit Committee, which had additional amendments underlined as follows:

Regulatory Framework

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

Moved by Councillor Scobie and seconded by Councillor Binks that:

“the amendments to the ‘Terms of Reference’ be agreed”

MOTION ADOPTED.

Moved by Councillor Campbell and seconded by Councillor Binks that:

- 5.1 Members note the content of annexes 1 and 2 and had identified any issues on which they required more clarification

5.2 Members agree the programme of reports for 2012/13, on the understanding that there may be variations to the programme should the need arise”

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

MOTION ADOPTED.

213. REVIEW OF THE EFFECTIVENESS OF THE GOVERNANCE AND AUDIT COMMITTEE AND ANNUAL REPORT

The Chairman introduced the report which summarises the achievements of the Governance and Audit Committee against its terms of reference for the period 1 April 2011 to 31 March 2012 and details the impact that it has made on the overall system of internal control in operation for that period.

The Chairman thanked the Committee Members for all their hard work through the year.

Due to the postponement of the NFI training it was noted that this would now be scheduled for the 27 June 2012 meeting and an amendment made to the draft report. It was also noted that if a change is made to the membership during a Committee cycle, the new member will be given a detailed induction prior to their first attendance.

Moved by Councillor Matterface and seconded by Councillor Day that:

“Members agree the content of this report and the recommended actions within the action plan, and that Members recommend that the Annual report be forwarded to Full Council”

MOTION ADOPTED.

214. TREASURY MANAGEMENT UPDATE

Sarah Martin introduced the report which updates the Governance and Audit Committee on the Treasury Management activity that has occurred since the last report in December 2011.

Sarah advised Members that as soon as the Council become aware of negative ratings then funds are withdrawn as has been the case recently with Santander UK plc, although they still remain on the authority’s counterparty list.

The current investment list was provided to Members who asked who owned ‘Ignis’? Sarah would obtain this information for Members. An Investment Portfolio Benchmark Analysis document had been distributed to Members who were informed that 8 authorities had taken part in this process. The aim of this benchmarking model is to compare rate of returns by adjusting for the risks inherent in the portfolio. The main risks in cash portfolios are Maturity Risk and Credit Risk.

Currently the authority’s loan portfolio is held in one single pool and the costs of borrowing are apportioned across the HRA and General fund using a complex calculation as set out in the subsidy determination. As part of the self-financing review this arrangement has been looked at to see if it should be amended. Options and guidance for Members was provided in the report.

Members asked how the two pool approach could be managed as the Finance Department employed only one Treasury Officer. Sarah advised that following a review of staffing within Financial Services a new strategic housing accountant post, chargeable to the HRA, is to be created and one of this post's tasks will be treasury management for the HRA.

Members agreed to note the content of the report.

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

“the Governance and Audit Committee notes the report”

Agreed.

215. REVIEW OF THE EFFECTIVENESS OF THE COUNCIL'S INTERNAL AUDIT ARRANGEMENTS

Sue McGonigal, Chief Executive (s151 Officer) outlined the report which presents the review of the effectiveness of the council's Internal Audit arrangements for 2011/12 as required by The Accounts and Audit (Amendment) (England) Regulations 2006.

The East Kent Audit Manager and Head of East Kent Audit Partnership regularly meet with the Deputy Section 151 Officer to monitor performance against the Audit Plan, and also to discuss any matters arising in relation to the performance of the Audit Partnership. Periodically these meetings are attended by the External Auditors of the Audit Commission, so that they are able to gain assurance as to the effectiveness of the process. In addition, Sue McGonigal as the council's Section 151 officer meets with the audit partnership regularly to discuss performance against the contract. Sue McGonigal was pleased to provide Members with assurance that in her opinion the Partnership operates to high professional standards and delivers to its contract.

Following a question raised by Members regarding the effectiveness of the Audit service Sue McGonigal advised that the Partnership provided an excellent working relationship with management without fettering the independence needed to be able to take a sufficiently independent perspective.

Members agreed the following:

“the Governance and Audit Committee accept the findings of the review of the effectiveness of the council's Internal Audit arrangements for 2011/12”

MOTION ADOPTED.

216. AUDIT COMMISSION PROGRESS REPORT

Lisa Robertson, Audit Manager 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 September 2011.

Since the last meeting the transfer of the Audit Commission to 'Grant Thornton' had been agreed following a complex bid process. Lisa added that significant fee savings were expected.

Members agreed to note the report.

217. ANNUAL GRANT CERTIFICATION REPORT 2010/11

Harpal Singh, Team Leader from the Audit Commission outlined the report which summarises the findings from the certification of 2010/11 claims.

Harpal added that he was pleased to advise that the Authority had performed well in preparing claims and returns. The Summary of recommendations note that there are no significant findings arising from the grant certification work that needed to be brought to the attention of those charged with governance which was a good achievement.

Members agreed to note the report.

218. OPINION AUDIT PLAN 2011/12

Lisa Robertson, Audit Manager from the Audit Commission outlined the report which updates Members on the audit work that the Audit Commission has proposed to undertake for the audit of the Council's financial statement for 2011/12.

Lisa added that with regard to the Housing Revenue Account reform, 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 Public Works Loan Board debt held by the Authority. The audit response is to review management oversight of HRA reforms and transactions required by the Authority and tests of detail on the settlement payment of receipt.

Members agreed to note the report.

219. FUTURE ITEMS OR TRAINING FOR THE COMMITTEE

The next meeting of the Governance and Audit Committee (27 June 2012) is to include the NFI presentation.

Members also requested additional 'Finance' training for a future meeting.

Meeting concluded : 8.40 pm

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Governance and Audit Committee Action Plan

G & A meeting	Action	Owner	Target date	Progress	Feedback / Comments
20-Mar-12	Update/review Risk Register in line with comments made.	ST	17-May-12	C	Updates undertaken.
20-Mar-12	When viewing the current investment list, Members asked who owner 'Ignis'. SM to obtain this information for Members.	SM	27-Jun-12	C	Ignis is part of the Phoenix group. Phoenix has two core businesses: life assurance which is branded as 'Phoenix Life' and asset management which is branded as 'Ignis Asset Management'. The Phoenix group is a member of the FTSE 250 index.
13-Dec-11	Referring to 'Internet Protocol', Members asked when Member access to the intranet would be implemented. Harvey Patterson advised that the implementation may have been delayed due to cost and timing but that he would investigate with the IT department and inform Members.	HP	TBC	IP	Members can access their emails through Outlook webaccess and through the Members' Portal. EK Services is undertaking development work intended to enable access via the Members' Portal to the modern.gov system, including private agenda packs containing exempt documents. No estimated completion date for that work is available yet.

Key:

HP Harvey Patterson
 SM Sarah Martin
 ST Steve Tebbett

Key:

C Completed
 IP In progress
 O Ongoing

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INTERNAL AUDIT PROGRESS REPORT

To: **Governance and Audit Committee: 27th June 2012**

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

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 31st March 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 31st March 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: one concluded Substantial assurance, two concluded Reasonable assurance, and one resulted in a split assurance which was partly reasonable assurance and partly Limited Assurance. Additionally, one piece of work comprised of quarterly housing benefit testing for which an assurance level is not applicable. Summaries of the report findings are detailed within Annex 1 to this report.

3.2 In addition, three follow-up reviews have been completed during the period.

4.0 Options

4.1 That Members consider and note the internal audit update report.

4.2 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.

4.3 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 2011-12 and 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.

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 – 27-06-2012
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Background Papers:

Title	Details of where to access copy
<i>Internal Audit Annual Plan 2011-12</i>	Previously presented to and approved at the 15 th March 2011 Governance and Audit Committee meeting
<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



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 31st March 2012

2.0 SUMMARY OF REPORTS

	Service / Topic	Assurance level
2.1	EK Services – Housing Benefit Overpayments	Substantial
2.2	EK Services – Business Rates	Reasonable
2.3	EK Services – Debtors	Reasonable
2.4	EKHRP/KCC - Payroll, SMP and SSP	Reasonable/ Reasonable/Limited
2.5	EK Services – Quarterly Housing Benefit Testing (Quarters 2 and 3 of 2011-12)	Not Applicable

2.1 EK Services Housing Benefit Overpayments – Substantial Assurance:

2.1.1 Audit Scope

To ensure that the processes and procedures established by EK Services are sufficient to provide the level of service required by the partner Councils and incorporate relevant internal controls regarding the administration of overpayments of Housing Benefit especially at keeping the number of overpayments to a minimum by making the necessary changes to benefits paid as soon as known and that all avenues of recovery are pursued to obtain any benefit overpaid.

2.1.2 Summary of Findings

EK Services manage the Housing Benefit Overpayment process for Dover DC, Thanet DC and Canterbury CC through staff based at each site. They are responsible for the billing and collection of overpaid benefits through the raising of invoices, agreeing and monitoring instalment arrangements and the processing of accounts through court action recovery. There is a Service Level Agreement in place covering all aspects of the delivery of the service and how performance will be reported.

This review confirmed that overall a sound system of control is currently being managed and achieved over Housing Benefit Overpayments at each of the three collaborative authorities. This control assessment has been based on the processes that reflect each authorities existing arrangement prior to EK Services taking over this

operation. The audit examination and review of procedures in operation found that the working practices engaged in are relevant and appropriate to facilitate the effective collection of Housing Benefit overpayments.

The EK Services Income Management Policy has been drafted and is currently being consulted on with the three collaborative authorities. The procedures proposed by EK Services were not found to be significantly different to those procedures on best practice historically followed by individual authorities. They will however introduce consistency of application and working practice that will support debt collection, monitoring and system reporting of information.

The proposed Policy was found to have regard to the Financial Procedure Rules and reporting requirements of each individual authority.

Management information was available to enable the monitoring and reporting of housing benefit overpayments with proposals underway to enhance the level of management information historically reported by each authority. Once in place these will provide a comprehensive range of internal performance indicators.

A range of preventative measures were confirmed during the review providing confidence that control application within working practices ensures that overpayments are kept to a minimum at each authority.

Overpayments were found to be identified and actioned promptly with existing system (Civica) supporting the processing and event monitoring of overpayments. The IT systems were found to be fit for purpose with no significant operational problems being experienced on the collection of Housing Benefit overpayments.

2.2 EK Services Business Rates – Reasonable Assurance:

2.2.1 Audit Scope

To ensure that the processes and procedures established by EK Services are sufficient to provide the level of service required by the partner Councils and incorporate relevant internal controls regarding the administration of Business Rates, especially the recording of accounts, billing, income collection, monitoring of accounts and debt recovery.

2.2.2 Summary of Findings

EK Services manage the NNDR collections process for DDC, TDC and CCC through staff based at each site. They are responsible for the maintenance of the database of properties and accounts and for the billing and collection of income due. There is a Service Level Agreement in place covering all aspects of the delivery of the service and how performance will be reported.

The amendments to the property file are conducted after receipt of the weekly VOA amendment lists, this work took significantly longer, on average, to complete at CCC than elsewhere, which should be corrected, as it could delay the collection of additional income. The process for accounting for any discrepancies remaining between the VOA and Council data file once amendments had been made, was superior at CCC and should be adopted universally. There were problems with the end of year VOA list reconciliations for both Dover and Thanet with minor discrepancies unresolved. For Thanet this has now been corrected but remains a

work in progress at Dover, this should be given some priority as we are approaching year-end.

The approved new Policy, for granting of discretionary relief and hardship cases across the three councils, is to be commended. It includes reference to an annual review for each discretionary award but this will place a tight deadline on the review procedure if revised discretionary awards are to become effective from 2013. There does not appear to be a strategy and work programme in place to address this issue.

The NNDR income reconciliation processes used at each authority differed markedly as did the number of staff involved. Each achieved its aim but in the interests of business continuity there could be advantages in standardising the routines and spreadsheets used to record the information.

The single performance data statistics required to be reported is the actual income collected against the monthly target. This has been done for each month. However, it was noted that there is no aged debt reporting regime showing progress towards recovering old debts. There could be benefit in preparing this data for each Council to demonstrate the effectiveness of the processes employed.

2.3 EK Services Debtors – Reasonable Assurance:

2.3.1 Audit Scope

To ensure that the processes and procedures established by EK Services are sufficient to provide an effective, efficient and economical debtor management and recovery service to the three partner authorities of Canterbury CC, Dover DC and Thanet DC and incorporate relevant internal controls.

2.3.2 Summary of Findings

EK Services manage the Debtors function for CCC, DDC, and TDC through staff based at DDC and TDC. They are responsible for the collection of corporate debt on behalf of each council at the point the invoice is raised. There is a Service Level Agreement in place covering all aspects of the delivery of the service and how performance will be reported and this has been agreed by all three authorities.

It is early days for the partnership and processes and procedures are still evolving. From undertaking testing and talking to EK Services staff and various council officers it is clear that there is little consistency across the three sites, and this is also evident through the various levels of work undertaken by EK Services at each site. It is understood that managing the debtor's function by EK Services has only been in place for the last 11 months and it will take a considerable amount of time to clean up the systems and processes that they have inherited.

The outstanding credits need to be reviewed more regularly as this is having a detrimental impact on the total amount outstanding at each authority.

Until the Income Management Policy is approved by the three authorities, EK Services must work to the individual authority's policies which are out of date or incomplete and therefore do not assist with ensuring there is a cohesive approach to debt collection. As a priority action should be taken to get the authorities to approve the Policy and this will result in an alignment of procedures and a consistent approach to debt management.

2.4 Payroll – Reasonable Assurance: Payroll Accuracy
– Limited Assurance: Governance Arrangements
– Limited Assurance: Performance Management Framework

2.4.1 Audit Scope

To provide assurance that the internal controls within the payroll service at each of the partner authorities and KCC are functioning satisfactorily whilst taking into account the required key controls.

2.4.2 Summary of Findings

The payroll process continues to evolve since it was 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.

