

Public Document Pack



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GOVERNANCE AND AUDIT COMMITTEE

26 JUNE 2013

A meeting of the Governance and Audit Committee will be held at **7.00 pm on Wednesday, 26 June 2013 (Training at 6.30pm)** in the Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Membership:

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

A G E N D A

Item No

1. **TRAINING PRESENTATION**
- 1a **RISK REGISTER**
2. **APOLOGIES FOR ABSENCE**
3. **DECLARATIONS OF INTEREST**
4. **MINUTES OF PREVIOUS MEETING** (Pages 1 - 10)
To approve the Minutes of the Governance and Audit Committee meeting held on 21 March 2013, copy attached.
5. **GOVERNANCE AND AUDIT COMMITTEE ACTION PLAN** (Pages 11 - 12)
- 5a **MUSEUM PROCEDURES** (Pages 13 - 16)
6. **TRANSEUROPA DEBT** (Pages 17 - 22)
7. **INTERNAL AUDIT ANNUAL REPORT** (Pages 23 - 46)
8. **INTERNAL AUDIT PROGRESS REPORT** (Pages 47 - 66)
9. **EXTERNAL AUDIT PLAN 2012-13** (Pages 67 - 88)
10. **EXTERNAL AUDIT PROGRESS REPORT** (Pages 89 - 102)
11. **AUDIT FEE LETTER 2013/2014** (Pages 103 - 108)
12. **QUARTERLY GOVERNANCE PROGRESS REPORT** (Pages 109 - 124)
13. **DRAFT ANNUAL GOVERNANCE STATEMENT 2012-2013** (Pages 125 - 142)
14. **ANNUAL TREASURY MANAGEMENT REVIEW** (Pages 143 - 158)

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GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 21 March 2013 at 7.00 pm in Austen Room, Council Offices, Cecil Street, Margate, Kent.

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

In Attendance: Councillor Driver speaking under Council Procedure Rule 24(1).

267. ALSO PRESENT:

Sue McGonigal – Chief Executive and s151 Officer
Harvey Patterson – Corporate and Regulatory Services Manager
Sarah Martin – Financial Services Manager & Deputy s151 Officer
Nikki Morris – Business Support and Compliance Manager
Janice Wason – Community Development Manager
Christine Parker - Head of the East Kent Internal Audit Partnership
Simon Webb – Deputy Head of Audit – East Kent Audit Partnership
Andy Mack – Director – Grant Thornton UK LLP
Lisa Robertson – Manager – Grant Thornton UK LLP
Sean Hale – Head of ICT – EK Services

268. TRAINING PRESENTATIONS

(a) **Grant Thornton-Audit Commission Verbal Introduction**

A pre-meeting verbal introduction was given by Andy Mack and Lisa Robertson, representatives of Grant Thornton who are our External Auditors.

(b) **Internal Audit/ Introduction Update**

A pre-meeting training presentation was given by our representatives from the East Kent Internal Audit Partnership, Simon Webb and Christine Parker.

269. VARIATION TO AGENDA ORDER

Members agreed to vary the order of the agenda and take items 4 and 5, the minutes and action plan, together. Item 16 had been withdrawn. The next item for discussion was item 17, Procedures for Dealing with TDC Artefacts. The agenda would then be followed in order starting with item 6.

270. RULE 24.1

Councillor Driver – Minute No. 286 – Procedures for Dealing with TDC Artefacts.

271. APOLOGIES

No apologies were received.

272. DECLARATIONS OF INTEREST

There were no declarations of interest.

273. MINUTES OF PREVIOUS MEETING

The minutes of the Governance and Audit Committee meeting held on 11 December 2013, were approved and signed by the Chairman.

A query was raised however on the amended wording to the 'Anti-Fraud and Corruption Policy' that had been requested at the December meeting.

A 'guidance note' is to be added to the Policy to explain the meaning of 'engage' within the Policy.

274. GOVERNANCE AND AUDIT COMMITTEE ACTION PLAN

In referring to item 3 on the Governance and Audit Committee Action Plan in relation to the late raising of an Invoice to TLF for a final sum Members asked why such a delay had taken place. Sue McGonigal, Chief Executive advised that she would find out why but explained some of the Finance Processes to Members. A further question was asked about the processes and whether they were rigorous enough to give assurance. Sue McGonigal said they were and that any queries would be picked up.

An action at item 4 asked that an exercise be undertaken to 'scope' the hours that staff are working to identify where they are working more than their contracted hours. This is also an item (R1001) on the Risk Register and members felt that the Control Measure; use stress audit to inform an improvement plan, was inadequate. Sue McGonigal advised that the Health and Safety Board were looking into this but that the stress audit was just one strand of the issue. The analysis of hours worked by staff is currently missing and following some discussion Sue McGonigal said control measures would be revisited but decisions would have to be made on what the Council do and stop doing.

Sean Hale, Head of ICT for EK Services was at the meeting to answer questions on item 2 of the action plan regarding data Protection Act Compliance and IT equipment disposal. Sean advised Members that processes were now in place to mitigate the risks and East Kent Services have purchased equipment to wipe PC's and Laptops before sending to an external contractor. Staff have been made aware of the ICT Policy regarding removable media devices. Concerns were raised by Members that 'dongles' could be used by staff and taken home and although Sean agreed that they could he explained that IT kept a record of which staff had them and added that they were encrypted and could not be used without a password.

Some other Members still had concerns regarding the security of removable media devices but Sue McGonigal informed the Committee that it would be a disciplinary offence if the Policy was breached in any way. Christine Parker, Head of EKAP added that although processes had been missing they had been addressed and implemented now.

The Action Plan was noted.

275. INTERNAL AUDIT PROGRESS REPORT

Simon Webb, Audit Manager from the East Kent Internal Audit Partnership, outlined the report which summarises the internal audit work completed by EKAP since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 31 December 2012.

There have been 11 Internal Audit assignments completed during the period. Of these four had concluded substantial assurance, five reasonable assurance and one received a split assurance (Dog Warden and Litter Enforcement).

The Council has a statutory duty to provide a stray dog service which is working effectively and on which management can place Reasonable Assurance that the animals

are being picked up. However, it had been found that some of the internal controls over the administration behind the stray dog and general dog control service are currently weak and therefore management can place Limited Assurance on these at present.

The Council's two Dog Wardens are proactive in their role, whilst taking into account the welfare of the dogs themselves. The Enforcement Team has been part of a number of dog fouling and littering prevention campaigns which appear to have had some impact as the number of Fixed Penalty Notices being issued has reduced.

The audit of EK Services Housing Benefit Quarterly Testing (Quarter 3 of 2012-13) had tested 20 claims including new and change of circumstances of each benefit type which had been selected by using Excel software to randomly select the various claims for verification.

Of these 20 benefit claims tested 100% were found to have passed the criteria set by the former Audit Commission's verification guidelines.

In respect of payroll it was noted that the main operational controls within the payroll system are working well with the right people being paid the right amount on time. Of the 21 recommendations made 12 have been implemented and the remainder are either in progress or are being managed. At this time the assurance level remains the same.

Simon Webb provided Members with an update of the performance of the East Kent Audit Partnership to the end of Quarter 3.

Let Properties and Concessions had received 'reasonable assurance'. This department has adapted and coped well considering there is not a current Asset Management Strategy in place with officers currently working off an interim asset disposal plan. A new Asset Management Strategy is currently being drafted by management which will be complete during 2013/14. The involvement and endorsement of elected Members during this process is crucial to ensure elected Members are aware of the financial risks if adequate capital receipts from disposals are not realised. Some members queried whether this implied that there is currently not enough Member interest in this process. Simon Webb advised that more Member involvement would be appropriate.

Other Members had concerns regarding the Grounds Maintenance team who contracted out work that some Members felt could be done in-house. It was suggested that they contact Mark Seed, Director of Operational Services to voice their concerns.

In referring to the rent reviews where 74% are not currently being completed within the required period which could result in a loss of rental income to the Council, Members queried why it was an issue. Sue McGonigal advised that this was a priority but recruitment to vacant posts was difficult.

Moved by Councillor S Tomlinson and seconded by Councillor Campbell that:

"6.1 that the report received by Members and

6.2 that any changes to the agreed 2012-13 internal audit plans, resulting from changes in perceived risk, detailed at 5.0 of the attached report be approved"

MOTION ADOPTED.

276. INTERNAL AUDIT CHARTER AND 2012/13 AUDIT PLAN

Christine Parker, Head of East Kent Audit Partnership 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 2013 to 31 March 2014 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. The Strategy details how the East Kent Audit Partnership provides the Internal Audit function for the year to 31 March 2014. 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 the Directors and the Council Statutory S151 Officer. The plan is also designed to meet the requirements expected by the External Auditors for ensuring key controls are in place for its fundamental systems. This Committee is also part of the consultation process, and its views on the plan of work for 2013-14 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require.

A question was raised by Members regarding why the 'Scheme of Officer Delegations' had not been audited. Simon Webb said that it was a question of whether Members felt it was of a particular priority. Audit resources focussed on key risks to the Authority and this was not considered to be an area with specific concerns. Harvey Patterson added that the 'Scheme of Officer Delegations' was not an area of risk and that the document was updated every year. He added that the Schemes for Officers and Members was recorded and published providing an audit trail.

Moved by Councillor S Tomlinson and seconded by Councillor Campbell that:

"6.1 Members approve to adopt the Internal Audit Charter.

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

6.3 Members approve the Council's Internal Audit Plan for 2013/14"

MOTION ADOPTED.

277. EXTERNAL AUDIT UPDATE REPORT - MARCH 2013

Lisa Robertson, Manager, Grant Thornton external auditors outlined the report which updates Members on progress to date on the current audit plans and the audit work undertaken since the last update.

Lisa added that an annual fee letter is prepared setting out the fee for the audit and grant certification work for the year. The letter had been issued to officers in November 2012 and appeared on the agenda as a separate item.

In referring to the 'Local Governance Review' it was noted that the analysis carried out demonstrated that council annual accounts and associated documents are often not user-friendly and transparent in communicating key governance messages to the public and other stakeholders. The findings made a compelling case for councils to produce annual reports. Hard copies of the 'Grant Thornton', 'Improving council governance, a slow burner' was made available to Members at the meeting.

Members asked that the questions attached to the letter addressed to the Chair regarding 'How the Governance and Audit Committee oversees management's processes' be circulated to the Committee although it was noted that the answers would

not be materially different to previous years. The Chair was concerned that he had not seen the letter prior to the meeting and asked that it be sent to him in the future and was advised by Lisa that he could seek advice if required.

Members noted the report.

278. REPORT ON GRANT CLAIM CERTIFICATION 2011/12

Lisa Robertson, Manager, Grant Thornton external auditors, outlined the report which summarises the findings from the certification of 2011/12 claims.

Lisa added that she was pleased to advise that overall the Council is performing well in preparing claims and returns.

Members congratulated the East Kent Services Benefits team for their exemplary work regarding the claim returns.

Members noted the report.

279. ANNUAL FEE LETTER 2012/13

Andy Mack, Engagement Lead, Grant Thornton external auditors presented the Annual Fee Letter for 2012/13 which summarises the findings from the 2012/13 audit.

The fee is based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2012/13 and covers:

- The audit of the Council's financial statements
- The work to reach a conclusion on the economy, efficiency and effectiveness in the Council's use of resources (the value for money conclusion)
- The work on the Council's whole of government accounts return.

Members noted the report.

280. 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 2012 to 31 March 2013 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 and contributions towards the Committee's objectives. Also, to officers of the council for their professional approach to governance matters and to the business of the Governance and Audit Committee.

Moved by Councillor Worrow and seconded by Councillor Binks 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.

281. 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 2012/13 as required by The Accounts and Audit (Amendment) (England) Regulations 2011.

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, so that they are able to gain assurance as to the effectiveness of the process. 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.

It was noted that Members found the clarity of the report and presentation of the findings to be exemplary.

Moved by Councillor Binks and seconded by Councillor S Tomlinson that:

“the Governance and Audit Committee accept the findings of the review of the effectiveness of the council's Internal Audit arrangements for 2012/13”

MOTION ADOPTED.

282. 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:

- 1.1.1 Corporate risk register
- 1.1.2 Annual Governance Statement 2011/12 action plan
- 1.1.3 Programme of Reports for 2013/14
- 1.1.4 Terms of reference – annual review
- 1.1.5 Data Quality Framework

Members asked for some clarification regarding risk reference R1010 – There is a mismatch between the large number of assets owned by the council and the low level of funding available to maintain these appropriately. This increases the investment needs for the future to keep these fit for purpose, and to prevent the development of significant health and safety risks. This is particularly relevant for fixed assets that do not generate significant income, but still need to be maintained.

Members were advised that this was informed by the building surveyors.

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 note the programme of reports for 2013/14, on the understanding that there may be variations to the programme should the need arise”

MOTION ADOPTED.

283. TREASURY MANAGEMENT UPDATE FOR THE QUARTER ENDED 31 DECEMBER 2012

Sarah Martin, Financial Services Manager and Deputy s151 Officer, outlined the report which updates the Governance and Audit Committee on Treasury Activity during the Quarter ended 31 December 2012.

Sectors Economic Update which was issued by Sector on 9 January 2013 is shown below:-

- Indicators suggest that the economy probably contracted;
- Retail sales weakened but spending off the high street held up;
- Employment continued to rise, albeit at a slower pace;
- Inflation remained stubbornly above the Monetary Policy Committee (MPC) 2% target;
- The MPC paused its programme of asset purchases;
- UK equity prices rose and government bond prices fell;
- The US economy continued to recover at a modest pace.

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

- Security of Capital;
- Liquidity; and
- Yield

It was also noted that the yield on deposits for the quarter ended 31 December 2012 was 0.73% against a benchmark (average 7-day LIBID rate) of 0.36%. The Council's budgeted deposit return for 2012/13 is £0.179m, and performance for the year to date is £0.178m.

In referring to 'Borrowing' it was noted that no borrowing was undertaken during the quarter.

Moved by Councillor S Tomlinson and seconded by Councillor M Tomlinson that:

"Members note the content of the report"

MOTION ADOPTED.

284. REVISED TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2013/14

Sarah Martin, Financial Services Manager and Deputy s151 Officer outlined the report which proposed that the Treasury Management Strategy Statement is revised so that the

maximum investment maturity is increased from 364 days to 370 days, with a maximum of £5m invested with a maturity of over 364 days but not more than 370 days. The revised document was attached at annex 1 to the report.

In referring to the following:-

Country and sector considerations – Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:

- no more than 10% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness

Members asked whether the Council should be doing this.

Sarah advised that she would look into it but confirmed that country limits were in place.

Moved by Councillor Worrow and seconded by Councillor Binks that:

“the Governance and Audit Committee recommend that the revised Treasury Management Strategy Statement be approved by Council”

MOTION ADOPTED.

285. EXCLUSION OF PUBLIC AND PRESS

This item was withdrawn from the agenda.

286. PROCEDURES FOR DEALING WITH TDC ARTEFACTS

Some Members asked why a letter addressed to the Chairman of the Governance and Audit Committee raising concerns about the stewardship of TDC artefacts had been redacted in part. Harvey Patterson, Corporate and Regulatory Services Manager explained that the author of the letter had consented to its circulation to the Committee and not to the public at large. Consequently parts of the letter had been redacted for data protection reasons. However, this did not compromise the reader's ability to understand the issues being raised.

Councillor Driver, speaking under Council Procedure Rule 24(1) informed the Governance and Audit Committee that the letter made serious allegations in the management of the Council's artefacts involving a serving and ex Councillor. He said that the Overview and Scrutiny Panel should look into this matter. A further email had been received showing more details of the allegation which had been passed to officers.

It was suggested by Sue McGonigal that if criminal activity was suspected then it should be resolved by going to the Police rather than through the Council. Other Members asked whether the Council had a 'process' regarding the artefacts. Sue McGonigal advised that an Internal Audit report on Museums and Artefacts had been written in November 2012, the executive summary is as follows:-

‘Management can place Reasonable Assurance on the system of internal controls in operation within the Dickens House Museum and Limited Assurance on the system of internal controls in operation within the Margate Museum.

Many of the issues affecting control effectiveness are historical and inherited weaknesses within the operation of the museums themselves. On a positive note attempts are now being made to make improvements, most significantly at the Margate Museum. This however is not an overnight process and it is acknowledged that this will take time, is subject to budgetary restrictions, officer availability and the goodwill of those volunteers involved in the operational running of the museums'.

Members were concerned that since 2005, when the Maritime Trust left, that there had been no staffing for the museum and no monitoring of who went into the museum had taken place. It was added that it appeared that some items had gone missing. Janice Wason, Strategic Community Manager advised that Kate Wilson, Community Development Officer, who had been working tirelessly on the inventory, was aware of this historic lack in monitoring and had made substantial changes to process since taking over. There was now no lone working at all and the locks to the museums had been changed. Janice reiterated that if anybody knew of items missing and could prove it, then they should go to the appropriate authority.

Other members had concerns that no definitive list was available and queried whether items were stored correctly. It was suggested that although no budget was available that perhaps the Council could obtain prices so that at least the knowledge of the required budget was there. Janice informed Members that several specialists had been in to make valuations on a variety of different items. This would inform the insurance position.

Other Members said that this was only part of the problem and why had the issue not been picked up sooner. It was felt that the Council should 'get on top' of the matter and that it should have been picked up by the Audit. At this point it was proposed that this matter should be taken to the Overview and Scrutiny Panel.

Sue McGonigal advised that the Audit is separate to the inventory and that the Audit is of the processes regarding the management. Sue added that the Council employ several specialists to help with the checking process but that as it has not been deemed a priority for the Council no dedicated budget has been identified. In order to redirect existing budgets Cabinet would need to advise on what the Council should stop delivering in order to prioritise museums and artefacts. No information had been received to identify any items of value had gone missing. The matter has been taken very seriously but is not a priority.

Some Members of the Governance and Audit Committee said that although this may not be a priority it was a question of public perception. Sue McGonigal replied that no assets of any value had been taken and it was a question of proportionality. Other Members said that it was not for consideration by Scrutiny as it was about ensuring that processes were in place. It was also noted that no written procedures for dealing with TDC Artefacts were available at this time. Janice agreed and accepted that a piece of work on Museums procedures would be written.

It was felt by one Member that it would be a waste of officer time to take this matter to the Overview and Scrutiny Panel as the matter under discussion had happened in the past and that the processes were more of a priority.

It was proposed by Councillor Campbell and seconded by Councillor Binks that:

'A Museums processes document be written for Members for the next meeting of Governance and Audit Committee in June 2013'

AGREED.

It was then proposed by Councillor W Scobie and seconded by Councillor Campbell that:

'The item 'Procedures for Dealing with TDC Artefacts' be taken to the Overview and Scrutiny Panel'

AGREED.

Meeting concluded : 8.55 pm

Action	Owner	Target date	Progress	Feedback / Comments
<p>A query was raised regarding an outstanding payment from TLF on their loan (action from previous meeting). Members asked why the delay in sending the last Invoice.</p>	<p>SM</p>	<p>26-Jun-13</p>	<p>C</p>	<p>The payment due from TLF was in fact raised in the appropriate year in accordance with the accounting policy. The debt was set up on recurring billing and this will only accommodate regular even payments and can't calculate a balancing item. This was therefore required to be actioned manually. As a matter of course this would have been picked up through closing the code for year end thus ensuring that the bill was indeed raised in the correct accounting year. Systems are being put in place though to ensure that these items are picked up earlier in future rather than at year end to ensure invoices are raised in a timely manner.</p>
<p>Item 8 regarding the assurance statement, members commented on staffing numbers.</p>	<p>SM</p>	<p>26-Jun-13</p>	<p>C</p>	<p>The Council currently has 475.5 FTEs(excluding EKS staff) which is considered sufficient to ensure the delivery of the Council's objectives. Training needs are identified as part of the appraisal process and actioned accordingly to ensure that staff have the appropriate skills to do their jobs. Staffing levels and skills are reviewed on a regular basis as part of the Council's ongoing financial planning</p>

Action	Owner	Target date	Progress	Feedback / Comments
Anti-Fraud & Corruption and Anti-bribery policies- 'No Members will <u>engage</u> a third party who is looking to promote a cause without an officer being present'. Members asked for clarification re the word 'engage'.	SM/HP	26-Jun-13	C	Rather than use the word 'engage' the following wording clearly addresses the issue: 'Unless an officer is also present, no Member will meet with a third party to discuss the acquisition of goods and services by or on behalf of the Council including the terms on which such goods and services are to be acquired; the acquisition or disposal by the Council of land or an interest in land including the terms on which such land or interest in land is to be acquired or disposed of; the actual or proposed development or redevelopment of Council owned land including the terms on which such land may be developed or redeveloped; the securing of planning obligations or other community benefits arising out of or in connection with a planning application under consideration by the Council; the award by the Council of financial assistance of any kind whether by way of grant, pledge, indemnity or loan (whether secured or unsecured). This has been published to the website.
In respect of item 17 on the agenda- Procedures for Dealing with TDC Artefacts, Members asked that a Museum's Procedures paper be brought to the next meeting.	JW	26-Jun-13	IP	Janice agreed to bring a paper to the next meeting on Museum Procedures.
In respect of item 17 on the agenda- Procedures for Dealing with TDC Artefacts, Members agreed that this item be covered by 'Overview & Scrutiny'	SG	23-Apr-13	C	On agenda for Overview and Scrutiny Panel 23 April 2013.

