

# Public Document Pack



Date: **10 March 2014**  
Our ref: **Governance & Audit Committee/Agenda**  
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## GOVERNANCE AND AUDIT COMMITTEE

**20 MARCH 2014**

A meeting of the Governance and Audit Committee will be held at **7.00 pm on Thursday, 20 March 2014** in the Austen Room, Council Offices, Cecil Street, Margate, Kent.

### Membership:

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

## A G E N D A

Item  
No

Subject

1. **TRAINING PRESENTATIONS**

1a **A TRAINING PRESENTATION - INTERNAL AUDIT**

2. **APOLOGIES FOR ABSENCE**

3. **DECLARATIONS OF INTEREST**

'To receive any declarations of interest. Members are advised to consider the advice contained within the Declaration of Interest Form attached at the back of this Agenda. If a Member declares an interest, they should complete that form and hand it to the Officer clerking the meeting and then take the prescribed course of action.'

4. **MINUTES OF PREVIOUS SCHEDULED MEETING** (Pages 1 - 8)

To approve the Minutes of the Governance and Audit Committee meeting held on 11 December 2013, copy attached.

4a **MINUTES OF EXTRAORDINARY MEETING**

To approve the Minutes of the extra Governance and Audit Committee meeting held on 26 February 2014, copy to follow.

5. **GOVERNANCE AND AUDIT COMMITTEE ACTION PLAN** (Pages 9 - 10)

6. **REVIEW OF THE EFFECTIVENESS OF THE GOVERNANCE AND AUDIT COMMITTEE REVIEW AND ANNUAL REPORT** (Pages 11 - 26)

7. **QUARTERLY GOVERNANCE PROGRESS REPORT** (Pages 27 - 36)

8. **INTERNAL AUDIT SELF ASSESSMENT** (Pages 37 - 42)

Item  
No

Subject

9. **REVIEW OF THE EFFECTIVENESS OF THE COUNCIL'S INTERNAL AUDIT ARRANGEMENTS 2013/14** (Pages 43 - 46)
10. **THE EXTERNAL AUDIT PLAN 2013/14 FOR THANET DISTRICT COUNCIL** (Pages 47 - 62)
11. **CERTIFICATION REPORT 2012/13 FOR THANET DISTRICT COUNCIL** (Pages 63 - 76)
12. **EXTERNAL AUDIT COMMITTEE UPDATE REPORT FOR THANET DISTRICT COUNCIL** (Pages 77 - 98)
13. **TREASURY MANAGEMENT UPDATE FOR QUARTER ENDED 31 DECEMBER 2013** (Pages 99 - 112)
14. **INTERNAL AUDIT PROGRESS REPORT** (Pages 113 - 140)
15. **INTERNAL AUDIT PLAN 2014/15** (Pages 141 - 148)
16. **EXCLUSION OF PUBLIC AND PRESS** (Pages 149 - 152)
17. **CONFIDENTIAL AUDIT REPORT** (Pages 153 - 156)

**Declaration of Interests Form**

## **GOVERNANCE AND AUDIT COMMITTEE**

Minutes of the meeting held on 11 December 2013 at 7.00 pm in Austen Room, Council Offices, Cecil Street, Margate, Kent.

Present: Councillors Binks, Campbell, Day, Lodge-Pritchard, Moore, D Saunders and W Scobie

### **317. APOLOGIES FOR ABSENCE**

Apologies were received from Councillor S Tomlinson and Councillor Worrow.

In the absence of the Chairman, Councillor Worrow, Councillor Lodge-Pritchard as Vice-Chair, took the Chair.

### **318. ALSO PRESENT:-**

Sarah Martin – Financial Services Manager & Deputy s151 Officer  
Harvey Patterson – Corporate and Regulatory Services Manager  
Nikki Morris – Business Support and Compliance 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  
Terry Blackman – Manager – Grant Thornton UK LLP  
Penny Button – Environmental Health Manager

### **319. DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **320. MINUTES OF PREVIOUS MEETING**

The minutes of the Governance and Audit Committee meeting held on 25 September 2013, were approved and signed by the Chairman.

### **321. GOVERNANCE AND AUDIT COMMITTEE ACTION PLAN**

Members raised the following questions in relation to the actions from the last meeting of the Governance and Audit Committee held on 25 September 2013.

Minute no. 309 – Regarding the Housing Allocation Policy and the process of prioritising victims of domestic abuse who are being placed on the register at Band B. Members asked "how many of those victims of domestic abuse with that allocated band B priority were successful in getting their preferred choice and how many were not". An answer is to be sought from the Housing Options Manager and emailed to Members.

Minute no. 309 – The Environmental Protection Review and the removal of abandoned vehicles, Members asked why the Environmental Protection team were not pursuing the owners of these abandoned vehicles. Penny Button, Environmental Health Manager said that this was not within the remit of the Environmental Protection team but was administered by other Council departments including Community Safety and Parking. It was noted that due to the reduction in the value of scrap metal in the last few years that the numbers of abandoned vehicles had reduced.

The action plan was noted.

### **322. FOOD STANDARDS AGENCY AUDIT UPDATE**

The report seeks the postponement of the internal audit of Thanet District Council's Food Safety Service following the Food Standards Agency audit of November 2011.

Food Safety had been identified in the 2012-13 internal audit plan for review in the last quarter. Environmental Health requested a delay due to the Food Standards Agency (FSA) inspection which was agreed. The internal review was moved over to this year 2013-14 for the last quarter.

Members were concerned that if Food Safety was removed from the East Kent Audit Partnership (EKAP) internal audit until after the FSA audit that it was not only a duplication of work but would be out of the Council's control. Penny Button, Environmental Health Manager said that it would not be removed entirely, only until they had achieved the level of service required by the FSA. Members suggested that a date should be set to re-instate the internal audit which would be a safeguard. This date was recommended to be by April 2014. Penny Button added that ongoing improvements had been achieved to the service since 2011 and that the FSA were pleased with the progress so far. She was confident that they will have reached the recommended level by April 2014.

In referring to the FSA Audit Action Plan document (annex 1 to the report) members asked for clarification in respect of 3.5.9 'ensure that all complaints received about food and hygiene at food premises are investigated in accordance with the Food Law Code of Practice and centrally issued guidance {The Standard – 8.2}'. Penny advised that the Environmental Health team had been unable to adequately resource the complaint work due to the current staffing levels however they were in the process of increasing the environmental posts and by the New Year they will be at full capacity.

Members also had concerns regarding 3.5.17(i) in respect of food sampling. The issue had been discussed with the Chief Executive and Environmental Health Manager as well as with the Economic Development Team to find a way forward as there are currently no resources or funding to carry out this work. It was added that routine sampling other than shellfish sampling is not considered a high priority statutory function for the same reason, that resources are not available at the current time. Some sampling had been carried out in May 2013 but further development of a sampling programme is required for when staffing and resources improve. Members asked whether produce going out was sampled. Penny advised that it was not.

Moved by Councillor Campbell and seconded by Councillor Binks that:

"6.1 that the report be received by Members

6.2 that any changes to the agreed 2013-14 internal audit plans, resulting from changes in perceived risk, detailed at 5.0 of the report be approved

and subject to the safeguarding condition that Food Standards be reinstated to the Internal Audit plan by April 2014"

MOTION ADOPTED.

### **323. INTERNAL AUDIT PROGRESS REPORT**

This report gives Members a summary of the internal audit work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30<sup>th</sup> September 2013.

There have been ten internal audit assignments completed during the period. Of these four concluded Substantial assurance and four concluded Reasonable assurance. An additional piece of work that had been carried out was for EK Services-Housing Benefit Quarterly Testing (Qtr 2 of 2013-14) which did not require an assurance level. The assurance level given for Public Health Burials was Limited and Members had concerns about this.

The EKAP had carried out a comparison exercise with two neighbouring authorities to look at the number of public health burials that have been carried out over the last 2 complete financial years.

	TDC		CCC		DDC	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
<b>TOTALS</b>	<b>25</b>	<b>15</b>	<b>4</b>	<b>5</b>	<b>2</b>	<b>7</b>

This shows that Thanet District Council has carried out a significantly greater number of public health burials in comparison to the other two. Although Thanet District Council has more deprived wards coupled with a more transient population, these figures are significantly higher than the neighbouring authorities. There is a concern that the authority has been paying for funerals even though next of kin are known or have appeared at the funeral and processes to recover monies have not been carried out. Again, these findings are similar to those reported previously by Internal Audit. It was noted that at a neighbouring authority it is the Finance team that are responsible for the collection of any monies owed from a public health burial. This method of working could be considered as the lack of resources within Environmental Health means that there could be considerable delays in obtaining any monies. There would then also be a separation between the legislative actions of the public health burials and the financial reclaim of any outstanding monies owed to the authority.

At the time of the last audit in this area, it was recommended that 'As a short term measure, all Public Health Burial case files should be reviewed and signed off by the Environmental Protection Manager until there is a demonstrable improvement in the quality of documentation. Thereafter, it would be advisable for a random sample of files to be examined periodically'. Whilst this recommendation was accepted, it has not resulted in an adequate degree of improvement and accordingly greater management supervision in this area still appears to be warranted. Members asked for an explanation as to why the Council were not so good at recovering costs and whether this was solely down to resources.

Harvey Patterson, Corporate and Regulatory Services Manager, in response said that in 2008 no assurance was given and no processes were in place. He added that a lot of key controls were now in place and that the officer who had been on long term sick leave was in a 'return to work programme' and the Environmental Health Manager was working with the officer to ensure processes were followed.

Penny Button added that there were costs involved in recovery but that over the last 4 to 5 months invoices were now being sent and more steps were being taken to locate relatives and recover costs. It was noted that the additional numbers of public burials in Thanet was partly due to the hospice. Members agreed with the recommendation of the EKAP that the responsibility for collecting monies was in the Finance Team. Penny advised that they do go through the Finance system.

Building Control received Substantial Assurance and some Members queried why the target for the service was to 'break even'. Sarah Martin, Financial Services Manager and deputy s151 officer said that it was a legal requirement and that this service was not

allowed to make a profit. Harvey Patterson added that it was the responsibility of Building Control to ensure that buildings were built in accordance with the regulations and that completion certificates were only provided once all monies had been paid and they were satisfied that the regulations had been complied with.

Child Protection had received Reasonable Assurance and some Members had concerns regarding the level of staff having completed the training. As part of the staff induction process staff must complete the e-learning module on child protection. However, a report supplied by EK Human Resources showed that only 74 staff had completed the e-learning module equating to just 15.4% of the staff employed. Simon Webb, Deputy Head of EKAP said that he had intended to give Members an update as a different e-learning system was now in use that doesn't include child protection.

It was confirmed that all relevant staff have undertaken a Disclosure and Barring Service check (previously called CRB).

Service Contract and Monitoring had also received Reasonable Assurance and Members asked whether the contracts receiving Reasonable or Limited could be identified. Simon Webb said that they were all at least Reasonable and that the audit had specifically selected those that weren't covered by other audits.

In referring to the Balanced Scorecard for Quarter 2 Members asked whether the Audit team were on schedule. Christine Parker, Head of EKAP advised Members that they were on schedule for completion and with a qualified new member of the team this would ensure an expected 98% completion.

Moved by Councillor Campbell and seconded by Councillor D Saunders that:

- “6.1 the report be received by Members and
- 6.2 That any changes to the agreed 2013-14 internal audit plans, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved”

MOTION ADOPTED.

### **324. QUARTERLY GOVERNANCE UPDATE**

This report provides Governance and Audit Committee with progress on governance related issues. The report covers the Corporate Risk Register, Annual Governance Statement 2012/13 action plan, Governance Framework and Local Code of Corporate Governance annual review and Risk Management Strategy and Process annual review.

It was noted that annex 2, the AGS action plan was in a very small font.

At annex 1, the Corporate Risk Register, Members were very concerned that R1001 'The Council relies on staff consistently working for longer than their contracted hours' was still a regular feature on the Risk Register and the control measures set were a long way from being met. Members requested an answer be sought from Charlie Greenway, EKHR Business Partner and sent to them by email.

Members also queried why, once control measures had been implemented that the 'control measure' still appeared on the register. Nikki Morris, Business Support and Compliance Manager advised that they were kept on for a while to ensure that the control measures were working. She added that the risk register would be looked at as a whole with SMT and third and fourth tier manager to ensure an up to date register is brought to the March 2014 meeting. Members suggested that a different document should be included to separate those risks where control measures were still being tested.

A concern of a Member was the expectation of Members on staff to fulfil the 'wish list' of Members when they should be looking at what they have to do and referring the 'wish list' items to MP's and other politicians. Harvey Patterson advised that this was the process.

Moved by Councillor W Scobie and seconded by Councillor D Saunders that:

- 5.1 Members note the content of annex 1 and identify any issues on which they require more clarification.
- 5.2 That Members note the content of annex 2, the Annual Governance Statement 2012/13 action plan and identify any issues on which they require more clarification.
- 5.3 That Members approve the reviewed Governance Framework and Local Code of Corporate Governance (annexes 3 and 4).
- 5.4 That Members approve the changes to the Risk Management Process document and recommend that the Strategy be sent to the 21 January 2014 Cabinet for approval"

MOTION ADOPTED.