The assurance on the system of internal controls in operation within the payroll system has been split as during the audit;

- errors in pay to staff have been detected that had not been previously identified, consequently checking levels are considered to be set too high,
- key relationships need to be set out in formal agreements as 'goodwill' is currently heavily being relied upon,
- targets and performance information need to be reviewed for relevance and then measured and monitored, with transparency.

The findings show 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, significantly contributed towards paying for it.

2.4.3 Management Response

The action plan contains 21 recommendations, and the responsibility for implementing the recommendations has been pitched largely at the Strategic HR Board. Due to complexity of bringing multiple councils' payroll arrangements together on a common platform, as an interim measure the role of EK Strategic HR Board was vested in the EK Chief Executive Forum, whose primary role is to commission the required work from the relevant staff, and to ensure that sufficient capacity and resource exists within the annual HR and payroll plan to deliver the agreed audit actions.

2.5 EK Services Housing Benefit Quarterly Testing (Quarters 2 and 3 of 2011-12):

- 2.5.1 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.

- 2.5.2 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 EKAP testing at Thanet in recent years
- 2.5.3 Nine further claims failed due to procedural/data input 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

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)	Land Charges	Substantial	Substantial	H	0	H	0
				M	2	M	0
				L	0	L	0
b)	Pest Control	Reasonable	Reasonable	H	2	H	0
				M	2	M	0
				L	1	L	0
c)	Equality and Diversity	Limited	Reasonable	H	5	H	0
				M	4	M	0
				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 Member's of the Governance Committee.

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

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: Dog Warden & Litter Enforcement, Data Protection, Visitor Information Arrangements, East Kent Housing (Tenancy & Estate Management, & Rent Setting and Arrears Management) and EK Services (ICT Management and Finance Controls, ICT Procurement & Disposal, & ICT Physical & Environmental Controls).

5.0 **FRAUD AND CORRUPTION:**

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

6.0 UNPLANNED WORK:

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

Attachments

Appendix 1 Summary of High priority recommendations outstanding after follow-up.

Appendix 2 Summary of services with Limited / No Assurances

Appendix 3 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.
There were no recommendations outstanding after follow-up		

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.	Summer 2012



Appendix 3

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.

INTERNAL AUDIT ANNUAL REPORT

To: **Governance and Audit Committee: 27th June 2012**

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

Subject: **INTERNAL AUDIT ANNUAL REPORT OF THE HEAD OF THE AUDIT PARTNERSHIP FOR 2011-12.**

Classification: **Unrestricted**

Summary: **This report provides the summary of the impact of the work of the East Kent Audit Partnership for the year to 31st March 2012.**

For Information

1.0 Introduction

- 1.1 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.
- 1.2 The report attached as Annex A therefore summarises the performance of the East Kent Audit Partnership (EKAP) and the work it has performed over the financial year 2011-12 for Thanet District Council, and provides an overall assurance on the system for internal control based on the audit work undertaken throughout the year, in accordance with best practice.
- 1.3 The internal audit team is proactive in providing guidance on procedures where particular issues are identified during audit reviews. The aim is to minimise the risk of loss to the Authority by securing adequate internal controls. Partnership working for the service has added the opportunity for the EKAP to port best practice across the four sites within the East Kent Cluster to help drive forward continuous service improvement.

1.4 The audit plan for this year has been delivered with 7.21 days being carried forward as work in progress at the year-end. The performance figures for the East Kent Audit Partnership as a whole for the year show impressive performance against target, and indeed the EKAP has once again delivered financial savings against its agreed budget to all its partners in the delivery of the service.

4.0 Options

4.1 That Members consider and note the annual internal audit report for 2011-12.

4.2 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 considering the work or coverage of internal audit for the year 2011-12.

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 2011-12 budget.

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.

Contact Officers:	Christine Parker, Head of the Audit Partnership, ext. 7190
	Simon Webb, Audit Manager, ext 7189
	Sue McGonigal, Chief Executive (s.151 Officer) Ext. 7790

Annex List:

Annex 1	East Kent Audit Partnership Annual Report 2011/12
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Background Papers:

Title	Details of where to access copy
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<i>Internal Audit Annual Plan 2011-12</i>	Previously presented to and approved at the March 2011 Governance and Audit Committee meeting
<i>Internal Audit Follow Up 2011-12</i>	Previously presented to Governance and Audit Committee Meetings in quarterly updates
<i>Internal Audit working papers</i>	Held by the East Kent Audit Partnership

Annual Internal Audit Report for Thanet District Council 2011-12

1. Introduction

The CIPFA Code of Practice for Internal Audit in Local Government for the United Kingdom 2006 defines internal audit as:

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

A more detailed explanation, of the role and responsibilities of internal audit, is set out in the approved Audit Charter (approved by this Committee in March 2012 and reviewed annually). The East Kent Audit Partnership (EKAP) aims to comply with the CIPFA Code of Practice, and to this end has produced evidence to the s.151 and Monitoring Officers to assist the Council's review of the system of internal control in operation throughout the year.

The key aim of the EKAP is to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The EKAP aims to have an enabling role in raising the standards of services across the partners through its unique position in assessing the relative standards of services across the partners. The EKAP is also a key element of each councils' anti fraud and corruption system by acting as a deterrent to would be internal perpetrators.

The four partners are all committed to the principles and benefits of a shared internal audit service, and have agreed a formal legal document setting out detailed arrangements. The statutory officers from each partner site (the s.151 Officer) together form the Client Officer Group and govern the partnership through bi-annual meetings.

This report is a summary of the year, a snapshot of the areas at the time they were reviewed and the results of follow up reviews to reflect the actions taken by management to address the control issues identified. The process that the EKAP adopts regarding following up the agreed recommendations will bring any outstanding high-risk areas to the attention of members via the quarterly reports, and through this annual report if there are any issues outstanding at the year-end.

2. Review of the Internal Control Environment

2.1 Risks and Assurances

The audit plan is agreed with members annually at the March Committee meeting following a risk assessment of all the key systems and issues facing the Council. This assessment also ensures suitable time and resources are devoted to reviewing areas on a cyclical basis. The work of Internal Audit includes agreeing with service managers that a control risk exists and setting out a course of action to rectify this. The value of the advice given by Internal Audit is evidenced through the acceptance of the majority of audit recommendations, and the feedback from the customer satisfaction survey.

During 2011-2012, 101 recommendations were made in the agreed final audit reports for Thanet District Council. These are analysed as being High, Medium or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
High	47	47%
Medium	46	45%
Low	8	8%
TOTAL	101	100%

Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and members' attention through Internal Audit's quarterly update reports. During 2011-12 the EKAP has raised and reported to the quarterly Governance & Audit Committee meetings 101 recommendations, and whilst 92% were in the High or Medium Risk categories, none are so significant that they need to be escalated at this time.

Internal Audit applies one of four 'assurance opinions' to each review, please see Appendix A for the definitions. This provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in that particular review. The conclusions drawn are described as being "a snapshot in time" and the purpose of allocating an assurance level is so that risk is managed effectively and control improvements can be planned. Consequently, where the assurance level is either 'no' or 'limited', or where high priority recommendations have been identified, a follow up progress review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the 24 pieces of work commissioned for Thanet District Council over the course of the year is as follows:

NB: the percentages shown are calculated on finalised reports with an assurance level

Assurance	No.	Percentage of Completed Reviews
Substantial	10	50%
Reasonable	7	35%
Limited	2*	10%
No	1	5%
Work in Progress at Year-End	0	-
Not Applicable	4	-

* See list in the table below

NB: 'Not Applicable' is shown against quarterly benefit checks, special investigations or work commissioned by management that did not result in an assurance level.

Taken together 85% of the reviews account for substantial or reasonable assurance, whilst 15% of reviews placed a limited assurance to management on the system of internal control in operation at the time of the review. There were no reviews assessed as having no assurance.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. Understandably, 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. Those areas receiving either a 'limited' or 'no' assurance audit opinion during the year are detailed in the following table, these areas are also recorded as an appendix to the quarterly report until the follow up report is issued, so that they do not get overlooked. The results of any follow up reviews yet to be undertaken will therefore be reported to the quarterly committee at the appropriate time:

Area Under Review	Original Assurance	Follow Up Due/ Result
CCTV	Limited	Reasonable
Homelessness	Reasonable / No	Two Follow Ups Completed
Payroll	Reasonable / Limited	Quarter 2 2012

2.2 Progress Reports

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up progress review at an appropriate time after finalising an agreed report to test whether agreed action has in fact taken place and whether it has been effective in reducing risk.

As part of the follow up action, the recommendations under review are either:

- "closed" as they are successfully implemented, or
- "closed" as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) "closed" as management has decided to tolerate the risk.

At the conclusion of the follow up review the overall assurance level is re-assessed. As Internal Audit are tasked to perform one progress report per original audit and bring those findings back, it is at this juncture that any outstanding high-risks are escalated to the Governance and Audit Committee via the quarterly update report.

The results for the follow up activity for 2011-12 are set out below. The shift to the right in the columns in the table from the original opinion to the revised opinion also measures the positive impact that the EKAP has made on the system of internal control in operation throughout 2011-12.

Total Follow Ups undertaken 25	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	3	15	7
Revised Opinion	0	2	14	9

There are no fundamental issues of note arising from the audits undertaken in 2011-12. There are however a number of matters reported in section 3 below, and the reviews showing a limited assurance after follow are detailed in the table in section 4 below.

2.3 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is ultimately the responsibility of management however, the EKAP is aware of its own responsibility in this area and is

alert to the risk of fraud and corruption. Consequently the EKAP structures its work in such a way as to maximise the probability of detecting any instances of fraud. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. Whilst some reactive work was carried out during the year at the request of management, during the year 2011-12 there has been no fraud investigations conducted by the EKAP on behalf of Thanet District Council.

2.4 Completion of Strategic Audit Plan

Appendix B shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations or management requests. 334.79 audit days were completed for Thanet District Council during 2011-2012 (including the 25.47 days carried forward); this compares to the budgeted 342 days and equates to 97.89% plan completion. The remaining 7.21 days will be carried forward as work in progress at the year-end 2011-12. The EKAP was formed in October 2007; it completes a rolling programme of work to cover a defined number of days each year. As at the 31st March each year there is undoubtedly some “work in progress” at each of the partner sites; some naturally being slightly ahead and some being slightly behind in any given year. However, the progress in ensuring adequate coverage against the agreed audit plan of work since 2008-09 concludes that EKAP is currently behind at Thanet District Council, as shown in the table below:

Year	Days Required	Plus B/Fwd	Adjusted Requirement from EKAP	Days Delivered	Percentage Completed	Days Against Target
2008-09	400	0	400.00	397.61	99.40%	-2.39
2009-10	408	2.39	410.39	399.82	97.42%	-8.18
2010-11	430	10.57	440.57	466.04	105.78%	+36.04
2011-12	342	-25.47	316.53	309.32	97.72%	-32.68
Total	1580			1572.79	99.54%	-7.21

3. Overall assessment of the System of Internal Controls 2011-12

Based on the work of the EKAP on behalf of Thanet District Council during 2011-12, the overall opinion is:

There are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance. The Council can have very good level of assurance in respect of all of its main financial systems and a good level of assurance in respect of the majority of its Governance arrangements. Many 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. This position is the result of improvements to the systems and procedures over recent years and the willingness of management to address areas of concern that have been raised.

There were three areas where only a limited assurance level was given which reflected a lack of confidence in arrangements, and this was brought to officers'

attention. These reviews are shown in the table above (paragraph 2.1) along with the details of our planned follow up activity in (paragraph 2.2).

4. Significant issues arising in 2011-12

From the work undertaken during 2011-12, there were no instances of unsatisfactory responses to key control issues raised in internal audit reports by the end of the year. There are occasions when audit recommendations are not accepted for operational reasons such as a manager's opinion that costs outweigh the risk, but none of these are significant and require reporting or escalation at this time.

The review (shown in the table at 2.1) that was originally a partial No Assurance, which remained a partial No Assurance after follow up was escalated to the Governance & Audit Committee's attention at the March 2012 meeting. Management has responded to the Governance & Audit Committee with progress achieved since the follow up review and any outstanding concerns are reflected in section 3, The reviews with a limited assurance are listed below, one has since been re-assessed as Reasonable Assurance;

Area Under Review	Original Assurance (Date to G&A Cttee)	Assurance after Follow up (Date to G&A Cttee)	Management Action
Employee Benefit In Kind Payments	Limited 13.01.11	Reasonable 29.09.11	Implemented Recommendations
Leasehold Services	Reasonable 15.03.11	Limited 16.06.12	Tolerating the risk
Public Health Burials	Limited 13.01.11	Limited 22.06.11	Embedding the recommendations

5. Internal Audit Performance

5.1 EKAP Resources

The EKAP has provided the service to the partners based on a FTE of 8.6. Additional audit days have been provided via audit consultants or contractors in order to meet the planned workloads. How much Internal Audit resource is provided to each of the partner authorities depends on a variety of factors, including the council's historical internal control environment and the new demands of meeting the requirements of corporate governance. Any changes in the agreed plans or the level of resources are reported quarterly to each audit committee and through regular meetings with each Section 151 Officer. The s151 Officers collectively meet half-yearly to strategically consider the resources of the partnership, this year they favoured creating maximum savings and being slightly under delivered on the plan against buying in the additional resources required to reach 100% plan completion across the partnership.

5.2 Skills and Development

The East Kent Audit Partnership is staffed by a mix of qualified and part-qualified officers, who all continue to develop their skills through a range of on-the-job training, external and in-house training courses and seminars and use of the corporate e-learning resource. Skills development during 2011-12 included:

- (a) Attendance by all Kent local authority internal audit staff at the Kent Audit Conference. This provides an opportunity to exchange knowledge and skills

and to receive guidance on current developments in the internal audit profession.

- (b) One member of staff continuing studies for ACCA.
- (c) Use of modules on the corporate e-learning package.
- (d) Continuing to engage external audit providers, for specific audit assignments to maximise the skills that can be bought-in to enhance internal audit resources.