Key:

- C Completed
- IP In progress
- O Ongoing

Sue Glover
Sarah Martin
Harvey Patterson
Nikki Morris
Janice Wason

MUSEUMS-PROCEDURES

To: **Governance and Audit Committee – 26 June 2013**
By: **Katherine Wilson – Community Development Officer**
Classification: **Unrestricted**

Summary: **This report is to update Members of the Governance and Audit Committee on the Procedures now in place for the museum artefacts**

For Decision

1.0 Introduction

1.1 On 21 March 2013 Governance and Audit Committee discussed the agenda item 'Procedures for dealing with TDC artefacts'. The matter was raised following correspondence addressed to the Chairman of the Governance and Audit Committee raising concerns about the stewardship of the TDC artefacts. Two actions were proposed and agreed:

- 'A Museums processes document be written for Members for the next meeting of Governance and Audit Committee in June 2013'
- 'The item 'Procedures for Dealing with TDC Artefacts' be taken to the Overview and Scrutiny Panel'

1.2 The purpose of this report is to outline the present processes in place for the TDC artefacts.

2.0 Background

TDC Collections

- 2.1 The Council's artefact collections at Margate Museum are typical of a mixed social history collection with a good proportion of the collections being of local origin and/or relevance. This includes a large number of the souvenirs and ephemera one would expect from a seaside town with a long history of tourism and entertainment. There are also artefacts from local industries, especially the Cobb Brewery, and from the agricultural past of the area. As with many local history museums, there is a collection of artefacts reflecting Margate's World War experiences and, as the Museum is sited in the town's old Gaol, some items drawn from the Police profession. Other groups of items include coins, medals and tokens, the town's official Weights and Measures, a small number of medical, technical and audio equipment, and a collection of local newspapers. There is a small collection of archaeology owned by the Museum which is supported by a larger collection of material on loan from Thanet Archaeological Trust, plus a shell collection on loan to Quex Park.
- 2.2 The artefacts with the higher financial values include a very important wooden doll dating back to 1750, a marble bust by Sir Francis Chantry, a few theatrical posters, and Victorian furniture (mostly at Dickens House, Broadstairs).
- 2.3 The artefact collection is supported by a large fine art collection including some oils on canvas by notable artists, with the bulk of this collection made up of several

hundred engravings of local scenes and seascapes, again, with some works by notable artists. Of particular note and financial value is the Rowe Bequest of engravings including many produced by Phillipe Loucherberg; the large oil on canvas by James Webb Margate from the Pier; and significant but lower value oil paintings by Alfred Clint, George Chambers and Arthur Meadows.

- 2.4 This important collection is supported by a large photographic collection, including the Sunbeam Studio collection (tourist portraits) presently being scanned as part of the SEAS project and material from the East Kent Times; an extensive collection of postcards depicting local scenes underlines the strength and importance of visual images of local scenes in the Museum's collection.

Museum Catalogues and documentation

- 2.5 Margate Museum has a paper catalogue created by Colin Wilson (TDC Museum Officer) which covers the core of the collection and most valuable artefacts including artefacts from the Rowe and Parker bequests. The information within this catalogue is of a high standard. EKMT created an electronic 'Excel' catalogue which used the Colin Wilson catalogue as its basis. However, this catalogue is unreliable outside the Colin Wilson artefacts, with 'new' items often not entered or mislabelled. During this period other documentation, including entry and exit forms were not routinely completed. When EKMT handed back the keys to the council, the museum closed to the public and donations stopped, however the museum gained items through council officers 'saving' items and storing them in the museum for example a collection of Winter Garden posters and music; no entry documentation was completed, but loan agreements were put in place for high value objects i.e. Webb picture and paddle-steamer items. Overall the museum documentation is fragmented.
- 2.6 Dickens House Museum has a paper inventory created by council officer Chris Tull and Dickens Fellowship. This part of the TDC collection has received few donations and the displays are static except for loan items from the present curator. There are no items in store.

Processes in place

- 2.7 The following documentation procedures are in place:
- Items entering the museum: entry records form completed, including loans into the museum
 - Items leaving the museum: exit records, including loans out of the museum
 - Accession numbering of museum objects; each object is being given a unique number prefixed by the Institutional numbering code MRGMM. This is being carried out as part of the development of the new Margate catalogue.
 - Location and movement records: recently implemented for objects being moved around the Margate museum
 - Collection policies: Margate Old Town Museum, collections management, acquisition and disposal policy (1991) - new documentation has been drafted. Dickens House Museum, acquisition and disposal policy.

'Projects' in progress

- 2.8 Several 'projects' are in progress to bring the museum documentation up to present museum standards.
- Audit of artefacts (checking items off against EKMT catalogue): pictures (approx. 1,000) in the store room have been audited. Artefacts in the store boxes have been listed and these will be cross referenced against the EKMT catalogue to identify 'unlisted items'.
 - New Margate Catalogue (A record for each item that includes unique number, description, condition, photograph, measurements): the downstairs rooms are almost complete.

- Rowe Bequest: audited pictures are being checked against Rowe documentation to confirm location of bequest items.
- Audit of Dickens House Museum artefacts: scheduled to start week commencing 3rd June but postponed to after Broadstairs Dickens week due to commitments and scheduled visitor groups.

3.0 Options

3.1 Members agree to refer matter to the Task & Finish Group for consideration and bring the matter back to Governance and Audit after Task and Finish Group have completed work, if necessary.

4.0 Corporate Implications

4.1 Financial

4.1.1 The Council collections have a financial value and procedures should be in place to minimise council risk.

4.2 Legal

4.2.1 The appropriate documentation is needed to ensure ownership of artefacts can be verified.

4.3 Corporate

4.3.1 The Council collections have a social and financial value and procedures should be in place to ensure the collections are appropriately looked after for the present and future benefit of residents and visitors

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 Appropriate procedures in place to safeguard the collections.

5.0 Recommendation(s)

5.1 That Members agree that the matter be referred to the Overview & Scrutiny Task and Finish Group for their consideration.

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.

Contact Officer:	Katherine Wilson, Community Development Officer DDI 01843 577037
Reporting to:	Janice Wason, Community Development Manager, DDI 01843 577792

Annex List

Annex 1	n/a
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Corporate Consultation Undertaken

Monitoring Officer	Harvey Patterson, Corporate and Regulatory Services Manager
Finance	Sarah Martin, Financial Services Manager

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TRANSEUROPA DEBT

To: **Governance and Audit Committee – 26 July 2013**

Main Portfolio Area: **Financial Services**

By: **Financial Services Manager**

Classification: **Unrestricted**

Summary: For Members to note how the Transeuropa debt will be addressed within the 2012/13 statement of accounts.

For Noting

1.0 Introduction

1.1 Following the termination of business by Transeuropa NV and its subsequent filing for insolvency, the outstanding debt to the council is circa £3.3m. In accordance with proper accounting practice, full provision for this debt will be made within the 2012/13 statement of accounts which will be presented for approval to this committee on 25 September 2013.

2.0 Statement of Accounts

2.1 As part of the closure process for 2011/12, a review was undertaken of the debt position in relation to Transeuropa. The position was discussed with the auditors and it was decided that as agreement had been reached over a debt repayment plan, there was no need to make explicit reference to the Transeuropa debt position within the accounts or make a provision for the outstanding debt. Indeed, the first three repayments had been received at the time of the signing of the 2011/12 accounts which provided the auditors (and the council) with assurance that Transeuropa would honour the debt repayment plan.

2.2 Unfortunately, Transeuropa's financial position did not improve as hoped and in April 2013 they ceased operations and started insolvency proceedings. The council has consequently reviewed its outstanding debt position with Transeuropa and the debt stands at circa £3.3m. Although the council has lodged its debt with the company administrators and intends to take whatever action it can to chase the debt, good accounting practice means that the council needs to provide for the debt in full within its 2012/13 statement of accounts. The proposed sources to fund the outstanding debt were presented to Cabinet on 29 May 2013 (see Cabinet report attached at Annex 1). Cabinet approved these sources and this will now go to Council in July for ratification. Once approved, these drawdowns from reserves and the bad debt provision will be reflected in the 2012/13 accounts which will then be presented to this committee for approval on 25 September 2013. Members should note that the position has already been discussed with the auditors and they are aware of the council's proposed treatment of the debt position.

3.0 Corporate Implications

3.1 Financial and VAT

3.1.1 The outstanding debt will be provided for in full within the 2012/13 statement of accounts. The sources of funding to cover this debt were presented to Cabinet on 29 May 2013 and will be approved by Full Council on 11 July 2013.

4.2 Legal

4.2.1 The Legal team will endeavour to take whatever action is available to chase the outstanding debt.

4.3 Corporate

4.3.1 The published accounts must give a true and fair view of the council's financial position and its income and expenditure for the year. The 2012/13 accounts will therefore reflect the outstanding debt position in relation to Transeuropa.

4.4 Equity and Equalities

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

5.0 Recommendations

5.1 That Governance and Audit Committee note the outstanding debt position in relation to Transeuropa and the proposed treatment within the 2012/13 statement of accounts.

Annex List

<i>Annex 1</i>	<i>Transeuropa Outstanding Debt report to Cabinet 29 May 2013</i>
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Contact Officer:
Sarah Martin, Tel. (01843) 577617.

TRANSEUROPA OUTSTANDING DEBT

To: **Cabinet – 29 May 2013**

Main Portfolio Area: **Financial Services**

By: **Financial Services Manager**

Classification: **Unrestricted**

Ward: **All**

Summary: **To clarify the outstanding debt position in relation to Transeuropa and to seek approval to use the sources of funding identified to deal with the debt.**

For Decision

1.0 Introduction

1.1. Following the news of the termination of business by the ferry operator Transeuropa NV and its subsequent filing for insolvency, the council has reviewed its debt position with the company. The outstanding debt now stands at circa £3.3m and given that the operator is no longer trading, it will now be necessary to make full provision for the debt within the 2012/13 statement of accounts.

2.0 Background

2.1 Detailed discussions began with Transeuropa about its financial viability back in November 2010. At this time the company advised the council that it wished to review the tariff agreement as escalating fuel prices were causing them financial difficulties. These discussions culminated in a meeting in Ostend in March 2011 with both Transeuropa and the council's Ostend counterparts. Transeuropa made it clear at this time that they needed temporary support from both the council and Ostend to ensure the ongoing future of the business. The company had started making substantial losses due to continued high fuel prices and to the price war being waged between the cross channel operators as a result of the French government's deficit funding for Sea France. At this time the company had also recently reduced to two vessels operating instead of the previous three. The council was keen to ensure the continuation of Transeuropa's business, whilst also protecting its own financial position. It therefore agreed to a three month deferral of fees which would be added to the existing debt. A payment plan for the existing debt was also agreed to 2014. At the same time, Ostend also agreed to waive an element of their charges. Through close contact with Ostend, officers were confident that the council's offer of credit was both necessary and reasonable.

2.2 Subsequent discussions with Transeuropa showed that they were in talks with potential investment partners to help secure their future. It was clear from these discussions that the agreed three month deferral period would be insufficient and therefore Transeuropa requested that the deferral of fees be extended until an investment partner was in place. Payments of around £80k per month in respect of the outstanding debt were received from July 2012 through to September 2012, which was seen as a positive sign that the position was improving.

- 2.3 Discussions with potential investors continued throughout 2012 and council officers had regular updates from Transeuropa on the progress of these discussions. Ultimately in November 2012, agreement was reached with an Italian investment company. It was hoped that this investment would secure the financial viability of the company, thereby ensuring the recovery of the council's outstanding debts. Indeed, a third vessel, the Ostend Spirit, commenced sailings in February 2013 which was taken as a positive sign that the company's fortunes had taken a turn for the better.
- 2.4 Throughout the negotiations, the course of action with regards to the management of the debt was shared with the Cabinet Leader and Finance Portfolio holder in administration at that time.
- 2.5 On 17 April 2013, to the council's great disappointment, the Ostend Spirit had to be returned to P&O in accordance with the charter arrangement as the promised funding had not been released to Transeuropa by the Italian investors. This was seen as a sign of the company's failing financial position by some of its creditors who took the opportunity to seize the company's two remaining cross channel vessels within Ostend Port, thereby causing them to cease operations and prompting insolvency proceedings.

3.0 The Current Position

- 3.1 The council has now reviewed its outstanding debt position with Transeuropa and can confirm that the debt stands at circa £3.3m. Although the council has lodged its debt with the company administrators and intends to take whatever action it can to chase the debt, good accounting practice means that the council needs to provide for the debt in full within its 2012/13 statement of accounts. It is proposed to use the following sources within 2012/13 to fund this debt:

- A sum of £1m has been identified in respect of prior year adjustments to housing benefit subsidy. This is a highly volatile budget due to the impact on the subsidy of increases in caseloads and errors in benefit calculations and so normally any underspend would be put into the Customer Services Reserve to mitigate any future overspends. However, the current balance in this reserve is considered appropriate for this purpose and therefore this budget underspend can be utilised to offset the Transeuropa debt position;
- Unallocated unringfenced grants of £92k have been identified;
- A balance of £43k remains on the Housing and Planning Delivery Grant reserve which is unallocated;
- A sum of £1m will be drawn down from the New Homes Bonus;
- Savings in the cremator project of £196k will be utilised;
- Carry forward budgets of £257k from prior years have not been utilised and will therefore be taken to offset this debt;
- A sum of £200k will be taken from the Priority Improvement Reserve which will still leave a balance of £405k to support invest to save and one-off initiatives;
- A sum of £196k will be taken from the VAT Reserve;
- The bad debt provision has been reviewed and a sum of £200k can be taken to contribute towards this debt.

The above funding sources give a total of £3,186k. It is anticipated that there will be an underspend for 2012/13 over and above that already reported to Members and it is recommended that the balance required to offset the outstanding debt position be taken from any such underspend.

4.0 Options

4.1 Members agree the proposed sources to fund the debt.

4.2 Members identify alternative sources of funding.

5.0 Next Steps

5.1 Officers will continue to make every effort to recover the outstanding debt.

5.2 Talks are progressing to identify a new ferry operator to mitigate the ongoing budget impact. In the meantime, significant day to day operational savings have already been made at the port and harbour and a wider moratorium on discretionary spending has been implemented to address the budget gap as a result of Transeuropa ceasing operations.

6.0 Corporate Implications

6.1 Financial and VAT

6.1.1 A sum of circa £3.3m has had to be identified to offset the outstanding debt that has been accumulated as highlighted in paragraph 3.1 above. The exact final figure will be recognised within the accounts as part of the closure of accounts process

6.1.2 Throughout the accumulation of the debt and up to the current time, officers have shared information with the council's external auditors to ensure proper accounting practice has been followed.

6.2 Legal

6.2.1 The Legal team will endeavour to take whatever action is available to chase the outstanding debt.

6.3 Corporate

6.3.1 Corporate priorities can only be delivered with robust finances. This report has identified how the Transeuropa debt position can be addressed without impacting on the delivery of the council's priorities.

6.4 Equity and Equalities

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

7.0 Recommendation

7.1 That Members approve the sources identified in paragraph 3.1 to fund the outstanding debt.

Future Meeting if applicable:	Date:
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Contact Officer:	<i>Sarah Martin, Financial Services Manager</i>
Reporting to:	<i>Sue McGonigal, Chief Executive and S151 Officer</i>

Background Papers n/a
Corporate Consultation Undertaken

Finance	
Legal	

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INTERNAL AUDIT ANNUAL REPORT

To: **Governance and Audit Committee: 26th June 2013**

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

Subject: **INTERNAL AUDIT ANNUAL REPORT OF THE HEAD OF THE AUDIT PARTNERSHIP FOR 2012-13.**

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 2013.**

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 Annual Governance 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 1 therefore summarises the performance of the East Kent Audit Partnership (EKAP) and the work it has performed over the financial year 2012-13 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 9.01 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 2012-13.
- 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 2012-13.

5.0 Corporate Implications

5.1 Financial Implications

5.1.1 There are no financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2012-13 budget. Savings against budget have been delivered by EKAP.

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 2012/13
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Background Papers:

Title	Details of where to access copy
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<i>Internal Audit Annual Plan 2012-13</i>	Previously presented to and approved at the March 2012 Governance and Audit Committee meeting
<i>Internal Audit Follow Up 2012-13</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

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Annual Internal Audit Report for Thanet District Council 2012-13

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 2013 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. From 1st April 2013 new Public Sector Internal Audit Standards (PSIAS) come into force. Therefore the annual report for 2013-14 will compare EKAP activity against the new standard and any additional requirements placed upon Internal Audit will be reflected in future annual reports thereafter.

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 2012-2013, 82 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	35	43%
Medium	34	41%
Low	13	16%
TOTAL	82	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 2012-13 the EKAP has raised and reported to the quarterly Governance & Audit Committee meetings 82 recommendations, and whilst 84% 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 29 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	8	33%
Reasonable	10	42%
Limited	6*	24%
No	0	0%
Work in Progress at Year-End	4	-
Not Applicable	1	-

* 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 75% of the reviews account for substantial or reasonable assurance, whilst 25% of reviews placed a limited assurance or partial limited assurance to management on the system of internal control in operation at the time of the review.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. 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
Data Protection	Limited / Reasonable	Quarter 1 2013-14
Absence Management, Flexi and Annual Leave	Limited	Quarter 2 2013-14
Payroll Processing & Pay Accuracy SLA Performance Management SLA Governance Arrangements	Reasonable/ Limited / Limited	Complete – some progress however assurance levels remain the same.
Dog Warden & Litter Enforcement	Limited / Reasonable	Quarter 2 2013-14
Thanet Leisure Force	Limited/ Limited / Substantial	Quarter 1 2013-14
Museums	Limited / Reasonable	Quarter 1 2013-14

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 2012-13 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 2012-13.

Total Follow Ups undertaken 10	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	2	7	1
Revised Opinion	0	0	8	2

The two reviews with an original limited assurance, together with the result of the follow up report, are shown in the following table:

Area Under Review	Original Assurance	Follow Up Result
Equality and Diversity	Limited	Reasonable
Leaseholder Charges	Limited	Reasonable

Consequently, there are no fundamental issues of note arising from the audits and follow up undertaken in 2012-13. There are no reviews showing a limited assurance after follow up.

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 2012-13 there have 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. 318.20 audit days were completed for Thanet District Council during 2012-2013 (including the 7.21 days carried forward); this compares to the budgeted 320 days and equates to 99.43% plan completion. The remaining 9.01 days will be carried forward as work in progress at the year-end 2012-13. 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 plan by 9.01 days 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
2012-13	320	7.21	327.21	318.20	97.25%	-1.80
Total	1900			1890.99	99.53%	-9.01

Appendix C shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations for East Kent Housing Ltd. Thanet District Council contributed 25 days from its original plan in 2011-12 and 20 days in 2012-13 as its share in this four way arrangement. The EKH Annual Report in its full format will be presented to the EKH-Finance and Audit Sub Committee on July 4th 2013.