### **325. CIPFA CODE OF PRACTICE ON TREASURY MANAGEMENT (2011 EDITION)**

Sarah Martin, Financial Services Manager and Deputy s151 officer introduced the report which makes recommendations in line with the CIPFA Code of Practice on Treasury Management (2011 Edition).

Moved by Councillor Campbell and seconded by Councillor Binks that:

- "4.1 the Governance and Audit Committee at it's meeting on 11 December 2013:
  - 4.1.1 Considers and approves the report and annex 1.
  - 4.1.2 Approves the clauses to be adopted by Council as set out in annex 1, and agrees that they be submitted to Constitutional review Working Party, Standards Committee, Cabinet and Council for formal adoption.
  - 4.1.3 Approves and adopts the Policy Statement and Treasury Management Practices as set out in Annex 1 (subject to approval of the clauses to be adopted by Council in section 4.1.2 above).

MOTION ADOPTED"

### **326. FINANCIAL RESILIENCE ACTION PLAN**

At the Governance and Audit Committee meeting held in September 2013 Grant Thornton had presented a financial resilience report as part of their final account work for 2013/14. The report highlighted the key findings from their specific review of the Council's arrangements in securing financial resilience. This review included consideration of whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities and whether it has secured a stable financial position that enables it to continue to operate for the foreseeable future. Although the report concluded that the Council has put sound arrangements in place and adequately approached financial planning, governance and control a few areas of potential weakness where arrangements needed to be strengthened were identified.

An action plan to address the weaknesses that had been identified within the financial resilience plan for the year ended 31 March 2013 was attached at annex 1 for approval by Members.

One of the recommended actions is to separate the S151 officer role from the Chief Executive role and move it to a new post of Director of Corporate Resources. Members asked where the money to fund this new post would come from. Sarah Martin advised that funding for this post was already in the base budget. Members also asked what the process would be for recruiting to this post and suggested that the Governance and Audit Committee should have sight of the procedure for Director recruitment to comment on.

Harvey Patterson said that one part of the process was to test the candidate to assess their general ability. The Officer Employment Procedure Rules on page 245 of the Council's Constitution (and also Standing Orders relating to Staff) informs Members of the procedure for recruitment to Head of Paid Service and Chief Officers. He added that the General Purposes Committee ensured that Members were involved in any such recruitment. Members said that it was not just separating the s151 officer post from the Chief Executive but was an entirely new post and that it was important that Members knew what the requirements of this role were envisaged to be.

Members enquired as to how the s151 officer role being separated would affect Thanet District Council and what other Council's were doing. Andy Mack, Director, Grant Thornton advised Members that of the 12 districts in Kent, three have a joint role of Chief Executive and s151 officer. He added that for this Council the Senior Management Team were stretched and that that needed to be addressed.

In looking at Strategic Financial Planning and the focus of the Medium Term Financial Plan which has continued to be updated to reflect the most up to date spending cut announcements and the latest assumptions, Members were concerned that some services may be axed as they were not deemed to be essential. Sarah Martin advised that a service review programme has been established to look at alternative service delivery methods and that all services were being looked at.

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

"Governance and Audit approve the action plan at Annex 1 to this report"

MOTION ADOPTED.

**327. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY-MID YEAR REVIEW REPORT 2013/14**

This report summarises treasury management activity and prudential/treasury indicators for the first half of 2013/14. Treasury Management is defined as 'the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Moved by Councillor Campbell and seconded by Councillor D Saunders that:

"10.1 the Governance and Audit Committee

- Approves this report and agrees the prudential and treasury indicators that are shown and
- Recommends this report to Cabinet"

MOTION ADOPTED.



**328. TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2014/15**

This report provides the Governance and Audit Committee with the proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2014/15 for approval.

Referring to the 'Borrowing Strategy' the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast*, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Some Members were concerned that the debt had increased considerably and the danger of repeating what had occurred nationally. Sarah Martin advised that the increase in debt was to finance the capital programme and the cost of such debt would be met from the revenue savings generated by the projects. It was noted that the report was for final approval by Council.

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

"the Governance and Audit Committee approve this report, including each of the key elements of this report listed below, and recommend them to Council:

- The Capital Plans, Prudential Indicators and Limits for 2014/15 to 2016/17, including the Authorised Limit Prudential Indicator.
- The Minimum Revenue Provision (MRP) Policy.
- The Treasury Management Strategy for 2014/15 to 2016/17 and the Treasury Indicators.
- The Investment Strategy for 2014/15 contained in the Treasury

Management Strategy, including the detailed criteria”

MOTION ADOPTED.

**329. ANNUAL AUDIT LETTER**

Andy Mack, Director, Grant Thornton introduced Terry Blackman, Manager, Grant Thornton, to the Governance and Audit Committee and then presented the Annual Audit Letter.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. The Audit conclusions that have been provided in relation to 2012/13 are as follows:

- An unqualified opinion on the accounts which give a true and fair view of the Council’s financial position as at 31 March 2013 and its income and expenditure for the year
- An unqualified conclusion in respect of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources
- An unqualified opinion on the council’s Whole of Government Accounts submission
- Two claims have been certified and returned by the end of September deadline. Work on the Housing Benefits Subsidy claim, which has a deadline of 30 November, is still in progress.
- An objection on the accounts in respect of the debt regarding Transeuropa Ferries from three local electors in August 2013 had been received. Grant Thornton are satisfied that the issue does not impact on their opinion on the accounts or value for money conclusion. However, the certificate of closure has been held open on the audit pending completion of the review.

Andy Mack added that the Council has good arrangements for financial governance and a strong track record on delivering budgets and savings plans. Members are engaged and have an understanding of the current financial environment.

The Medium Term Financial Plan sets our savings plans and risks for the coming years and is aligned with the corporate priorities. The Council’s current financial position is sound, but over the longer term the position is challenging. The Council faces a £11m budget gap over the next four years and addressing this gap is a key priority.

The Council is involved in a range of complex strategic projects and capacity at the most senior levels of the organisation is stretched. Members and officers should review the allocation of roles and capacity within the senior leadership team. *(An update on this is given at Item 8 in the agenda).*

Members noted the report.

Meeting concluded : 8.25 pm

**ACTION POINTS FROM GOVERNANCE & AUDIT COMMITTEE MEETING HELD ON 11 December 2013**

Minute No.	Action	Owner	Target Date	Progress	Feedback/Comments
321	<p><u>GOVERNANCE AND AUDIT COMMITTEE ACTION PLAN</u></p> <p>The following questions were asked by Members:</p> <p><i>Minute No. 309 refers:</i></p> <p><i>Regarding the Housing Allocations Policy</i></p> <p>Members asked "how many of those victims of domestic abuse with that allocated band B priority were successful in getting their preferred choice and how many were not". An answer is to be sought from the Housing Options Manager and emailed to Members.</p>	Housing Options Manager-Vicky May	20 March 2014	Complete	Answer received from the Housing Options Manager 18 December 2013 and emailed to Members 19 December 2013
324	<p><u>QUARTERLY GOVERNANCE UPDATE</u></p> <p><i>Question – At annex 1, the Corporate Risk Register, Members were concerned that R1001 ‘The Council Relies on staff consistently working for longer than their contracted hours’ was still a regular feature on the Risk register and the control measures set were a long way from being met.</i></p> <p>Members requested an answer be sought from Charlie Greenway, EKHR Business Partner and sent to them by email</p>	Charlie Greenway	20 March 2014	IP	SG Emailed CG 23 December 2013, 7 Jan 2014, 22 Jan 2014 and 4 February 2014
326	<p><u>FINANCIAL RESILIENCE ACTION PLAN</u></p> <p>Members requested sight of the job description for the new director post which would include the role of s151 officer</p>	Charlie Greenway	20 March 2014	IP	As above


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## REVIEW OF THE EFFECTIVENESS OF THE GOVERNANCE AND AUDIT COMMITTEE AND ANNUAL REPORT

To: **Governance and Audit Committee – 20 March 2014**

By: **Chair of the Governance and Audit Committee**

Classification: **Unrestricted**

Ward: **Thanet Wide**

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**Summary:** **The annual report summarises the achievements of the Governance and Audit Committee against its terms of reference for the period 1 April 2013 to 31 March 2014 and details the impact that it has made on the overall system of internal control in operation for that period.**

### For Decision

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#### **1.0 Introduction**

- 1.1 The purpose of the council's Governance and Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the authority's financial and non financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 1.2 To comply with best practice the Committee determined that it would consider annually whether it meets its terms of reference and how it has impacted on the internal control environment. The purpose of this report is to consider the self assessment that has been undertaken and summarise any improvement opportunities for the forthcoming year.

#### **2.0 Background**

- 2.1 A meeting was held with the Chairman, Councillor John Worrow; the Vice Chairman, Councillor Ela Lodge-Pritchard; the Head of the Audit Partnership, Christine Parker; the Deputy Head of Audit Partnership, Simon Webb and the Business Support and Compliance Manager, Nikki Morris to review the Committees terms of reference to specifically evidence how the Committee achieved against them and prepare the annual report which will go forward to Council.
- 2.2 The annual report attached at Annex 1 summarises the work of the Committee for the year and concludes that it has received clear, concise and relevant information, regular training events on topics specific to the business of the Committee, and has done all that it can to meet the aims and objectives for the Committee in the best way that it can.

#### **3.0 Options**

- 3.1 That Members agree the content of the annual report and the recommended actions within the action plan, and recommend that the annual report be forwarded to Full Council (15 May 2014).
- 3.2 That Members do not agree the content of the annual report and the recommended actions within the action plan, and do not recommend that the annual report be forwarded to Full Council (15 May 2014).

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

##### **4.3 Corporate**

4.3.1 Under the Local Code of Corporate Governance accepted by Governance and Audit Committee on the 11 December 2013, the Council is committed to comply with requirements for the independent review of the financial and operational reporting processes, through the external audit and inspection processes, and satisfactory arrangements for internal audit. The functions of the Governance and Audit Committee contribute to the overall internal control environment for the Council and feed into the Annual Governance Statement process.

##### **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 this process will negate the council's approach to corporate governance.

#### **5.0 Recommendation**

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

#### **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: Council	Date: 15 May 2014
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Contact Officers:	Nikki Morris, Business Support and Compliance Manager, DDI 01843 577625
Reporting to:	Mark Seed, Director of Operations, DDI 01843 577742

#### **Annex List**

Annex 1	Governance and Audit Committee Annual Report 2013/14
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#### **Background Papers**

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

**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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# Governance and Audit Committee

DRAFT ANNUAL REPORT 2013/14

## Foreword by Councillor John Worrow, Chairman of the Governance and Audit Committee

This report provides an overview of the Governance and Audit Committee's activity during the municipal year 2013/14.

I am pleased to report that the Committee continues to make progress in terms of discharging its responsibilities to provide independent assurance on the adequacy of the council's risk management framework and the associated control environment, and in providing robust scrutiny and challenge of the Authority's financial performance.

As outlined in the body of this report, the Committee has been actively engaged with both internal and external audit, and I would like to thank all the members who served on the Committee during 2013/14. My thanks also go to the Council officers who have supported the work of the Committee and more specifically to me in my role as Chairman.

In looking forward to 2014/15 and beyond, and given the continued financial pressures facing the Council, the importance of an effective Audit Committee remains critical. Along with my fellow members I look forward to meeting those challenges which lay ahead.

### 1.0 Introduction and Background

- 1.1 The council established a Governance and Audit Committee in March 2006. Whilst there is no statutory obligation to have an Audit Committee, they are widely recognised as a core component of effective governance. In recent years there has been a significant amount of regulation and guidance issues in governance arrangements for private and public sector bodies, the common feature of governance arrangements being the existence of an Audit Committee.
- 1.2 The purpose of the council's Governance and Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the authority's financial and non financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 1.3 There are many benefits to be gained from an effective Audit Committee. In fulfilling its role the Committee will:
  - reduce the risks of illegal or improper acts;
  - reinforce the importance and independence of internal and external Audit;
  - increase confidence in the objectivity and fairness of financial reporting.
- 1.4 Stricter internal control and the establishment of a Governance and Audit Committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, it will:
  - give additional assurance through a process of independent and objective review; and
  - raise awareness of the need for internal control and the implementation of audit recommendations.

## 2.0 Membership

2.1 For the period June 2013 to March 2014 the Governance and Audit Committee comprised of nine members and met on five occasions. Committee agenda papers and minutes are available on the council's website ([www.thanet.gov.uk](http://www.thanet.gov.uk)).