By using a mix of in-house expertise through the East Kent Audit Partnership and other outside resources the team is able to call upon a number of auditors with a wide range of skills and experience and also bring fresh insight into areas being audited as a means of securing the most effective and economic delivery of the service.

5.3. Plan Performance

The analysis in Appendix B shows the individual reviews that were completed during the year. As at 31st March 2012 the EKAP was slightly behind and had delivered 334.79 days against 342 owed (97.79%). The 7.21 days carried forward will be delivered in 2012-13 as part of the rolling three-year plan process. Not achieving 100% plan completion at all sites this year was a decision made collectively by the s151 Officers who directed the EKAP to deliver a financial saving over achieving 100% of the agreed plans.

5.4 Internal Audit Performance against its Targets

Internal Audit is committed to continuous improvement and has various measures to ensure the service can strive to achieve its goals and ambitions. The performance measures and indicators for the year are shown in the balanced scorecard of performance measures at Appendix C.

5.4.1 Satisfaction with Internal Audit Service

EKAP uses an electronic client satisfaction questionnaire, which is issued at the conclusion of each audit to receive feedback on the quality and perception of the service. The results and comments made by auditees and service managers are reported quarterly to committee. Additional requests for advice and specific audit requests by management are also indicative of the value placed upon the service received from EKAP. Customer feedback is used to drive continuous improvement within the service, where appropriate constructive feedback is received it is discussed at a team meeting and any improvement actions taken as a result are reflected in a change to the Audit Manual, which records in detail all the work instructions to the auditors.

5.4.2 Internal Quality Assurance and Performance Management.

All internal audit reports are subject to review, either by the relevant EKAP Audit Manager or Head of the Audit Partnership; all of who are Chartered Internal Auditors. In each case this includes a detailed examination of the working papers, action and review points, at all stages of report. The review process is recorded and evidenced within the working paper index and in a table at the end of each audit report. Detailed work instructions are documented within the Audit Manual. The Head of Audit Partnership collates performance data monthly and, together with the monitoring of the delivery of the agreed audit plan carried out by the relevant Audit Manager, regular meetings are held with the s.151 Officer. The minutes to these meetings are additional evidence to the strategic management of the EKAP performance.

5.4.3 External Quality Assurance

The Audit Commission has previously carried out a light touch annual assessment and a more detailed quality assessment of internal audit every three years. The Audit Commission has not reviewed the EKAP arrangements in detail during 2011-12, and has not raised any improvement actions.

The EKAP self-assessment of the level of CIPFA Code compliance shows that EKAP is currently 97% compliant against a target of 97%. There are no identified actions to improve this score.

The Accounts & Audit Regulations require that each authority undertake an annual review of the effectiveness of internal audit arrangements and to report this alongside the Governance Assurance Statement within the Council's Statement of Accounts. Consequently, this report, summarising the achievements of Internal Audit for the year to 31st March 2012, is also designed to feed into that overall assessment process.

5.4.4 Liaison between Internal Audit and External Audit.

Joint liaison meetings with the Audit Commission's audit managers for the partner authorities and the EKAP audit managers are held half-yearly to ensure adequate audit coverage, to agree any complementary work and to avoid any duplication of effort and it is anticipated that these arrangements will continue when Grant Thornton take over as the Council's External Auditors in Quarter 3 of 2012-13. The EKAP has not met with any other review body during the year in its role as the Internal Auditor to Dover District Council. Consequently, the assurance, which follows is based on EKAP reviews of Dover District Council's services.

5.4.5 Financial Performance

Expenditure and recharges for 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 has delivered a 14% savings against budget.

The 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 EKAP was formed to provide a resilient, professional service and therefore to achieve financial savings was not the main driver, despite this considerable efficiencies have been gained through forming the partnership. Additionally, external fee earning work that has been carried out, this year some £20,080.39 was procured

from EKAP by other public sector bodies and for Interreg Grant reviews which reduces the costs to the partners. The net result is a reduced EKAP cost per audit day of some £42.68 per day below the original budget estimate and the lowest cost per audit day since the inception of the EKAP in 2006-07. In the current climate this is excellent performance and the partner authorities have all enjoyed the overall savings of £58,031.57 generated by the EKAP.

6. Overall Conclusion

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.

The work of Internal Audit and this report contribute to the overall internal control environment in operation within the Council, and also assists in providing an audit trail to the statements that must be published annually with the financial accounts. The EKAP assesses the overall system of internal control in operation throughout 2011-12 as providing reasonable assurance. No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

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.

Performance against the Agreed 2011-12 Audit Plan

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31.03.2012	Status and Assurance Level
FINANCIAL SYSTEMS:				
Capital	8	0	0.32	Postponed until Quarter 2 of 2012-13
Treasury Management	8	0	0.31	Postponed until Quarter 2 of 2012-13
Main Accounting System	8	8	8.66	Finalised - Substantial
Budgetary Control	10	10	11.01	Finalised - Substantial
Insurance	8	10	10.16	Finalised - Reasonable
RESIDUAL HOUSING SERVICES:				
Homelessness	6	6	6.66	Finalised – Reasonable/No
Right to Buy	7	7	8.17	Finalised - Substantial
GOVERNANCE RELATED:				
Anti-Money Laundering	5	5	3.39	Finalised - Substantial
Complaints Monitoring	8	8	9.46	Finalised - Substantial
RIPA	8	8	7.5	Finalised – Substantial
Partnerships	10	10	4.48	Finalised for 2011-12 – Further work in 2012-13 planned
Climate Change	8	8	7.39	Finalised - Reasonable
Business Continuity	6	0	0.17	Postponed until Quarter 3 of 2012-13
Risk Management	10	0	0.17	Postponed until Quarter 3 of 2012-13
Corporate Advice/SMT	2	2	2.26	Finalised for 2011-12
s.151 Officer Meetings and Support	9	9	9.31	Finalised for 2011-12
Governance & Audit Committee Meetings and Report Preparation	12	12	11.39	Finalised for 2011-12
Audit Plan and Preparation Meetings	9	9	8.98	Finalised for 2011-12
CONTRACT RELATED:				
Receipt & Opening of Tenders	6	6	6.51	Finalised - Substantial
SERVICE LEVEL:				
Private Sector Housing – HMO and Selective Licensing	10	10	11.31	Finalised - Reasonable
Community Safety	10	10	12.14	Finalised - Substantial
CCTV	8	8	11.48	Finalised – Limited Reasonable after follow-up
Dog Wardens and Litter Enforcement	8	0	0	Postponed until Quarter 1 of 2012-13 (current WIP)

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31.03.2012	Status and Assurance Level
Electoral Registration & Election Management	10	13	13.86	Finalised
Pest Control	8	8	7.7	Finalised - Reasonable
Ramsgate Townscape Heritage Grants	8	8	7.38	Finalised - Reasonable
Inventories of Portable Assets	8	8	11.13	Finalised - Reasonable
Land Charges	8	8	7.78	Finalised - Substantial
Licensing	10	10	9.88	Finalised - Reasonable
Maritime – Port Operations and Pricing Structure	20	20	18.19	Finalised - Reasonable
Regeneration	10	0	0	Postponed until a future audit plan
Visitor Information Arrangements	8	0	0	Postponed until Quarter 1 of 2012-13
OTHER :				
Liaison With External Auditors	3	3	1.73	Finalised for 2011-12
Follow-up Reviews	27	27	25.76	Finalised for 2011-12
Carry forward from last year	25.47	25.47	25.47	Completed
UNPLANNED WORK:				
Maritime - Electricity VAT Query	0	1	0.91	Finalised
Equality Impact Assessment – Removal of Incremental Progression	0	2.5	2.7	Finalised
Council Offices - Cleaning Stock Controls	0	1.5	1.52	Finalised
Election Duty	0	1	1	Polling Duty – May 2011 District Elections and Referendum
FINALISATION OF 2010-11 AUDITS:				
Procurement	-15.47	31.53	11.12	Finalised - Substantial
Car Parks			8.98	Finalised - Reasonable
Coastal Protection			0.2	Finalised - Reasonable
Waste (Vehicle Fleet) Management			2.46	Finalised - Reasonable
Cemeteries and Crematoria			3.69	Finalised - Reasonable
Housing Benefits Quarterly Testing – Quarter 3 of 2010-11			4.66	Finalised – Not Applicable
Contract Monitoring and Management			0.34	Finalised - Reasonable
EAST KENT HR PARTNERSHIP:				
Absence Management, Flexi and Annual Leave	5	5	0.14	Work-in-Progress
Payroll, SMP and SSP	5	5	8.66	Finalised – Reasonable/Limited
Employee Expenses	5	5	0	Combined with the payroll audit

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31.03.2012	Status and Assurance Level
HR Systems Development – i-Trent Project	5	5	0.28	Finalised for 2011-12
Employee Health and Safety	8	8	8.02	Finalised - Reasonable
TOTAL - THANET DISTRICT COUNCIL RESIDUAL DAYS	342	342	334.79	97.89% Complete as at 31-03-2012
EK SERVICES:				
Housing Benefits - Overpayments	5	5	5.39	Finalised - Substantial
Housing Benefits – Fraud Investigations	5	5	3.63	Finalised - Reasonable
Housing Benefit Testing	20	20	21.14	Quarter 4 2010-11 – Finalised Quarters 1–3 of 2011-12 - Finalised
Business Rates	8	8	8.48	Finalised – Reasonable
Customer Services/Gateway	5	5	3.44	Finalised
Debtors and Rechargeable Works	5	5	5.34	Finalised - Reasonable
ICT – Management & Finance Controls	5	2.5	0.92	Work-in-Progress
ICT – Physical & Environment Controls	5	5	2.28	Work-in-Progress
ICT – Internet & e-mail Controls	5	5	4.72	Finalised - Reasonable
Equality Impact Assessment – Removal of Incremental Progression	0	2.5	2.52	Finalised
Total EK Services	63	63	57.86	
EAST KENT HOUSING:				
Governance Arrangements	3	3	3.83	Finalised - Reasonable
Internal Controls and Finance	3	5	4.48	Finalised - Reasonable
Interfaces with Finance and ICT Systems	2			
Audit Committee/Follow-up work	1	1	1.21	Finalised for 2011-12
Rent Setting, Collection & Debt Management	8	8	6.37	Draft Report - Reasonable
Fire and Gas Safety Inspections	0	8	4.66	Finalised - Reasonable
Tenancy & Estate Management	8	0	0.1	Postponed until 2012-13 to accommodate the Fire and Gas safety audit instead in 2011-12.
Total East Kent Housing	25	25	20.65	
UNPLANNED ADDITIONAL WORK				
Interreg Grant – Customer Services (Mosaic)	4	4	3.04	First Level Controller sign off charged to project - Finalised
Interreg Grant – Tudor House	4	4	3.21	First Level Controller sign off charged to project – Finalised for 2011-12

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31.03.2012	Status and Assurance Level
Interreg Grant – Maritime (PATCH)	4	4	4.01	First Level Controller sign off charged to project – Finalised for 2011-12
Interreg Grant – Maritime (Yacht Valley)	4	10	10.11	First Level Controller sign off charged to project – Finalised for 2011-12
EK Services - Housing Benefits 2011-12 Quarterly testing (Additional Quarter 1 Testing)	0	5	5	Finalised
English Heritage Grant - 'Proposed Conservation Area Designation - Cliftonville, Margate.	0	0.5	0.64	Finalised



EAST KENT

 DOVER · SHEPWAY · THANET · CANTERBURY

AUDIT PARTNERSHIP

 Balanced Scorecard

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2011-12 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2011-12 Actual</u>	<u>Target</u>
	Quarter 4				
Chargeable as % of available days	86%	80%	Cost per Audit Day (Reported Annually)	£257.47	£300.15
Chargeable days as % of planned days					
CCC	98.48%	100%			
DDC	98.32%	100%			
SDC	102.12%	100%			
TDC	97.72%	100%			
EKS	85.15%	100%			
EKH	82.65%	100%			
Overall	96.34%	100%			
Follow up/ Progress Reviews; (all sites)					
• Issued	77	-			
• Not yet due	26	-			
• Now overdue for Follow Up	18	-			
Percentage compliance with the CIPFA Code for Internal Audit 2006	97%	97%			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2011-12 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2011-12 Actual</u>	<u>Target</u>
	Quarter 4		Quarter 4		
Number of Satisfaction Questionnaires Issued;	97		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	44 (=45%)		Percentage of staff holding a relevant higher level qualification	33%	33%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	13%	13%
<ul style="list-style-type: none"> • Interviews were conducted in a professional manner 	100%	100%	Number of days technical training per FTE	3.47	3.5
<ul style="list-style-type: none"> • The audit report was 'Excellent or Very Good' 	86%	90%	Percentage of staff meeting formal CPD requirements	33%	33%
<ul style="list-style-type: none"> • That the audit was worthwhile. 	95%	100%			

Annual Internal Audit Report for EK Services 2011-12

1. Introduction/Summary

The main points to note from this report are that the agreed programme of audits has been almost totally completed with some projects carried over as work in progress at 31st March 2012. The majority of reviews have given a substantial or reasonable assurance and there are no major areas of concern that would give rise to a qualified opinion.

The financial management of the Internal Audit cost centre held by Dover District Council has performed well and has delivered a 14% savings against budget. The saving directly passed to EK Services is £7,213.

2. Review of the Internal Control Environment

2.1 Risks and Assurances

During 2011-2012, 23 recommendations were made in the agreed final audit reports for EK Services. These are analysed as being High, Medium or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
High	6	26%
Medium	11	48%
Low	6	26%
TOTAL	23	100%

Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and members' attention through Internal Audit's quarterly update reports. During 2011-12 the EKAP has raised and reported to the partners' quarterly audit committee meetings 23 recommendations, and whilst 74% were in the High or Medium Risk categories, none are so significant that they need to be escalated at this time.