Appendix E shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations for East Kent Services. Thanet District Council contributed 60 days from its original plan as its share in this three-way arrangement. The EKS Annual Report in its full format is also attached as Appendix E as EKS is hosted by TDC, and will be presented as part of this report to the TDC- Governance & Audit Committee on June 26th 2013.

3. Overall assessment of the System of Internal Controls 2012-13

Based on the work of the EKAP on behalf of Thanet District Council during 2012-13, 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 six areas where a limited or partial 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) and will be followed up and the progress reported back to committee in due course.

4. Significant issues arising in 2012-13

From the work undertaken during 2012-13, 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 below) that was originally a partial Limited Assurance, which remained a partial Limited Assurance after follow up was noted at the Governance & Audit Committee at the March 2013 meeting.

Area Under Review	Assurance after Follow up (Date to Audit Cttee)	Management Action
Payroll Processing & Pay Accuracy SLA Performance Management SLA Governance Arrangements	Reasonable/ Limited / Limited March 2013	Some progress however assurance levels remain the same, some risks tolerated.

The reviews (shown in the table below) assessed as providing a partially Limited Assurance that are yet to be followed up are shown in the table at 2.1.

5. Internal Audit Performance

5.1 EKAP Resources

The EKAP has provided the service to the partners based on a FTE of 8.1. 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 2012-13 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 AAT.
- (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 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 2013 the EKAP was slightly behind and had delivered 318.20 days against 327.21 owed (97.25%). The 9.01 days carried forward will be delivered in 2013-14 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 rather than to purchase in additional resource to achieve 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 D.

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 Deputy Head of Audit 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 Deputy Head of Audit, regular meetings are held with the s.151 Officer. The minutes to these meetings provide 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 ceased to be the council's External Auditors in November 2012, the new appointed auditors, Grant Thornton, have conducted a review in February 2013 of the Internal Audit arrangements at EKAP. Their report is currently awaited.

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 Annual Governance Statement within the Council's Statement of Accounts. Consequently, this report, summarising the achievements of Internal Audit for the year to 31st March 2013, 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 were held prior to the changeover to Grant Thornton to ensure adequate audit coverage, to agree any complementary work and to avoid any duplication of effort. To date the Internal Audit Team has met once with Grant Thornton as they have taken over as the Council's External Auditors. The EKAP has not met with any other review body during the year in its role as the Internal Auditor to Thanet District Council. Consequently, the assurance, which follows is based on EKAP reviews of Thanet District Council's services.

5.4.5 Financial Performance

Expenditure and recharges for year 2012-13 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 10% saving against budget.

The EKAP has been able to exceed its targets for financial performance for 2012-13 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 £31.26 per day against the original target for 2012-13 of £309.91/day; a total financial saving to Thanet District Council of £10,002.57 for 2012-13.

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
2012.13	£279

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 £17,802 was procured from EKAP for Interreg Grant reviews which reduces the costs to the partners. The net result is a reduced EKAP cost per audit day of some £31 per day below the original budget estimate. In the current climate this is excellent performance and the partner authorities have all enjoyed the overall savings of £42,824 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 2012-13, 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 2012-13 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 2012-13 Audit Plan

THANET DISTRICT COUNCIL:

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-03-2013	Status and Assurance Level
FINANCIAL SYSTEMS:				
Car Parking & Enforcement	12	12	11.31	Finalised - Substantial
Capital	5	5	4.78	Finalised - Substantial
Treasury Management	5	5	5.83	Finalised - Substantial
Bank Reconciliation	5	5	5.07	Finalised - Substantial
Creditors and CIS	8	8	8.82	Finalised - Substantial
External Funding Protocol	8	8	9.4	Finalised - Substantial
Income	8	8	8.41	Finalised - Substantial
VAT Compliance	8	8	8.93	Finalised - Reasonable
RESIDUAL HOUSING SERVICES:				
Housing Allocations	10	10	2.27	Work-in-Progress
GOVERNANCE RELATED:				
Data Protection	10	10	10.94	Finalised – Reasonable/Limited
Provision for either a VfM Strategy audit/VfM project works or a Project Management audit	10	0	0	Deleted from plan to accommodate unplanned work
Partnerships and Shared Services Monitoring	10	10	9.88	Finalised - Reasonable
Scheme of Officer Delegations	7	0	0	Deleted from plan to accommodate unplanned work
Risk Management	10	10	10.15	Finalised - Substantial
Corporate Advice/SMT	2	2	2.5	Finalised for 2012-13
s.151 Officer Meetings and Support	9	9	9.35	Finalised for 2012-13
Governance & Audit Committee Meetings and Report Preparation	12	12	14.01	Finalised for 2012-13
2013-14 Audit Plan and Preparation Meetings	9	9	9.44	Finalised for 2012-13
CONTRACT RELATED:				
Contract Standing Order Compliance	12	12	15.26	Finalised - Reasonable
SERVICE LEVEL:				
Child Protection and CRB Checks	9	9	1.11	Work-in-Progress

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-03-2013	Status and Assurance Level
Dog Warden & Litter Enforcement	8	12	13.39	Finalised – Reasonable/Limited
Environmental Health - Food Safety and AirPort Health Control	10	10	0	Deferred
Environmental Health - Health & Safety at Work	8	8	8.84	Finalised - Reasonable
Business Continuity & Emergency Planning	8	8	7.89	Finalised - Reasonable
Grounds Maintenance	10	10	13.08	Finalised - Reasonable
Dalby Square Heritage Grants (Advice on control framework)	3	3	4.8	Finalised
Dickens House and Margate Museums	10	10	12.52	Finalised – Reasonable/Limited
Let Properties and Concessions	10	10	11.12	Finalised - Reasonable
Thanet Leisure Force	12	12	11.21	Finalised – Substantial/Limited
Visitor Information Arrangements	10	10	12.29	Finalised - Reasonable
Waste Management	10	10	9.71	Finalised - Reasonable
Youth Development Strategy	8	0	0	Deferred
OTHER :				
Liaison With External Auditors	3	2	1.08	Finalised for 2012-13
Follow-up Reviews	20	20	10.10	Finalised for 2012-13
UNPLANNED WORK:				
Housing Repairs & Maintenance	0	22	23.02	Work-in-Progress
Child Protection - Assistance on the Kent Safeguarding Board section 11 self assessment return.	0	0	2.77	Finalised
Election Duty – Police and Crime Commissioner elections	0	0	1	Finalised
FINALISATION OF 2011-12 AUDITS:				
Days under delivered in 2011-12	0	0	-7.21	Completed
Absence Management	0	0	8.19	Finalised - Limited
EK HUMAN RESOURCES:				
Recruitment	5	5	4	Work-in-Progress
Payroll, SMP and SSP	5	5	5.94	Finalised – Reasonable/Limited
Pay & Reward - Equality Impact Assessment	8	8	9.79	Finalised
HR Systems Development – i-Trent	3	3	0	Deleted from Plan
TOTAL - THANET DISTRICT COUNCIL RESIDUAL DAYS	320	320	310.99	97% Complete as at 31-03-2013

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-03-2013	Status and Assurance Level
UNPLANNED ADDITIONAL WORK				
Interreg Grant – Tudor House	4	4	4.26	Finalised
Interreg Grant – Maritime (Off-Shore Wind Farm)	4	4	12.14	Finalised for 2012-13
Interreg Grant – Maritime (Yacht Valley)	4	13	9.17	Finalised for 2012-13
English Heritage Grant - Margate Arts Heritage and Culture Project	0.5	2.5	2.2	Finalised

East Kent Housing Ltd 2012-13 Audit Plan Results

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-13	Status and Assurance Level
Planned Work:				
Audit Committee/EA liaison/Advice	4	5	8.20	N/A
Repairs and Maintenance – Planned, responsive and Cyclical repairs.	30	25	28.55	Work-in-Progress
Sheltered and Supported Housing	16	0	0	Delayed until Quarter 2 of 2013-14
Tenancy and Estate Management	30	30.35	30.88	Finalised - Reasonable
Finalisation of 2011-12 Audits:				
Rent Calculation, Collections and Arrears Management	17.35	8.2	7.05	Finalised - Reasonable
Finance and ICT			1.15	Finalised - Substantial
Follow Ups Completed;-			Revised Assurance	
Finance & ICT	7	1	0.95	Substantial
Tenant H&S		1	0.95	Reasonable
Corporate Governance		1	0.57	Reasonable
Rents		1	1.11	Reasonable
Leaseholder Charges		3	2.97	Reasonable
Responsive Work:				
CCC Capital and Revenue Budget	0	8	7.88	Finalised
TDC Repairs and Maintenance	0	10	10.03	Draft Report
Former Tenant Arrears Policy – Advice	0	1	0.96	Finalised
Current Tenant Arrears Policy – Advice	0	1.5	1.49	Finalised
CSO and Anti-Fraud Presentation	0	1.3	1.28	Finalised
Total	97.35	97.35	104	107% Complete as at 31-03-2013

EAST KENT
DOVER • SHEPWAY • THANET • CANTERBURY



AUDIT PARTNERSHIP
Balanced Scorecard

INTERNAL PROCESSES PERSPECTIVE:	2012-13 Actual	Target	FINANCIAL PERSPECTIVE:	2012-13 Actual	Target
	Quarter 4				
Chargeable as % of available days	84%	80%	Reported Annually		
Chargeable days as % of planned days			Direct Costs (Under EKAP management)	£388,189	£408,270
CCC	102%	100%	Indirect Costs (Recharges from Host)	£11,369	£16,310
DDC	103%	100%	'Unplanned Income'	£17,802	Zero
SDC	86%	100%	Net overall Cost Shared Between Partners	£381,756	£424,580
TDC	97%	100%	Overall Saving Delivered Across Partners = 10%	£42,824	Zero
EKS	85%	100%	Cost per Audit Day	£278.65	£309.81
EKH	107%	100%			
Overall	95%	100%			
Follow up/ Progress Reviews; (all sites)					
• Issued	54	-			
• Not yet due	25	-			
• Now overdue for Follow Up	25	-			
Percentage compliance with the CIPFA Code for Internal Audit 2006	97%	97%			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2012-13 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2012-13 Actual</u>	<u>Target</u>
	Quarter 4		Quarter 4		
Number of Satisfaction Questionnaires Issued;	94		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	39 (=41%)		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	5.74	3.5
<ul style="list-style-type: none"> • The audit report was 'Excellent or Very Good' 	90%	90%	Percentage of staff meeting formal CPD requirements	33%	33%
<ul style="list-style-type: none"> • That the audit was worthwhile. 	97%	100%			

Annual Internal Audit Report for EK Services 2012-13

1. Introduction/Summary

The main points to note from this report are that the agreed programme of audits has been completed with some projects carried over (with management agreement) as work in progress at 31st March 2013. 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 10% saving against budget. The saving directly passed to EK Services is £5,001.29.

2. Review of the Internal Control Environment

2.1 Risks and Assurances

During 2012-13, 35 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	7	20%
Medium	20	57%
Low	8	23%
TOTAL	35	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 2012-13 the EKAP has raised and reported to the partners' quarterly audit committee meetings 35 recommendations, and whilst 77% 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 10 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	2	33%
Reasonable	3	50%
Limited	1*	17%
No	0	0%
Work in Progress at Year-End	2	-
Not Applicable	2	-

* 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 83% of the reviews account for substantial or reasonable assurance, whilst 17% 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
ICT Software Licensing	Limited	Quarter 1 2013-14

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.

Four follow up reports were carried out for EKS during the year. The results for the follow up activity for 2012-13 will continue to be reported at the appropriate time. The results in the following table show the original opinion and the revised opinion after follow up to measure the impact that the EKAP review process has made on the system of internal control.

Total Follow Ups undertaken 4	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	1	3	0
Revised Opinion	0	0	4	0

There are no fundamental issues of note arising from the audits undertaken in 2012-13. None of the reviews are currently showing limited assurance.

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 2012-13 there have 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 2013 delivery was slightly behind plan and EKAP had delivered 156.99 days against 185.10 owed (84.81%). The 28.11 days carried forward will be delivered in 2013-14 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%	-25.10
2012-13	160	25.10	185.10	156.99	84.81%	-3.01
Total	329			300.89	91.46%	-28.11

3. Overall assessment of the System of Internal Controls 2012-13

Based on the work of the EKAP on behalf of EK Services during 2012-13, 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 was followed up during the year and the progress made in control improvement resulted in the assurance being revised to reasonable as shown in the table above (paragraph 2.2).

4. Significant issues arising in 2012-13

From the work undertaken during 2012-13, 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 2013-14.

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 2012-13 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 2012-13 Audit Plan

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31.03.2013	Status and Assurance Level
EK SERVICES SYSTEMS:				
Benefits - Payments	15	15	13.58	Complete - Substantial
Benefits – Admin & Assessment	30	30	17.72	WIP
Council Tax	23	23	22.68	Complete - Substantial
ICT Network Security	15	15	6.15	WIP
ICT Procurement & Disposals	15	5	5.20	Complete - Reasonable
ICT Software Licensing	15	12	11.27	Complete - Limited
DDC HB Testing	20	26	25.31	N/A
TDC HB Testing	20	27	26.84	N/A
EKS Corporate (Reports/Advice/etc)	0	3	3.11	-
Work Carried over from 2011-12 Total 25.1 Days;-				
Customer Services / Gateway	0	10	8.08	Complete - Reasonable
ICT Physical Environment	0	15.1	13.01	Complete - Reasonable
Follow Ups			Revised Assurance	
Housing Benefit Fraud			1.05	Reasonable
Sundry Debtors	7	4	1.84	Substantial / Reasonable
Business Rates			0.43	Reasonable
ICT Internet & Email			0.72	Reasonable
Sub-Total - EK Services days	160	185.10	156.99	84.81%

INTERNAL AUDIT PROGRESS REPORT

To: **Governance and Audit Committee: 26th June 2013**

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

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

Classification: **Unrestricted**

Summary: **This report gives Members a summary of the internal audit work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting.**

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.

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 Senior 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 seven internal audit assignments completed during the period. Of these: two concluded Substantial assurance, three concluded Reasonable assurance and two concluded Limited Assurance. Summaries of the report findings are detailed within Annex 1 to this report.

- 3.2 In addition, seven follow-up reviews have been completed during the period, of which three relate to areas which remain partially Limited assurance.

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 2013-14 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, 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, Deputy Head of Audit, Ext 7189
	Sue McGonigal, Chief Executive (s.151 Officer) Ext. 7002

Annex List:

Annex 1	East Kent Audit Partnership Update Report – 26-06-2013
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Background Papers:

Title	Details of where to access copy
<i>Internal Audit Annual Plan 2013-14</i>	Previously presented to and approved at the 21 st March 2013 Governance and Audit Committee meeting
<i>Internal Audit working papers</i>	Held by the East Kent Audit Partnership

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

1.0 INTRODUCTION AND BACKGROUND

1.1 This report provides Members with an update of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting.

2.0 SUMMARY OF REPORTS

	Service / Topic	Assurance level
2.1	Risk Management	Substantial
2.2	EK Services – Housing Benefits Payments	Substantial
2.3	EK Services – Housing Benefits Admin & Assessment	Reasonable
2.4	Payroll Processing	Reasonable
2.5	Recruitment and Induction	Reasonable
2.6	EK Services – ICT Software Licensing	Limited
2.7	Absence Management (Sickness, Annual and Flexi Leave)	Limited

2.1 Risk Management – Substantial Assurance:

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council adopts best practices in the identification, evaluation and cost effective control of risks to ensure that they are reduced to an acceptable level or eliminated, and also maximise opportunities to achieve the Council’s vision.

2.1.2 Summary of Findings

Almost all of the requisite internal controls have been established in this area and are operating effectively.

The Council has a robust and effective risk management strategy and Corporate Risk Register, which is regularly reported to and reviewed by Senior Management team and Governance and Audit Committee.

The Council has recently moved the recording and monitoring of risks from its previous risk management system (RiskWeb) and onto InPhase in order to coordinate its performance, project and risk management process as well as its corporate and service plan actions and Annual Governance Statement actions.

Only one medium priority recommendation has been made as part of this review, which is the Council’s Project Management processes and documentation should be

reviewed (and updated where applicable) to ensure that they remain appropriate and relevant.

2.2 EK Services Housing Benefits Payments – Substantial 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 authorities of Canterbury CC, Dover DC and Thanet DC and incorporate relevant internal controls regarding the payments of Housing Benefit.

2.2.2 Summary of Findings

Established payment processes are in place at each of the authorities that ensure that benefit payments are processed in a timely manner and that the appropriate financial systems are credited with the relevant information.

2.3 EK Services Housing Benefits Admin. & Assessment – Reasonable Assurance:

2.3.1 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 authorities of Canterbury CC, Dover DC and Thanet DC and incorporate relevant internal controls regarding the administration & assessment of Housing Benefit claims.

2.3.2 Summary of Findings

The Housing Benefit and new Council Tax Reduction administration and assessment process is operating well with most of the expected controls in place and working effectively. Since April 2011 EK Services have delivered savings to each authority and the reported quality of the service provided has not suffered as a consequence.

During the extensive testing of claims for each Council, it was clear that there was a training need relating to the start dates for new claims, which needs to be addressed. It was also found that a few errors had gone undetected which had previously been subject to quality testing. Despite this it was clear that the knowledge held by members of the Quality Team was extremely good and reliable. Therefore a number of simple measures have been suggested to help improve the quality of assessment and build on the reliability and robustness of the quality testing process. The testing also highlighted the need for consistency in relation to what identification is considered acceptable and what level of identification verification from the DWP should be relied upon when assessing a new claim.

EK Services provide Payment Officers and Customer Services Officers with a large number of useful tools to help Payment Officers assess claims accurately and in compliance with Housing Benefit regulations. These tools are stored electronically in various different places and efforts should be made to try and adopt a consistent approach to the access and filing of some of these tools. Once this has been completed officers should be encouraged to use them. It was noted that some Payment Officers who were responsible for making some of the errors detected during the audit were not using the tools available to them. Management have started

to review the suitability and accessibility of these tools. Once this exercise has been completed those Payment Officers who are identified in future, as having a training need should be encouraged to use the tools to assist with their assessment accuracy.

The management information available on the performance and productivity of its Payment Officers is considerably well documented across all three sites. The 'one and done' ethic which is widely promoted by EK Services to encourage staff to obtain all information as efficiently as possible was also clear to see during the audit. The service looks to be adapting well to the April 2013 changes, following the introduction of the benefit reforms. Going forward the effects of these changes will need to be monitored closely as the service evolves and adapts to the significant challenges, which lay ahead.

2.4 Payroll Processing– Reasonable Assurance:

2.4.1 Audit Scope

To provide an effective, efficient and economical shared service to the three partner councils covering Officers and Members, whilst ensuring that all the necessary statutory requirements for the administration of the payroll service, such as income tax and national insurance are adhered to.

2.4.2 Summary of Findings

The Payroll process is generally working accurately, with very few pay errors. The current process is now established and embedded and functioning to deadline each month.

However, there are inconsistencies at each of the authorities regarding the level of payroll processing and checking being carried out, in addition to the roles being carried out by EKHRP and KCC each month. The payroll processing and checking at the authorities was initially set up as a short term requirement whilst the 'self service' elements of the new payroll process were further developed and implemented. These are local decisions made at each of the separate councils. Following the cancellation of any further system development with iTrent, this additional control is still required and, whilst there are different levels of checking at each site, the controls were found to be working effectively.

2.5 Recruitment and Induction – Reasonable Assurance:

2.5.1 Audit Scope

To provide assurance in respect of the internal controls and procedures for the screening of potential new employees in order to limit or avoid the possibility of employing unsuitable individuals, and also to ensure that the successful applicant has the correct aptitudes for the job and are effectively recruited and inducted into the organisation.

2.5.2 Summary of Findings

The Recruitment and Induction process is generally working well and most of the expected controls are effective. The process has recently been revised and the new toolkit has led to a culture change for managers, which will need time to embed into

each organisation. Presentations have been made to the managers' forums at each authority apart from Canterbury City Council where this is still to be arranged. In addition various communication channels have been utilised to get the new toolkit message out to managers.