Member / Officer	26/06/13	25/09/13	11/12/13	26/02/14	20/03/14
<b>Members</b>					
Cllr R Binks	✓	A	✓		?
Cllr P Campbell	✓	✓	✓	✓	?
Cllr S Day	✓	A	✓	✓	?
Cllr E Lodge-Pritchard (VC)	✓	✓	✓	✓	?
Cllr P Moore	✓		✓		?
Cllr D Saunders	✓	✓	✓	✓	
Cllr W Scobie	✓	✓	✓	✓	?
Cllr S Tomlinson	✓	✓	A	✓	?
Cllr J Worrow (C)	✓	✓	A	✓	?
Cllr J Cohen				IA	
Cllr I Driver	IA				
Cllr R Everitt	IA				
Cllr M Fenner				IA	
Cllr T King	IA			IA	
Cllr A Poole				IA	
Cllr M Saunders				S	
Cllr M Tomlinson		S			
Cllr M Wise		S			
<b>Officers</b>					
Sarah Martin, Financial Services Manager (Dep S151 Officer)	✓	✓	✓		?
Sue McGonigal, Chief Executive (S151 Officer)	✓			✓	?
Nikki Morris, Business Support and Compliance Manager	✓	✓	✓		?
Harvey Patterson, Corporate & Regulatory Services Manager (Monitoring Officer)	✓	✓	✓	✓	?
Craig George, Housing Services Manager		✓			
Penny Button, Environmental Health Manager			✓		
Madeline Homer, Community Services Manager	✓				
<b>East Kent Audit Partnership</b>					
Christine Parker, Head of the Audit Partnership	✓		✓		?
Simon Webb, Deputy Head of Audit Partnership	✓		✓		?
Lee Jones, Partnership Auditor	✓				
Christopher Parker, Deputy Head of Audit Partnership		✓			
<b>Grant Thornton (External Auditors)</b>					
Andy Mack, District Auditor	✓	✓	✓	✓	?
Lisa Robertson, Audit Manager	✓	✓			?
Terry Blackman, Audit Manager			✓		?
Matt Dean, Audit Executive				✓	

### Key

C	Chairman	VC	Vice Chairman		
A	Apologies	IA	In Attendance	S	Substitute

### 3.0 Programme of reports 2013/14

3.1 Detailed below is the programme of reports considered by Governance and Audit Committee during 2013/14, and how they relate to the Committees terms of reference. Also shown are the items of training provided to the Committee.

Function/Issue	Responsible officer/ body	26/06/13	25/09/13	11/12/13	26/02/14	20/03/14
<b>Audit activity</b>						
Annual Audit Fee Letter	GT	✓				
Annual Audit letter	GT			✓		
Audit Findings report and Financial Resilience report	GT		✓			
Annual Grant Certification report	GT		✓			✓
Annual Internal Audit report	EKAP	✓				
Internal Audit arrangement review	CE					✓
Internal Audit Plan, Charter and Strategy	EKAP					✓
External Audit Plan	GT					✓
External Audit update report	GT	✓				✓
External Auditors report - Transeuropa	GT				✓	
Food Standards Agency Audit update	EHM			✓		
Internal Audit update report	EKAP	✓	✓	✓		✓
Internal Audit Self-Assessment against the PSIAS	EKAP					✓
<b>Regulatory framework</b>						
Annual Governance Statement action plan	BSCM		✓	✓		✓
CIPFA Code of Practice on Treasury Management (2011 Edition)	FSM			✓		
Corporate Risk Register	BSCM	✓	✓	✓		✓
Data Quality and Performance Management Frameworks	BSCM	✓				
Draft Annual Governance Statement	BSCM	✓				
Final Annual Governance Statement	BSCM		✓			
G&A programme of reports	BSCM					✓
G&A review and annual report	G&A Chairman					✓
G&A terms of reference	BSCM					✓
Governance Framework and Local Code of Corporate Governance	BSCM			✓		
Revision to Financial Procedure Rules on Reporting of Balance Sheet Debts	FSM		✓			
Risk Management Strategy and Process	BSCM		✓	✓		
Treasury Management Strategy	FSM			✓		
Treasury Management update	FSM	✓	✓			✓
<b>Accounts</b>						
Final Statement of Accounts	FSM		✓			
Financial Resilience Action Plan	FSM			✓		
<b>Training</b>						
Members Guidance Pack	BSCM	✓				
Annual Governance Statement	BSCM		✓			
Statement of Accounts (#1)	FSM					

Function/Issue	Responsible officer/ body	26/06/13	25/09/13	11/12/13	26/02/14	20/03/14
Internal Audit Update	EKAP					✓
Risk Management and the Risk Register	BSCM	✓				

### Key

BSCM	Business Support and Compliance Manager	CE	Chief Executive (S151 Officer)
EHM	Environmental Health Manager	EKAP	East Kent Audit Partnership
FSM	Financial Services Manager (Dep S151 Officer)	G&A	Governance and Audit Committee
GT #1	Grant Thornton Separate training session on 24 September 2014		

## 4.0 Review of the Governance and Audit Committee's effectiveness

- 4.1 The Governance and Audit Committee should ensure it has effective communication with the authority, to include the Executive, the Head of Internal Audit, the External Auditor and other stakeholders. Consequently it is considered to be best practice for the Committee to be self aware and to submit an annual report to Council.
- 4.2 A meeting was held with the Chairman, Councillor John Worrow; the Vice Chairman, Councillor Ela Lodge-Pritchard; the Head of the Audit Partnership, Christine Parker; the Deputy Head of Audit Partnership, Simon Webb and the Business Support and Compliance Manager, Nikki Morris to review the Committee's terms of reference to specifically evidence how the Committee achieved against them and prepare this annual report.
- 4.3 The annual report summarises the work of the Committee for the year and concludes that it has received clear, concise and relevant information, regular training events on topics specific to the business of the Committee, and has done all that it can to meet the aims and objectives for the Committee in the best way that it can.

## 5.0 Annual Report

- 5.1 The Governance and Audit Committee is assured on the integrity and reliability of data held in the financial statement. It receives clear, concise reports and actions are dealt with in an appropriate timescale. The members of the Committee receive specific training in order to assist them with their role in receiving comprehensive assurance from the accounting officer.
- 5.2 The work of internal and external audit provides detailed assurance on the reliability and integrity of the information held in the financial statements as well as on the key control framework in operation across the council.
- 5.3 The assurances from the accounting officer, the work of internal and external audit together support the Committee in forming their opinion of the financial statements, enabling them to agree to sign them off in accordance with regulations.

- 5.4 The Committee receives a regular report on agreed actions from the Annual Governance Statement process. It also reviews the council's Governance Framework and Local Code of Corporate Governance.
- 5.5 The Committee reviews the Risk Management Strategy on a regular basis and considers the effectiveness of the risk management process both through the work of internal audit and through receiving quarterly risk management reports.
- 5.6 The Committee considers the effectiveness of the internal audit arrangements by reviewing the annual assessment of the Chief Executive (Section 151 Officer), the view of external audit and the quality of reports, actions and follow ups through the quarterly reports submitted throughout the year to Committee.
- 5.7 The Committee is able to request service managers and, where necessary, the relevant portfolio holder to attend the Committee to give an update on progress against agreed actions to reduce risk and/or improve governance.
- 5.8 The Chairman, Vice Chairman and Officers considered the effectiveness of the Committee against the terms of reference at a meeting on the 5 March 2014 and 2 actions were identified which are recommended that will improve performance against best practice for the forthcoming year. The evidence demonstrating achievement of the Committees terms of reference is attached at Annex 1.
- 5.9 The recommended actions are listed in annex 2 attached to this report. They will be incorporated into the council's Annual Governance Statement (AGS) for 2013/14 and then reviewed on a quarterly basis through the AGS action plan. All actions from previous years have now been completed.
- 5.10 The terms of reference for the Committee were also reviewed and there are no recommended changes.

## **6.0 Future Challenges**

- 6.1 The Governance and Audit Committee will continue with its existing duties whilst continually striving to achieve best practice where this is feasible and affordable. In the forthcoming year, the Committee will need to:
- investigate the opportunity for the Chairman or Vice-Chairman of the Committee to attend the networking event proposed by Grant Thornton,
  - appreciate the far-reaching effects of the Welfare Reform Act 2012 and monitor the changes to corporate procedures and routines, the budgetary impact of implementation, and the outcomes in terms of accuracy, service and financial efficiency,
  - ensure that it maintains robust and effective internal control, risk management and corporate governance arrangements against the current back drop of ever decreasing finance resources,
  - be aware of the changes to the officer representation on the Committee following the proposed corporate restructure.

## **7.0 Annexes**

Annex 1 Governance and Audit Committee Annual Assessment for the period 2013/14

Annex 2 Governance and Audit Committee Action Plan from 2013/14 assessment to be actioned in 2014/15

**Governance and Audit Committee annual assessment for the period 1 April 2013 to 31 March 2014**  
**Evidence from 5 March 2014 meeting**

Present: Councillor J Worrow (Chairman), Councillor E Lodge-Pritchard (Vice Chairman), Christine Parker, Head of the Audit Partnership; Simon Webb, Deputy Head of the Audit Partnership and Nikki Morris, Business Support and Compliance Manager

<b>Good practice principle / description</b>	<b>Agree</b>	<b>Disagree</b>	<b>Achieved through:</b>
<b>Audit Committee practices, structure and operation</b>			
Does the council have a stand-alone Audit Committee that reports regularly to Council?	✓		Annual Report of Governance and Audit Committee that goes to Annual Council (16/05/13)
Is the Audit Committee comprised of members who are independent of the executive and financially literate?	✓	✓	The Chairman and Vice Chairman agreed that members of the Committee were independent of the executive, but felt they could not comment on whether members were financially literate. All Members are offered the opportunity of financial training with specific reference to approving the Statement of Accounts.
Are new members inducted, specifically on governance and finance, as well as receiving ongoing training and development opportunities?	✓	✓	Governance and Financial section within formal Induction Programme for Members following Elections. Training sessions at the beginning of each meeting, especially for the Statement of Accounts. Recommended that any new members are given an induction to the Committee.
Does the Audit Committee meet regularly throughout the year? Are these meetings appropriately supported by officers of the council?	✓		Attendance records.
Is an annual calendar of meetings/reports prepared to ensure all duties noted in the terms of reference are fulfilled?	✓		Programme of reports within the Governance and Audit guidance pack.
Are agenda provided to Audit Committee members sufficiently in advance of meetings?	✓		Council protocol to issue agenda at least 5 clear days prior to the meeting.
Is the Audit Committee's performance assessed against the duties and responsibilities detailed in the terms of reference?	✓		Separate meeting with Chairman, Vice Chairman and officers to go through achievement against terms of reference (held 05/03/14)
Is this assessment provided to Council, and are appropriate actions taken to enhance the Committee if necessary?	✓		Annexed to Annual Report. Tailored and specific training provided as necessary.

<b>Good practice principle / description</b>	<b>Agree</b>	<b>Disagree</b>	<b>Achieved through:</b>
<b>Financial reporting</b>			
Does the Audit Committee oversee the financial reporting process and credibility of the council's financial information?	✓		Through accepting reports in connection with the council's financial statements.
Does the Audit Committee receive regular reports on the council's Treasury Management process?	✓		Regular reports on the agenda, detailed in the Programme of Reports.
Does the Audit Committee oversee the council's internal control framework?	✓		Reports to Committee – quarterly Internal Audit update reports, annual Internal Audit report and regular External Audit reports.
Are any issues that may negatively affect the financial information generated from the internal controls processes brought to the Audit Committee's attention?	✓		Discussion of reports at each Committee meeting.
<b>Effective relationships with auditors</b>			
Does the Audit Committee receive regular reports from the external auditors?	✓		Shown through the Programme of Reports.
Does the Audit Committee review and approve the internal auditors work plan and scope of planned audits, as well as their staffing and financial budgets?	✓		The Internal Audit Plan, which includes the Audit Charter and Strategy are programmed in for each March meeting of the Committee. This covers staffing and qualifications.
Does the Audit Committee receive reports dealing with the management and performance of the internal auditors?	✓		The Charter and Strategy cover these areas. Also Customer Feedback which is detailed in the quarterly Internal Audit update reports and the Annual Report in June of each year.
<b>Compliance with laws, regulations and internal policies</b>			
Does the Audit Committee monitor compliance with internal policies, such as the code of conduct?	✓		These feature within the Internal Audit plan, specifically looking at the member and officer Code of Conduct. Also embedded within various audits.
Does the Audit Committee approve those policies / strategies that fall within its remit, such as anti fraud and corruption, whistleblowing, risk management?	✓		Detailed within the Programme of Reports.
Does the Audit Committee have the power to investigate any matters brought to their attention that have a significant impact of the council's financial or governance arrangements?	✓		Governance and Audit Committee have the ability to request appropriate Member/Officer attendance to respond to questions at next available meeting, or to provide a written update if the need is of an urgent nature. Extraordinary meetings can be called at the request of the Committee to consider any such reports.