Internal Audit applies one of four 'assurance opinions' to each review, this provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in that particular review. The conclusions drawn are described as being "a snapshot in time" and the purpose of allocating an assurance level is so that risk is managed effectively and control improvements can be planned. Consequently, where the assurance level is either 'no' or 'limited', or where high priority recommendations have been identified, a follow up progress review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the 11 pieces of work commissioned for EK Services over the course of the year is as follows:

NB: the percentages shown are calculated on finalised reports with an assurance level

Assurance	No.	Percentage of Completed Reviews
Substantial	1	20%
Reasonable	3	60%
Limited	1*	20%
No	0	0%
Work in Progress at Year-End	3	-
Not Applicable	3	-

* See list in the table below

NB: 'Not Applicable' is shown against quarterly benefit checks, special investigations or work commissioned by management that did not result in an assurance level.

Taken together 80% of the reviews account for substantial or reasonable assurance, whilst 20% of reviews placed a limited assurance to management on the system of internal control in operation at the time of the review. There were no reviews assessed as having no assurance.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. Understandably, 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. Those areas receiving either a 'limited' or 'no' assurance audit opinion during the year are detailed in the following table, these areas are also recorded as an appendix to the quarterly report until the follow up report is issued, so that they do not get overlooked. The results of any follow up reviews yet to be undertaken will therefore be reported to the quarterly committee at the appropriate time:

Area Under Review	Original Assurance	Follow Up Due/ Result
Debtors and RWO	Reasonable / Limited	Quarter 4 2012-13

Note: The split assurance for the Debtors audit concluded a Limited assurance for the arrangements at one of the three partner Councils, the other two councils concluded Reasonable Assurance.

2.2 Progress Reports

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up progress review at an appropriate time after finalising an agreed report to test whether agreed action has in fact taken place and whether it has been effective in reducing risk.

As part of the follow up action, the recommendations under review are either:

- “closed” as they are successfully implemented, or
- “closed” as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) “closed” as management has decided to tolerate the risk, or the circumstances have since changed.

At the conclusion of the follow up review the overall assurance level is re-assessed. As Internal Audit are tasked to perform one progress report per original audit and

bring those findings back, it is at this juncture that any outstanding high-risks are escalated to the Governance and Audit Committee via the quarterly update report.

As this is the first year for EK Services there are no follow up reports concluded at this juncture. However, the results for the follow up activity for 2012-13 will be reported at the appropriate time and the annual report for 2012-13 will show the results in the following table where the original opinion and the revised opinion will measure the impact that the EKAP has made on the system of internal control.

Total Follow Ups undertaken 0	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	1	3	1
Revised Opinion	0	0	0	0

There are no fundamental issues of note arising from the audits undertaken in 2011-12. There is one review showing a partially limited assurance (for one of the sites that it covers) which is detailed in the table in section 2.1.

2.3 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is ultimately the responsibility of management however, the EKAP is aware of its own responsibility in this area and is alert to the risk of fraud and corruption. Consequently the EKAP structures its work in such a way as to maximise the probability of detecting any instances of fraud. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. During the year 2011-12 there has been no fraud investigations conducted by the EKAP on behalf of EK Services.

2.4 Completion of Strategic Audit Plan

The analysis in Attachment P shows the individual reviews that were completed during the year. As at 31st March 2012 delivery was slightly behind plan and EKAP had delivered 143.9 days against 169 owed (85.15%). The 25.1 days carried forward will be delivered in 2012-13 as part of the rolling three-year plan process. Not achieving 100% plan completion at all sites this year was a decision made collectively by the s151 Officers who directed the EKAP to deliver a financial saving over achieving 100% of the agreed plans

Year	Days Required	Plus B/Fwd	Adjusted Requirement from EKAP	Days Delivered	Percentage Completed	Days Against Target
2011-12	169	0	0	143.9	85.15%	-25.1
Total	169			143.9	85.15%	-25.1

3. Overall assessment of the System of Internal Controls 2011-12

Based on the work of the EKAP on behalf of EK Services during 2011-12, the overall opinion is:

There are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance.

There was one area where a partial limited assurance level was given which reflected a lack of confidence in arrangements, and this was brought to officers' attention. This review is shown in the table above (paragraph 2.1) along with the details of our planned follow up activity in (paragraph 2.2).

4. Significant issues arising in 2011-12

From the work undertaken during 2011-12, there were no instances of unsatisfactory responses to key control issues raised in internal audit reports by the end of the year. There are occasions when audit recommendations are not accepted for operational reasons such as a manager's opinion that costs outweigh the risk, but none of these are significant and require reporting or escalation at this time.

The review (shown in the table at 2.1) that was originally a partial Limited Assurance will be followed up later in 2012-13.

5. Overall Conclusion

The work of Internal Audit and this report contribute to the overall internal control environment in operation within EK Services, and also assists in providing an audit trail to the statements that must be published annually with the financial accounts for each partner council. The EKAP assesses the overall system of internal control in operation throughout 2011-12 as providing reasonable assurance. No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

Performance against the Agreed 2011-12 Audit Plan

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31.03.2012	Status and Assurance Level
EK SERVICES SYSTEMS:				
Benefits - Overpayments	15	15	16.16	Complete - Substantial
Benefits - Fraud Investigations	15	15	10.89	Complete - Reasonable
Business Rates	24	24	25.43	Complete - Reasonable
Customer Services/Gateway	15	15	10.33	WIP
Debtors and RWO	15	15	16.01	Complete - Reasonable / Limited
ICT - Management & Finance	15	3	2.76	Carry Over
ICT - Physical & Environment	15	15	6.84	WIP
ICT - Internet and e-mail	15	15	14.16	Complete - Reasonable
ICT Procurement & Disposals		12	1.53	WIP
DDC HB Testing	20	20	16.13	N/A
TDC HB Testing	20	20	21.14	N/A
EK Services Equal Pay Impact Assessment	0	2.5	2.52	N/A
Sub-Total - EK Services days	169	171.5	143.90	85.15%

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AUDIT COMMITTEE UPDATE

To: **Governance and Audit Committee: 27 June 2012**

By: **Chief Executive (s151 officer) Sue McGonigal**

Classification: **Unrestricted**

Summary: **To present the Audit Commission's Progress Report 2011/2012.**

For Information

1.0 Introduction

1.1 To update Members on progress to date on the current audit plans. Audit and Inspection work undertaken since the last update in March 2012.

2.0 Corporate Implications

2.1 Financial

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

2.2 Legal

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

2.3 Corporate

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

2.4 Equity and Equalities

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

3.0 Recommendation

3.1 That Members note the report.

Contact Officer: Chief Executive and s151 Officer Ext. 7790

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Audit Committee update

Thanet District Council

May 2012

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Andy Mack

District Auditor

24 May 2012

Progress report

2011/12 audit

5 In our March 2012 audit progress update, we set out our audit approach to our work in respect of the financial statements, VFM conclusion and grant certification.

6 Further detail of our risk assessment is included in the 2011/12 audit plan, presented to the March 2012 committee.

7 As part of our pre-statements work we have assessed the control environment operating at the Authority and conclude good arrangements are in place. We have not identified any issues to report to management or the Audit Committee.

We have also documented and walked through the following material information systems operated at the Authority:

- General Ledger ;
- Purchase Ledger ;
- Sales Ledger ;
- Capital Accounting ;
- Cash & Bank;
- Payroll;
- Treasury Management;
- Housing Benefits;
- Housing Repairs;
- Council Tax and NNDR;
- Car Parking income; and
- Ramsgate Harbour

8 We have considered the design and operation of key controls and concluded they are appropriate.

9 Before our post-statement audit visit in July 2012, we will be finalising our controls and early substantive testing.

.

Update on the externalisation of the Audit Practice

10 The Audit Commission’s Managing Director, Audit Policy wrote to audited bodies on 6 March 2012 on the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice and on the process for making auditor appointments for 2012/13 and subsequent years.

11 The key points are as follows.

- Contracts will be let from 2012/13 on a five-year basis to the following firms.

Firm	Contract areas
DA Partnership	North East & North Yorkshire
Ernst and Young	Eastern South East
Grant Thornton	North West West Midlands London (South), Surrey & Kent South West
KPMG	Humberside & Yorkshire East Midlands London (North)

- The Commission has been able to secure very competitive prices that will save local public bodies over £30 million a year for a minimum of five years. The savings secured will be passed back to audited bodies through significant reductions in scales of audit fees. The Commission published the final scales of audit fees for 2012/13 in April 2012.
- The Commission Board confirmed the ‘interim’ auditor appointments for the first five months of 2012/13 on 22 March 2012.
- The Commission wrote to all audited bodies on or shortly after 23 April 2012 to set out its proposals for ‘permanent’ auditor appointments for 2012/13 and subsequent years. Where a body is currently audited by an auditor from the Audit Practice, the Commission will propose as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate.

- To support the consultation process, the Commission has arranged a series of introductory meetings in each contract area between 30 April 2012 and 16 May 2012. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits.

12 The Commission is working with auditors to ensure a smooth transfer between the Audit Practice and the incoming firm. In particular, the new auditor will be expected to place maximum reliance on the work of the current auditor. Audited bodies can also help by ensuring they plan their 2011/12 accounts closedown effectively to enable auditors to issue their opinion by the statutory deadline for publication of accounts, 30 September 2012.

13 Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

14 Further details are available on the Commission's website. We will continue to keep you updated on developments.

15 Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

Other matters of interest

Annual fraud and corruption survey 2011/12

16 On 2 April 2012 the Audit Commission issued its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year.

17 The electronic survey is open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

National Fraud Initiative consultation

18 The Audit Commission has recently consulted on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI).

19 The NFI, which takes place biannually, has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

20 The work programme will remain unchanged from NFI 2010/11 and, in recognition of the financial pressures that public bodies are facing, the Audit Commission proposes that the scale of fees for mandatory participants will remain the same as for NFI 2010/11.

21 The consultation closed on 23 March 2012 and the final work programme and scales of fees will be published in May 2012.

Local government capital finance system

22 In late 2011 the Department for Communities and Local Government (DCLG) issued a consultation document on proposed changes to the Local Government capital finance system.

23 A summary of the consultation responses was published on 8 February 2012 and the Regulations, which come into force on 31 March and 1 April 2012, have been laid before Parliament.

24 DCLG's commentary confirms the intended effects of the amended Regulations are:

- to bring securitisation (the exchange of future revenues for an immediate lump sum payment) within the capital finance framework;
- to relax the rules on bond investments; and
- to clarify the definition of capital expenditure.

25 DCLG has also published an updated edition of Capital Finance: Guidance on Minimum Revenue Provision. The amendments to the statutory guidance relate to Housing Revenue Account (HRA) reform only and impact from 2012/13. The changes to the guidance are to ensure that authorities taking on new debt do not face any inappropriate increase in their minimum revenue provision liability.

Accounting for HRA Self Financing

26 In March 2012 CIPFA produced guidance on the required accounting entries for councils making or receiving settlement payments to or from the Secretary of State in preparation for the commencement of self-financing of the Housing Revenue Account (HRA) from 1 April 2012. These transactions take place in the 2011/12 financial year and will therefore be reflected in the Council's financial statements for the year ended 31 March 2012.

Openness and accountability in local pay

27 On 17 February 2012 DCLG published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act.

28 For each financial year, beginning with 2012/13, the Council will be required to prepare a pay policy statement that must articulate its policies on the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees?

29 The statement must be approved by full Council and published on its website.

Contact details

30 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

31 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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



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May 2012

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QUARTERLY GOVERNANCE PROGRESS REPORT

To: **Governance and Audit Committee – 27 June 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

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:

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

2.0 The Current Situation

2.1 Corporate risk register

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

2.1.2 For Members information, the corporate risk register will be moving into the Inphase system (formerly PerformancePlus™) before the next review. Future corporate risk register reports received by Governance and Audit Committee from Inphase will look very similar to annex 1.

2.2 Annual Governance Statement 2010/11 action plan

2.2.1 For the period 2010/11 the council prepared an Annual Governance Statement (AGS) which was agreed by Governance and Audit Committee on the 29 September 2011.

2.2.2 Within the Annual Governance Statement 2010/11 areas of concern identified from the numerous assessments into our governance arrangements were detailed within Section 6 'Significant governance issues'.

2.2.3 The council proposed to take steps to address these matters and report on the action plan to this Committee on a regular basis. The action plan is attached at **annex 2** for Members information. This is the final report on the 2010/11 action plan and any areas of weakness that need to be carried forward to the 2011/12 action plan for continued monitoring have been identified.