The Recruitment and Selection Policy and Procedure states that at least one member of the selection panel must have received formal interviewing training. EKHR have confirmed that when a manager is setting up a panel to carry out interviews that they are ensuring that at least one member of the panel has carried out interviews before or has completed some form of interview training. However there is also a need to ensure that any new managers are suitably trained prior to carrying out any recruitment.

As part of the audit a sample of personnel files were reviewed to ensure that references had been obtained in accordance with policy and best practice. The results have identified that generally the recruitment checklist had not been completed correctly as the 'request references' action was not being signed off. Also copies of the references were not always on the files even though there may have been emails sent to the manager to confirm that the references had been received or alternatively the references may have gone directly to managers and copies not passed to EKHR for them to be placed on to the individual's personnel file. Overall it is better general house keeping of the files that needs to be put in place to ensure that each file consistently shows all the correct information.

2.6 EK Services ICT Software Licences – Limited Assurance:

2.6.1 Audit Scope

To ensure that the procedures and internal controls established by EK Services are sufficient to provide an effective, efficient, secure and economical ICT service to the three partner authorities of Canterbury CC, Dover DC and Thanet DC. An important aspect of this being software licensing of the ICT applications on behalf of the partners.

2.6.2 Summary of Findings

The Limited Assurance is primarily due to the fact that there is no single/comprehensive register of software currently in place, there are several registers, not all of which can claim to be complete or up to date. It should be noted that management are currently working towards a deadline of April 2014 to produce one centralised register of software licences, which is the date a number of Microsoft Licenses in use become unsupported. This will allow the service to reconcile the software licences owned by each council with the software licences actually in operation. This light touch review was the first audit of Software Licences since the responsibility for the service was transferred to EK Services in April 2011.

It should be noted that due to the wording set out in the Collaboration Agreement (paragraph 15) the exposure to legal challenges is held entirely by Thanet District Council. All three councils carry the risk of the potential for poor value for money from under or oversubscription of software licences. The most significant risk, bared by the host Council, relates to financial penalties resulting from a possible legal challenge from either the Federation Against Software Theft (FAST) or from companies like Microsoft (amongst other software producing companies) that the councils use. This is going to be an extremely complicated task but all steps should be taken to ensure

this reconciliation process is carried out by adequately trained member/s of staff as soon as possible. Since this audit was undertaken Microsoft have made contact with Canterbury City Council. They have requested information on its software licences and as a result Microsoft are now aware of the shared service arrangements.

It was discovered that the programme (Track IT), which can be used to detect software installed on a council computer or laptop, was not working properly as it is unable to scan across the multiple domains that EK Services support. A functioning software detection system is critical to allow the service to carry out a reconciliation of installed software, which will be one of the first steps towards creating a reliable central register. Once this programme is ready to be used EK Services should consider how it to deal with the detection of unauthorised downloaded software, which will inevitably come to light as part of this reconciliation.

The EK Services Business Support Team is currently responsible for purchasing software and the IT Technicians are responsible for installing the software. There were instances where software had been purchased and installed but records were incomplete which hampers the reconciliation further. With the increasing availability of downloadable software it is key that working processes between the two departments and the responsibilities of the two departments are established and well documented. Once a reliable central register has been produced the Business Support Team should have the ability to access and amend the register at the point of any purchase of software, installation and de-installation. This will also enable the Business Support Team to identify unused licences and record new licences acquired on the new central register.

2.6.3 Management Comment

EK Services recognise the importance of software licence control. Progress has been made on identifying an approach to asset and licence management by implementing a single software system and processes to ensure that all partnership software licences are controlled and managed effectively.

Demonstrations of Software Asset Management (SAM) systems have been undertaken and EK Services are preparing to procure and implement. This new tool and process will enable the effective discovery of software installed on all partnership devices and provide a comprehensive management suite in line with vendor licensing models including Microsoft and Oracle.

The Canterbury Microsoft licencing review has reached a key milestone and it is now known what the effective licence position (ELP) is for Canterbury. EK Services are working with Microsoft to eliminate some of the perceived shortfalls.

EK Services have commissioned a licence review for Oracle products in use across the partnership via a large account reseller service. This review is in final draft report stage and outcomes will be reported back to partnership client officers (Head of ICT – EK Services).

2.7 Absence Management – Limited Assurance:

2.7.1 Audit Scope

To provide assurance that staff absences are valid and authorised by management either in advance or in the case of sickness immediately after the event. To ensure that staff resources are adequately controlled and managed.

2.7.2 Summary of Findings

Whilst not every authority functioned incorrectly in every area there was sufficient evidence to show that each would benefit from improved practices and procedures. Established working practices need to be rethought to ensure that the current policies are complied with, enhancing the efficiency of the services. Re-launching the policies and guidance and drawing the attention of staff to the modifications introduced would support and guide this action.

The audit looked at sickness absence monitoring, annual leave and flexitime recording across the four organisations for 2011/12; samples drawn from the workforce for each authority were based upon staffing information provided by EK Human Resources.

Sickness absence monitoring:

Line Managers have primary responsibility for recording instances of sickness and for implementing the universal Absence Management Policy in force at each authority. From the evidence available the initial recording of an individuals' sickness appears to be functioning as designed, albeit using different methods. It is the finer detail and the appreciation of why each element needs to be completed which gives some cause for concern.

The full follow up process was not being implemented for all staff within the sample tested leading to concern that all staff were not being treated equally. The return to work interview should be documented and evidence of the interview retained by both the line manager and EKHR; this was not always the case. Poor records could influence adversely any disciplinary or supportive action planned for those with persistent sickness. Trigger points for further action, set out within the policy, had also been missed. The guidance notes, whilst easily available through EKHR links, would benefit from small modifications to improve staff understanding and to clarify the correct processes.

There were anomalies in the system of sickness management reports produced and this has been recognised by EKHR who have designed and had accepted a standard method for reporting on sickness to each authority. Line managers reported that it would be extremely beneficial to receive regular reports to help them monitor trigger points; this comment reinforces the findings mentioned above. The Absence Management Policy sets out three tiers of responsibility for receiving reports, line managers, senior managers and Members. The new agreed report has sufficient information for each of these groups, however, it is imperative that the report is appropriately disseminated to line managers and that senior managers fulfil their oversight role.

Annual leave:

Annual leave allowances were clearly defined and calculated correctly in the majority of instances, however, some errors were identified in the basic calculations and in the number of carry forward days from one year to the next. It was not clear from the policy documents available if TDC/EKS staff were allowed to carry any days forwards whereas for DDC and CCC this was a policy specification. The agreed brief stated that where errors had been found in a particular service that service should be fully checked and this is reflected in the recommendations. Annual leave authorisation and recording was well documented.

Flexi-leave:

The three councils have adopted a common flexi leave policy. The type of post to which the policy applied however was not widely understood and accordingly there is a risk that the policy is not being consistently applied to all staff. The recording methods used across the authorities were more numerous than anticipated (at one authority five different recording systems exist). Authorisation of flex periods should be done after the completion of each 4 weekly cycle, this was not always the case and some systems did not prevent amendment after authorisation; the DDC system locked down the time sheet once authorised. There were cases where staff had carried forwards more than the 15 hours allowed without sufficient explanation being provided. Many time sheets were not signed-off by line managers and there were examples of overtime being paid on a regular basis for hours that could not be carried forwards, in contravention of the policy. The use of a single simple system like that at DDC could help reassure management.

2.7.3 Management Comment

Management have commissioned the Head of EKHR to move the action plan forward (Director of Shared Services).

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

3.1 As part of the period's work, eight 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)	VAT Compliance	Reasonable	Substantial	H M L	3 0 1	H M L	0 0 0
b)	Procurement, Creditors and Construction Industry Scheme	Substantial	Substantial	H M L	0 2 5	H M L	0 0 2
c)	CSO Compliance	Reasonable	Reasonable	H M L	4 2 0	H M L	0 0 0
d)	Bank Reconciliation	Substantial	Substantial	H M L	0 1 1	H M L	0 0 0
e)	Dickens House and Margate Museums	Reasonable/ Limited	Reasonable /Limited	H M L	5 7 0	H M L	4 4 0
f)	Homelessness	Reasonable/ Limited/ Limited	Reasonable /No	H M L	3 1 0	H M L	1 0 0

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs.		No of Recs. Outstanding	
g)	Partnerships	Reasonable	Reasonable	H	1	H	0
				M	6	M	2
				L	0	L	0

3.2 Details of any individual High priority recommendations outstanding after follow-up are included at Appendix 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 officer and Members' of the Governance and Audit Committee.

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

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

e) Dickens House and Margate Museums:

Albeit that commendable progress has been made to date to address the weaknesses highlighted in the original audit report, it is important that focus remains to ensure that the ongoing activities continue to progress, strengthen the associated control objectives and improve overall risk management. Management need therefore be satisfied that an adequate monitoring process is in place and that progress is regularly reported at an appropriate officer level.

The original report recognised that the improvements required to the management and working operations of the museums would not be an overnight process. The report also acknowledged that the improvements would take time, would be subject to budgetary restrictions, officer availability and the goodwill of those volunteers involved in the operational running of the museums. The main issues that need to be addressed at the Dickens House Museum include:

- The staff restructure to meet the future needs of the museum and to address the Curator's lack of employee contract;
- The transfer and reconciliation of artefact records from current paper records onto a database;
- Undertaking a revaluation exercise of the museum artefacts;
- Ensuring the adequacy of insurance on individual artefacts and/or the collection as a whole;
- Completion of agreements regulating the loan of artefacts to the Museum; and
- Environmental equipment installed.

The main issues that need to be addressed at the Margate Museum include:

- Finalisation of the SLA between TDC and Friends of Margate Museum;
- Completion of the artefacts catalogue;

- Ensuring the adequacy of insurance on individual artefacts and/or the collection as a whole; and
- Environmental equipment installed.

Management response:

The report shows that significant progress has been made on the audit recommendations and the plans in place to achieve the others are realistic given the resources available. The reliance on volunteers to support the work does add a variance that is outside the council's control. However, the Margate Museum volunteers have shown a high level of commitment and progress is being steadily made. The creation of new catalogues is most reliant on volunteer input, however the audits carried out on the Margate Museum artifacts and planned for Dickens House have/ will minimise the risk to the council while the new catalogues are being developed. HLF are being approached to see if the Council/Friends can apply for funds that would speed up the cataloging of the museum collections.

Electronic database depends on finding a willing volunteer. The Council is looking into applying for a HLF bid to assist with the cataloguing of the collection.

f) Homelessness:

The issue which remains in progress is to decide what action is necessary to either terminate the contract for the Old School Lodge with Casa Support or seek to enforce the terms of conditions of this contract which Casa are currently in breach of having let a conflicting contract with Supporting People. Management are currently liaising with the legal section in this regard however until this issue has been resolved, it would be premature to increase the assurance level with regard to the Old School Lodge.

- 3.4 After the follow-up review has been completed by the East Kent Audit Partnership any recommendations which remain outstanding are tracked through the Council's Policy & Business Planning team, via quarterly reminders, with an expectation that progress reports will be provided quarterly for all high priority matters. If the recommendations remain outstanding the tracking and reminders will continue for three years, which is the usual period between programmed internal audits. The current numbers involved and progress towards achieving existing outstanding recommendations is as follows:

Service/ Topic		Assurance level	No of Recs. Outstanding	
a)	Employee Health and Safety	Reasonable	H	1
			M	1
			L	0
b)	CCTV	Reasonable	H	1
			M	0
			L	0
c)	Coast Protection	Substantial	H	0
			M	1
			L	0

Service/ Topic		Assurance level	No of Recs. Outstanding	
d)	Electoral Registration	Reasonable	H	0
			M	1
			L	0
e)	Food Safety	Reasonable	H	0
			M	1
			L	0
f)	HRA Business Plan	Substantial	H	1
			M	0
			L	0

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: Members' Allowances and Expenses, Cemeteries and Crematoria, Officers' Code of Conduct and Whistle blowing Arrangements, Housing Allocations, Child Protection and CRB, Imprest Floats and Rail Travel Procurement, Members' Code of Conduct and Standards Arrangements, and ICT – Network Security.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2013-14 internal audit plan was agreed by Members at the meeting of this Committee on 21st March 2013.

5.2 The Head of the Audit Partnership meets regularly with the Section 151 Officer or their nominated representative to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments have been made to the plan during the course of the year as some high profile projects or high-risk areas have been requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews.

6.0 FRAUD AND CORRUPTION:

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

7.0 UNPLANNED WORK:

There was no new 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.
Dickens House and Margate Museum:		
<p>There should be a formal contract/agreement defining the responsibilities and the expected service to be provided for the running of the museums.</p> <ul style="list-style-type: none"> Dickens House Museum: Employee Contract for the Curator. 	<ul style="list-style-type: none"> Contact HR to discuss Honorarium implications and how to progress Put in place a contract for the curator position <p>Proposed Completion Date: March 2013</p> <p>Responsibility: Economic Development and Regeneration Manager (RH) / Community Development Officer (KW) / Community Services Manager (MH)</p>	<p>Dickens House Museum: Feedback from EKHR was that the honorarium is treated as a service contract. In recent years many of these honorariums have been converted into employment contracts, but to convert to them requires going through the formal job evaluation process.</p> <p>The present staff structure at the museum needs to be restructured to meet the future needs of the museum, the Economic and Regeneration manager has agreed that an SMT paper would be written laying out the options, and any re-structure should be in the autumn to minimise disruption to the opening of the attraction. On hearing this EKHR advised not to proceed with an employment contract as this was a lot of work when it is about to change within a year.</p> <p>If TDC decided to terminate the honorarium EKHR provisionally advised the person could claim redundancy payment, due to the length of service, but they would not</p>

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.
		<p>give a definite answer until this was a certainty.</p> <p>Revised Implementation Date; January 2014</p>
<ul style="list-style-type: none"> Margate Museum: Formal management arrangements between the Council and FoMM 	<ul style="list-style-type: none"> Draft a SLA between TDC and FoMM to include recommendations <p>Proposed Completion Date: March 2013</p> <p>Responsibility: Economic Development and Regeneration Manager (RH) / Community Development Officer (KW) / Community Services Manager (MH)</p>	<p>Margate Museum:</p> <p>Draft SLA between TDC and FoMM has been discussed with FoMM and a draft started. Now the FoMM have been opening the museum regularly for a year, there is a better understand of the capability of FoMM, and the income and expenditure involved which means the SLA will be fair and sustainable for both sides.</p> <p>Revised Implementation Date: September 2013</p>
<p>Margate Museum:</p> <p>Due to the collection valuation of £400,000 and associated insurance risks i.e. inadequate insurance cover for the collection and/or individual valuable items, alternative options should be sought to shorten the two year time scale for the cataloguing of artefacts. Option considerations should ensure that Council interests are adequately protected.</p>	<p>Agreed Management Action. High value artefacts catalogued first:</p> <p>a) Artwork in store catalogued – June 2013 b) Artefacts of high value catalogued – March 2013 c) Artefacts at sites other than the museum catalogued – March 2012</p> <p>Proposed Completion Date: See completion dates above</p>	<p>The museum storeroom has been revamped and an audit of these pictures is complete; just under 1,000 pictures have been audited. The audit is against the EKMT catalogue; the parts of this catalogue based on the Colin Wilson TDC curator documents are accurate, it is later items where there are problems.</p>

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.
	<p>Responsibility: Economic Development and Regeneration Manager (RH) / Community Development Officer (KW) / Community Services Manager (MH)</p>	<p>All the high value artefacts have been audited, and the pictures at Northdown House and Theatre Royal have been audited.</p> <p>The new catalogue, which will give greater detail and photographs, is progressing slowly as volunteers have been concentrating on the audit. The creation of the catalogue is being carried out systematically i.e. room by room to avoid artefacts being missed. The downstairs display rooms are almost complete. The audited pictures are going to be imported into the new catalogue, but will lack meta data, picture and the new unique number; this data will be added during the systematic cataloguing process. The importing of the audit information will be completed by the autumn.</p> <p>New Implementation Date: Audit information imported into the new catalogue October 2013. New catalogue 2017</p>
Dickens House Museum:	Independent valuation of artefacts owned by Dickens	Discussions have been held with the Dickens Fellowship, who owns the

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.
<p>Consideration should be given to undertaking a revaluation exercise of the museum artefacts. Revaluation details should be incorporated within the Inventory of Assets submitted to Finance for insurance purposes.</p>	<p>Proposed Completion Date: March 2013</p> <p>Responsibility: Economic Development and Regeneration Manager (RH) / Community Development Officer (KW)</p>	<p>majority of the valuable artefacts about re-valuation of their artefacts. This will be carried out after the audit in June.</p> <p>New Implementation Date: November 2013</p>
<p>Margate Museum:</p> <p>Regular updates regarding the project for cataloguing artefacts should be forwarded to Accountancy for insurance purposes. Consideration should be given to exploring the practise used by other local authorities regarding the insurance of their museum assets.</p>	<p>Agreed Management Action.</p> <p>a) Identify practises used by other LAs regarding insurance of museum assets b) Send updates of catalogued artefacts to Accountancy for insurance – once a quarter.</p> <p>Proposed Completion Date: May 2013</p> <p>Responsibility: Community Development Officer (KW)</p>	<p>Dover and Canterbury Councils contacted, and awaiting a response from their museum officers.</p> <p>As the museum isn't on the internet, memory stick is the only way to transfer data. The TDC authorised memory sticks are presently unavailable.</p> <p>New Implementation Date: June 2013</p>
<p>Homelessness:</p>		
<p>Management should liaise with Legal and decide what action is necessary to either terminate the contract for the Old School Lodge with Casa Support or seek to enforce the terms of conditions of this contract which Casa are currently in breach of having let a conflicting contract with Supporting People.</p>	<p>Decision to be made following contact with Casa Support – Target Date April 2012</p>	<p>Management are currently liaising with legal to ascertain the legal option available to the Council and the most appropriate course of action to pursue.</p>

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

Service	Reported to Committee	Level of Assurance	Management Action	Follow-up Action Due
Thanet Leisure Force – Monitoring and Performance Arrangements	December 2012	Substantial/Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-Progress
Data Protection Act Compliance	December 2012	Reasonable/Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-Progress
Dog Warden and Litter Enforcement	March 2013	Reasonable/Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-Progress
EK Services – Software Licences	June 2013	Limited	On-going management action in progress to remedy the weaknesses identified.	Quarter 2 2013-14
Absence Management	June 2013	Limited	On-going management action in progress to remedy the weaknesses identified.	Quarter 2 2013-14



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.