## Annex 1

<b>Good practice principle / description</b>	<b>Agree</b>	<b>Disagree</b>	<b>Achieved through:</b>
Does the Audit Committee approve the Statement of Accounts and Annual Governance Statement at the appropriate time?	✓		Meeting dates are arranged with deadline dates in mind to ensure they are met.
<b>Terms of reference</b>			
<b>Audit activity</b>			
To consider the annual report and opinion of the East Kent Audit Partnership, and a summary of audit activity (actual and proposed) and the level of assurance it can give over the council's governance arrangements;	✓		Receiving East Kent Audit Partnership annual report in June of each year.
To approve (but not direct) internal audit's strategy, plan and monitor performance;	✓		This is directed by the Section 151 Officer, and approved by Governance and Audit Committee at their meeting in March.
To consider summaries of specific internal audit reports as requested;	✓		Achieved through agreeing the annual audit plan, and receiving the quarterly internal update reports.
To consider reports dealing with the management and performance of the providers of internal audit services;	✓		Receiving the 'effectiveness of the council's Internal Audit arrangements' report prepared by the Chief Executive (Section 151 Officer).
To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale;	✓		Contained within the quarterly internal audit reports and the internal audit annual report.
To consider the external auditor's annual letter, relevant reports and the report to those charged with governance;	✓		Receive the Annual Audit Letter normally in December and on a quarterly basis receive an update report from the external auditors.
To consider specific reports as agreed with the external auditor;	✓		The external auditors regularly provide reports to the Governance and Audit Committee on relevant matters.
To consider the annual programme of work and associated fees for the external auditors and provide challenge as appropriate	✓		Receive the annual audit fee from the external auditors.
To commission work from internal and external audit as agreed by the Committee.	✓		This enables Governance and Audit Committee to request work, but this has not been required during 2013/14.
<b>Regulatory framework</b>			
To review any governance / financial issue referred to it by the Chief Executive or a Director, or any council body;	✓		Extraordinary meeting on 26 February 2014 to discuss the Auditors report with regards to Transeuropa.

Annex 1

Good practice principle / description	Agree	Disagree	Achieved through:
To monitor the effective development and operation of risk management and governance in the council;	✓		Approve the annual review of the risk management strategy and process, and receive the corporate risk register on a quarterly basis.
To oversee the application of the council's governance arrangements for partnership activities where the council is the accountable body and / or employer;	✓		Internal audits for EK Services, East Kent Housing and East Kent HR Partnership, reported to Governance and Audit Committee in the quarterly Internal Audit update reports.
To approve the council policies on Anti-Bribery, Whistleblowing, Anti-fraud and Corruption and the External Funding Protocol;	✓		Received the reviewed policy for approval and received training on this matter.
To recommend to Cabinet the council's policy in Equalities;	✓		No reports received during 2013/14.
To approve the authority's Annual Governance Statement;	✓		Draft Annual Governance Statement agreed by Governance and Audit Committee in June 2013, final document approved at the September meeting.
To consider the council's compliance with its approved Treasury Management Strategy	✓		Agreed by Governance and Audit Committee in December 2013 and receive regular reports on this matter.
To consider the council's arrangements for governance and agreeing necessary actions to ensure compliance with best practice;	✓		Achieved by the Committee receiving the annual review of the Governance Framework and Local Code of Corporate Governance and agreeing the draft and final Annual Governance Statement.
To consider the council's arrangements for ensuring adequate data quality;	✓		Governance and Audit Committee are informed of when these documents have been reviewed, ensuring that adequate arrangements are in place.
To consider the council's compliance with its own and other published standards and controls.	✓		Achieved through reviewing the Committee's terms of reference and achievement against them, and production of the Annual Report.
<b>Accounts</b>			
To approve the annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the council;	✓		Receive and approve the Final Accounts in September of each year.
To consider the external auditor's report on issues from the audit of the accounts and recommend approval to those charged with governance.	✓		This is included within the Annual Audit Letter received in December each year.

**Governance and Audit Committee Action Plan 2013/14**

Following the completion of an annual assessment of the performance of the Governance and Audit Committee for the period 1 April 2013 to 31 March 2014, the issues below were identified and action will be undertaken during the period 1 April 2014 to 31 March 2015 to address these.

Ref	Good practice principle / description / issue identified	Proposed Action	Proposed completion date	Responsible officer / body
13-14/01	Are new members inducted, specifically on governance and finance, as well as receiving ongoing training and development opportunities?	<ul style="list-style-type: none"> <li>Prior to the first meeting of the committee cycle carry out a training session on the remit of the Committee.</li> <li>Any new members are provided with an induction to the Committee.</li> </ul>	May / June each year  As and when required	FSM / BSCM  FSM / BSCM
13-14/02	Are substitutes adequately trained to ensure that the Committee can reasonably achieve against its Terms of Reference.	<ul style="list-style-type: none"> <li>Invite substitutes to attend all training sessions that are provided.</li> </ul>	As and when required	DSO

**Key:**

FSM Financial Services Manager  
 BSCM Business Support and Compliance Manager  
 DSM Democratic Services Officer

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## QUARTERLY GOVERNANCE PROGRESS REPORT

To: **Governance and Audit Committee – 20 March 2014**

Main Portfolio Area: **Business Services**

By: **Business Support and Compliance Manager**

Classification: **Unrestricted**

Ward: **Not applicable**

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

### For Information and Decision

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

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

- 1.1.1 Corporate risk register
- 1.1.2 Annual Governance Statement 2012/13 action plan
- 1.1.3 Programme of reports for 2014/15
- 1.1.4 Terms of reference – annual review

#### **2.0 The Current Situation**

##### **2.1 Corporate risk register**

2.1.1 The council has recently gone through a process of completely reviewing the corporate risk register. Two workshops were held with Senior Management Team and Managers as part of the Managers Forum meeting. The information gathered at these workshops is being compiled into the reviewed corporate risk register and will be provided to this Committee at the June meeting.

##### **2.2 Annual Governance Statement 2012/13 action plan**

2.2.1 For the period 2012/13 the council prepared an Annual Governance Statement (AGS) which was agreed by Governance and Audit Committee on the 25 September 2013.

2.2.2 Within the Annual Governance Statement 2012/13 areas of concern identified from the numerous assessments into our governance arrangements were detailed within Section 9 'Significant governance issues'.

2.2.3 The council proposed to take steps to address these matters and report on the action plan to this Committee on a regular basis. The action plan is attached at **annex 1** for Members information.

## **2.3 Programme of reports 2014/15**

- 2.3.1 The programme of reports for future Governance and Audit Committees has been reviewed, and an updated list is provided as **annex 2** for Members' information. Once agreed, this will be incorporated in the Guidance Pack which will be distributed to Members of the Group at the June meeting.

## **2.4 Terms of reference – annual review**

- 2.4.1 The terms of reference for this Committee were discussed as part of the Governance and Audit Committee annual report review process carried out on the 5 March 2014. There were no recommended changes.

## **3.0 Options**

- 3.1 That Members note the content of annex 1, the Annual Governance Statement 2012/13 action plan and identify any issues on which they require more clarification.
- 3.2 That Members note the reviewed programme of reports for 2014/15 at annex 2.

## **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 Governance and Audit Committee are charged with monitoring the effective development and operation of risk management, and to this end receive the corporate risk register on a regular basis to ensure that the risk management process is being applied appropriately across the organisation.
- 4.3.2 The Annual Governance Statement Action Plan is a corporate document that addresses the areas of improvement identified as necessary through the Annual Governance Statement process.

### **4.4 Equity and Equalities**

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

### **4.5 Risks**

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

## **5.0 Recommendation(s)**

- 5.1 That Members note the content of annex 1 and identify any issues on which they require more clarification.
- 5.2 That Members note the programme of reports for 2014/15, on the understanding that there may be variations to the programme should the need arise.

## 6.0 Decision Making Process

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

Contact Officer:	Nikki Morris, Business Support and Compliance Manager, DDI 01843 577625
Reporting to:	Mark Seed, Director of Operational Services, DDI 01843 577742

### Annex List

Annex 1	Annual Governance Statement 2012/13 action plan
Annex 2	Programme of reports for 2014/15

### Background Papers

Title	Details of where to access copy
None	N/A

### 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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G&A minute of concern	Action Ref & Description	Action Owner	Stage	Latest update (Mar 2014)
<b>9.3.1:</b> 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.	00154 Assess Numbers of decision call-ins	Back, Glenn/ Nick Hughes	In Progress	The data for numbers of decision call-ins over the last seven years are: 2007-2010: No decision call-ins; 2010-11: One decision call-in; 2011-12: No decision call-ins; 2012-13: Four decision call-ins; 2013-14 (11 months): Two call-ins.
<b>9.3.2:</b> 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.	00155 Establish council-wide project management templates	Halse, Adrian	In Progress	Process and templates have been approved by SMT and are now being implemented. The project approval process was launched to managers at the Managers Forum on the 21 November. The project proposal form has been transferred into an electronic system to enable easy and effective completion and tracking by senior management and by managers. The remaining forms will also be transferred into an electronic format over the coming months. A project management framework document is currently being drafted for review by SMT.
<b>9.3.5,b4:</b> 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.	00156 Systems to diversify & generate more port income	Seed, Mark	In Progress	Following an advertisement on the Kent Portal that the council has engaged the services of a company to seek alternative ferry operators and other potential income sources and a no win no fee basis. In addition, several other potential opportunities are being explored including supporting the extension of the Kentish Flats windfarm, as well as further operational a maintenance support to the Thanet Array. Most of these proposals are still in their early stages.
<b>9.3.5,b4:</b> 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.	RI018.04 Monitoring of finance position of the Council	Martin, Sarah	Implemented	The financial position of the Council is reported to SMT and Cabinet on a quarterly basis. A restriction on non-essential spending is in place and managers are working hard to identify in-year savings to offset the Transeuropa position. Work is in hand to present a balanced budget for approval for 2014/15 and this will be presented to Council in February.
<b>9.3.5,b1:</b> The process for determining disclosure needs to be reviewed, to ensure full publication of information wherever possible to meet with transparency commitment	00157 Ensure information disclosure complies with law, constitution & policy	Patterson, Harvey	Implemented	(1) Review of disclosure practices was undertaken as part of the THANET DISTRICT COUNCIL REVIEW OF POLICIES AND PROCEDURES - PROBITY AND REPUTATION report to Cabinet on 25 April 2013. (2) Report authors are now required to transparently carry out a public interest test on their committee reports (3) A review of 'pinks' was agreed by Council on 3rd October, and the process for reviewing is now in place.

G&A minute of concern	Action Ref & Description	Action Owner	Stage	Latest update (Mar 2014)
<b>9.3.5,b2:</b> The asset management disposal process needs to be reviewed to ensure appropriate consultation at political level is undertaken to improve public trust.	00158 Commercial Property Audit & action plan	Seed, Mark/ Crowley, Edwina	In Progress	A review of the disposal process is included in the Asset Management Strategy and plan, currently being developed.
<b>9.3.5,b5:</b> Asset management(HRA): The process in respect of East Kent Housing's financial management of the repairs and maintenance and leasehold charges needs to be reviewed	00159 Review Leaseholder charging & EK Housing repair finances	George, Craig	In Progress	Leaseholder issues are raised and monitored through quarterly meetings of Joint EK Housing Section 151 Officer meetings, attended by the TDC Finance Manager. The EK Housing maintenance budget is monitored through bi-monthly meetings of EK Housing managers with Housing Services and the TDC Finance Manager - HRA, Capital & External Funding. This includes challenge on financial matters. A leaseholder review is agreed, and also, an audit of leaseholder charges is taking place within the Spring 2014 internal audit programme.
<b>9.3.5,b3:</b> There is the need to improve inspection regimes for maintained buildings <u>and land</u> 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	PR055.01 Review of current Asset Management System, undertake a SWOT analysis	Crowley, Edwina	Completed	A review of the current asset management system has been undertaken and a SWOT analysis completed.
	PR055.02 Research current best practice including Government and Local Authority guidance, RICS, CIP	Crowley, Edwina	Completed	Current best practice across public and private sectors has been researched.
	PR055.03 Meet Property Manager for Dover District Council to network and gain insight into current AM thinking	Crowley, Edwina	Completed	A meeting with the Property Manager at Dover District Council has provided insight into current practices in a neighbouring authority.
	PR055.04 Discussions with Managers Forum members	Crowley, Edwina	Completed	Discussions with affected managers have taken place, to improve understanding of the wider context of asset management within TDC.
	PR055.05 Prepare strategy, circulate to managers and gain officer approval.	Crowley, Edwina	Completed	A draft strategy has been prepared.
	PR055.06 Prepare strategy documentation and obtain SMT & portfolio holder approval	Crowley, Edwina	Deferred	Because the strategy involves clear identification of roles, it has been deferred until the new structure is finalised. When the new structure is populated the strategy and plan can be finalised.
	PR055.07 Submission to Cabinet for approval of strategy	Crowley, Edwina	Not Started	This will be progressed when actions 1-6 are completed.

Annual Governance Statement Action Plan: 2012 - 2013 retrospective

G&A minute of concern	Action Ref & Description	Action Owner	Stage	Latest update (Mar 2014)
	PR055.08 Five Yr. property asset management plan prepared & agreed with Managers Forum members	Crowley, Edwina	Not Started	This will be progressed when actions 1-7 are completed.
	PR055.09 Prepare Asset Management Plan and obtain SMT & portfolio holder approval	Crowley, Edwina	Not Started	This will be progressed when actions 1-8 are completed.
	PR055.10 Submission to Cabinet for approval of five year property asset management plan	Crowley, Edwina	Not Started	This will be progressed when actions 1-9 are completed.