3.0 Options

3.1 That Members note the content of this report and associated annexes.

4.0 Corporate Implications

4.1 Financial

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

4.2 Legal

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

4.3 Corporate

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

4.4 Equity and Equalities

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

4.5 Risks

4.5.1 Failure to undertake these processes will impact on the council's approach to corporate governance.

5.0 Recommendation(s)

5.1 That Members note the content of this report and associated annexes.

6.0 Decision Making Process

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

Future Meeting if applicable:	Date:
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Contact Officer:	Nikki Morris, Business Support and Compliance Manager, DDI 01843 577625
Reporting to:	Barry Mileham, Business Improvement and Information Manager, DDI 01843 577620
Service Manager:	Sarah Carroll, Business Services Manager. DDI 01843 577188

Annex List

Annex 1	Corporate Risk Register
Annex 2	Annual Governance Statement 2010/11 action plan

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	Justine Wingate, Corporate Information and Communications Manager

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
BUS0003	The Council relies on staff consistently working for longer than their contracted hours Next Review: (Reviewed every 4 months) Risk Status: Treat	Increasingly due to staff numbers having reduced to make budget savings	Increased sickness absence Increased levels of overtime requests Potential health and safety issues Breach of contract Impact on service delivery Staff dissatisfaction Recruitment and retention issues Impact on VfM	Carroll, Sarah	9 P(3) I(3)	9 P(3) I(3)	<p>Analyze outcomes of staff survey to inform improvement programme <i>In Progress</i> (0% complete) Target Date: 31/08/2012 Next Review: (Reviewed every 0 months)</p> <p>Ensure staff are taking appropriate annual leave during the year <i>In Progress</i> (5% complete) Target Date: 01/06/2012 Next Review: (Reviewed every 0 months)</p> <p>Undertake Investors in People health check <i>Implemented</i> Target Date: 31/03/2012 Next Review: 01/09/2012 (Reviewed every 3 months)</p> <p>Use Managers Exchange to share best practice with Managers and address corporate issues <i>In Progress</i> (25% complete) Target Date: 29/06/2012 Next Review: 01/09/2012 (Reviewed every 3 months)</p> <p>Design and deliver a staff survey <i>Implemented</i> Target Date: 31/05/2012 Next Review: 25/08/2012 (Reviewed every 3 months)</p> <p>Review flexi-time policy <i>Implemented</i> Target Date: Next Review: 01/08/2012 (Reviewed every 4 months)</p>	Carroll, Sarah Carroll, Sarah Carroll, Sarah Carroll, Sarah Carroll, Sarah	4 P(2) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
							Deliver training to managers on revised policies <i>In Progress</i> (25% complete) Target Date: 31/08/2012 Next Review: 03/06/2012 (Reviewed every 4 months)	Carroll, Sarah	
BUS020001	Managers may not have or use performance information effectively as a management tool Next Review: 30/07/2012 (Reviewed every 4 months) Risk Status: Treat	Council doesn't have or make best use of performance information for service outcomes	Resources used for wrong priorities Missed opportunities (to save and improve) Unable to achieve key targets Performance is managed ineffectively	Carroll, Sarah	6 P(3) I(2)	6 P(3) I(2)	Training of managers on the benefits of performance management <i>Implemented</i> Target Date: 01/04/2012 Next Review: 02/08/2012 (Reviewed every 4 months) Develop the culture change programme to monitor behaviours <i>In Progress</i> (35% complete) Target Date: 30/03/2013 Next Review: 11/10/2012 (Reviewed every 5 months)	Tebbett, Stephen Mileham, Barry	4 P(2) I(2)
30001	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 Next Review: (Reviewed every 3 months) Risk Status: Treat	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	Financial loss Wasted resources, or loss of funding Inability to meet targets Differing priorities - so effort is expended on other/lower priorities Expend extra effort to manage partnership arrangements Dissatisfaction/Frustration and loss of confidence Need to unwind and reverse strategic direction Failure of statutory responsibilities Partners direction changes adversely Unitary model imposed Political unrest	Carroll, Sarah	9 P(3) I(3)	9 P(3) I(3)	Review governance arrangements for shared services <i>In Progress</i> (80% complete) Target Date: 31/05/2012 Next Review: 17/07/2012 (Reviewed every 2 months) Strategic Business Case <i>Implemented</i> Target Date: Next Review: 01/08/2012 (Reviewed every 6 months) Establish shared service implementation plan <i>Implemented</i> Target Date: 31/03/2012 Next Review: 31/07/2012 (Reviewed every 6 months)	Chadwick, Sophie Chadwick, Sophie Chadwick, Sophie	3 P(1) I(3)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
BUS030002	Procurement and contract management / monitoring are increasingly important and there is a need to measure and monitor effectiveness and value for money (VFM) on key contracts Next Review: 13/05/2012 (Reviewed every 4 months) Risk Status: Treat	Fail to adequately manage / monitor key contracts	Impact on VFM Tenant satisfaction falls Impact on reputation from tenants and marketplace Key contract fails Significant amount of time required to manage situation	Paton, Karen	9 P(3) I(3)	3 P(1) I(3)	<p>Review processes (easing internal bureaucracy AND ensuring compliance, and make sure processes are effective) <i>In Progress</i> (20% complete) Target Date: Next Review: 31/07/2012 (Reviewed every 6 months)</p> <p>Strengthen process for capturing contract details aligned with budget information <i>Implemented</i> Target Date: Next Review: 31/05/2012 (Reviewed every 4 months)</p> <p>Increase the resource for monitoring compliance with CSOs <i>Implemented</i> Target Date: Next Review: 01/10/2012 (Reviewed every 6 months)</p> <p>Contract Management Training <i>In Progress</i> (40% complete) Target Date: Next Review: 19/12/2012 (Reviewed every 3 months)</p> <p>Periodic refresh of the Contract Register <i>Implemented</i> Target Date: Next Review: 30/11/2012 (Reviewed every 12 months)</p>	<p>Paton, Karen</p> <p>Paton, Karen</p> <p>McGonigal, Sue</p> <p>Paton, Karen</p> <p>Paton, Karen</p>	2 P(1) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
BUS030003	<p>The Council is involved in a number of partnerships and there is a reliance on these to deliver in a number of areas. There are concerns however around the level of resourcing required, the robustness of the management and governance around these and the ability / willingness of partners to participate fully</p> <p>Next Review: 11/07/2012 (Reviewed every 4 months) Risk Status: Treat</p>	<p>Council invests more time and resource into partnerships than the benefit received</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>Disinvestment in partnerships</p>	<p>Wasted resources</p> <p>Differing priorities</p> <p>Effort expended on other / lower priorities</p> <p>Direction of partnership changes</p> <p>Expend extra effort to manage partnership arrangements</p> <p>Frustration</p> <p>Unable to meet targets</p> <p>Loss of funding</p> <p>Loss of confidence</p> <p>Withdrawal of partners</p>	Carroll, Sarah	6 P(3) I(2)	6 P(3) I(2)	<p>On-going work at CEx level for increasing partnership working <i>In Progress</i> (50% complete) Target Date: Next Review: (Reviewed every 0 months)</p> <p>Use the performance management process to monitor the achievements of partnerships <i>In Progress</i> (75% complete) Target Date: 31/07/2012 Next Review: 26/07/2012 (Reviewed every 3 months)</p> <p>Record the governance arrangements and agreed benefits / purpose of partnerships <i>In Progress</i> (40% complete) Target Date: 30/04/2012 Next Review: 31/05/2012 (Reviewed every 14 months)</p> <p>Request outline business case to be produced to highlight resource requirements up front <i>Implemented</i> Target Date: Next Review: 30/09/2012 (Reviewed every 6 months)</p>	<p>McGonigal, Sue</p> <p>Chadwick, Sophie</p> <p>Chadwick, Sophie</p> <p>Carroll, Sarah</p>	2 P(1) I(2)
BUS030005	<p>Partners financial difficulties</p> <p>Partners political difficulties</p> <p>Partners dissatisfied with performance/quality of service</p> <p>Next Review: 24/05/2012 (Reviewed every 3 months) Risk Status: Tolerate</p>	Partner(s) decide to withdraw from a shared service	<p>Cancellation of projects</p> <p>Additional financial responsibilities for remaining partners</p> <p>Reduction of service quality/performance</p>	Chadwick, Sophie	8 P(4) I(2)	8 P(4) I(2)			8 P(4) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
BUS030006	Economic climate Changing working environment Increased budgetary constraints Next Review: 09/09/2012 (Reviewed every 4 months) Risk Status: Treat	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	Paton, Karen	6 P(3) I(2)	6 P(3) I(2)	<p>Robust policies and procedures <i>In Progress</i> (50% complete) Target Date: 31/03/2013 Next Review: 10/09/2012 (Reviewed every 4 months)</p> <p>Performance monitoring of workforce information <i>Approved</i> (50% complete) Target Date: 31/03/2013 Next Review: 10/09/2012 (Reviewed every 4 months)</p> <p>Culture change programme <i>In Progress</i> (50% complete) Target Date: 31/03/2013 Next Review: 10/09/2012 (Reviewed every 4 months)</p> <p>Employee Council process <i>Implemented</i> Target Date: 31/03/2013 Next Review: 30/09/2012 (Reviewed every 6 months)</p> <p>Learning & Development programme <i>In Progress</i> (20% complete) Target Date: 31/03/2013 Next Review: 10/09/2012 (Reviewed every 4 months)</p> <p>Management Development programme <i>In Progress</i> (50% complete) Target Date: 31/03/2013 Next Review: 10/09/2012 (Reviewed every 4 months)</p>	Paton, Karen Mileham, Barry Carroll, Sarah Mileham, Barry Mileham, Barry	4 P(2) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
BUS030007	Economic climate & resources Remedies directive Next Review: 09/09/2012 (Reviewed every 4 months) Risk Status: Treat	Outcome of procurement selection/award process is a legal challenge on a procurement	Reputational damage Financial penalties Contracts ruled ineffective Unable to deliver a service because procurement deadline is missed	Paton, Karen	6 P(3) I(2)	6 P(3) I(2)	EU Procurements managed by Procurement Officers <i>In Progress</i> (0% complete) Target Date: 31/03/2013 Next Review: 09/09/2012 (Reviewed every 4 months)	Paton, Karen	2 P(2) I(1)
							Robust procurement framework <i>In Progress</i> (0% complete) Target Date: 31/03/2013 Next Review: (Reviewed every 0 months)	Paton, Karen	
							Procurement Strategy adopted by the Council <i>In Progress</i> (0% complete) Target Date: 31/03/2013 Next Review: (Reviewed every 0 months)	Paton, Karen	
							Clear Contract Standing Orders (CSOs) and accompanying procurement guidance available for all procurement <i>In Progress</i> (0% complete) Target Date: 31/03/2013 Next Review: (Reviewed every 0 months)	Paton, Karen	
CML0001	Health and safety risk assessments not having been completed recently. Next Review: 31/05/2012 (Reviewed every 4 months) Risk Status: Treat	Member of staff injured undertaking Council duties	Possible corporate manslaughter Failure of statutory requirements Insurance claim against the Council Loss of reputation Adverse media	Seed, Mark	9 P(3) I(3)	9 P(3) I(3)	Liaise with EKHRP to review H&S risk assessment process <i>In Progress</i> (75% complete) Target Date: 31/01/2012 Next Review: 27/04/2012 (Reviewed every 4 months)	Seed, Mark	3 P(1) I(3)
							Liaise with EKHRP to implement recommendations from 2009 internal audit <i>In Progress</i> (75% complete) Target Date: 31/01/2012 Next Review: 31/05/2012 (Reviewed every 4 months)	Seed, Mark	

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
CML020001	Concerns that the Council is not investing sufficiently in the upkeep of its physical assets due to lack of financial resources. Lack of investment in parks & open spaces or other leisure facilities, the Port, and the Crematorium. Next Review: 27/07/2012 (Reviewed every 6 months) Risk Status: Treat	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.	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	Seed, Mark	12 P(3) I(4)	12 P(3) I(4)	Draft and Implement Asset Management Strategy <i>In Progress</i> (40% complete) Target Date: Next Review: 27/04/2012 (Reviewed every 2 months)	Seed, Mark	4 P(2) I(2)
CML050001 Page 71	Emergency Planning roles are ill defined. Business Continuity Plans are not sufficiently drafted or robustly tested; or are not sufficiently understood across the organisation. Next Review: (Reviewed every 2 months) Risk Status: Treat	A business continuity incident occurs and the organisation fails to respond effectively	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	Humber, Mike	16 P(4) I(4)	6 P(2) I(3)	Review and revise the council's BCP <i>Superseded</i> (80% complete) Target Date: Next Review: 30/04/2013 (Reviewed every 3 months)	Morgan, Paul	3 P(1) I(3)
							Test the effectiveness of the BCP <i>Superseded</i> (60% complete) Target Date: Next Review: 30/04/2013 (Reviewed every 3 months)	Morgan, Paul	
							Review and revise the Council's BCP's <i>In Progress</i> (25% complete) Target Date: 30/06/2012 Next Review: 30/07/2012 (Reviewed every 3 months)	Morgan, Paul	
							Review and Revise the Business Continuity Plans <i>In Progress</i> (25% complete) Target Date: 01/07/2012 Next Review: 01/08/2012 (Reviewed every 3 months)	Morgan, Paul	
							Test the effectiveness of the BCP's <i>In Progress</i> (10% complete) Target Date: Next Review: 14/08/2012 (Reviewed every 3 months)	Morgan, Paul	