GRANT THORNTON – AUDIT PLAN – 2012-2013

To: **Governance and Audit Committee: 26 June 2013**

By: **Financial Services Manager (Deputy s151 officer) – Sarah Martin**

Classification: **Unrestricted**

Summary: **To present Grant Thornton’s Audit Plan for 2012-2013**
For Information

1.0 Introduction

1.1 To update Members on the external audit work programme for 2012/13.

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:	Sarah Martin – Financial Services Manager (Deputy s.151 Officer) Ext. 7617
Reporting to:	Sue McGonigal – Chief Executive Ext. 7002

Annex List

Annex 1	Grant Thornton-Audit Plan
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The Audit Plan for Thanet District Council

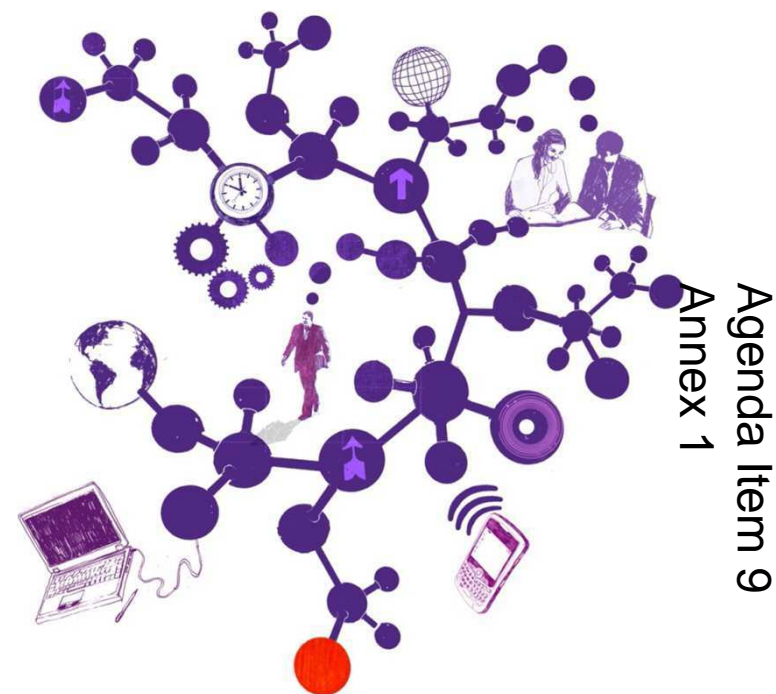
Year ended 31 March 2013

25 March 2013

Page 69

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

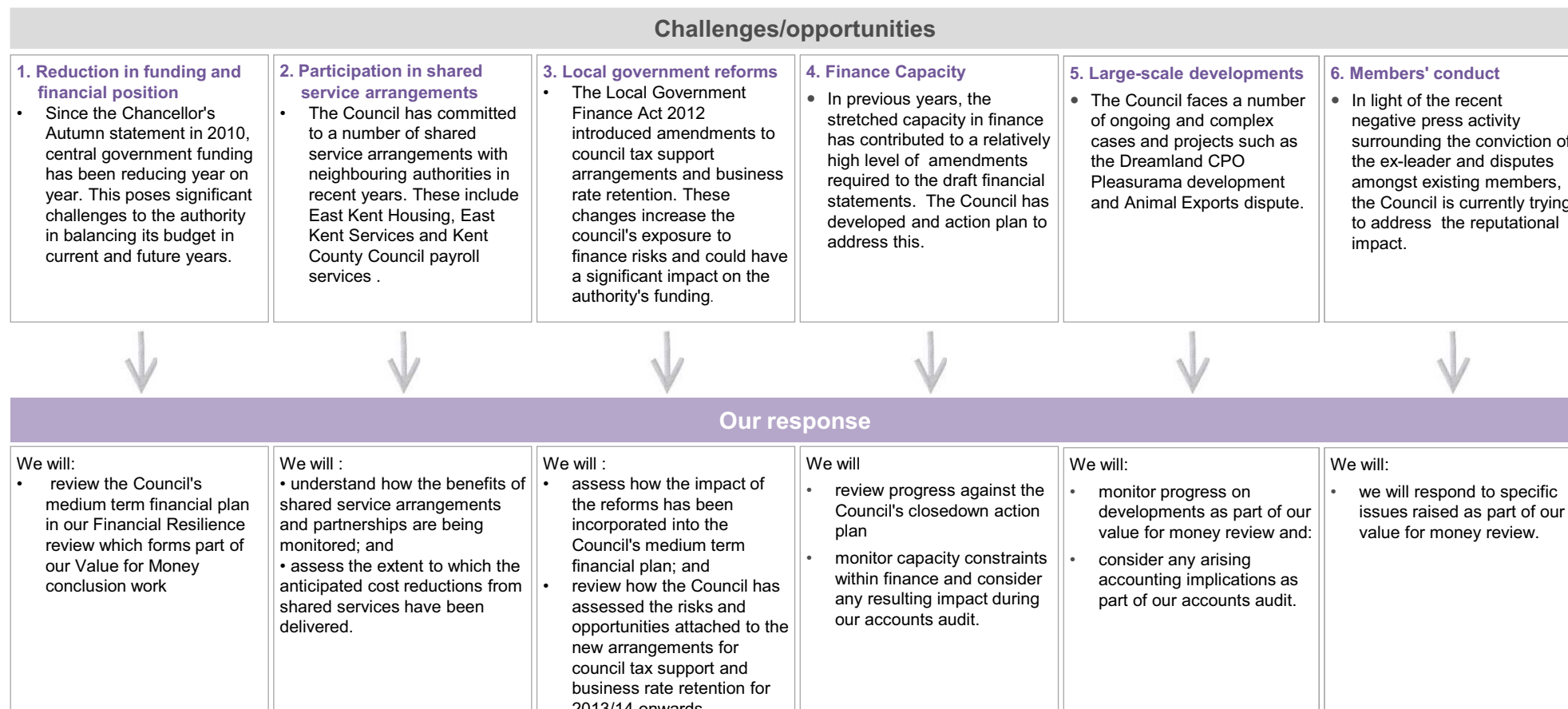
Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Group scope and risk assessment
8. Results of interim work
9. Value for Money
10. Logistics and our team
11. Fees and independence
12. Communication of audit matters with those charged with governance

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Page 72



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

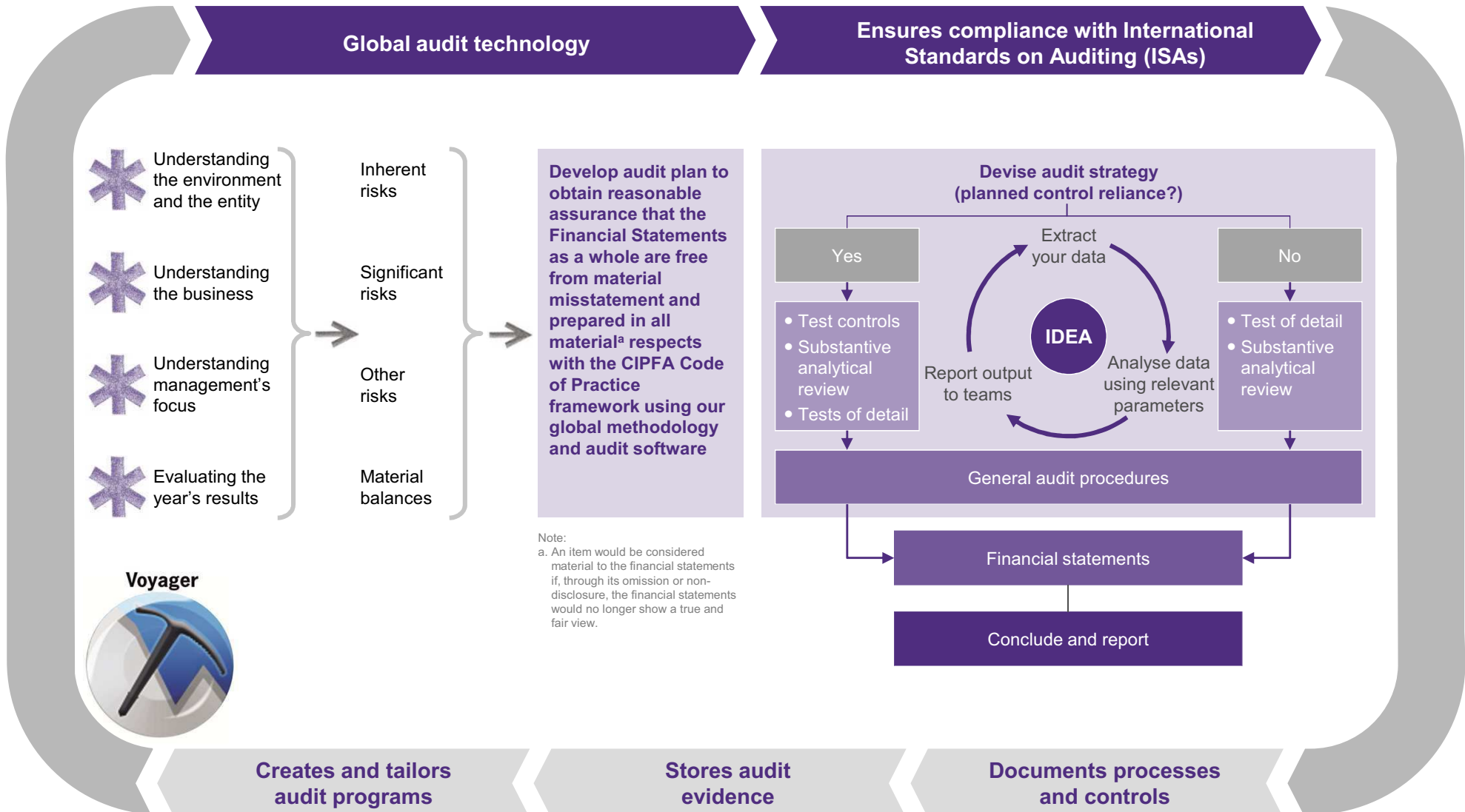
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Recognition of grant conditions and income • Self financing Housing Revenue Account 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2012/13 • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required
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Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing • grant income is recognised in line with the correct accounting standard 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements
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Our audit approach

Page 74



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Page 75

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓
Cost of services – Housing revenue	Yes	HRA	Medium	Other	Housing revenue transactions not recorded	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	Yes	Property, Plant and Equipment	Low	None		✓
Payments to Housing Capital Receipts Pool	No	Property, Plant & Equipment	Low	None		×
Precepts and Levies	Yes	Council Tax	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Pension Interest cost	Yes	Employee remuneration	Low	None		✓
Interest & investment income	No	Investments	Low	None		×
Return on Pension assets	Yes	Employee remuneration	Low	None		✓
Impairment of investments	No	Investments	Low	None		×
Investment properties: Income expenditure, valuation, changes & gain on disposal	Yes	Property, Plant & Equipment	Low	None		✓
Income from council tax	Yes	Council Tax	Low	None		✓
NNDR Distribution	Yes	NNDR	Low	None		✓
Revenue support grant & other Government grants	Yes	Grant Income9	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	PPE activity not valid Revaluation measurements not correct	✓
Heritage assets & Investment property	Yes	Property, Plant & Equipment	Low	None		✓
Intangible assets	No	Intangible assets	Low	None		×
Investments (long & short term)	No	Investments	Low	None		×
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		×
Inventories	No	Inventories	Low	None		×
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Borrowing (long & short term)	Yes	Debt	Low	None		✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Provisions (long & short term)	Yes	Provision	Low	None		✓
Pension liability	Yes	Employee remuneration	Low	None		✓
Reserves	Yes	Equity	Low	None		✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Further work planned:</p> <ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Performance of attribute testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Page 80

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Operating expenses and creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Identify and walk through activity level controls 	<ul style="list-style-type: none"> Perform attribute testing on material expense streams Assess the method of allocating/apportioning expenses to functional categories for compliance with the Service Reporting Code of Practice Cut-off testing
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> Identify and walk through activity level controls 	<ul style="list-style-type: none"> Predictive analytical review of employee remuneration Performance of attribute testing on payroll expenses
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> Identify and walk through activity level controls 	<ul style="list-style-type: none"> Substantive testing of a sample of benefit claims Reconcile benefit expenditure to the benefit subsidy claim and assess the impact of any significant differences Complete benefit software diagnostic tool, uprating checks and analytical review compared to prior year subsidy claim
Housing Rent Revenue Account	Revenue transactions not recorded.	<ul style="list-style-type: none"> Identify and walk through activity level controls 	<ul style="list-style-type: none"> Predictive analytical review of housing revenue Perform attribute testing on the rental income stream Review for large or unusual transactions Cut-off testing
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> Identify and walk through activity level controls 	<ul style="list-style-type: none"> Substantive testing of a sample of additions and disposals Substantive testing of a sample of items for existence and ownership Identify and walk through activity level controls
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> Identify and walk through activity level controls Consider proposed reliance on the use of the audited bodies expert 	<ul style="list-style-type: none"> Review the work of an expert Substantive testing of a sample of revaluations Agree valuations to asset register

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The council, along with Canterbury City Council, Dover District Council and Shepway District Council, jointly owns East Kent Housing Ltd, an Arms Length Management Organisation (ALMO) which has managed the council's housing stock since 1 April 2011. Each council holds an equal 25% share. For 2011/12 East Kent Housing was classified as a joint venture and group accounts were not prepared, on the basis that the impact was not material to the council's financial statements.

Component	Level of response required under ISA 600	Risks identified	Planned audit approach
East Kent Housing Limited	To be confirmed	The council has a 25% interest in the East Kent Housing Ltd. The accounting treatment of this interest is determined to a great extent by the materiality of the Council's share. Dependent on the materiality it may be appropriate to either produce consolidated Group financial statements or disclose the interest in the notes to the accounts.	We will: <ul style="list-style-type: none"> Review management's assessment of the materiality of the interest in East Kent Housing Ltd Consider whether the accounting treatment adopted is appropriate

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we will consider:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

Page 82

	Work performed	Conclusion/ Summary
Internal audit	We have reviewed internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.
Walkthrough testing	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding.
Review of information technology (IT) controls	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.	Scheduled for April 2013
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Journal entry procedures were found to be appropriately Controlled. We will follow up with journal testing of large and unusual transactions after the year end

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Page 83

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

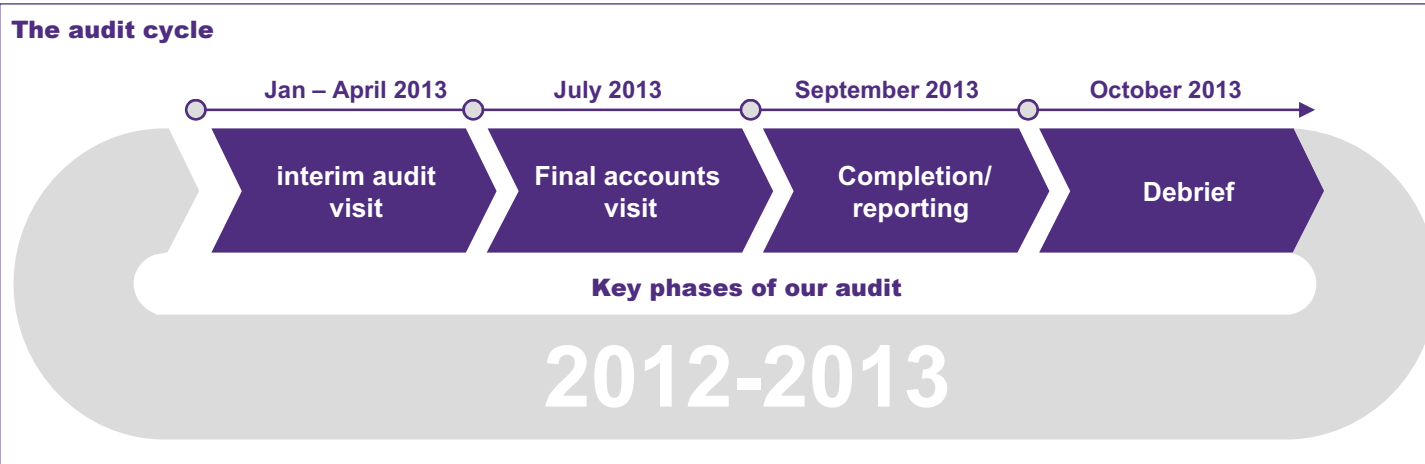
Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will review:

- the Council's medium term financial plan including the assumptions made;
- 2012/13 financial performance;
- progress in development and delivery of savings plans.
- monitor progress on large scale developments
- monitor any emerging issues as a result of members conduct

Logistics and our team



Date	Activity
December 2012	Planning meeting
Jan – April 2013	Interim site work
June 2013	The audit plan presented to Audit Committee
July 2013	Year end fieldwork commences
August 2013	Audit findings clearance meeting
September 2013	Audit Committee meeting to report our findings
September 2013	Sign financial statements and VfM conclusion
October 2013	Issue Annual Audit Letter

Page 84

Our team

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Fees and independence

Fees

	£
Council audit	87,495
Grant certification	22,800
Total	110,295

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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GRANT THORNTON – PROGRESS REPORT

To: **Governance and Audit Committee: 26 June 2013**

By: **Financial Services Manager (Deputy s151 officer) – Sarah Martin**

Classification: **Unrestricted**

Summary: To present Grant Thornton’s Progress report at June 2013.

For Information

1.0 Introduction

1.1 To update Members on progress to date on the current audit plans and highlight emerging national issues relevant to the Council..

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:	Sarah Martin – Financial Services Manager (Deputy s.151 Officer) Ext. 7617
Reporting to:	Sue McGonigal – Chief Executive Ext. 7002

Annex List

Annex 1	Grant Thornton-Progress Report
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Audit Committee Update for Thanet District Council

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

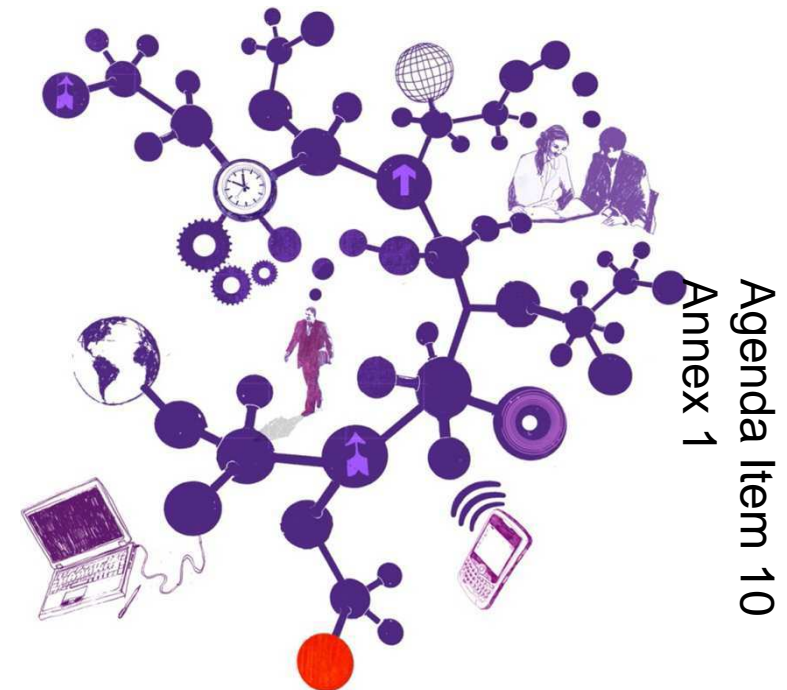
Year ended 31 March 2013

10 June 2013

Page 91

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section	Page
Introduction	4
Progress at 10 June 2013	5
Emerging issues and developments	
Accounting and audit issues	7
Grant Thornton	9
Local government guidance	10

Introduction

This paper provides the Governance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a District Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Governance and Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Andy Mack Engagement Lead T 020 7728 3329 Andy.L.Mack@uk.gt.com
Lisa Robertson Audit Manager T 020 7728 3341 Lisa.E.Robertson@uk.gt.com

Progress at 10 June 2013

Work	Planned date	Complete?	Comments
<p>2012-13 Fee Letter We prepare a fee letter annually, setting out the fee for the audit and grant certification work for the year.</p>	30 November 2012	Yes	<p>We issued the fee letter to officers in November 2012 and it is a separate item on today's agenda. For 2012/13, the Commission has independently set the scale fee for all bodies. The Council's scale fees for 2012/13 are:</p> <ul style="list-style-type: none"> • Audit: £87,495 (£145,825 in 2011/12) • Grant Certification: £22,800 (£41,156 in 2011/12)
<p>2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.</p>	April 2013	Yes	Our 2012/13 was agreed with officers in April 2013 and is presented to this committee separately on today's agenda.
<p>Interim accounts audit Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> • review of the Council's control environment • update our understanding of financial systems • review of Internal Audit reports • early work on emerging accounting issues • early substantive testing 	June 2013	In progress	<p>We have reviewed the Council's control environment, financial systems and IT controls. The Chair has provided an update on how the Governance and Audit Committee gains assurance over management processes and arrangements. At this stage there are no issues to bring to your attention. We have reported findings in our audit plan and will provide a final update in our audit findings memo.</p>

Progress at 10 June 2013

Work	Planned date	Complete?	Comments
<p>2012-13 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the Council's accounts • Whole of Government accounts review 	<p>15 July – 9 August September 2013 September 2013</p>	No	<p>We held an initial liaison meeting with officers in November 2012 to discuss the proposed action plan following last years audit, discuss emerging accounts issues and agree the dates of our final accounts audit visit. We have sent out an arrangements letter to officers, which clarifies the working papers we would expect the Council to produce to support its financial statements and held ongoing discussions regarding preparation.</p>
<p>Value for Money (VfM) conclusion The scope of our work to inform the 2012/13 VfM conclusion is based on the reporting criteria specified by the Audit Commission: The Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> • securing financial resilience • challenging how it secures economy, efficiency and effectiveness in its use of resources. <p>Our review will focus on arrangements relating to financial governance, strategic financial planning and financial control.</p>	Ongoing	No	<p>We have started our VFM planning. The specific areas for review are set out in our audit plan. The majority of our financial resilience review work is scheduled for completion in June and July 2013. We will report our findings in a separate Financial Resilience report alongside our Audit Findings report in September 2013.</p>
<p>Other areas of work – grant certification We will be required to certify the following grants for the Council in 2012/13:</p> <ul style="list-style-type: none"> • Housing and council tax benefit • Local non domestic rates • Pooling of housing capital receipts (if value of claim greater than £500,000) 	<p>July 2013 (initial testing July 2013 July 2013</p>	No	<p>These certification audits have been scheduled to ensure compliance with all grant certification deadlines. The housing and council tax benefit grant is the only grant where we need to carry out a substantial amount of work. All initial testing on the claim will be completed before the end of September and used to support our audit opinion on the financial statements.</p>

Emerging issues and developments

Accounting and audit issues

LAAP Bulletin 96: Closure of the 2012/13 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued LAAP Bulletin 96. The bulletin provides further guidance and clarification to complement CIPFA's 2012/13 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- a reminder that authorities should tailor CIPFA's example financial statements to meet their own reporting needs in order to give a true and fair view of their own financial position and performance
- the need for billing and precepting authorities to disclose their share of non-domestic rate appeals liabilities that transferred to them on 1 April 2013.