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# Governance and Audit Committee

Programme of reports for 2014/15

Function/Issue	Responsible officer/ body	June 2014	Sep 2014	Dec 2014	Mar 2015
<b>Audit activity</b>					
Annual Audit Letter	GT			✓	
Annual Grant Certification report	GT			✓	
Annual Internal Audit report	EKAP	✓			
Internal Audit arrangement review	CE/S151				✓
Internal Audit Plan	EKAP				✓
Internal Audit Charter	EKAP	✓			
Audit Plan 2013/14	GT	✓			
Audit Plan 2014/15	GT				✓
External Audit update report	GT	✓	✓	✓	✓
Internal Audit update report	EKAP	✓	✓	✓	✓
<b>Regulatory framework</b>					
Annual Governance Statement action plan	BSCM	✓	✓	✓	✓
Anti-bribery, anti-fraud & corruption, money laundering and whistleblowing policies	FSM				✓
Corporate Risk Register	BSCM	✓	✓	✓	✓
Draft Annual Governance Statement	BSCM	✓			
External Funding Protocol	FSM		✓		
Final Annual Governance Statement	BSCM		✓		
G&A programme of reports	BSCM				✓
G&A review and Annual report	G&A Chairman				✓
G&A terms of reference	BSCM				✓
Governance Framework and Local Code of Corporate Governance	BSCM			✓	
Risk Management Strategy and Process	BSCM		✓		
Treasury Management Strategy	FSM			✓	
Treasury Management update	FSM	✓	✓	✓	✓
Quarterly Governance report	BSCM	✓	✓	✓	✓
<b>Accounts</b>					
Annual Governance report	GT		✓		
Draft Statement of Accounts	FSM				
Final Statement of Accounts	FSM		✓		

**Key**

GT	Grant Thornton	CE/S151	Chief Executive / Section 151 Officer
BSCM	Business Support and Compliance Manager	EKAP	East Kent Audit Partnership
FSM	Financial Services Manager (Deputy S151 Officer)	G&A	Governance and Audit Committee

The draft programme of reports for 2014/15 for the Governance and Audit Committee was agreed at the meeting held on the 20 March 2014. Whilst this is a comprehensive list, there may be variations due to matters that arise.

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## INTERNAL AUDIT SELF-ASSESSMENT

To: **Governance and Audit Committee - 20 March 2014**

By: **Chief Executive**

Subject: **REPORT OF THE HEAD OF THE AUDIT PARTNERSHIP  
INTERNAL AUDIT SELF-ASSESSMENT**

Classification: **Unrestricted**

Ward: **Thanet Wide**

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**Summary:** To assist the s151 Officer with their review of the Effectiveness of the System of Internal Control and to inform members of the results of the self-assessment against the PSIAS which were effective from April 2013.

### **For Information**

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

- 1.1 From 1<sup>st</sup> April 2013 the EKAP has been working to the Public Sector Internal Audit Standards (PSIAS), defined as the proper practice for Internal audit in the UK Public Sector. A mandatory local government sector-specific application note issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) supplements the Standards.
- 1.2 Previously the East Kent Audit Partnership worked to fulfil the requirements of the CiPFA Code of Practice for Internal Audit in the UK 2006. Members will recall that a self-assessment was carried out annually and any improvement actions would be noted in the Effectiveness of Internal Audit Review conducted by your s.151 Officer. Our level of compliance with professional standards was also reported on our Balance Scorecard of Performance Indicators.
- 1.3 The last detailed independent External Assessment of how well EKAP complied with the then CiPFA Code was conducted by the Audit Commission in 2009-10. That review found some minor housekeeping improvements, which were all successfully addressed.

#### **2.0 Self-Assessment Against the Public Sector Internal Audit Standards**

- 2.1 The Head of the Audit Partnership has undertaken a self-assessment to demonstrate the extent to which the service complies with the PSIAS (and supplementary application note) and to identify any areas where further work was required to demonstrate compliance.
- 2.2 This review, therefore notes the changes from the previous to the new standard and the resultant action plan addresses the areas that are required before the EKAP can accurately use the phrase “conforms with the International Standard for the Professional Practice of Internal Auditing”.

### 2.3 The PSIAS are broken down into two main areas

- **Attribute Standards** address the characteristics of organisations performing the Internal Audit activities.

**Standard 1000 – Purpose, Authority and Responsibility**

**Standard 1100 – Independence and Objectivity**

**Standard 1200 – Proficiency and Due Professional Care**

**Standard 1300 – Quality Assurance and Improvement Programme**

- **Performance Standards** describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated.

**Standard 2000 – Managing the Audit Activity**

**Standard 2100 – Nature of Work**

**Standard 2200 – Engagement Planning**

**Standard 2300 – Performing the Engagement**

**Standard 2400 – Communicating Results**

**Standard 2500 – Monitoring Progress**

**Standard 2600 – Communicating the Acceptance of Risks**

### 2.4 The Action Plan records those improvements required to comply with the new standard. The self-assessment therefore concludes that EKAP complies in all other areas. A full copy of the PSIAS can be downloaded free at;

<http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

## 3.0 Next Steps

- 3.1 The progress towards achieving the improvement actions contained in the Action Plan shown as Annex 1 will be reported in the annual report brought to the Committee in June. Additionally, the new standards only require an Audit Charter, so an updated Charter incorporating the (currently separate) Audit Strategy will also be presented to the June Meeting.

## 4.0 Corporate Implications

### 4.1 Financial Implications

- 4.1.1 There are no additional financial implications arising directly from this report. The costs of the audit work will be met from the Financial Services 2014/15 budget and are detailed in the attached report.

### 4.2 Legal Implications

- 4.2.1 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.

### 4.3 Corporate Implications

- 4.3.1 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.

## 5.0 **Recommendation**

5.1 That Members note the content of the report and the actions required to work towards full compliance with the PSIAS.

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

## **Annex List**

Annex 1	Action Plan for the Self-Assessment
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## **Background Papers**

<b>Title</b>	<b>Details of where to access copy</b>
Public Sector Internal Audit Standards	A full copy of the PSIAS can be downloaded free at;  <a href="http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-standards">http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-standards</a>
Internal Audit working papers	Held by the East Kent Audit Partnership.
CIPFA Local Government Application Note CIPFA Checklist for Self-Assessment IIA Checklist for Self-Assessment	Copy purchased and held by EKAP

## **Corporate Consultation Undertaken**

Finance	N/A
Legal	N/A

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## Annex 1

### Improvement Actions Required for EKAP to “conform with the International Standard for the Professional Practice of Internal Auditing”

PSIAS Reference	PSIAS Name	Action Required
1110	Organisational Independence	<ul style="list-style-type: none"> <li>• Update the Audit Charter to reflect that the Head of Audit has direct access to the Chair of the Audit Committee should this be ever required.</li> <li>• Confirm annually that EKAP is organisationally independent.</li> <li>• Remind IA Staff of their ethical responsibilities.</li> <li>• Ensure the HoA’s performance appraisal is reviewed and signed off by Chief Executive and feedback sought from the Chair of the Audit Committee.</li> </ul>
1111	Direct Interaction with the ‘Board’ (=Audit Committee).	<ul style="list-style-type: none"> <li>• Consider the need to meet in private at least annually with the Chair of the Audit Committee.</li> </ul>
1311	Internal Assessments	<ul style="list-style-type: none"> <li>• Improve the internal quality assessment in accordance with the new requirements; specifically to capture more evidence of the assessments done and include budget information in the annual report.</li> </ul>
1312	External Assessments	<ul style="list-style-type: none"> <li>• Ensure an external assessment is carried out in the next four years. Look into a joint procurement exercise with Kent Audit Group.</li> <li>• Establish a champion/sponsor to oversee the process.</li> <li>• Agree the approach, scope and budget for the External Assessment with the Audit Committee.</li> </ul>
2000	Managing the IA Activity	<ul style="list-style-type: none"> <li>• General tidy up on files including ensuring compliance with the Document Retention Scheme and disposal of old files.</li> <li>• Investigate how our software APACE can do more for us, including updating the Audit Universe and Risk scores held.</li> <li>• Better evidence reasons for over and underspends on time budgets against individual reviews as recorded on APACE.</li> <li>• Combine the former Audit Charter and the Strategy, and update the Charter</li> </ul>

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## **REVIEW OF THE EFFECTIVENESS OF THE COUNCIL'S INTERNAL AUDIT ARRANGEMENTS 2013/14**

To: **Governance and Audit Committee – 20 March 2014**

By: **Chief Executive (Section 151 Officer)**

Classification: **Unrestricted**

Ward: **All**

**Summary: This report presents the review of the effectiveness of the council's Internal Audit arrangements for 2013/14 as required by The Accounts and Audit Regulations 2011**

### **For Decision**

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

- 1.1 The Accounts and Audit Regulations 2011 impose on councils the need to undertake a regular review of their internal control arrangements; specific requirements are that:
- the findings of the review of the system of internal control are considered by a committee of the relevant body, or by members of the body meeting as a whole. [Regulation 4 refers];
  - the effectiveness of their system of internal audit are reviewed at least once a year and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control referred to in regulation 4. [Regulation 6 refers].
- 1.2 Subsequent guidance issued by the Department for Communities and Local Government indicates that the actions in paragraph 1.1 above do not require the establishment of an audit committee to undertake the exercise, although such a committee would provide an appropriate means through which to consider the findings of the review. In the case of Thanet District Council this responsibility is within the delegated powers of the Governance and Audit Committee.
- 1.3 In line with the CIPFA guidance document 'Delivering Good Governance in Local Government' the council is also obliged to publish an Annual Governance Statement (AGS) which accompanies the Annual Accounts. The draft AGS for Thanet for 2013/14 will be coming before this Committee at the June meeting, with the final document coming to the September meeting.
- 1.4 The AGS reflects the council's overall governance arrangements and the effectiveness of these, based on evidence and assurances gained from a number of different sources, which includes information from the East Kent Audit Partnership (EKAP). The review of the effectiveness of the council's internal audit arrangements is therefore very important in order to add credence to the assurances gained from the findings of the Audit Partnership.
- 1.5 It should be noted that this review is primarily about effectiveness, not process. In essence the need for the review is to ensure that the opinion in the annual report of the internal auditors may be relied upon as a key source of evidence for the Annual Governance Statement.
- 1.6 This report presents the findings of the review of the effectiveness of the internal audit arrangements for Thanet District Council for 2013/14.

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

- 2.1 The internal audit function is performed by the East Kent Audit Partnership (EKAP), which provides internal audit services to the councils of Dover, Shepway and Canterbury, as well as to Thanet. As a result of this collaborative approach the partnership is able to be robustly resourced and provide a mechanism for promulgating best practice to the East Kent authorities that use its services.
- 2.2 The auditors are independent to the management of the council and have direct access to the Chair of the Governance and Audit Committee if required. They provide a regular update to the Committee at each of the quarterly meetings, and attend any special meetings that may be convened during the year.
- 2.3 As at 31 January 2014 the Internal Auditors completed 233 days of review equating to 78%, and are likely to achieve circa 95% completion by the end of March 2014 with the small amount of remaining days being delivered in April. The EKAP undertake a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual report which will be presented to this Committee in June.
- 2.4 The EKAP have met as a team and considered the Public Sector Internal Audit Standards Checklist for compliance. The results of this self-assessment showed that internal audit is currently working towards full compliance and has agreed an action plan to achieve this.
- 2.5 As part of EKAP's quality monitoring arrangements Members should be aware that following the completion of each audit, a satisfaction questionnaire is completed by the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self assessment.
- 2.6 The EKAP Audit Manager and Head of EKAP regularly meet with the Deputy Section 151 Officer to monitor performance against the Audit Plan, but also to discuss any matters arising in relation to the performance of the Audit Partnership. Periodically these meetings are attended by External Auditors, so that they are able to gain assurances as to the effectiveness of the process. The Chief Executive (Section 151 Officer) is pleased to be able to provide Members with assurance that in her opinion the Partnership operates to high professional standards, fostering an excellent working relationship with management without fettering the independence needed to be able to take a sufficiently independent perspective.
- 2.7 In addition to which, feedback from the audits and any other matters arising from the work of the partnership are considered at regular meetings that are held between the Section 151 or Deputy Section 151 Officers of each of the partnering councils and the auditors to manage any issues arising from the process. These meetings provide an additional opportunity to assess whether the internal audit function is operating in an effective manner and is compliant with the requirements of the CIPFA code.
- 2.8 Given the consistency of evidence of a quality internal audit service and the assessment outcomes referred to above it is believed that the Council has an effective internal audit function in place providing confidence in the context of their contribution to the council's Annual Governance Statement.

## **3.0 Options**

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

## **4.0 Corporate Implications**

### **4.1 Financial**

4.1.1 There are no financial implications arising from this report.

### **4.2 Legal**

4.2.1 Regulation 4 of the Accounts and Audit (England) Regulations 2011 requires that the findings of the review of the system of internal control shall be considered by a committee of the council, or by the members of the relevant body meeting as a whole, and following that consideration, shall approve a statement on internal control, prepared in accordance with proper practices in relation to internal control.

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

### **4.3 Corporate**

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

### **4.4 Equity and Equalities**

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

### **4.5 Risks**

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

## **5.0 Recommendations**

5.1 That Governance and Audit Committee accept the findings of the review of the effectiveness of the council's Internal Audit arrangements for 2013/14.