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
CML070001	Requirement to roll-out new waste and recycling collection system by December 2013 Next Review: 09/09/2012 (Reviewed every 4 months) Risk Status: Treat	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	Jones, Jay	9 P(3) I(3)	9 P(3) I(3)			6 P(2) I(3)
CTY0001	Market conditions prevent the Council from realising the value of its assets - CONTROL MEASURES TO BE DEFINED Next Review: 09/11/2012 (Reviewed every 6 months) Risk Status: Treat	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	Homer, Madeline	9 P(3) I(3)	9 P(3) I(3)			3 P(3) I(1)
10003 Page 72	TDC do not respond to a Child Protection issue. Next Review: 30/09/2012 (Reviewed every 6 months) Risk Status: Treat	Staff are not adequately trained to recognise a potential safeguarding issue. TDC do not comply with the KSCB Annual Review and Section 11 Audit.	The child's welfare is at risk. TDC are non-compliant with The Children's Act 1989 and 2004.	Wason, Janice	9 P(3) I(3)	3 P(1) I(3)	<p>Work with HR to ensure adequacy of policies and processes for CRB checks <i>In Progress</i> (85% complete) Target Date: 31/05/2012 Next Review: 24/05/2012 (Reviewed every 3 months)</p> <p>KSCB Annual Review and Section 11 Audit Completed <i>In Progress</i> (20% complete) Target Date: 31/03/2012 Next Review: 31/05/2012 (Reviewed every 12 months)</p> <p>All staff trained to recognise a child at risk and the LA procedure <i>Implemented</i> Target Date: 31/03/2012 Next Review: 30/09/2012 (Reviewed every 6 months)</p> <p>Report to Governance Board periodically on number of referrals <i>Approved</i> (0% complete) Target Date: Next Review: 16/05/2012 (Reviewed every 3 months)</p>	<p>Chadwick, Sophie</p> <p>Phippin, Sarah</p> <p>Phippin, Sarah</p> <p>Phippin, Sarah</p>	3 P(1) I(3)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
CTY020001	Government policy works against local initiatives (eg Benefit changes adversely affects people's ability to pay for housing) Double dip recession adversely impacts on housing affordability Loss of staffing resources Next Review: 09/11/2012 (Reviewed every 6 months) Risk Status: Treat	Housing Intervention Project fails to achieve outcomes Judicial review of selective licensing decides against our model for housing intervention	Cliftonville West housing market remains unbalanced Reputational damage The Council is unable to deliver the project Political Controversy	Wenham, Tanya	9 P(3) I(3)	9 P(3) I(3)	Monitor the impact of policy and adjust housing targets accordingly <i>In Progress</i> (0% complete) Target Date: Next Review: 09/09/2012 (Reviewed every 4 months)	Wenham, Tanya	6 P(2) I(3)
CTY040002	Failure to make progress on the Dreamland site Next Review: 31/07/2012 (Reviewed every 4 months) Risk Status: Treat	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	Further delays to start of work on the site Further costs - either in paying substantial costs if the determination ruling is against the Council's CPO, or in defence against a possible legal challenge Reputational damage Political controversy	Hetherington, Robert	8 P(2) I(4)	8 P(2) I(4)	Maintaining clear records of bases of decision & mounting sustainable defence of the Council's decision <i>In Progress</i> (25% complete) Target Date: 31/03/2013 Next Review: 31/07/2012 (Reviewed every 4 months)	Hetherington, Robert	4 P(1) I(4)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
FIN0001	<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'.</p> <p>Next Review: 18/07/2012 (Reviewed every 2 months)</p> <p>Risk Status: Tolerate</p>	<p>Assumptions made in the Medium Term Financial Strategy differ from actual or something unexpected significantly impacts on the plan</p>	<p>Impact on reserves Requirement for remedial action Supplementary precept Need to prioritise / rationalise some areas Stop doing certain things Impact on service delivery Complaints Adverse media</p>	Martin, Sarah	12 P(4) I(3)	6 P(2) I(3)	<p>Implement reviews to identify efficiencies and economies <i>In Progress</i> (10% complete) Target Date: 31/10/2012 Next Review: 24/08/2012 (Reviewed every 3 months)</p> <p>Regularly monitor outstanding debt position <i>Superseded</i> Target Date: Next Review: 18/07/2012 (Reviewed every 2 months)</p> <p>Regular review of Council's financial position, including review with managers & clear communication of position <i>In Progress</i> (70% complete) Target Date: Next Review: 18/07/2012 (Reviewed every 2 months)</p> <p>Set up process to deliver savings <i>Superseded</i> Target Date: Next Review: 18/07/2012 (Reviewed every 2 months)</p>	Martin, Sarah Martin, Sarah Martin, Sarah Martin, Sarah	4 P(2) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
FIN0004	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. Next Review: 05/07/2012 (Reviewed every 6 months) Risk Status: Treat	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	Martin, Sarah	12 P(4) I(3)	6 P(3) I(2)	<p>Ensure anti-fraud policies remain fit for purpose <i>In Progress</i> (50% complete) Target Date: 30/04/2012 Next Review: 21/09/2012 (Reviewed every 6 months)</p> <p>Raise staff awareness <i>In Progress</i> (80% complete) Target Date: Next Review: 05/09/2012 (Reviewed every 6 months)</p> <p>Provide regular training to managers re fraud awareness <i>In Progress</i> (75% complete) Target Date: 30/09/2012 Next Review: 21/09/2012 (Reviewed every 3 months)</p> <p>Carry out checks of ghost employees <i>Approved</i> (0% complete) Target Date: 30/04/2012 Next Review: 21/09/2012 (Reviewed every 6 months)</p>	Martin, Sarah Martin, Sarah Martin, Sarah Martin, Sarah	3 P(3) I(1)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
FIN0005	<p>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 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>Next Review: 15/09/2012 (Reviewed every 3 months) Risk Status: Treat</p>	<p>The council's software supplier is unable to make the necessary changes within the required deadline.</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>	Martin, Sarah	9 P(3) I(3)	6 P(2) I(3)	<p>Aid software companies <i>Proposed</i> (0% complete) Target Date: Next Review: 15/06/2012 (Reviewed every 3 months)</p> <p>Work with EKS and the software supplier <i>Proposed</i> (0% complete) Target Date: Next Review: 15/06/2012 (Reviewed every 3 months)</p>	<p>Paton, Karen</p> <p>Paton, Karen</p>	6 P(3) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
FIN0006	In this current economic climate, an officer or member may be more inclined to offer or accept a bribe. Next Review: 29/09/2012 (Reviewed every 6 months) Risk Status: Treat	The Council may not have sufficient resource dedicated to anti-bribery measures to deal with any increase in bribery activity.	Increase in offering or acceptance of bribes by officers or members.	Martin, Sarah	6 P(3) I(2)	6 P(3) I(2)	<p>Raise staff awareness of anti-bribery policy & procedure <i>In Progress</i> (0% complete) Target Date: Next Review: 29/03/2013 (Reviewed every 12 months)</p> <p>Provide regular anti-bribery training to managers <i>Proposed</i> (0% complete) Target Date: Next Review: 29/09/2012 (Reviewed every 6 months)</p> <p>Ensure Anti-bribery policy remains fit for purpose <i>Proposed</i> (0% complete) Target Date: Next Review: 29/09/2012 (Reviewed every 6 months)</p> <p>Raise Members' awareness of anti-bribery policy & procedure <i>In Progress</i> (0% complete) Target Date: Next Review: 29/09/2012 (Reviewed every 6 months)</p>	Sanham, Matthew Sanham, Matthew Sanham, Matthew Sanham, Matthew	4 P(2) I(2)

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GV Annual Governance Statement Action Plan for G&A

GV Governance Statement Action Plan: June 2012 Update

GV Governance Statement Action Plan: June 2012 Update

Action Ref & Description	Action Owner	Start Date	Due Date	Estimated Completion	Stage	Latest Update
GV01 Review Scheme of Delegation (CRS)	Patterson, Harvey	Sep 11	Nov 11	May 2012	Completed	The scheme of delegation has now been reviewed, and the updated version has been adopted by Council.
GV02 Review staff agst Child Protection training (CTY01)	Wason, Janice	Aug 11	Mar 12	Mar 2012	Not Started	Project being reviewed due to cost and staffing implications - in-house training being considered as part of reducing costs.
GV03 Behaviours: Objectives, Targets, Needs Agreed (BUS01)	Mileham, Barry	Jul 11	Jul 12	Oct 2012	In Progress	Workshops started in May and will continue until September/October in line with the pay and reward project.
GV04 Behaviours: Establish core behaviours into job families (BUS01)	Mileham, Barry	Jul 11	Jul 12	Oct 2012	In Progress	Core behaviours by both managers and staff to be completed by October 2012.
GV05 Formal Procurement Programme (BUS03)	Paton, Karen	Nov 11	Mar 13	Mar 2013	In Progress	Analysis has been undertaken. Procurement team now working with Managers. Schedule of procurements produced for 12/13
GV06 New Risk Assessment Format Adopted (CML)	Seed, Mark	Sep 11	Mar 12	Mar 2012	Completed	The east Kent HR Partnership health and safety advisors have undertaken a review of health and safety systems, and this has been considered by the officers' Health and Safety Committee. This has led to the adoption by the Senior Management Team of the council wide H&S policy, H&S maps for each service area, a revised risk assessment system with guidance and a H&S audit programme in key risk areas. These have all been launched during a H&S awareness week, together with a new section on the intranet linking to the new approach and documentation as well as additional resources from the HSE website.
GV07 Clarify roles of TDC, EK Services & EKHRP (BUS03)	Chadwick, Sophie	Sep 11	Feb 12	Jul 2012	In Progress	A summary of role relationships will be finalised by the end of June 2012.
GV08 Ensure Compliance with DPA (CRS01)	Cordes, Gary	Oct 11	Dec 11	Dec 2011	Completed	Action complete
GV09 Review Corporate Info Communication with Managers (BUS01)	Wingate, Justine	Oct 11	Dec 11	Jul 2012	In Progress	One new format Managers Exchange has been held and feedback gathered. Now implementing a new schedule of meetings and gathering feedback from managers regarding content discussion/learning
GV10 Implement Business Hub (BUS01)	Mileham, Barry	Apr 11	Mar 12	Feb 2012	Completed	Following in depth analysis it was agreed by Senior Management Team that the efficiencies envisaged would not be achieved by centralising these functions but would be better realised through undertaking service specific reviews of admin processes and systems which are due to commence in early 2012.
1 Member role descriptions & CPD programme (3)	Back, Glenn	Jul 11	Nov 11	Nov 2011	Completed	Role descriptions have been adopted by Council and will be built into constitution at next update. At direction of Corporate & Regulatory Services Manager, no action is being taken in respect of CPD.
2 Monitor Key Controls on outsourced payroll	Martin, Sarah	Apr 11	Mar 12	Jul 2012	In Progress	Key controls are now working more efficiently. Issues relating to coding are now 95% corrected. The outstanding coding issues are currently being addressed.

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DRAFT ANNUAL GOVERNANCE STATEMENT 2011/2012

To: **Governance and Audit Committee – 27 June 2012**

Main Portfolio Area: **Business Services**

By: **Business Support and Compliance Manager**

Classification: **Unrestricted**

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

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 was included within the council's Financial Statement and signed by the Leader and Chief Executive.
- 1.3 The Accounts and Audit (England) Regulations 2011 were amended in 2011. The new regulations applied to accounts and reports prepared from the financial year 2010/11. The changes to the regulations meant that the AGS should accompany the Statement of Accounts and did not need to be included within the body of the document. This meant that the AGS was separate from the accounts for the purpose of external audit.
- 1.4 The other change is to the approval process and timeframe. Governance and Audit Committee will consider the draft AGS and assurance gathering process at their meeting in June. The AGS will then be audited and Members made aware of the findings of the audit, which will enable Governance and Audit Committee Members to make an informed decision when approving the AGS in September.

2.0 The Current Situation

- 2.1 The draft 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 are gathered to feed into the preparation of the document. It has been consulted upon with the Leader, Chief Executive/Section 151 Officer and all members of Senior Management Team and following the approval process will be formally signed as required.

3.0 Process for developing the Annual Governance Statement

- 3.1 The Chief Executive/Section 151 Officer, Service Managers and third tier managers are required to complete an assurance statement which highlights any areas of weakness they perceive within the council. These assurance statements are then collated and significant issues identified are incorporated into the Annual Governance Statement.
- 3.2 Assurances were also sought from other areas within the council such as the Section 151 Officer and the Monitoring Officer regarding the operation of the governance framework. The following key areas also completed an assurance statement on compliance with the council's Performance Management and Data Quality Frameworks, Procurement Strategy and Risk Management Strategy, identifying any governance issues that need to be addressed in the forthcoming year.
- 3.3 Statements were provided by the shared service partners we work with on compliance with the governance arrangements in place and from East Kent HR Partnerships in connection with the general principles of good conduct for officers.
- 3.3 The annual reports prepared by the chairs of Standards, the Overview & Scrutiny Panel and Governance & Audit Committee were also referred to when preparing the AGS.
- 3.4 Assurance has been sought, and obtained from the East Kent Audit Partnership. The auditors undertake regular audits on the council's governance arrangements and the control and risk frameworks. Their findings from these, and in particular any areas for concern highlighted through these processes, have been incorporated into the council's Annual Governance Statement. Members have previously received an assessment as to the effectiveness of the council's internal audit arrangements which concluded that the audit partnership are delivering an effective internal audit function which ensures that Members are confident with the reliance that can be placed on the auditor's assurances on the council's governance arrangements.
- 3.5 From the evidence gathered, an action plan is being developed to address the governance issues, which will be reviewed throughout the year and reported back to this Committee.

4.0 Options

- 4.1 That Members accept the draft Annual Governance Statement 2011/2012.
- 4.2 That Members propose changes to the draft Annual Governance Statement 2011/2012.

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

6.0 Recommendation(s)

6.1 That Members accept the draft Annual Governance Statement for 2011/2012.

6.2 That Members propose changes to the draft Annual Governance Statement 2011/2012.

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.

Future Meeting if applicable:	Date:
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Contact Officer:	Nikki Morris, Business Support and Compliance Manager, DDI 01843 577625
Reporting to:	Barry Mileham, Business Improvement and Information Manager, DDI 01843 577620
Service Manager:	Sarah Carroll, Business Services Manager. DDI 01843 577188

Annex List

Annex 1	Annual Governance Statement for 2011/2012
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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	Justine Wingate, Corporate Information and Communications Manager

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Draft 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 as these have been impacted by the shared HR service.
- The culture of long hours of working in many sections across the council still remains an issue, and has been exacerbated by staff reductions and increased ranges of responsibility being taken on by managers and more junior staff. A solution to this is not obvious in the current financial climate of the public sector, and it also reflects a commitment from many staff in trying to deliver good public services. However, it can have an impact on work/ life balance for staff and as a consequence increase the likelihood of health issues arising from stress.

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 current economic climate has created some financial pressure for East Kent Opportunities in respect of its ability to realise its assets
- The Ramsgate Swimming Pool - as a consequence of the complexity and scale of this project there are some financial risks which are being managed with the introduction of some enhanced governance arrangements between Thanet Leisure Force and Thanet District Council.
- The Economic Development and Regeneration Service has responsibility for the Dreamland project which has involved a compulsory purchase order inquiry and has a range of other complex governance arrangements which are being managed collectively.

9.3.4 Corporate issues

- There is a risk of conflict between the council's standards and codes and those of our shared service partners and this could impact on compliance with good governance arrangements. This risk of challenge for Thanet District Council would be heightened for shared services hosted by the council.
- The political instability of a hung council requires clear transparent decision making which could impact on the way officers manage resources to ensure effective communications / cross party working.

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
On the ??????? 2012

Signed by:
Dr Sue McGonigal
Chief Executive & Chief Financial Officer
On the ????????? 2012

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ANNUAL TREASURY MANAGEMENT REVIEW 2011/12

To: **Governance and Audit Committee – 27 June 2012**

Main Portfolio Area: **Finance**

By: **Capital & Treasury Finance Officer**

Classification: **Unrestricted**

Summary: **This report summarises treasury management activity and prudential/treasury indicators for 2011/12.**

For Decision

1.0 Introduction and Background

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2011/12. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 During 2011/12 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 10 February 2011)
- a mid year (minimum) treasury update report (Council 12 December 2011)
- an annual review following the end of the year describing the activity compared to the strategy (this report).