Challenge question: Has your Financial Services Manager reviewed the guidance and assessed the potential impact for your financial statements?

Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2013/14. The main changes to the Code include:

- amendments for the requirements of the localisation of business rates in England
- amendments to how 'other comprehensive income' is presented in the Comprehensive Income and Expenditure Statement. These changes follow the June 2011 amendments to IAS 1 Presentation of Financial Statements.
- amendments to how authorities should account for the cost of employees. This is as a result of the June 2011 amendments to IAS 19 Employee Benefits and include amendments to the classification, recognition, measurement and disclosure of local authority pension costs. This is accounted for as a prior period adjustment which means that the figures for previous years will need to be restated.
- clarifications and improvements of the Code as a result of the CIPFA/LASAAC post-implementation review of IFRS
- amendments relating to deferred tax which may be applicable to authorities with group accounts. These follow amendments to IAS 12 Income Taxes issued in December 2010.

Challenge question: Is your Financial Services Manager aware of the changes to the 2013/14 Code and assessed the potential impact?

Emerging issues and developments

Accounting and audit issues

Internal audit – practice case studies

The NAO and the Institute of Internal Auditors have released a set of case studies, available on the NAO website, illustrating some of the key principles of effective internal auditing, taken from a range of public and private sector organisations (including British Telecom, Department for Work and Pensions, EDF). These cover the following areas:

- applying internal audit resources
- scope of internal audit
- auditing projects
- the relationship with the audit committee
- risk-based internal audit
- evaluating internal audit

Examples of the practical advice these case studies provide are:

- 'ensure that the internal audit function has the right development practices and the right mix of people'
- 'internal audit must check its own performance'
- 'look at the range and depth of assurance that is being provided to management from other assurance providers within the organisation: this will reduce the duplication and free up resources to provide deeper assurance in other areas'
- 'make sure that internal audit's work is aligned to management's view of risk: the function may be focussing on the wrong issues if it does not understand management's risk priorities'
- 'review whether senior management and the business share the same view of risk – highlight where differences occur to ensure that the right risks and controls are targeted in the audit plan'
- 'consider carrying out a benchmarking review with a similar sized organisation in the same industry sector to compare and contrast approaches to internal audit and resourcing'

Challenge question:

- Has your internal audit considered the practice case studies?

Emerging issues and developments

Grant Thornton

Use of Outsourced IT Services

Over the past few years, there has been an increasing move to outsourcing IT services to third parties within the Local Government sector. This has accelerated over the last year as a result of need to drive efficiencies across the public sector.

Two recent incidents have highlighted the need to carry out proper due diligence and ensure the correct contractual and technical provisions are in place when signing agreements with third parties:

- a major IT service provider, who offered a wide range of services including Network, Communications and Data Centre Management, recently went into administration. This created significant uncertainty for their clients in terms of on-going business as usual requirements as well as access to data. At one point clients were asked to make additional payments in order to gain access to their critical data.
- a large NHS Trust had a failure of its hard disk drive containing its financial data. On contacting the supplier responsible for taking back ups, it became evident that no data back ups had been taken in the preceding 6 months and therefore the client had lost 6 months of data. As a result, the system had to be restored to the last back up date and the data recreated. This was a time consuming and expensive exercise, and has impacted on the financial audit work where additional procedures will have to be performed.

Both of these incidents highlight the risks involved when outsourcing services. Organisations with critical data who run their own data centres would have normally considered the risks associated with a failure of an IT service (or an entire data centre) and would have taken steps to mitigate these risks. Companies who outsource the performance of key services still retain responsibility for their operating and regulatory requirements, and for ensuring that the control environments supporting their business processes are operating effectively, regardless of who is managing them.

Challenge question:

- Are you happy that you have procedures in place to monitor and manage risks of outsourced IT services?

If you have any queries, talk to your engagement manager to see how Grant Thornton could help.

Emerging issues and developments

Local government guidance

2010/11 Whole of Government Accounts

The following reports have been published on the audited 2010/11 Whole of Government Accounts (WGA):

- Public Accounts Committee (PAC) issued its 2010/11 WGA report - PAC has recommended that HM Treasury should do more to use WGA accounts to inform decision making and also drew attention to the need for the preparation and audit of WGA to be timelier.
- DCLG published an unaudited consolidated account for English Local Government 2010/11 - the information is high-level, focussing on the consolidated statement of revenue and expenditure, the consolidated statement of financial position and the consolidated statement of changes in taxpayers' equity. There is no breakdown of line items and no comment on cash flows, commitments and off balance sheet liabilities. However, the document does provide links to more detailed local government finance statistics.

Challenge question: Has your Financial Services Manager considered these reports, any lessons for the authority and produced a robust and adequately resourced timetable for the production and submission of 2012/13 WGA returns?

Governance statements

The National Audit Office has published 'Fact Sheet: Governance Statements: good practice observations from our audits' providing insight and commentary on the first year of Governance Statement reporting observations on good practice "challenge questions" for those whose role it is to oversee and scrutinise an organisation's Governance Statement.

Challenge questions: How do you plan to make your Annual Governance Statement be more transparent and relevant to your authority?

Openness and transparency on personal interests - A guide for councillors

In March, DCLG published 'Openness and transparency on personal interests - a guide for councillors'.

This guide provides guidance to councillors about how to be open and transparent about their personal interests now that new standards arrangements have been introduced by the Localism Act 2011.

Challenge question: What has your authority done to improve awareness of openness and transparency requirements for councillors?



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AUDIT FEE LETTER – 2013-2014

To: **Governance and Audit Committee – 26 June 2013**

By: **Engagement Lead, Grant Thornton – Audit Commission**

Classification: **Unrestricted**

Summary: **To present Grant Thornton’s Planned Audit Fee 2013/2014**
For Information

1.0 Introduction

1.1 The Audit Commission has set its proposed work programme and scales of fees for 2013/14. In this letter details are set out of the audit fee for the Council along with the scope and timing of work and details of the team.

2.0 Corporate Implications

2.1 Financial

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

2.2 Legal

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

2.3 Corporate

2.3.1 This report summarises the scope of the audit fee.

2.4 Equity and Equalities

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

3.0 Recommendation(s)

3.1 That Members note the report.

Contact Officer:	Andy Mack, Engagement Lead, Grant Thornton
Reporting to:	Sarah Martin, Financial Services Manager, Deputy s151 Officer

Annex List

Annex 1	Grant Thornton-Audit Fee Letter
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Sue McGonigal
Chief Executive and Chief Financial Officer
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15 April 2013

Dear Sue

Planned audit fee for 2013/14

The Audit Commission has set its proposed work programme and scales of fees for 2013/14. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council's scale fee for 2013/14 has been set by the Audit Commission at £87,495, which compares to the audit fee of £87,495 for 2012/13.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-work-programme.

The audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for Money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and a separate report of our findings will be provided.

Certification of grant claims and returns

The Council's composite indicative grant certification fee has been set by the Audit Commission at £23,700, which compares to £22,800 for 2012/13.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2013	21,873.75
December 2013	21,873.75
March 2014	21,873.75
June 2014	21,873.75
Grant Certification	
June 2014	23,700.00
Total	111,195.00

Outline audit timetable

We will undertake our audit planning and interim audit procedures in Autumn 2013. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit, work on the VfM conclusion and work on the whole of government accounts return will be completed in September 2014.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	Nov 2013 – Mar 2014	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to Sept 2014	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	Jan to Sept 2014	Audit Findings (Report to those charged with governance)	As above
Financial resilience	Jan to Sept 2014	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2014	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2014	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2014	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2013/14 are:

	Name	Phone Number	E-mail
Engagement Lead	Andy Mack	020 7728 3299	Andy.L.Mack@uk.gt.com
Engagement Manager	Lisa Robertson	020 7728 3341	Lisa.E.Robertson@uk.gt.com
Audit Executive	Harpal Singh	01293 554 091	Harpal.Singh@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner (paul.dossett@uk.gt.com).

Yours sincerely

Andy Mack
Engagement Lead
For Grant Thornton UK LLP

T 020 7728 3299
E Andy.L.Mack@uk.gt.com

QUARTERLY GOVERNANCE PROGRESS REPORT

To: **Governance and Audit Committee – 26 June 2013**

Main Portfolio Area: **Operational 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
- Data Quality and Performance Management Frameworks

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.

2.2 Data Quality Framework and Performance Management Framework

2.2.1 These frameworks are reviewed annually by SMT. The last review was in May 2013 and the revised frameworks have been published on the Council's website. Senior Management Team recorded a commitment to a further and more detailed review of these documents in December 2013 which will lead to the development of a toolkit to support managers in their use of data and implementation of performance management in practice. Governance & Audit Committee will continue to receive notification of all future updates and results of data quality issues identified within audit reports when required.

3.0 Options

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

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 This report is a key part of obtaining assurance that the authority has effective risk management arrangements and that action is being taken on risk related issues.

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 the associated annex.

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:	Mark Seed, Director of Operational Services, DDI 01843 577742

Annex List

Annex 1	Corporate Risk Register
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Corporate Consultation Undertaken

Monitoring Officer	Harvey Patterson, Corporate and Regulatory Services Manager
Finance	Sarah Martin, Financial Services Manager
Communications	Justine Wingate, Corporate Information and Communications Manager

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
							<p><i>Not Started (0% complete)</i></p> <p>Target date: 30-Sep-13</p> <p>Review frequency: Quarterly</p>		
<p>RI005</p> <p>Review frequency: Annually</p> <p>Risk Status: Treat</p> <p style="text-align: center;">Page 112</p>	<p>* The Council is involved in a number of partnerships including a shared services programme with other LAs, and there is a reliance on these to deliver in a number of areas. There are concerns however around the level of resourcing required, the robustness of the management and governance around these and the ability / willingness of partners to participate fully.</p> <p>* Partners financial difficulties</p> <p>* Partners political difficulties</p> <p>* Partners dissatisfied with performance/quality of service</p> <p>* Non-compliance with Equality Act and PSED by partners and third party providers.</p>	<p>* Shared service programme fails to deliver effectively to improve services and save money in shared areas - for example, TDC invests more time and resource into partnerships than the benefit received.</p> <p>* Council invests more time and resource into partnerships than the benefit received</p> <p>* Breach of a main statutory responsibility</p> <p>* Lack of DPA compliance by other shared service authorities when using TDC personal data puts TDC at risk of breach of DPA with attendant risk of ICO penalty up to £500,000</p> <p>* Do not have capacity within resources to ensure compliance</p> <p>* Disinvestment in partnerships</p> <p>* Failing to make reasonable adjustments</p> <p>* Partnership arrangements providing inaccessible services and/or failure to respond appropriately to access complaints</p> <p>* Exhibiting discriminatory practices contrary to Equality Act & PSED requirements</p> <p>* Making non-compliant business/service decisions</p> <p>* Partner(s) decide to withdraw from a shared service</p>	<p>* Financial loss, wasted resources, or loss of funding</p> <p>* Additional financial responsibilities for remaining partners</p> <p>* Effort expended on other / lower priorities</p> <p>* Inability to meet targets</p> <p>* Reduction of service quality/performance</p> <p>* Differing priorities - so effort is expended on other/lower priorities</p> <p>* Expend extra effort to manage partnership arrangements</p> <p>* Dissatisfaction/Frustration and loss of confidence</p> <p>* Need to unwind and reverse strategic direction</p> <p>* Failure of statutory responsibilities</p> <p>* Partners direction changes adversely</p> <p>* Unitary model imposed</p> <p>* Political unrest</p> <p>* Differing priorities</p> <p>* Direction of partnership changes</p> <p>* Withdrawal of partners</p> <p>* Expend extra effort to manage partnership arrangements</p> <p>* Legal costs</p> <p>* Cancellation of projects</p> <p>* Governance issues arising from unclear partnership agreements and lack of exit strategy</p>	Karen Paton	<p>9</p> <p>P(3) I(3)</p>	<p>12</p> <p>P(3) I(4)</p>	<p>RI005.02 Maintain clientside capacity for effective partnership management</p> <p><i>Implemented</i></p> <p>Target date: 31-Mar-13</p> <p>Review frequency: Half yearly</p> <p>RI005.03 Review governance arrangements & monitoring after transfer of HR to EK Services</p> <p><i>Implemented</i></p> <p>Target date: 31-Oct-12</p> <p>Review frequency: Quarterly</p> <p>RI005.06 Donna Reed to attend Senior Management Team and Managers Exchange</p> <p><i>Implemented</i></p> <p>Target date: 31-Mar-13</p> <p>Review frequency: Half yearly</p> <p>RI005.07 On-going work at CEx level for increasing partnership working</p> <p><i>Implemented</i></p> <p>Target date: 31-Mar-13</p> <p>Review frequency: Half yearly</p>	<p>Sophie Chadwick</p> <p>Sophie Chadwick</p> <p>Sue McGonigal</p> <p>Sue McGonigal</p>	<p>3</p> <p>P(1) I(3)</p>

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
Page 113							<p>RI005.08 Use the performance management process to monitor the achievements of partnerships <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Half yearly</p>	Sophie Chadwick	
							<p>RI005.09 Record the governance arrangements and agreed benefits / purpose of partnerships <i>In Progress (95% complete)</i> Target date: 30-Sep-13 Review frequency: Annually</p>	Sophie Chadwick	
							<p>RI005.10 Request outline business case to be produced to highlight resource requirements up front <i>Implemented</i> Target date: 30-Sep-12 Review frequency: Monthly</p>	Karen Paton	
							<p>RI005.12 Contract/ partnership management to ensure arrangements for compliance PSED & Equality Act <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Annually</p>	Sophie Chadwick	
							<p>RI005.13 Ensure all EK Services staff comply with Equality duty</p>	Sophie Chadwick	

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
Page 114							<p><i>In Progress (50% complete)</i> Target date: 31-Mar-13 Review frequency: Half yearly</p>		
							<p>RI005.14 Continued attendance at East Kent Chief Exec forum <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Half yearly</p>	Sue McGonigal	
							<p>RI005.15 Continued client side meetings <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Annually</p>	Sophie Chadwick	
							<p>RI005.16 Undertake annual review of partnering for sensitivity and risk <i>In Progress (50% complete)</i> Target date: 31-Mar-13 Review frequency: Annually</p>	Sophie Chadwick	
							<p>RI005.17 Refresh Partnership Framework and update Partnership Register <i>In Progress (95% complete)</i> Target date: 31-Jul-13 Review frequency: Annually</p>	Sophie Chadwick	

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
RI007 Review frequency: Half-yearly Risk Status: Treat	With the need for the Council to reduce expenditure, and amend processes as a result of this, there is an increased likelihood of industrial action.	* Failure to follow agreed industrial relations consultation mechanism * Lack of compliance with agreed processes for staffing issues * Challenge to business decisions by staff * Increase in applications to Employment Tribunals	* Worsening employee/ industrial relations * Damage to Reputation * Financial Cost * Political controversy	Charlie Greenway	6 P(3) I(2)	6 P(3) I(2)	RI007.01 Robust HR policies and procedures <i>In Progress (80% complete)</i> Target date: 31-Mar-13 Review frequency: Annually	Charlie Greenway	4 P(2) I(2)
							RI007.02 Performance monitoring of workforce information <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Quarterly		
							RI007.03 Culture Change Programme <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Quarterly		
							RI007.04 Ongoing Employee Council forum meetings <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Annually		
RI008 Review frequency: Half-yearly Risk Status: Treat	Health and safety procedures are not followed.	Member of staff injured undertaking Council duties	* Possible corporate manslaughter * Failure of statutory requirements * Insurance claim against the Council * Loss of reputation * Adverse media * Financial/ reputational loss due to change in HSE requirements	Mark Seed	9 P(3) I(3)	4 P(2) I(2)	RI008.01 Use Health and Safety weeks to improve knowledge <i>Implemented</i> Target date: 31-Dec-13 Review frequency: Half yearly	Mark Seed	2 P(1) I(2)

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
Page 116							RI008.02 Liaise with EKHRP to review H&S risk assessment process <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Half yearly	Mark Seed	
							RI008.03 Maintain Health & Safety Committee <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Half yearly	Mark Seed	
							RI008.04 Liaise with EKHRP to implement recommendation from 2009 internal audit <i>Implemented</i> Target date: 31-Jan-13 Review frequency: Half yearly	Mark Seed	
RI010 Review frequency: Half-yearly Risk Status: Treat	<p>There is a mismatch between the large number of assets owned by the council and the low level of funding available to maintain these appropriately. This increases the investment needs for the future to keep these fit for purpose, and to prevent the development of significant health and safety risks. This is particularly relevant for fixed assets that do not generate significant income, but still need to be maintained.</p>	<p>Council has more property than it can afford. This is due to the repairs deficit, of over 4 million pounds. And community/ political tension over many potential asset disposals. Further during recession, our tenants in community buildings are requesting reduced rents, creating more budget pressures.</p>	<ul style="list-style-type: none"> * Gradual deterioration in quality and utility * Decrease in value of property * Loss of income * Potential health and safety issues * Political impact * Loss of reputation * Adverse publicity * Impact on VfM * Complaints 	Mark Seed	12 P(3) I(4)	6 P(3) I(2)	RI010.01 Draft & Implement Asset Management Strategy <i>In Progress (50% complete)</i> Target date: 31-Jul-14 Review frequency: Half yearly	Mark Seed	4 P(2) I(2)
							RI010.02 Prioritise maintenance spending on assets to increase revenue returns <i>In Progress (30% complete)</i> Target date: 31-Mar-14 Review frequency: Half yearly	Mark Seed	

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
RI011 Review frequency: Quarterly Risk Status: Treat	Emergency Plans and Functional Plans are out of date, and need annual review. Business Continuity plans are out of date, and need annual review.	A business continuity incident occurs and the organisation fails to respond effectively An emergency incident occurs and the organisation fails to respond effectively because the emergency plan is inadequate	* Confusion occurs over responsibilities, and Council doesn't contribute as required * Lack of clear understanding links to mixed messages internally and externally * Impact on key services, service failure * Impact on vulnerable people * Potential health and safety issues * Possible corporate manslaughter * Drop in standards * Possible breach of contract	Mike Humber	16 P(4) I(4)	6 P(2) I(3)	RI011.01 Test effectiveness of Business Continuity Plan (Old) <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Quarterly	Paul Morgan	3 P(1) I(3)
							RI011.02 Review and revise the council's BCP <i>In Progress (55% complete)</i> Target date: 30-Sep-13 Review frequency: Quarterly	Paul Morgan	
							RI011.03 Test effectiveness of revised Business Continuity Plan <i>Not Started (0% complete)</i> Target date: 31-Dec-13 Review frequency: Quarterly	Paul Morgan	
							RI011.04 2013 Test for effectiveness of emergency plan <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Monthly	Paul Morgan	
							RI011.05 Undertake annual review of Major Emergency Plans <i>Not Started (0% complete)</i> Target date: 31-Jan-14 Review frequency: Quarterly	Paul Morgan	
							RI011.06 Undertake annual review of Functional Plans	Paul Morgan	