## **6.0 Decision Making Process**

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

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

Contact Officer:	Sue McGonigal, Chief Executive (Section 151 Officer)
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### **Annex List**

None	N/A
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### **Background Papers**

<b>Title</b>	<b>Where to Access Document</b>
None	N/A

### **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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# The Audit Plan for Thanet District Council

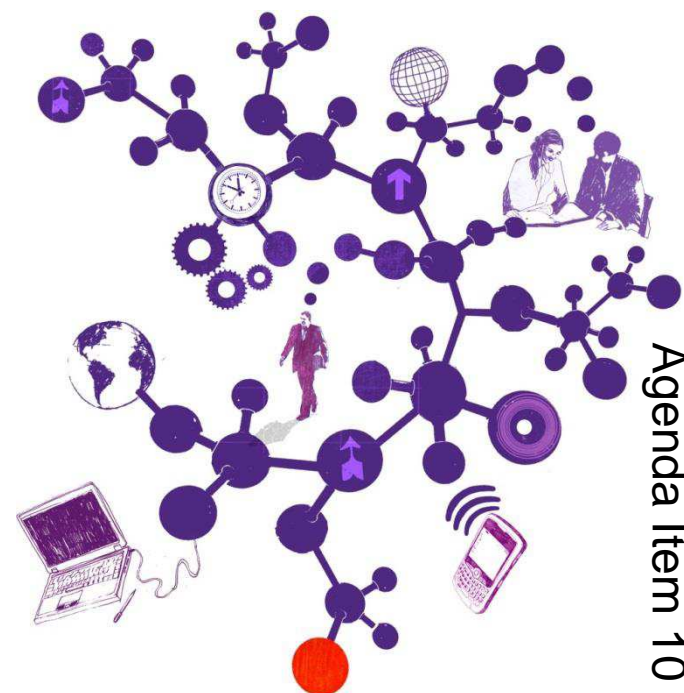
**Year ended 31 March 2014**

20 March 2014

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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.

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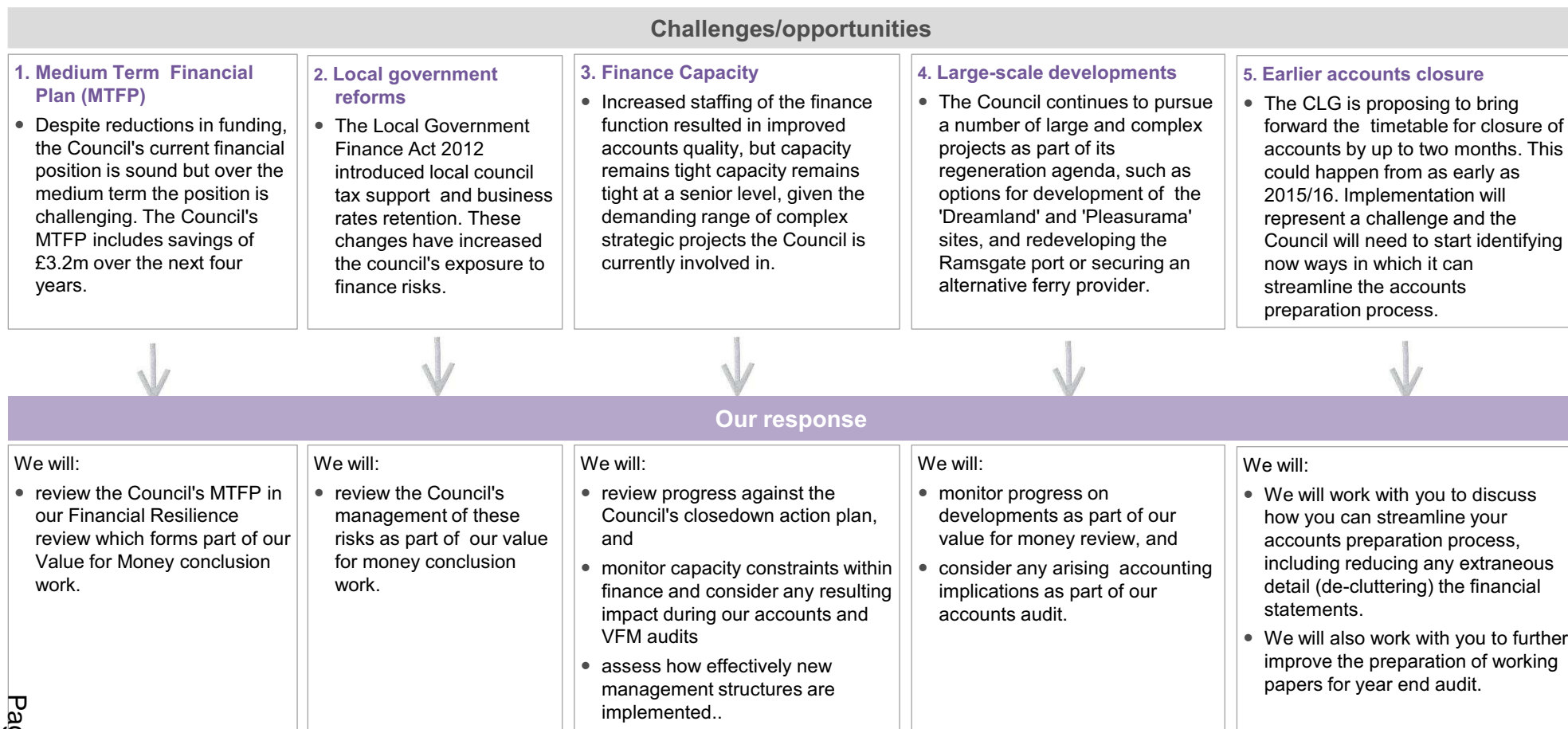
# Contents

## **Section**

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. Significant risks identified
5. Other risks identified
6. Value for Money
7. Results of interim work
8. Key dates
9. Fees and independence
10. Communication of audit matters with those charged with governance

# 1. 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.



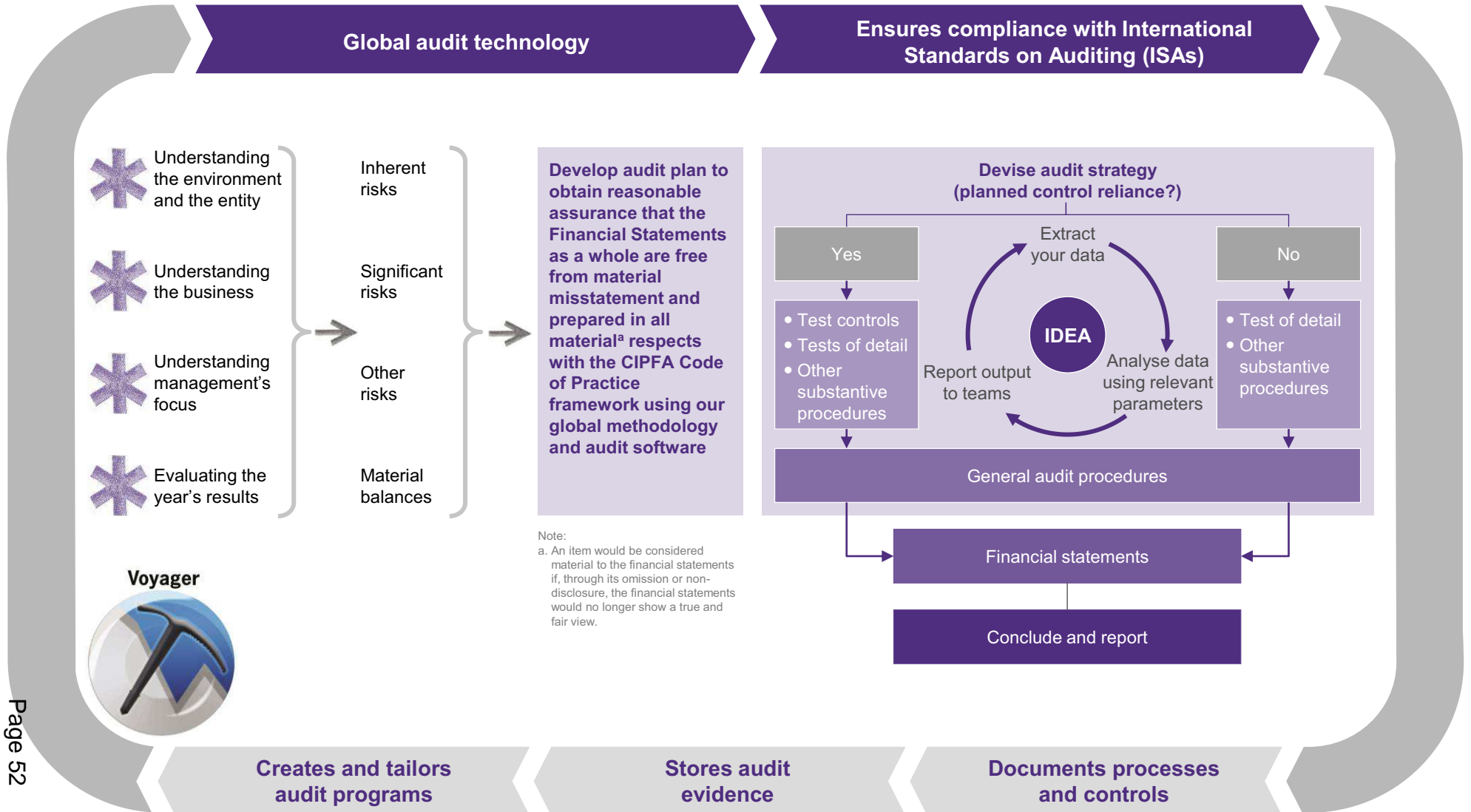
## 2. Developments relevant to your business and the audit

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 ('the code') and associated guidance.

Developments and other requirements					
<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Clarification of Code requirements around PPE valuations</li> <li>• Changes to NDR accounting and provisions for business rate appeals</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance settlement</li> <li>• Welfare reform Act 2012</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement (AGS)</li> <li>• Explanatory foreword</li> </ul>	<p><b>4. Pensions</b></p> <ul style="list-style-type: none"> <li>• The impact of 2013/14 changes to the Local Government pension Scheme (LGPS)</li> </ul>	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>• Managing service provision with less resource</li> <li>• Progress against savings plans</li> </ul>	<p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>• The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>• The Council completes grant claims and returns on which audit certification is required</li> </ul>

Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> <li>• the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing</li> </ul>	<ul style="list-style-type: none"> <li>• 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</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the arrangements the Council has in place for the production of the AGS</li> <li>• We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan</li> <li>• We will undertake a review of Financial Resilience as part of our VFM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>• We will carry out work on the WGA pack in accordance with requirements</li> <li>• We will certify grant claims and returns in accordance with Audit Commission requirements</li> </ul>

# 3. Our audit approach



## 4. 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><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review and testing of revenue recognition policies</li> <li>• Testing of material revenue streams</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review and testing of revenue recognition policies</li> <li>• Testing of material revenue streams</li> </ul>
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><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>

## 5. Other risks identified

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).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were arising from this work.</li> </ul>	<ul style="list-style-type: none"> <li>We will review large and unusual items and test a sample of these.</li> <li>We will test a sample of items of expenditure to gain assurance that expenditure has been correctly classified and for occurrence and allocation.</li> <li>We will perform tests of journals on a sample basis to gain assurance that there are adequate controls in place over inputting and processing and that these have operated effectively through the financial year.</li> </ul>
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were arising from this work.</li> </ul>	<ul style="list-style-type: none"> <li>We will test a sample of payroll payments made during the year to gain assurance that employees have been remunerated at the correct rates during 2013/14.</li> <li>We will perform cut-off testing to ensure that transactions have been recorded in the correct accounting period.</li> <li>In addition to a review of the work of the pension fund actuary, we will perform substantive tests on the cost of pensions.</li> </ul>
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were arising from this work.</li> </ul>	<ul style="list-style-type: none"> <li>We will complete modules set by the DWP which include performance of an analytical review and BEN01 certification. This will involve the selection of samples of welfare benefit expenses from across the year, for which the benefit payable will be recalculated to determine whether the amount paid was in accordance with DWP guidelines and welfare legislation.</li> </ul>



## 6. Other risks identified

Other risks	Description	Work completed to date	Further work planned
Housing Rent Revenue Account	Revenue transactions not recorded	<ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were arising from this work.</li> </ul>	<ul style="list-style-type: none"> <li>We will test a sample of items of revenue to gain assurance that expenditure has been correctly classified and for occurrence and allocation.</li> <li>We will review large and unusual items and test a sample of these.</li> </ul>
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were arising from this work.</li> </ul>	<p>We will perform substantive audit procedures in this area including:</p> <ul style="list-style-type: none"> <li>reviewing in-year additions and disposals to gain assurance that they have been correctly accounted for in the financial statements.</li> <li>performing existence testing on a sample of assets to verify their existence and completeness of the Council's fixed asset register.</li> </ul>
Property, Plant & Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were arising from this work.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the work performed by internal and external valuation specialists - including ensuring that all valuations undertaken have been completed in accordance with the requirements of the appropriate accounting and professional standards.</li> <li>We will review the Council's fixed asset register to ensure that revised valuations have been correctly accounted for in the financial statements.</li> </ul>

# 7. Value for money

## Value for money

The Code 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.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- review of the Medium Term Financial Strategy and measures to address the Council's significant funding gap, maintain adequate reserves and reduce overall borrowing
- review of the Council's management of the challenges presented by welfare reform and business rates retention
- review of the quality of reporting of key financial and workforce information and measures to address sickness absence levels
- consideration of the capacity of the finance function to maintain the improvements noted in 2012/13.