1.3 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance & Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during the year on 14 June 2011 in order to support Members' scrutiny role.

1.5 This report summarises:

- Capital activity during the year;
 - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
-

- Reporting of the required prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

Please note that Council's 2011/12 accounts have not yet been audited and hence that the figures in this report are subject to change.

2.0 Executive Summary

- 2.1 During 2011/12, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	2010/11 Actual £000	2011/12 Original £000	2011/12 Actual £000
Capital expenditure	10,037	13,331	12,049
Capital Financing Requirement:			
• Non-HRA	19,898	23,502	19,209
• HRA	23,966	23,966	23,041
• Total	43,864	47,468	42,250
Net borrowing	13,944	28,064	7,445
External debt	26,646	34,064	26,721
Investments			
• Longer than 1 year	0	0	0
• Under 1 year	12,702	6,000	19,276
• Total	12,702	6,000	19,276

Other prudential and treasury indicators are to be found in the main body of this report. The Section 151 Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit), was not breached.

The financial year 2011/12 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk.

2.2 Housing finance reform

The implementation of housing finance reform at the end of 2011/12 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.

3.0 The Council's Capital Expenditure and Financing 2011/12

3.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	2010/11 Actual £000	2011/12 Estimate £000	2011/12 Actual £000
Capital expenditure	5,707	10,065	8,760
Financed in year	6,005	6,062	8,760
Unfinanced capital expenditure	(298)	4,003	0

HRA	2010/11 Actual £000	2011/12 Estimate £000	2011/12 Actual £000
Capital expenditure	4,330	3,266	3,289
Financed in year	2,627	3,266	3,289
Unfinanced capital expenditure	1,703	0	0

4.0 The Council's Overall Borrowing Need

- 4.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2011/12 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLb] or the money markets), or utilising temporary cash resources within the Council.

- 4.2 **Reducing the CFR** – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2011/12 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2011/12 on 24 February 2011.

The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

The effect of housing finance reform on the Council's CFR is described in section 2.2.

CFR: General Fund	31 March 2011 Actual £000	31 March 2012 Budget £000	31 March 2012 Actual £000
Opening balance	20,870	20,196	19,898
Add unfinanced capital expenditure (as above)	(298)	4,003	0
Less MRP/VRP*	674	697	689
Less PFI & finance lease repayments	0	0	0
Closing balance	19,898	23,502	19,209

CFR: HRA	31 March 2011 Actual £000	31 March 2012 Budget £000	31 March 2012 Actual £000
Opening balance	22,263	23,966	23,966
Add unfinanced capital expenditure (as above)	1,703	0	0
Less adjustment for HRA reform	0	0	925
Less VRP*	0	0	0
Less PFI & finance lease repayments	0	0	0
Closing balance	23,966	23,966	23,041

* Includes voluntary application of capital receipts

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

4.3 **Net borrowing and the CFR** - 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. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	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

4.4 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates

that during 2011/12 the Council has maintained gross borrowing within its authorised limit.

- 4.5 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.
- 4.6 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	Total 2011/12
Authorised debt limit	£51m
Maximum gross borrowing position	£31m
Operational boundary	£43m
Average gross borrowing position	£28m
Financing costs as a proportion of net revenue stream	7.16%

5.0 Treasury Position as at 31 March 2012

- 5.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2011/12 the Council's treasury position was as follows:

	31 March 2011 Principal £000	Rate/ Return	Average Life yrs	31 March 2012 Total Principal £000	31 March 2012 HRA Principal £000	31 March 2012 GF Principal £000	Rate/ Return	Average Life yrs
Fixed rate funding:								
-PWLB	22,146	5.86%	13	22,221	19,161	3,060	5.34%	13
-Market	0			0	0	0		
Variable rate funding:								
-PWLB	0			0	0	0		
-Market	4,500	4.19%	55	4,500	3,880	620	4.19%	54
Total debt	26,646	5.58%	20	26,721	23,041	3,680	5.16%	20
CFR	43,864			42,250	23,041	19,209		
Over/ (under) borrowing	(17,218)			(15,529)	0	(15,529)		
Investments:								
- in house	£12,702	0.76%		19,276			0.78%	
- with managers	0			0				
Total investments	12,702	0.76%		£19,276			0.78%	

The maturity structure of the debt portfolio was as follows:

	31 March.2011 Actual £000	2011/12 Original limits £000	31 March.2012 Actual £000
Under 12 months	3,000	6,680	599
12 months and within 24 months	623	8,016	1,920
24 months and within 5 years	3,000	10,688	960
5 years and within 10 years	5,000	10,688	8,640
10 years and within 20 years	4,500	12,024	4,320
20 years and within 30 years	4,023	12,024	3,862
30 years and within 40 years	2,000	13,360	1,920
40 years and within 50 years	0	13,360	0
50 years and above	4,500	13,360	4,500
Total debt	26,646		26,721

All investments were for under one year.

The exposure to fixed and variable rates was as follows:

	31 March 2011 Actual £000	2011/12 Original Limits £000	31 March 2012 Actual £000
Fixed rate	22,146 debt	51,000 debt	22,221 debt
	0 investments	35,000 investments	0 investments
Variable rate	4,500 debt	51,000 debt	4,500 debt
	12,702 investments	35,000 investments	19,276 investments

6.0 The Strategy for 2011/12

6.1 The expectation for interest rates within the strategy for 2011/12 anticipated low but rising Bank Rate (starting in quarter 4 of 2011) with similar gradual rises in medium and longer term fixed borrowing rates over 2011/12. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

The actual movement in gilt yields meant that PWLB rates fell sharply during the year and to historically very low levels. This was caused by a flight to quality into UK gilts from EU sovereign debt and from shares as investors became concerned about the potential for a Lehman's type crisis of financial markets if the Greek debt crisis were to develop into a precipitous default and exit from the Euro.

7.0 The Economy and Interest Rates

7.1 **Sovereign debt crisis.** 2011/12 was the year when financial markets were apprehensive, fearful of the potential of another Lehman's type financial crisis, prompted by a precipitous Greek Government debt default. At almost the last hour, the European Central Bank (ECB) calmed market concerns of a liquidity crisis among European Union (EU) banks by making available two huge three year credit lines, totalling close to €1 trillion at 1%. This also provided a major incentive for those same banks to then use this new liquidity to buy EU sovereign debt yielding considerably more than 1%.

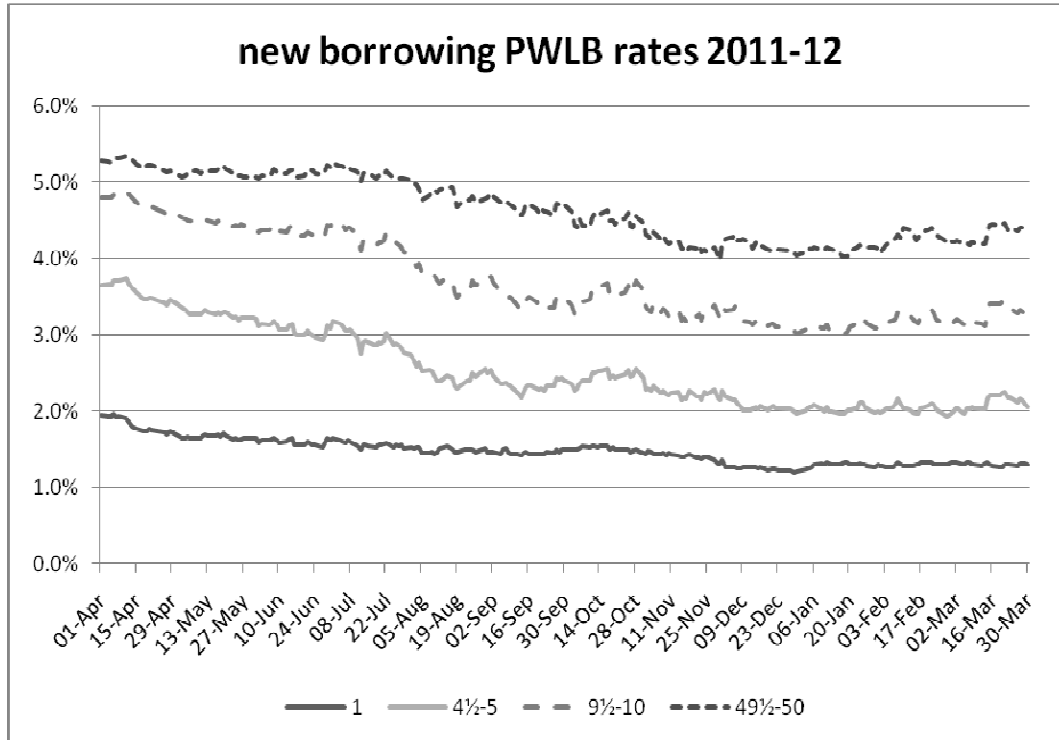
A secondary benefit of this initiative was the bringing down of sovereign debt yields, for the likes of Italy and Spain, below unsustainable levels. The final aspects in the calming of the EU sovereign debt crisis were two eleventh hour agreements: one by the Greek Government of another major austerity package and the second, by private creditors, of a "haircut" (discount) on the value of Greek debt that they held, resulting in a major reduction in the total outstanding level of Greek debt. These agreements were a prerequisite for a second EU / IMF bailout package for Greece which was signed off in March.

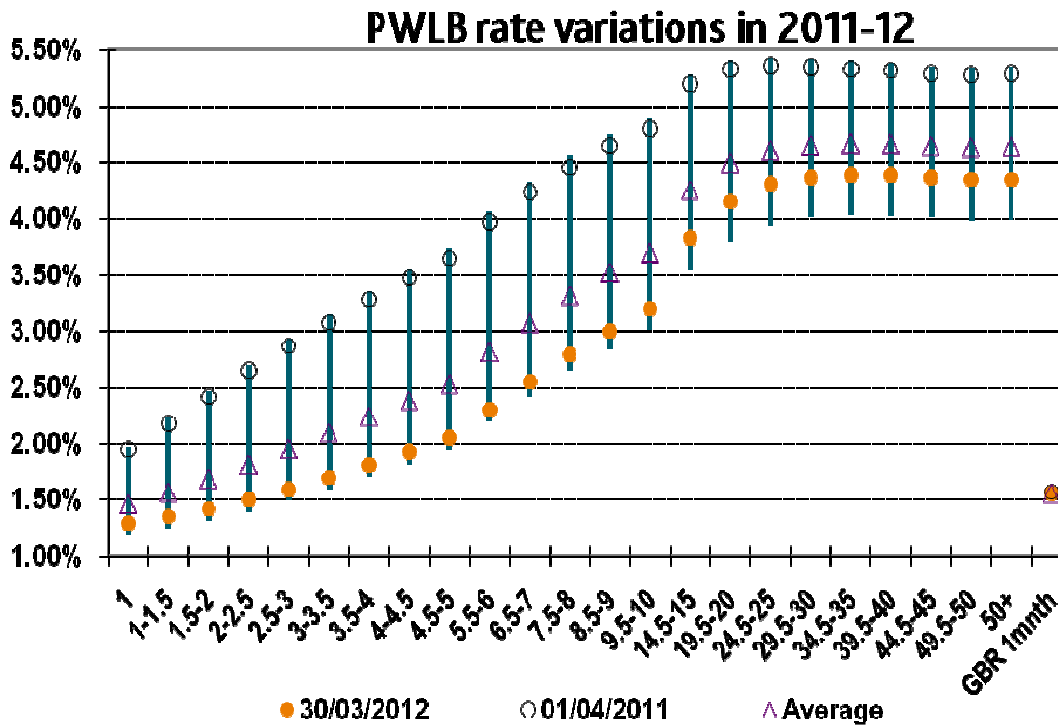
Despite this second bailout, major concerns remain that these measures were merely a postponement of the debt crisis, rather than a solution, as they did not address the problem of low growth and loss of competitiveness in not only Greece, but also in other EU countries with major debt imbalances. These problems will, in turn, also affect the financial strength of many already weakened EU banks during the expected economic downturn in the EU. There are also major questions as to whether the Greek Government will be able to deliver on its promises of cuts in expenditure and increasing tax collection rates, given the hostility of much of the population.

- 7.2 **The UK coalition Government** maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. The USA and France lost their AAA ratings from one rating agency during the year.
- 7.3 **UK growth** proved mixed over the year. In quarter 2, GDP growth was zero, but then quarter 3 surprised with a return to robust growth of 0.6% q/q before moving back into negative territory (-0.3%) in quarter 4. The year finished with prospects for the UK economy being decidedly downbeat due to a return to negative growth in the EU in quarter 4, our largest trading partner, and a sharp increase in world oil prices caused by Middle East concerns. However, there was also a return of some economic optimism for growth outside the EU and dovish comments from the major western central banks: the Fed in America may even be considering a third dose of quantitative easing to boost growth.
- 7.4 **UK CPI inflation** started the year at 4.5% and peaked at 5.2% in September. The fall out of the January 2011 VAT increase from the annual CPI figure in January 2012 helped to bring inflation down to 3.6%, finishing at 3.5% in March. Inflation is forecast to be on a downward trend to below 2% over the next year.
- The Monetary Policy Committee (MPC) agreed an increase in quantitative easing (QE) of £75bn in October on concerns of a downturn in growth and a forecast for inflation to fall below the 2% target. QE was targeted at further gilt purchases. The MPC then agreed another round of £50bn of QE in February 2012 to counter the negative impact of the EU debt and growth crisis on the UK.
- 7.5 **Gilt yields** fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which, together with the two UK packages of QE during the year, combined to depress PWLB rates to historically low levels.
- 7.6 **Bank Rate** was unchanged at 0.5% throughout the year while expectations of when the first increase would occur were steadily pushed back until the second half of 2013 at the earliest. **Deposit rates** picked up in the second half of the year as competition for cash increased among banks.
- 7.7 **Risk premiums** were also a constant factor in raising money market deposit rates for periods longer than 1 month. Widespread and multiple downgrades of the credit ratings of many banks and sovereigns, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment

8.0 **Borrowing Rates in 2011/12**

8.1 **PWLB borrowing rates** - the graphs and table for PWLB maturity rates below show, for a selection of maturity periods, the high and low points in rates, the average rates, spreads and individual rates at the start and the end of the financial year.