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
							Not Started (0% complete) Target date: 31-Aug-13 Review frequency: Quarterly		
RI013 Review frequency: Quarterly Risk Status: Treat	Market conditions prevent the Council from realising the value of its East Kent Opportunities assets	Market values remain depressed over the medium or long term	* Inability to sell or let property on realistic terms * Loss of income * Frustration of capital asset strategy * Reputational loss * Failure to meet obligations * Damaged Partner relationships	Madeline Homer	9 P(3) I(3)	9 P(3) I(3)	RI013.01 Monitor implementation of management plan <i>In Progress (5% complete)</i> Target date: 31-Mar-13 Review frequency: Quarterly	Madeline Homer	3 P(3) I(1)
RI015 Review frequency: Half yearly Risk Status: Treat	Housing Intervention Project fails to achieve outcomes	* Government policy works against local initiatives (eg Benefit changes adversely affects people's ability to pay for housing) * Judicial review of selective licensing decides against our model for housing intervention * Double dip recession adversely impacts on housing affordability * Loss of staffing resources	* Cliftonville West housing market remains unbalanced * Reputational damage * The Council is unable to deliver the project * Political Controversy	Tanya Wenham	9 P(3) I(3)	9 P(3) I(3)	RI015.01 Monitor effects of Policy & adjust practices <i>In Progress (50% complete)</i> Target date: 31-Mar-17 Review frequency: Quarterly RI015.02 Lobbying of appropriate department of central government via MPs <i>Approved (0% complete)</i> Target date: 31-Dec-13 Review frequency: Quarterly	Tanya Wenham Madeline Homer	6 P(2) I(3)

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
RI017 Review frequency: Quarterly Risk Status: Treat	Failure to make progress on the Dreamland site	* Planning appeal determination rules against the Council's Compulsory Purchase Order (CPO) * Planning appeal determination rules in favour of the Council's Compulsory Purchase Order (CPO) but the owners start a legal challenge against the determination * Insufficient funding from the Council	* Further delays to start of work on the site * Further costs * Reputational damage * Political controversy	Madeline Homer	8 P(2) I(4)	8 P(2) I(4)	RI017.01 Clear recording of TDC decisions <i>In Progress (70% complete)</i> Target date: 31-Mar-13 Review frequency: Monthly RI017.02 Regular monitoring of Dreamland project <i>In Progress (10% complete)</i> Target date: 31-Dec-16 Review frequency: Quarterly	Madeline Homer Madeline Homer	4 P(1) I(4)
RI018 Review frequency: Quarterly Risk Status: Treat	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'.	* Assumptions made in the Medium Term Financial Strategy differ from actual or something unexpected significantly impacts on the plan * Further funding cuts by central government	* Impact on reserves * Requirement for remedial action * Supplementary precept * Need to prioritise / rationalise some areas * Stop doing certain things * Impact on service delivery - cuts in services, staff reductions, inability to achieve objectives * Complaints * Adverse media	Sarah Martin	12 P(4) I(3)	6 P(2) I(3)	RI018.01 Regularly attending finance groups to obtain insight into positions on government funding <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Quarterly RI018.02 Initiate reviews to identify efficiencies and economies <i>Implemented</i> Target date: 1-May-13 Review frequency: Quarterly RI018.04 Monitoring of finance position of the Council <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Monthly	Sarah Martin Julie Compton Sarah Martin	4 P(2) I(2)

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
							RI019.05 Raise Members' awareness of fraud issues & of anti-bribery policy & procedure <i>Implemented</i> Target date: 30-Sep-12 Review frequency: Half yearly	Sarah Martin	
RI020 Review frequency: Quarterly Risk Status: Treat Page 122	The Council fails to approve a new localised council tax discount scheme by 31 January 2013 for implementation with effect from 1 April 2013. The scheme is to deliver welfare entitlement savings of 10% whilst at the same time protecting payments to pensioners and other (yet to be defined) vulnerable groups. The implementation of a revised scheme is dependent on the software suppliers being able to make the necessary changes to the system within a very tight timeframe.	* The council's software supplier is unable to make the necessary changes within the required deadline. * Members fail to agree a scheme that delivers the required level of savings.	The council would need to find the savings required (which are approximately £230k) from within existing budgets or from raising council tax.	Sarah Martin	9 P(3) I(3)	6 P(2) I(3)	RI020.01 Monitoring of Council's financial Position in respect of CT discounts <i>In Progress (10% complete)</i> Target date: 31-Mar-14 Review frequency: Monthly	Sarah Martin	4 P(2) I(2)

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
RI022 Review frequency: Quarterly Risk Status: Treat	Introduction of Welfare Reform impacting on provision of local services and potentially causing financial problems for residents.	Change in legislation leads to increased areas of deprivation and more social and administrative problems for residents, and for public and voluntary services.	1) Increased poverty arising from financial loss to residents 2) Increased workload for benefits staff 3) Increased workload for Gateway staff 4) Increased workload for TDC and shared services housing teams 5) Increased challenges for provision of both temporary and permanent social housing 6) Challenges to public infrastructure support teams (eg social services, police, health, schools, community safety, waste & recycling and environmental health) 7) Financial loss to TDC and shared services	Janice Wason	16 P(4) I(4)	16 P(4) I(4)	RI022.01 Ensure by monitoring that Operational controls are implemented <i>In Progress (5% complete)</i> Target date: 31-Mar-15 Review frequency: Monthly	Janice Wason	9 P(3) I(3)
RI023 Review frequency: Quarterly Risk Status: Treat	The need to develop a new pay & reward structure that is fair, equitable, transparent and affordable; that rewards employees for their contribution to the achievement of organisational priorities and targets increase the possibility of industrial action.	<ul style="list-style-type: none"> · detrimental financial impact on groups of staff · failure to follow correct consultation processes · combined impact with other economic changes i.e. Welfare Reform · failure to reach agreement on a new scheme with Unions requiring dismissal and reengagement · failure to engage and communicate effectively with staff · decreased staff morale 	<ul style="list-style-type: none"> · loss of staff · damage to employee relations · demotivated workforce · financial cost · reputational damage · provision of limited or no service for a period of time 	Charlie Greenway	12 P(4) I(3)	6 P(2) I(3)	RI023.05 Regular meetings between management & unions <i>Implemented</i> Target date: 31-Mar-14 Review frequency: Quarterly RI023.06 Mitigations for staff detrimentally affected <i>Implemented</i> Target date: 31-Mar-14 Review frequency: Quarterly RI023.07 CEx Briefings to all staff on Pay & reward project <i>Implemented</i> Target date: 31-Mar-14 Review frequency: Quarterly	Charlie Greenway Charlie Greenway Charlie Greenway	6 P(2) I(3)

Corporate Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
							<p>RI023.08 Training to managers on supporting staff through the process <i>Implemented</i> Target date: 31-Mar-14 Review frequency: Quarterly</p> <p>RI023.09 Equality Impact Assessment on proposed scheme <i>Implemented</i> Target date: 31-Mar-13 Review frequency: Quarterly</p>	<p>Charlie Greenway</p> <p>Charlie Greenway</p>	

DRAFT ANNUAL GOVERNANCE STATEMENT 2012/2013

To: **Governance and Audit Committee – 26 June 2013**

Main Portfolio Area: **Operational Services**

By: **Business Support and Compliance Manager**

Classification: **Unrestricted**

Summary: To provide Governance & Audit Committee with the draft Annual Governance Statement 2012/13

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 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 There was also a change 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 final AGS in September.

2.0 The Current Situation

- 2.1 The draft AGS, 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.
- 2.3 An action plan will be developed to address the governance issues identified. This will be monitored through the council's Inphase system and an update report will be provided to Governance and Audit Committee on a quarterly basis. The actions from the previous year's action plan that are ongoing have been identified and detailed at 7.11 of the draft AGS.

3.0 Process for developing the Annual Governance Statement

- 3.1 The Chief Executive, directors and 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 AGS.
- 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 EKHR in connection with the general principles of good conduct of officers.
- 3.4 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.
- 3.5 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 AGS. 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 in the auditors assurances on the council's governance arrangements.

4.0 Options

- 4.1 That Members accept the draft Annual Governance Statement 2012/13.
- 4.2 That Members propose changes to the draft Annual Governance Statement 2012/13.

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 2012/13.

6.2 That Members propose changes to the draft Annual Governance Statement 2012/13.

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:	Mark Seed, Director of Operational Services, DDI 01843 577742

Annex List

Annex 1	Annual Governance Statement for 2012/2013
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Background Papers

Title	Details of where to access copy
Completed assurance statements	With the Business Support and Compliance Manager
Governance Framework and Local Code of Corporate Governance	With the Business Support and Compliance Manager also available on the Internet / TOM & Members Portal

Corporate Consultation Undertaken

Monitoring Officer	Harvey Patterson, Corporate and Regulatory Services Manager
Finance	Sarah Martin, Financial Services Manager
Communications	Justine Wingate, Corporate Information and Communications Manager

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Draft Annual Governance Statement 2012/13

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, that public money is safeguarded and properly accounted for and that funding is 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 suitable arrangements for the governance of its affairs, which facilitate the effective exercise of its functions and include 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, together with the 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 2013 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.
 - Directors / 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 Annual Governance 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 in April 2012 for the next four years, when a new Corporate Plan was approved that 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 they 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 Inphase™, 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 arrangements 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 and staff 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 directors / service managers through the Scheme of Delegation for Financial Authority and Accountability. Directors / 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 perform 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.
- The council has developed 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. A greater emphasis is being 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 our External Auditors 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 comprises 56 Members and, as a whole, takes decisions on budget and policy framework items as defined by the Constitution.

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 16 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.

5.2.9 Management and officers

- 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.

6.0 INTERNAL AUDIT STATEMENT

- 6.1 During 2012/13 the Internal Auditors completed 318.2 days of review, which was spent undertaking 29 audits. Of these 8 were assessed as being able to offer substantial levels of assurance; 10 reasonable assurance and 6 limited assurance. One other review was consultancy work and did not merit an assurance level and there were four audits at work in progress stage at year-end. Taken together 75% of the reviews accounted for substantial or reasonable assurance, whilst 25% 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 The areas where improvement is required and which are considered to be the primary areas of concern arising from partial limited assurances:
- Data Protection
 - Absence Management, Flexi and Annual Leave
 - Dog Warden and Litter Enforcement
 - Thanet Leisure Force
 - Museums
- 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 ACTIONS UNDERTAKEN DURING 2012/13

7.1 Pay and reward process

- During 2012/13 the council developed a competency framework through employee workshops to ensure that we display the attitudes and approach to our work that will make positive change to the council in the way we deliver our services and undertake our roles as we strive to be the best we can be.
- Alongside the competency framework, a new appraisal process was introduced. Every officer of the council underwent training and the new format documents were used for the year end appraisals for 2012/13, and target setting for 2013/14.

7.2 Medium Term Financial Plan

- A Medium Term Financial Plan (MTFP) was presented to Cabinet in January 2012 covering the period 2012/13 to 2015/16. In light of the continuing unprecedented economic climate in which the council finds itself, the document was reviewed and updated, not only to reflect the external environment, but also new developments and changes to internal policies and practices. The revised MTFP covers the period 2013/14 to 2016/17.

7.3 East Kent Joint Arrangements review

- Following the decision taken by Shepway District Council not to participate in the sharing of the various services provided by EK Services (EKS) and to withdraw from the East Kent Human Resources Partnership (EKHRP), new governance arrangements to ensure the smooth continuation of the services provided to Thanet District Council, Canterbury City Council and Dover District Council by EKS and EKHRP were developed.

7.4 Contract Standing Orders and Purchasing Guide

- A review of Contract Standing Orders (CSOs) and the Purchasing Guide concentrated on four areas: realigning the documents with the council's new structure, increasing the level of control at tender openings, changes in procedure and updating the areas exempt from Contract Standing Orders.

7.5 Members' Code of Conduct and voluntary Standards Committee

- The Members' Code of Conduct, arrangements for dealing with complaints and consequential and related matters was reviewed following the revised Members' Standards Framework introduced in the Localism Act 2011 (Chapter 7).

7.6 Access to Information Regulations

- The new Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 came into effect in September 2012, which resulted in the council having to amend its procedures and Constitution in relation to the transparency of executive decisions, to ensure compliance with these new rules.

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 2012 meeting.

7.8 Equalities

- The council underwent a period of consultation on its draft Equality Policy and Action Plan methodology, for approval of the final Policy and Action Plan in 2013.

7.9 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.

7.10 Corporate Performance Report

- The Corporate Plan 2012-16 was approved in April 2012 which set out the 11 priorities that the council would focus on. In support of the Corporate Plan priorities, activities were captured in service plans.
- The Corporate Performance Report pulls together the different projects and Key Performance Indicators (KPIs) identified through service planning, and aligns them to the Corporate Plan priorities.
- There are 33 projects listed. Of these, thirteen were completed within the year with a further three nearing completion. Of the remainder, twelve are on track, five face some risk and one faces significant risk. There are 39 KPIs listed where tracking data is available. Of these, 26 are on target, four are slightly worse than target and nine are significantly worse than target.

7.11 Actions to address 2011/12 Significant Governance Issues

The following section looks at the progress made against the 2011/12 AGS recommendations. Those that are outstanding will be carried forward to the 2012/13 action plan.

- 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.
Completed action: Workforce information regularly provided to SMT.
Completed action: Regular report to SMT on sickness absence.
- The operation and adequacy of corporate induction arrangements should be reviewed during 2012/13.
Completed action: Recruitment toolkit and induction booklet updated.
- There appears to be growing incidents of officers working long hours, which is exacerbated by staff reductions and a lack of alignment of workloads. This includes attendance at evening meetings.
Outstanding action: Analysis of carry over and flexi leave in progress.
Outstanding action: Review of officer attendance at evening meetings to be undertaken.
- 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.
Outstanding action: Review and consolidate business continuity plans in progress.
- 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.
Completed action: Actions arising from health and safety audit undertaken, as well as running health and safety weeks on an annual basis.
- 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.
Completed action: An equality toolkit has been developed and training provided through service team meetings.

- Major projects
- The council is involved in a number of projects and initiatives that are complex in nature, carry the risk of a great financial loss, of a high value or dependent upon working with partners to achieve. There also appears an ease at which new projects are added to work plans.
Completed action: Management accountants have been working closely with service managers to provide support in understanding their costs and developing their projects.
Completed action: Quarterly updates provided to SMT on corporate, service and project targets.
- Corporate issues
- There is a continued need to ensure there is a common platform for corporate standards and codes between the council and its shared service partners to ensure compliance with good governance arrangements.
Completed action: Regular updating of common standards for TDC and shared services. EK Services provided a service plan for 2012/13.
- The political instability of a hung council requires greater detail in support of individual decisions.
Outstanding action: Committee report drafts and decision notices quality check in progress.

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 Prior to the first meeting of the committee cycle carry out a training session on the remit of the Committee.
 - 8.1.2 Any new members are provided with an induction to the Committee.
 - 8.1.3 Democratic Services to write to Group Leaders seeking their approval to an approach similar to that operated by the Planning Committee.
 - 8.1.4 Ensure substitutes attend training session prior to first meeting of committee cycle.
- 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 2012/13 and indicates the panels suggested priorities for 2013/14. The following paragraphs (8.2.1 to 8.2.4) have been taken directly from the annual report of the Chairman of Overview and Scrutiny.
- 8.2.1 "It is worth noting that although there had been extensive discussion of options for alternative scrutiny arrangements for TDC, leading to a report to the Standards Committee, the Standards Committee accepted suggestions presented to it to postpone any decision until after the processes for establishing the new Health & Wellbeing Boards at District level have been completed. Their recommendations are elsewhere in the agenda for this meeting. This delay is intended to offer Members the opportunity to determine whether there may be a need to make changes to the current scrutiny arrangements in order to assume possible additional scrutiny functions in relation to the Boards that may be devolved to District Councils at the discretion of Kent County Council. It must be added however that there are currently no indications that KCC would like to devolve such scrutiny functions.

- 8.2.2 The approach of using task and finish groups appeared to have worked very well in 2012/13. Those groups that managed to carry out their assigned tasks were de-commissioned and thereby freeing officer resources to be deployed to other Council activities. It may be worthwhile for the Panel to continue with this approach in 2013/14.
- 8.2.3 Members may wish to reconstitute those groups that did not complete their work in 2012/13 and in instances where there is a clear need to refocus the work of the group; the terms of reference would need to be amended to reflect this.
- 8.2.4 There were no Member training activities specific to the work of the Overview & Scrutiny Panel in 2012/13. The Panel may wish to identify any Member training needs in relation to overview and scrutiny activities, 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 2013/14.”
- 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 2012 were complying with their statutory responsibilities. The conclusion from the annual report is given below:
- 8.3.1 The Localism Act introduced a new regime for governing standards of member conduct which was significantly different from the previous 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 2012/13 and have been deemed to be significant by SMT and will be addressed during 2013/14.
- 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 Member related
- The political situation with a hung council and changing political dynamics can add to the time taken to reach a resolution that can be acted on and also may have a higher likelihood of decisions being called in.
- 9.3.2 Major projects
- The project management process needs to be reviewed and implemented across the council, as highlighted in the internal audit on risk management. Basic minimum templates are required to be in common usage, which can be expanded to deal with more complicated projects.
- 9.3.5 Corporate issues
- The process for determining disclosure needs to be reviewed, to ensure full publication of information wherever possible to meet with transparency commitment.
 - The asset management disposal process needs to be reviewed to ensure appropriate consultation at political level is undertaken to improve public trust.

- There is the need to improve inspection regimes for maintained buildings and land to identify investment needs as well as deal with insurance claims (especially public liability). This will be especially difficult given the pressures on the repairs budget.
- The council is facing a significant budget gap, due to cuts to Government grants and external pressures such as the insolvency of Transeuropa. The council is taking steps to diversify and generate income through the Port, but this still remains an area of concern.
- The process in respect of East Kent Housing's financial management of the repairs and maintenance and leasehold charges needs to be reviewed.

9.3.6 The areas of concern identified from the internal audit reports for Data Protection, Absence Management, Flexi and Annual Leave, Dog Warden and Litter Enforcement, Thanet Leisure Force and Museums, are being addressed through the report recommendations.

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.

Draft signed by:
Councillor Clive Hart
Leader of the Council
by the 30 June 2013

Draft signed by:
Dr Sue McGonigal
Chief Executive & Chief Financial Officer
by the 30 June 2013

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ANNUAL TREASURY MANAGEMENT REVIEW 2012/13

To: **Governance and Audit Committee – 26 June 2013**

Main Portfolio Area: **Finance**

By: **Capital & Treasury Finance Officer**

Classification: **Unrestricted**

Summary: **This report summarises treasury management activity and prudential/treasury indicators for 2012/13.**

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 2012/13. 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 2012/13 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Governance & Audit Committee 13 December 2011, Council 19 January 2012).
- a mid-year (minimum) treasury update report (Governance & Audit Committee 11 December 2012, circulated to Members 10 June 2013).
- an annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, this Council's Governance and Audit Committee has received quarterly treasury management update reports on 25 September 2012 and 21 March 2013.

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, 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 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 and Audit Committee before they were reported to the full Council.

1.5 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual 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 the Council's 2012/13 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 2012/13, the Council complied with its legislative and regulatory requirements apart from the investment strategy limit as described in section 11.2. 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	2011/12 Actual £000	2012/13 Original £000	2012/13 Actual £000
Capital expenditure	12,049	10,785	9,486
Capital Financing Requirement:			
• Non-HRA	19,209	22,111	19,450
• HRA	23,041	23,388	22,525
• Total	42,250	45,499	41,975
Net borrowing	7,445	22,625	2,519
External debt	26,721	30,625	26,122
Investments			
• Longer than 1 year	0	0	0
• Under 1 year	19,276	8,000	23,603
• Total	19,276	8,000	23,603

2.2 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.

2.3 The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns.

3.0 The Council's Capital Expenditure and Financing 2012/13

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.