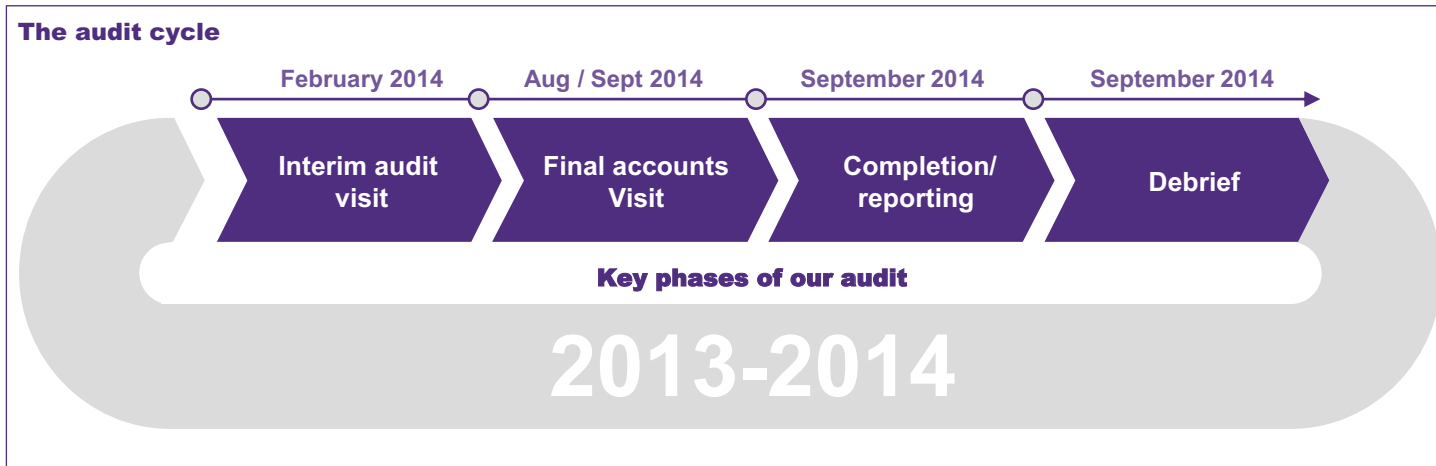
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

## 8. Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed and findings</b>	<b>Conclusion</b>
<b>Internal audit</b>	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Journal entry controls</b>	<p>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.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>At our final accounts audit we will undertake detailed testing on journal transactions during the financial year, by extracting 'unusual' entries for further review.</p>

## 9. Key dates



<b>Date</b>	<b>Activity</b>
January 2014	Planning
February 2014	Interim site visit
March 2014	Presentation of audit plan to Audit Committee
August / September 2014	Year end fieldwork
September 2014	Audit findings clearance meeting with Chief Financial Officer
September 2014	Report audit findings to those charged with governance (Governance and Audit Committee)
By 30 September 2014	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	87,495
Grant certification	23,700
<b>Total fees (excluding VAT)</b>	<b>110,495</b>

## Our fee assumptions include:

- 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

## Fees for other services

Service	Fees £
None	Nil

## 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.

# 10. 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](http://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.

	Audit plan	Audit findings
<b>Our communication plan</b>		
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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# Certification report 2012/13 for Thanet District Council

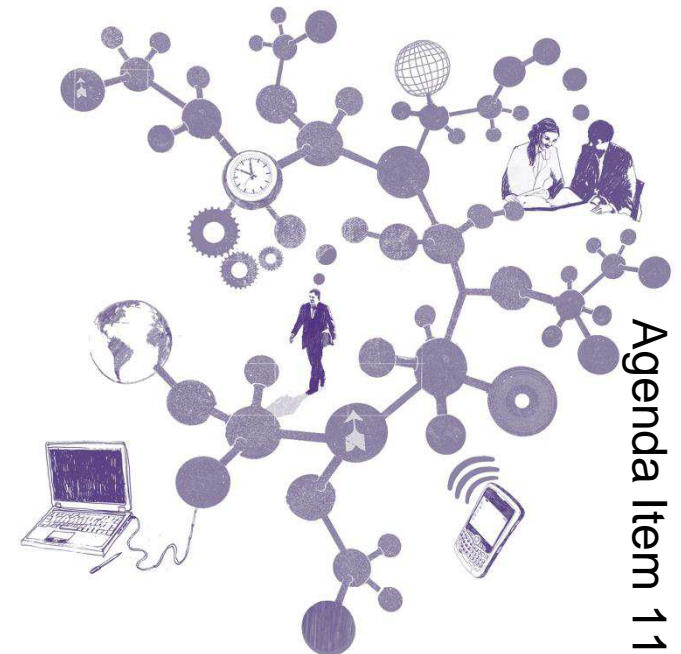
Year ended 31 March 2013

February 2014

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Agenda Item 11

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# Section 1: Executive summary

01. Executive summary

02. Results of our certification work

# Executive summary

## Introduction

We are required to certify certain of the claims and returns submitted by Thanet District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified three claims and returns for the financial year 2012/13 relating to expenditure of £116.0 million.




This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

## Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
<b>Submission &amp; certification</b>	All claims continue to be submitted on time and were all certified by the required deadlines.	 Green
<b>Accuracy of claim forms submitted to the auditor (including amendments &amp; qualifications)</b>	The Council performed well in respect of the National Non-Domestic Rates and Pooling of Housing Capital Receipts returns, which were both certified without amendment or qualification. However, several issues were identified with the Housing and Council Tax Benefit Subsidy claim, which led to a qualification letter being issued.	 Amber
<b>Supporting working papers</b>	Working papers provided for all claims and returns were of a good standard with clear audit trails back to the claim forms. This enabled certification by the relevant deadlines.	 Green

## **The way forward**

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B.

Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

## **Acknowledgements**

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**  
**February 2014**

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## Section 2: Results of our certification work

01. Executive summary

02. Results of our certification work

# Results of our certification work

## Key messages

We have certified three claims and returns for the financial year 2012/13 relating to expenditure of £116.0 million.

The Council's performance in preparing claims and returns is summarised below:

Performance measure	Target	Achievement in 2012/13		Achievement in 2011/12		Direction of travel
		No.	%	No.	%	
Claims submitted on time	100%	3	100	4	100	↔
Claims certified on time	100%	3	100	4	100	↔
Claims certified with amendment	0%	1	33	2	50	↑
Claims certified with qualification	100%	1	33	1	25	↔

This analysis of performance shows that:

- all claims continue to be submitted to audit on time, and were certified within the required deadline; and
- the Housing and Council Tax Benefit claim was qualified in both years. However, the size and complexity of this grant claim at most authorities is such that it is unusual for it to be certified without any amendments, and a qualification letter is often required to comply with the detailed audit certification guidelines laid down by the DWP and Audit Commission.

Details of the certification of all claims and returns are included at Appendix A.

## Significant findings

Our work has identified the following issues in relation to the management arrangements and certification of individual grant claims and returns:

### Certification of Housing Benefit and Council Tax Benefit claim

The claim was certified with an amendment of £1,638 to subsidy claimed, which reduced the balance due to the authority. This was due to a number of minor issues and adjustments, which are mentioned in more detail below, and led to a qualification letter being issued:

- **Reconciliation of benefit granted to paid** - When the Council was performing the reconciliation between benefit granted and paid, in line with the guidance issued by the Council's software supplier, several small variances were identified. However the Council has ensured that the lower figure in each of the relevant categories has been included within the final subsidy claim.
- **Input of private pension** – our initial testing identified one error where the claimant's private pension income had been incorrectly entered. An additional sample of 32 cases were tested, but no additional errors were identified.
- **Issues with changes in tenancy type** – our initial testing identified three cases where the Council's benefit system had generated an erroneous value due to the way a change in tenancy type had been processed. The Council undertook work on all other cases which were potentially affected in this way, which identified a few minor amendments to the claim form.
- **Calculation of self employed income** – our initial testing identified one case where the earned income had been incorrectly applied to the claim, and thus the benefit entitlement had been incorrectly calculated. A further sample of 40 cases were tested, which identified two further errors.
- **Award of extended payments** – our initial testing identified one case where the Council had incorrectly awarded an extended payment to a claimant. Testing of an additional 40 cases with extended payments identified one further error.

- **Overpayment classification** – our initial testing identified several issues with the Council's classification of overpayments, which affected two areas of the claim form. Three errors were found in our initial testing, and a further two were identified during our testing of an additional 80 cases.

A recommendation relating to the classification of overpayments is included within the action plan, attached at Appendix B, in order to reduce the level of errors identified in future years. We have also made a recommendation relating to the processing of changes in tenancy type to ensure these system issues do not continue to arise.

Note that all the other errors are input related, and given the high volume of transactions processed, it is expected that some errors will be identified.

### Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 is £22,800. This is set out in more detail in Appendix C.

A fee variation of £18,999 has been proposed and agreed with officers. This reflects the additional testing undertaken on the housing benefit claim, which required the completion of five 40+ workbooks, along with further testing on private pension income cases as well. Note that the fee variation is not considered final until it has been confirmed by the Audit Commission.



# Appendices

## Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing and council tax benefit scheme	£84,335,781	Yes	£1,638	Yes	Detailed findings on page 8.
National non-domestic rates return	£31,249,803	No	-	No	No issues identified, claim was certified without amendment or qualification.
Pooling of housing capital receipts	£433,052	No	-	No	No issues identified, claim was certified without amendment or qualification.
<b>Total</b>	<b>£116,018,636</b>		<b>£1,638</b>		

# Appendix B: Action plan

## Priority

**High** - Significant effect on arrangements

**Medium** – Some effect on arrangements

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p><b>Housing and Council Tax Benefit</b></p> <p>The Council should undertake training to address the issues identified from the 2012/13 audit, including:</p> <ul style="list-style-type: none"> <li>• Ensuring changes in tenancy type are correctly processed;</li> <li>• Overpayments are correctly classified; and</li> <li>• Ensuring extended payments are only awarded when the relevant conditions have been met.</li> </ul>	Medium		Operational Support Manager – East Kent Services

## Appendix C: Fees

Claim or return	Actual 2011/12 fee (£)	2011/12 fee less 40% (£) *	2012/13 indicative fee (£)	2012/13 actual fee (£)	Variance year on year (£)	Explanation for significant variances
Housing and Council Tax Benefit Subsidy claim	36,873	22,124	21,090	40,089	17,965	Increase in errors identified compared with prior years, which resulted in significant additional testing.
National Non-Domestic Rates return	1,291	775	1,070	2,883	2,108	Difficulties were encountered with the audit trails in several areas, which required time to resolve.
Pooling of Housing Capital Receipts	1,309	785	640	640	-145	
Planning and reporting to Those Charged with Governance	780	468	-	-	-468	Included in the fees for the individual claims above
<b>Total</b>	<b>40,253</b>	<b>24,152</b>	<b>22,800</b>	<b>43,612</b>	<b>19,460</b>	

\* 2011/12 fee less 40% fee reduction applicable for 2012/13 onwards. This is shown in this way to make it comparable to the 2012/13 fee.



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# Audit Committee Update for Thanet District Council

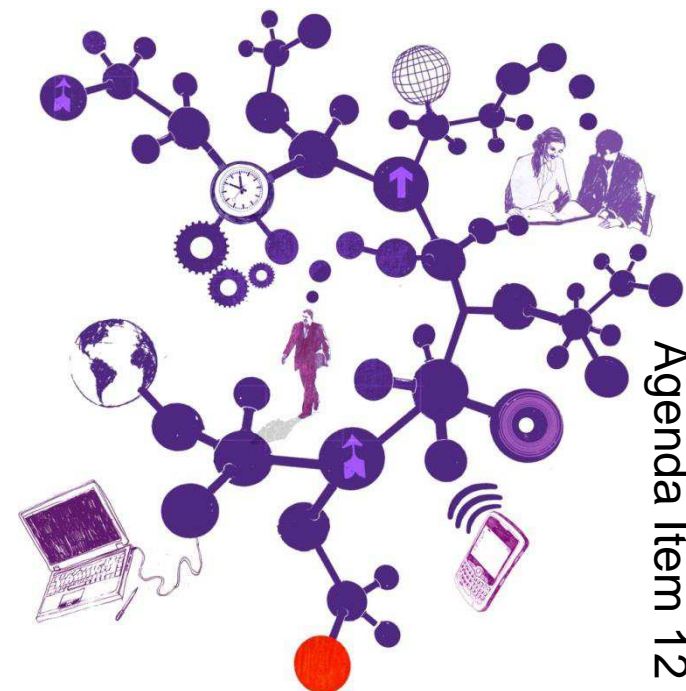
**Year ended 31 March 2014**

20 March 2014

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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.



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# Introduction

This paper provides the 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 Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://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.