PWLB BORROWING RATES 2011/12 for 1 to 50 years									
	1	1.5-2	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
01/04/2011	1.950%	2.420%	2.870%	3.280%	3.650%	4.800%	5.360%	5.280%	1.570%
31/03/2012	1.290%	1.420%	1.590%	1.810%	2.050%	3.200%	4.310%	4.350%	1.560%
HIGH	1.970%	2.470%	2.930%	3.350%	3.730%	4.890%	5.430%	5.340%	1.590%
LOW	1.190%	1.320%	1.500%	1.710%	1.940%	3.010%	3.940%	3.980%	1.560%
Average	1.466%	1.693%	1.958%	2.243%	2.533%	3.702%	4.610%	4.635%	1.561%
Spread	0.780%	1.150%	1.430%	1.640%	1.790%	1.880%	1.490%	1.360%	0.030%
High date	06/04/2011	06/04/2011	06/04/2011	06/04/2011	11/04/2011	11/04/2011	11/04/2011	11/04/2011	05/04/2011
Low date	29/12/2011	30/12/2011	30/12/2011	27/02/2012	27/02/2012	30/12/2011	18/01/2012	30/11/2011	15/04/2011

9.0 Borrowing Outturn for 2011/12

9.1 Treasury Borrowing – Council debt at 31 March 2012 was:

Lender	Principal £000	Principal HRA £000	Principal GF £000	Type	Interest Rate	Maturity
PWLB	599	517	82	Fixed interest rate	10.125	31 Dec 12
PWLB	1,920	1,656	264	Fixed interest rate	10.375	31 Dec 13
PWLB	584	504	80	Fixed interest rate	4.875	30 Jun 24
PWLB	1,816	1,566	250	Fixed interest rate	4.875	30 Jun 24
PWLB	3,840	3,311	529	Fixed interest rate	4.420	31 Dec 35
PWLB	22	19	3	Fixed interest rate	11.625	5 Aug 33
PWLB	3,840	3,311	529	Fixed interest rate	3.310	15 Sep 21
PWLB	960	828	132	Fixed interest rate	2.750	3 May 15
PWLB	3,840	3,311	529	Fixed interest rate	3.570	1 Oct 19
PWLB	1,920	1,655	265	Fixed interest rate	4.040	1 Oct 29
PWLB	960	828	132	Fixed interest rate	3.840	31 Mar 19
PWLB	1,920	1,655	265	Fixed interest rate	4.220	1 Oct 49
Market	4,500	3,880	620	Variable interest rate	4.190	9 Jun 65
Total	26,721	23,041	3,680			

9.2 Borrowing - loans were drawn to fund the net unfinanced capital expenditure and naturally maturing debt.

The loan drawn during the year (included in the above table) was for £4,000k at 3.31% on 15 September 2011 (principal amount at 31 March 2012 reduced to £3,840k).

The budget assumption was borrowing at an interest rate of 5.19%. However, the Council was able to borrow at lower rates (average of 5.16%) than expected.

9.3 Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

9.4 Repayments

Housing finance reform - on 28 March 2012 the Council repaid £925,000 at an average rate of 5.34% as a result of receiving repayment from the Department of Communities and Local Government. The Department has also paid the breakage costs of £152,342.

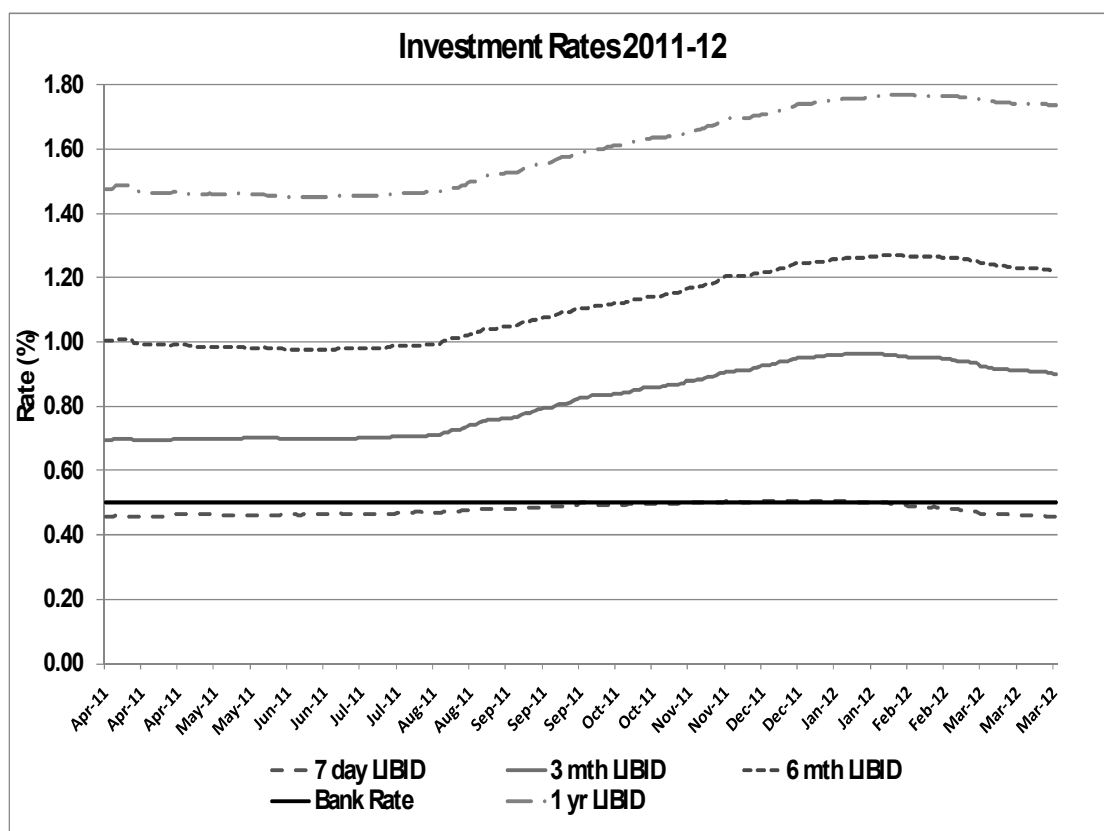
Summary of debt transactions – management of the debt portfolio resulted in a fall in the average interest rate of 0.42%, representing savings of £112k p.a.

10.0 Investment Rates in 2011/12

The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Eurozone crisis grew. The ECB's actions to provide nearly €1 trn of 1% 3 year finance to EU banks eased liquidity pressures in the EU and investment rates eased back somewhat in quarter 1 of 2012. This action has also given EU banks time to strengthen their balance sheets and liquidity positions on a more permanent basis. Bank Rate remained at its historic low of 0.5% throughout the year while market expectations of the imminence of the start of monetary tightening was gradually pushed further and further back during the year to the second half of 2013 at the earliest.

Overlaying the relatively poor investment returns were the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in a second rescue package for Greece in quarter 1 2012. Concerns extended to the potential fallout on the European banking industry if the crisis could have ended with Greece leaving the Euro and defaulting.

Money market investment rates 2011/12						
	Overnight	7 Day	1 Month	3 Month	6 Month	1 Year
01/04/2011	0.43688	0.45625	0.49563	0.69563	1.00313	1.47750
31/03/2012	0.43188	0.45719	0.57100	0.90188	1.22063	1.73806
High	0.54625	0.50531	0.65288	0.96456	1.27063	1.77175
Low	0.43000	0.45625	0.49563	0.69438	0.97625	1.45000
Average	0.44868	0.48009	0.56246	0.81756	1.11025	1.59673
Spread	0.11625	0.04906	0.15725	0.27018	0.29438	0.32175
Date	30/06/2011	30/12/2011	11/01/2012	12/01/2012	25/01/2012	25/01/2012
Date	14/03/2012	01/04/2011	01/04/2011	12/04/2011	11/06/2011	22/06/2011



11.0 Investment Outturn for 2011/12

11.1 **Investment Policy** – the Council's investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 10 February 2011. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

11.2 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2011 £000	31 March 2012 £000
Balances (General Fund & HRA)	11,199	11,813
Earmarked reserves (incl MRR & Capital Grants Unapplied)	11,871	12,046
Usable capital receipts	1,924	1,598
Total Usable Reserves	24,994	25,457

11.3 **Investments held by fund managers** - the Council does not use external fund managers and hence no investments were held by fund managers in 2011/12.

11.4 **Investments held by the Council** - the Council maintained an average balance of £25,637k of internally managed funds. The internally managed funds earned an average rate of return of 0.78%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.48%. This compares with a budget assumption of £16,800 investment balances earning an average rate of 0.75%.

12.0 Performance Measurement

12.1 One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide (*as incorporated in the table in section 3*). The Council's performance indicators were set out in the Annual Treasury Management Strategy.

12.2 This service has set the following performance indicators :

- Investments – internal returns above the 7 day LIBID rate.

The Council exceeded this return as reported above, achieving an average investment rate of 0.78% compared to the average 7 day LIBID rate of 0.48%.

The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, was set as follows:

- 0.05% historic risk of default when compared to the whole portfolio.

The Section 151 Officer can report that the investment portfolio was maintained within this overall benchmark throughout 2011/12.

12.3 In respect of this area the Council set liquidity facilities/benchmarks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £5m available with a week's notice
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 1 year.

The Section 151 Officer can report that liquidity of investments were within this criteria throughout 2011/12.

13.0 **Options**

13.1 That the Governance and Audit Committee:

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

14.0 **Corporate implications**

14.1 **Financial and VAT**

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

14.2 **Legal**

This report is required to be brought before the Governance and Audit Committee, Cabinet and Council for approval, under the CIPFA Treasury Management Code of Practice.

14.3 **Corporate**

This report evidences that the officers are continuing to carefully manage the risk associated with the Council's treasury management activities.

14.4 **Equity and Equalities**

There are no equality or equity issues resulting from this report.

15.0 **Recommendations**

15.1 That the Governance and Audit Committee:

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

16.0 **Decision Making Process**

- 16.1 This report is to go to Cabinet and then Council for approval.
Cabinet meeting is on 26 July 2012.

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TRAINING SUGGESTIONS FOR FUTURE MEETINGS

August	September	December	March
Statement of Accounts	National Fraud Initiative	Anti-Fraud and Corruption / Whistleblowing	Treasury Management
	Risk Management	Governance Framework and Local Code	Internal Audit function
		External Audit introduction / update	

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THANET DISTRICT COUNCIL DECLARATION OF INTEREST FORM

Do I have a personal interest?

You have a **personal interest** in any business of your authority where it relates to or is likely to affect:

- a) An interest you must **register**.
- b) An interest that is not on your register, but where the well-being or financial position or you, members of your family (spouse; partner; parents; in laws; step/children; nieces and nephews), or people with whom you have a close association (friends; colleagues; business associates and social contacts that can be friendly and unfriendly) is likely to be affected by the business of your authority more than it would affect the majority of:
 - Inhabitants of the ward or electoral division affected by the decision (in the case of the authorities with electoral divisions or wards.)
 - Inhabitants of the authority's area (in all other cases)

These two categories of personal interests are explained in this section. If you declare a personal interest you can remain in the meeting, speak and vote on the matter, unless your personal interest is also a prejudicial interest.

Effect of having a personal interest in a matter

You must declare that you have a personal interest, **and the nature of that interest**, before the matter is discussed or as soon as it becomes apparent to you except in limited circumstances. Even if your interest is on the register of interests, you must declare it in the meetings where matters relating to that interest are discussed, unless an exemption applies.

When an exemption may be applied

An exemption applies where your interest arises solely from your Membership of, or position of control or management on:

1. Any other body to which you were appointed or nominated by the authority.
2. Any other body exercising functions of a public nature (e.g. another local authority)

Is my personal interest also a prejudicial interest?

Your personal interest will also be a **prejudicial interest** in a matter if all of the following conditions are met:

- a) The matter does not fall within one of the **exempt categories** of decisions
- b) The matter affects **your financial interests** or relates to a **licensing or regulatory matter**.
- c) A member of public, who knows the relevant facts, would **reasonably think your personal interest is so significant** that it is likely to prejudice your judgement of the public interest.

What action do I take if I have a prejudicial interest?

- a) If you have a **prejudicial interest** in a matter being discussed at a meeting, you must declare that you have a prejudicial interest as the nature of that interest becomes apparent to you.
- b) You should then leave the room, **unless members of the public are allowed to make representations, give evidence or answer questions about the matter**, by statutory right or otherwise. If that is case, you can also attend the meeting for that purpose.
- c) However, you must immediately leave the room once you have finished or when the meeting decides that you have finished (if that is earlier). You cannot remain in the public gallery to observe the vote on the matter.

d) In addition you must not seek to **improperly influence** a decision in which you have a prejudicial interest.

This rule is similar to your general obligation not to use your position as a Member improperly to your or someone else's advantage or disadvantage.

What if I am unsure?

If you are in any doubt, Members are strongly advised to seek advice from the Monitoring Officer or the Democratic Services Manager well in advance of the meeting.

DECLARATION OF PERSONAL AND, PERSONAL AND PREJUDICIAL INTERESTS

MEETING

DATE..... **AGENDA ITEM**

IS YOUR INTEREST:

PERSONAL

PERSONAL AND PREJUDICIAL

NATURE OF INTEREST:

.....
.....
.....

NAME (PRINT):

SIGNATURE:

Please detach and hand this form to the Committee Clerk when you are asked to declare any interests.