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

£000 General Fund	2011/12 Actual	2012/13 Estimate	2012/13 Actual
Capital expenditure	8,760	8,045	7,315
Financed in year	8,760	4,484	6,417
Unfinanced capital expenditure	0	3,561	898

£000 HRA	2011/12 Actual	2012/13 Estimate	2012/13 Actual
Capital expenditure	3,289	2,740	2,171
Financed in year	3,289	2,740	2,171
Unfinanced capital expenditure	0	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 2012/13 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.

4.2 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 that 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.

4.3 **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.

4.4 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 2012/13 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2012/13 on 19 January 2012.

4.5 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).

CFR (£000): General Fund	31 March 2012 Actual	31 March 2013 Budget	31 March 2013 Actual
Opening balance	19,898	19,209	19,209
Add unfinanced capital expenditure (as above)	0	3,561	898
Less MRP/VRP*	(689)	(659)	(657)
Less PFI & finance lease repayments	0	0	0
Closing balance	19,209	22,111	19,450

CFR (£000): HRA	31 March 2012 Actual	31 March 2013 Budget	31 March 2013 Actual
Opening balance	23,966	23,388	23,041
Add unfinanced capital expenditure (as above)	0	0	0
HRA loan repayments	(925)	0	(516)
Less VRP*	0	0	0
Less PFI & finance lease repayments	0	0	0
Closing balance	23,041	23,388	22,525

* Includes voluntary application of capital receipts

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

- 4.6 **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 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2012/13. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.
- 4.7 It should be noted that this indicator is changing to compare gross borrowing to the CFR with effect from 2013/14; this is expected to provide a more appropriate indicator.

£000	31 March 2012 Actual	31 March 2013 Budget	31 March 2013 Actual
Net borrowing position	7,445	22,625	2,519
CFR	42,250	45,499	41,975

- 4.8 **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 2012/13 the Council has maintained gross borrowing within its authorised limit.
- 4.9 **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.
- 4.10 **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.

£000	2012/13
Authorised limit	£50,000
Maximum gross borrowing position	£36,000
Operational boundary	£43,000
Average gross borrowing position	£26,573
Financing costs as a proportion of net revenue stream	6.35%

5.0 Treasury Position as at 31 March 2013

- 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 2012/13 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

£000	31 March 2012 Principal	Rate/ Return	Average Life yrs	31 March 2013 Total Principal	31 March 2013 HRA Principal	31 March 2013 GF Principal	Rate/ Return	Average Life yrs
Fixed rate funding:								
-PWLB	22,221	5.34%	13.4	21,622	18,645	2,977	4.62%	12.7
-Market	4,500	4.19%	0.5	4,500	3,880	620	4.19%	0.5
Variable rate funding:								
-PWLB	0			0	0	0		
-Market	0			0	0	0		
Total debt	26,721	5.16%	11.2	26,122	22,525	3,597	4.55%	10.5
CFR	42,250			41,975	22,525	19,450		
Over / (under) borrowing	(15,529)			(15,853)	0	(15,853)		
Investments:								
- in house	19,276	0.78%		23,603			0.75%	
- with managers	0			0				
Total investments	19,276	0.78%		23,603			0.75%	

5.2 The maturity structure of the debt portfolio was as follows:

£000	31 March 2012 actual	2012/13 original limits	31 March 2013 actual
Under 12 months	5,099	6,530	6,420
12 months and under 24 months	1,920	7,837	0
24 months and under 5 years	960	10,449	960
5 years and under 10 years	8,640	13,061	8,640
10 years and under 20 years	4,320	11,755	4,320
20 years and under 30 years	3,862	11,755	3,862
30 years and under 40 years	1,920	13,061	1,920
40 years and under 50 years	0	13,061	0
50 years and above	0	13,061	0
Total debt	26,721		26,122

All investments were for under one year.

5.3 The exposure to fixed and variable rates was as follows:

£000	31 March 2012 Actual	2012/13 Original Limits	31 March 2013 Actual
Fixed rate	26,721 debt 0 investments	50,000 debt 35,000 investments	26,122 debt 3,700 investments
Variable rate	0 debt 19,276 investments	50,000 debt 35,000 investments	0 debt 19,903 investments

6.0 The Strategy for 2012/13

6.1 The expectation for interest rates within the strategy for 2012/13 anticipated low but rising Bank Rate (starting in quarter 3 of 2013), with similar gradual rises in medium and longer term fixed borrowing rates over 2012/13. 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.

6.2 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.

6.3 The actual movement in gilt yields meant that PWLB rates fell during the first quarter of the year to historically 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. During the second and third quarters, rates rose gradually and agreement of a second bail out for Greece in December saw the flight to quality into gilts reverse somewhat, as confidence rose that the Eurozone crisis was finally subsiding. However, gilt yields then fell back again during February and March as Eurozone concerns returned, with the focus now shifting to Cyprus, and flight to quality flows into gilts resumed. This was a volatile year for PWLB rates, driven by events in the Eurozone which oscillated between crises and remedies.

7.0 Sector's Review of the Economy and Interest Rates (issued by Sector on 29 April 2013)

7.1 **Sovereign debt crisis.** The EU sovereign debt crisis was an ongoing saga during the year. However, the ECB statement in July that it would do "whatever it takes"

to support struggling Eurozone countries provided a major boost in confidence that the Eurozone was (at last) beginning to get on top of its problems. This was followed by the establishment of the Outright Monetary Transactions Scheme in September. During the summer, a €100bn package of support was given to Spanish banks. The crisis over Greece blew up again as it became apparent that the first bailout package was insufficient. An eventual very protracted agreement of a second bailout for Greece in December was then followed by a second major crisis, this time over Cyprus, towards the end of the year. In addition, the Italian general election in February resulted in the new Five Star anti-austerity party gaining a 25% blocking vote; this has the potential to make Italy almost ungovernable if the grand coalition formed in April proves unable to agree on individual policies. This could then cause a second general election – but one which could yield an equally ‘unsatisfactory’ result! This result emphasises the dangers of a Eurozone approach heavily focused on imposing austerity, rather than promoting economic growth, reducing unemployment, and addressing the need to win voter support in democracies subject to periodic general elections. This weakness leaves continuing concerns that this approach has merely postponed the ultimate debt crisis, rather than provide a conclusive solution. 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.

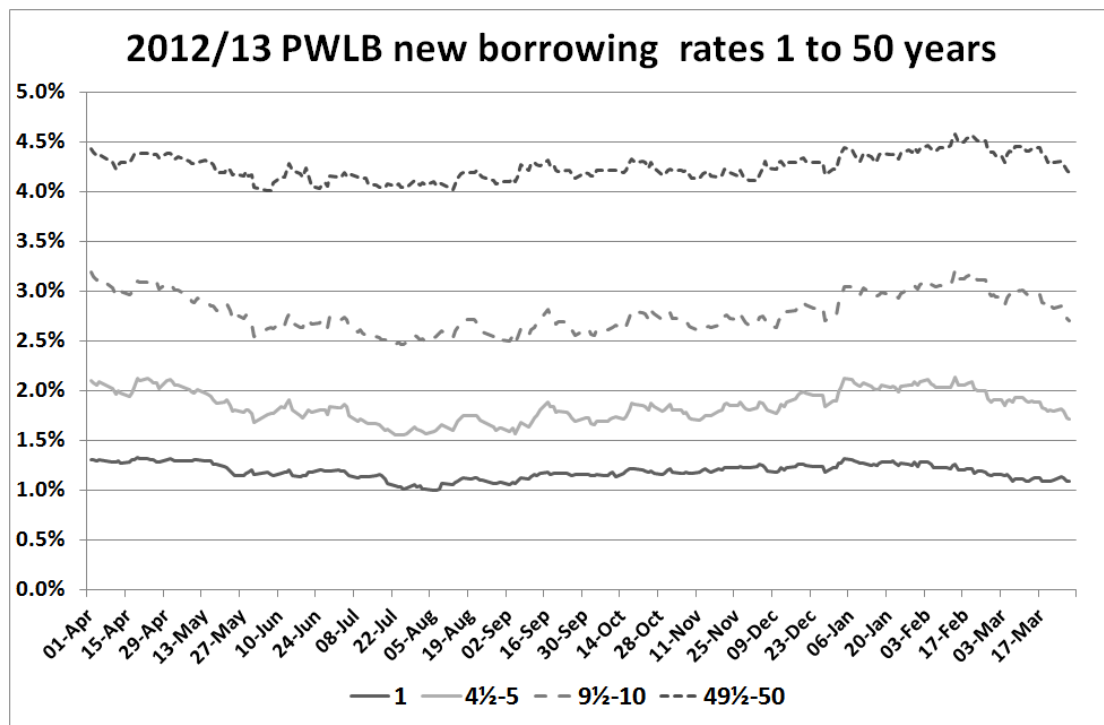
- 7.2 **The UK coalition Government** maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody’s followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch, after the Budget statement in March. Key to retaining the AAA rating from Fitch and S&P will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe.
- 7.3 **UK growth.** 2012/13 started the first quarter with negative growth of -0.4%. This was followed by an Olympics boosted +0.9% in the next quarter, then by a return to negative growth of -0.3% in the third quarter and finally a positive figure of +0.3% in the last quarter. This weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing (QE) by £50bn in July to a total of £375bn 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. In the March 2013 Budget, the Office of Budget Responsibility yet again slashed its previously over optimistic growth forecasts, for both calendar years 2013 and 2014, to 0.6% and 1.8% respectively.
- 7.4 **UK CPI inflation** has remained stubbornly high and above the 2% target, starting the year at 3.0% and still being at 2.8% in March; however, it is forecast to fall to 2% in three years time. The MPC has continued its stance of looking through temporary spikes in inflation by placing more importance on the need to promote economic growth.
- 7.5 **Gilt yields** oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at 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 pushed back to quarter 1 2015 at the earliest.

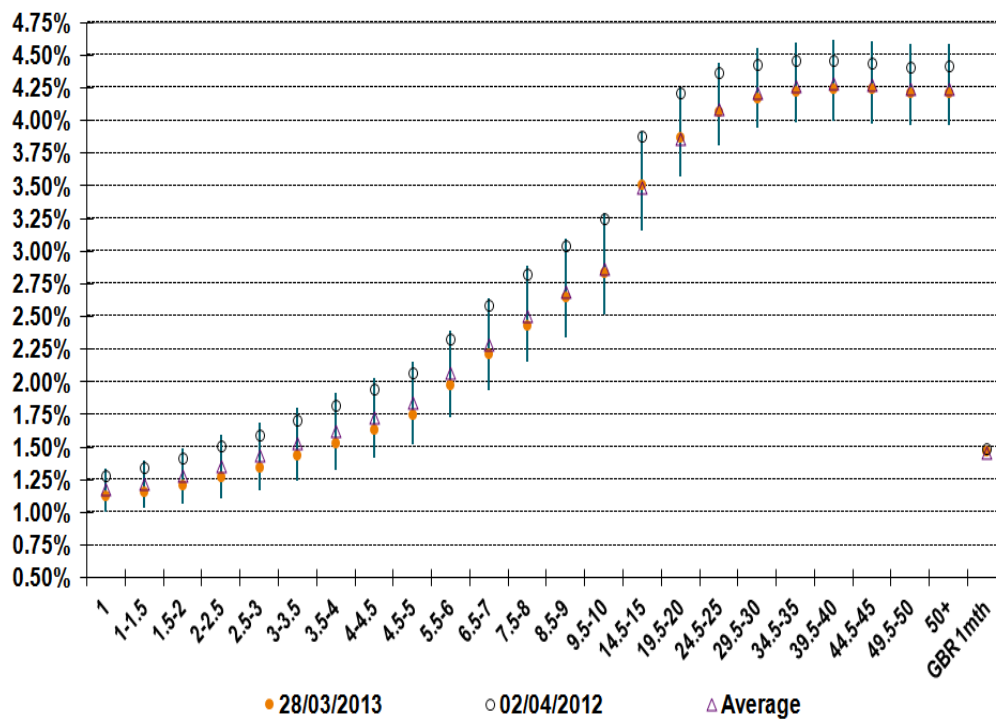
7.7 **Deposit rates.** The Funding for Lending Scheme, announced in July, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do “whatever it takes” to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

8.0 Borrowing Rates in 2012/13

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 rate variations in 2012-13



PWLB borrowing rates 2012/13 for 1 to 50 years									
	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
2/4/12	1.290%	1.350%	1.600%	1.820%	2.070%	3.250%	4.370%	4.410%	1.490%
28/3/13	1.130%	1.160%	1.350%	1.540%	1.750%	2.840%	4.070%	4.220%	1.470%
High	1.330%	1.400%	1.690%	1.910%	2.150%	3.290%	4.440%	4.590%	1.500%
Low	1.000%	1.030%	1.170%	1.320%	1.520%	2.520%	3.810%	3.960%	1.440%
Average	1.185%	1.229%	1.440%	1.631%	1.847%	2.871%	4.094%	4.250%	1.467%
Spread	0.330%	0.370%	0.520%	0.590%	0.630%	0.770%	0.630%	0.630%	0.060%
High date	20/4/12	20/4/12	20/4/12	20/4/12	20/4/12	20/2/13	20/2/13	20/2/13	18/4/12
Low date	2/8/12	2/8/12	23/7/12	23/7/12	23/7/12	23/7/12	18/7/12	1/6/12	24/10/12

9.0 Borrowing Outturn for 2012/13

9.1 **Treasury Borrowing** – Council debt with PWLB at 31 March 2013 was:

Lender	Principal £000	Principal HRA £000	Principal GF £000	Interest Rate %	Maturity Date	Start Date
PWLB	1,920	1,656	264	10.375	31/12/13	25/02/86
PWLB	960	828	132	2.75	03/05/15	07/05/10
PWLB	960	828	132	3.84	31/03/19	07/05/10
PWLB	3,840	3,311	529	3.57	01/10/19	15/10/09
PWLB	3,840	3,311	529	3.31	15/09/21	15/09/11
PWLB	584	503	81	4.875	30/06/24	12/03/99
PWLB	1,816	1,566	250	4.875	30/06/24	12/03/99
PWLB	1,920	1,656	264	4.04	01/10/29	15/10/09
PWLB	22	19	3	11.625	05/08/33	25/09/73
PWLB	3,840	3,311	529	4.42	31/12/35	24/01/08
PWLB	1,920	1,656	264	4.22	01/10/49	15/10/09
Market	4,500	3,880	620	4.19	09/06/65	09/06/05
Total	26,122	22,525	3,597			

The Market Loan is subject to six monthly LOBO (Lender Option Borrower Option) arrangements.

9.2 Borrowing

Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

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

On 31/12/12 the Council repaid £598k of maturing debt (having a rate of 10.125%) using investment balances.

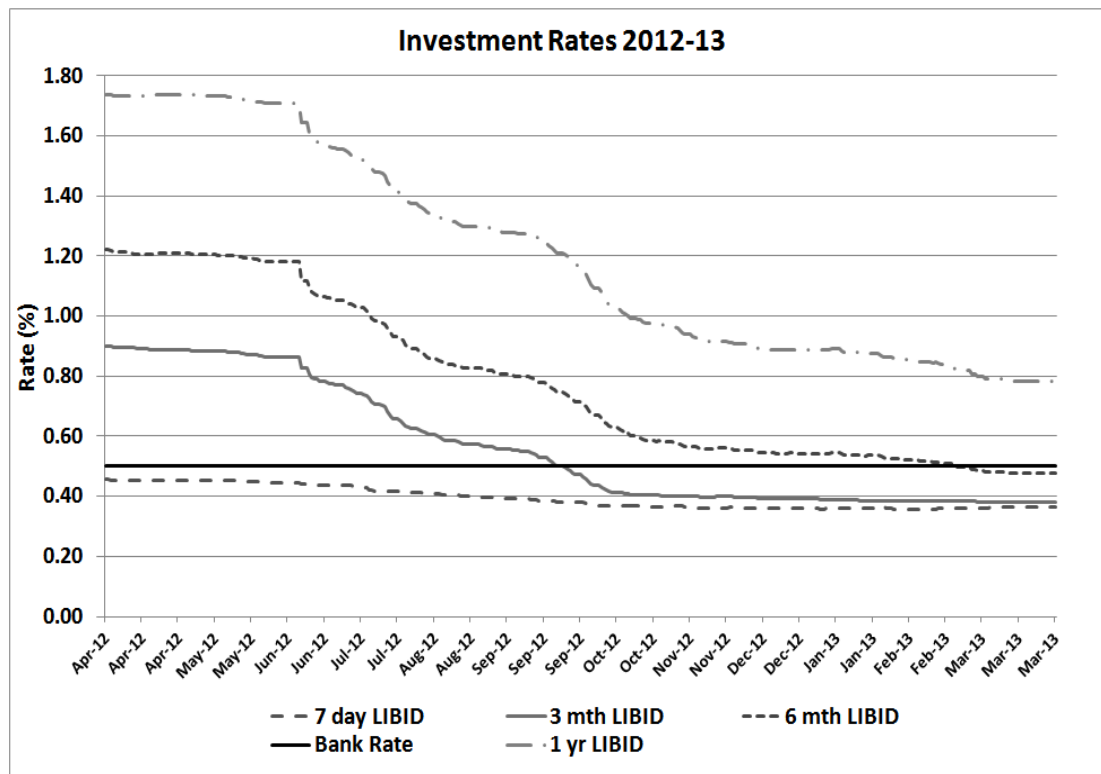
9.5 Summary of debt transactions

Management of the debt portfolio resulted in a fall in the average interest rate of 0.61%, representing a net saving of £160k p.a.

10.0 Investment Rates in 2012/13

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for four years. Market expectations of the start of monetary tightening were pushed back during the year to early 2015 at the earliest. The Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year.

Money market investment rates 2012/13						
	overnight	7 day	1 month	3 month	6 month	1 year
1/4/12	0.432	0.457	0.571	0.902	1.221	1.738
31/3/13	0.361	0.365	0.371	0.382	0.478	0.784
High	0.432	0.457	0.571	0.902	1.221	1.739
Low	0.348	0.355	0.366	0.382	0.476	0.783
Average	0.382	0.394	0.428	0.564	0.782	1.207
Spread	0.084	0.102	0.205	0.520	0.744	0.956
Date	1/4/12	1/4/12	1/4/12	1/4/12	1/4/12	24/4/12
Date	31/12/12	31/1/13	29/1/13	1/3/13	13/3/13	19/3/13



11.0 Investment Outturn for 2012/13

11.1 **Investment Policy** – the Council’s investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Council on 19 January 2012. 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.).

11.2 One of the proposed changes to the annual investment strategy set out in the Mid Year Review Report presented to the Governance & Audit Committee meeting on 11 December 2012 was:

“A negative rating watch applying to a counterparty at the minimum Council criteria may be, rather than will be, removed from the list. The decision on whether to remove the counterparty will be in line with advice from the Council’s external treasury consultancy (Sector).”

The Council had no liquidity difficulties during the year and, apart from this proposed change, the approved limits within the annual investment strategy were not breached during the year.

- 11.3 **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 (£000)	31 March 2012	31 March 2013
Balances (General Fund & HRA)	11,887	12,422
Earmarked reserves (incl MRR & Capital Grants Unapplied)	13,063	16,632
Usable capital receipts	1,598	1,619
Total	26,548	30,673

- 11.4 **Investments held by fund managers** – the Council does not use external fund managers and hence no investments were held by fund managers in 2012/13.
- 11.5 **Investments held by the Council** - the Council maintained an average balance of £30,985k of internally managed funds. The internally managed funds earned an average rate of return of 0.75%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.39%. This compares with a budget assumption of £20,000k investment balances earning an average rate of 0.90%.

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 5). 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 0.75% compared to the average 7 day LIBID rate of 0.39%.

The Council’s maximum security risk benchmark for the investment 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 liquidity of investments were within this criteria throughout 2012/13.

- 12.3 Liquidity – The Council set 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 2012/13.

13.0 Options

13.1 That the Governance and Audit Committee:

- Approve the actual 2012/13 prudential and treasury indicators in this report.
- Note the annual treasury management report for 2012/13.
- 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 2012/13 prudential and treasury indicators in this report.
- Note the annual treasury management report for 2012/13.
- 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 1 August 2013.

17.0 Disclaimer

17.1 Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no

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