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Terry Blackman

Engagement Lead  
Audit Manager

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# Progress at 20 March 2014

Work	Planned date	Complete?	Comments
<p><b>2013-14 Accounts Audit Plan</b> 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 Council's 2013-14 financial statements.</p>	March 2014	Yes	Our 2013/14 Audit Plan was agreed with officers March 2014 and is presented to this committee separately on today's agenda.
<p><b>Interim accounts audit</b> Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues.</li> </ul>	February 2014	Yes	The findings from our interim visit are presented in our Audit Plan on today's agenda.
<p><b>2013-14 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	August – September 2014	Not yet due	We have sent an arrangements letter to officers, which clarifies the working papers we would expect the Council to produce to support its financial statements.

## Progress at 20 March 2014 [cont.]

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• review of arrangements for securing financial resilience</li> <li>• review of the Council's arrangements for challenging how it secures economy, efficiency and effectiveness in its use of resources.</li> </ul> <p>Our review will focus on arrangements relating to financial governance, strategic financial planning and financial control.</p>	March – July 2014	Not yet due	<p>We have completed our VfM planning. The specific areas for review are set out in our Audit Plan.</p> <p>We will produce a separate Financial Resilience report alongside our Audit Findings report in September 2013.</p>
<p><b>Other areas of work</b></p> <p>We will be required to certify the following grants for the Council in 2012/13:</p> <ul style="list-style-type: none"> <li>• Housing benefit</li> <li>• Pooling of housing capital receipts (if value of claim greater than £500,000)</li> </ul>	August – October 2013	Not yet due	These certification audits have been scheduled to ensure compliance with all grant certification deadlines.
<p><b>Other activity undertaken</b></p> <ul style="list-style-type: none"> <li>• 2012/13 objections</li> </ul>	January 2014	Yes	We reported our findings on the objections to the 2012/13 accounts relating to the Transeuropa Ferries debt to the Extraordinary meeting of the Governance and Audit Committee on 26 February 2014.

# Councils must continue to adapt to meet the needs of local people

## Local government guidance

### Audit Commission research - Tough Times 2013

The Audit Commission's latest research, <http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf> shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

#### Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

#### Issues to consider/challenge questions:

How have Members satisfied themselves that the Council can deliver a balanced budget, that the medium term strategy/budget has been subject to appropriate challenge and that the Council's finances are resilient over the medium term (3 years) and beyond?

# Councils choosing their auditors one step closer

## Local government guidance

### Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

#### Key points

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Issues to consider/challenge questions:

Have Members considered the implications of the Local Audit and Accountability Act for the Council's future external audit arrangements?

# Joint Health and Social Care Plans to be in place by 4<sup>th</sup> April

## Local government guidance

### Better Care Fund

In the June 2013 Spending Round the Government announced the prospective implementation of the Better Care Fund (formerly the integration transformation fund). The key aim is to ensure a transformation in integrated health and social care through local single pooled budget arrangements. Pooled budget arrangements are formally underpinned by Section 75 of the NHS Act 2006.

#### Key issues

- £3.8 billion for funding will be available from 2015/16, largely through a top slice of existing Clinical Commissioning Group (CCG) budgets;
- Local Authorities with Adult Social Services, CCGs and NHS Trusts will need to collaborate through a single pooled budget arrangement to support the delivery of health and social care services in their designated local areas;
- finalised joint health and social care plans must be in place setting out how pooled budgets will be spent – draft plans must be formally signed off by each statutory Health and Well Being Board and submitted to NHS England area teams by 14 February, with a 4 April 2014 deadline for submission of finalised plans

#### Issues to consider/challenge questions:

- Is the local Health and Wellbeing Board on track to finalise and sign off the joint health and social care plan for submission to the NHS England area team?
- Has the size of the pooled budget been clarified?
- Is the Authority collaborating with its partner bodies to work through funding and delivery arrangements?
- Have roles and responsibilities been defined and understood for the Authority and its partner CCGs, NHS Trusts and the Health and Wellbeing Board?

# Austerity continued – further cuts in spending powers

## Local Government Guidance

### Final local government finance settlement 2014/15

On 5 February 2014 the government published the final local government finance settlement for 2014/15. This confirmed the proposals laid out in the provisional finance settlement. The government has proposed that any council tax increases made by billing or precepting authorities of 2 per cent or more will be subject to a referendum. This proposal needs to be accepted by Parliament.

Excluding the Greater London Authority, the spending power for local authorities in England will fall by 2.9% in 2014/15 compared to 2013/14. As in previous years, councils will have their funding reduction capped at 6.9%. Indicative funding levels for 2015/16 have also been provided to assist local authorities with their medium term financial planning. The settlement will be finalised in February 2014.

#### Challenge questions:

- Has the Council reviewed the proposed settlement and assessed the impact on your Council?



# Helping the High Street

## Local government guidance

### Support for UK high streets

On December 6, 2013 the Communities Secretary set out a £1 billion package of support for UK high streets, the stated objectives being to:

- support business and the private sector to have a greater stake in their high streets;
- make it easier to diversify town centres;
- ensure town centres remain accessible to visitors;
- promote the use of technology to modernise town centres.

Key elements of the strategy include:

- a £1,000 discount in 2014/15 and 2015/16 for retail premises with a rateable value of up to £50,000 – including shops, pubs, café and restaurants;
- capping the Retail Price Index (RPI) increase in bills to 2% in 2014/15;
- extending the doubling of Small Business Rates relief to April 2015;
- a reoccupation relief for 18 months with a 50% discount for new occupants of retail premises empty for a year or more;
- assisting business cash flow by allowing businesses to pay their bills over 12 months (rather than 10)

Issues to consider/challenge questions:

- Has the Council assessed the local economic impact of the measures announced by the Communities Secretary?
- Has the Council assessed the impact of the measures on the its finances and the 2014/15 and 2015/16 budgets?

# Councils keep New Homes Bonus

## Local government guidance

### Help for housing building

In the Autumn statement (5 December 2013) the government announced plans to secure a £1 billion 6 year investment in house building, to simplify the local authority planning process and help to achieve the stated objective of delivering 250,000 new homes.

Key objectives:

- nationally to increase the housing supply in England through a £1 billion 6 year investment programme;
- at a local level helping councils to increase the supply of affordable social housing supply in their area by allowing them to bid for up to £300 million of additional borrowing against their housing revenue account;
- improving labour market mobility by introducing a Right to Move for those needing to move to take up a job or training ;
- Allowing councils outside London to keep all of their **New Homes Bonus** and have full control over how they use it to support new homes in their area – the New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use, is paid each year for 6 years and is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use

Issues to consider/challenge questions:

- Has the Council assessed the implications and potential financial impact of the help for housing building measures announced in the Autumn statement?

# 79% of Councils anticipate Tipping Point soon

## Grant Thornton

### 2016 tipping point? Challenging the current

This report [http://www.grant-thornton.co.uk/Global/Publication\\_pdf/LG-Financial-Resilience-2016-tipping-point.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf) is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

#### Challenge questions

- Our report includes a good practice checklist designed to provide senior management and Members with an overview of key tipping point risks. Has the Council completed the checklist and reported it to the Governance and Audit Committee?
- The report also includes good practice case studies in strategic financial planning, financial governance and financial control. Has the Council reviewed these case studies and considered whether there is scope to adopt these?

# Alternative Delivery Models – are you making the most of them?

## Grant Thornton

### Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

#### Challenge question

- Our report includes a number of case studies summarising how public services are being delivered through alternative service models. Has the Authority reviewed these case studies and assessed whether there are similar opportunities available to it?
- Our report includes three short checklists on supporting innovation in service delivery, setting up a company and questions that Members should ask officers when considering the development of a new delivery model. Are the checklists being considered as part of the development of the Authority's commissioning strategy?

# Welfare reforms – what you think of it so far?

## Grant Thornton

### Reaping the benefits: first impressions of the impact of welfare reform

The potential scope of this topic is broad, so our report, [http://www.grant-thornton.co.uk/Global/Publication\\_pdf/Reaping-the-benefits-LG-Welfare-Reform.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/Reaping-the-benefits-LG-Welfare-Reform.pdf) focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Challenge questions

- Have Members been kept informed of progress with stakeholder engagement and changes to governance arrangements to implement specific reforms?
- What impact assessment is the Authority carrying out on council tax localisation, the benefit cap and housing benefit, the spare room subsidy and changes to the Social Fund?
- Does the Authority have a plan in place or in development for the introduction of universal credit?

# Revaluing your assets – clarification of accounting guidance

## Accounting and audit issues

### Property, plant and equipment valuations

The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' This means that a local authority will need to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014. This is likely to be a complex analysis which might include consideration of:

- the condition of the authority's property portfolio at 31 March 2014
- the results of recent revaluations and what this might mean for the valuation of property that has not been recently valued
- general information on market prices and building costs
- the consideration of materiality in its widest sense - whether an issue would influence the view of a reader of the accounts.

The Code also follows the wording in IAS 16 more closely in the requirements for valuing classes of assets:

- items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates
- a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

There has been much debate on what is a short period and whether assets that have been defined as classes for valuation purposes should also be disclosed separately in the financial statements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. However, we would expect auditors to report to those charged with governance where, for a material asset class:

- all assets within the class are not all valued in the same year
- the class of asset is not disclosed separately in the property, plant and equipment note.

### Challenge question

Has the Council revisited its programme of valuations and the proposals for disclosing information about classes of assets in the light of updated Code guidance?

# Estimating the impact of business rate appeals

## Accounting and audit issues

### Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
  - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
  - to recognise a provision where a reliable estimate can be made
  - to disclose a contingent liability where a reliable estimate cannot be made
  - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.

Challenge questions:

- Is your authority confident of obtaining the information it needs from the VOA?
  - Has your authority recognised a provision where it is possible to make a reliable estimate? Has a robust methodology been used?
  - Has your authority provided a robust rationale where it has decided it cannot make a reliable estimate? Is it planning to disclose a contingent liability?
- Is your authority planning to revisit its provision and contingent liability before the audit opinion is issued?

# Accounting for pensions

## Accounting and audit issues

### Accounting for and financing the local government pension scheme costs

#### Accounting issues

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively.

The main changes we expect to see are:

- a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES)
- more detailed disclosures.

We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

#### Financing issues

The amount to be charged to the general fund in a financial year is the amount that is payable for that financial year as set out in the actuary's rates and adjustments certificate. Some local authorities are considering paying pension fund contributions early in exchange for a discount but not charging the general fund until later.

Local authorities must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year. Where local authorities are considering making early payments, we would expect them to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. We would expect this to include consideration of:

- the actuary's opinion on the amounts that are payable by the local authority into the pension fund
- the agreement between the actuary and the local authority as to when these payments are to be made
- the wording in the rates and adjustments certificate setting out when amounts are payable for each financial year.

For example, if a local authority agrees to make a payment to the pension fund in a single year and proposes to charge this amount to the general fund over a three-year period, we would expect the rates and adjustments certificate to show, unambiguously, that the amount payable is spread over the three years.



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# Accounting for pensions

## Accounting and audit issues

### Challenge questions:

- Is your local authority confident of getting the information from its actuary to meet the changes in the requirements for accounting for the LGPS (including restating the comparatives)?
- If your authority is considering making an early payment to the pension fund, has it set out a reasonable argument for how it proposes to charge this amount to the general fund? Is this supported by legal advice?

# Changes to the public services pension scheme

## Accounting and audit issues

### Changes to the Local Government Pension Scheme

The Public Service Pensions Bill received Royal Assent in April 2013, becoming the Public Service Pensions Act 2013 ('the Act'). The Act makes provision for new public service pension schemes to be established in England, Wales & Scotland. Consequent regulations have been laid to introduce changes to the LGPS in England and Wales from 1st April 2014. (The regulations for the changes in Scotland have not yet been laid and will only impact from 1 April 2015).

These introduce a number of changes including:

- a change from a final salary scheme to a career average scheme
- introduction of a 50/50 option whereby Members can choose to reduce their contributions by 50% to receive 50% less benefit
- calculation of contributions based on actual salary which could lead to some staff with irregular patterns of working moving between contribution rate bandings on a regular basis
- changes in employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014 (further regulations are still awaited).

The above changes have implications for all employers involved in the LGPS introducing required changes to their payroll systems to ensure pension contributions are calculated correctly. This has consequent implications for administering authorities to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions going forwards since the calculations are more complex going forwards and less predictable. In addition changes are also required to pension administration/payment systems as well as much more detailed processes around maintaining individual pension accounts for all Members to ensure the correct payment of future pensions.

The Act also requires changes to the governance arrangements although regulations for the LGPS have not yet been laid for these and the changes in governance arrangements are not expected to be implemented until 1 April 2015.

(continued overleaf)

# Changes to the public services pension scheme

## Accounting and audit issues

### Changes to Local Government Pension Scheme continued

#### Challenge questions

- Is the authority aware of the detailed requirements and their impact on its current payroll system and processes?
- Is the authority taking appropriate action to ensure implementation of the required changes to its payroll system and processes by 1 April 2014?
- Has the authority liaised with the administering authority over any changes they may need in the assurances provided over the completeness and accuracy of contributions?



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**TREASURY MANAGEMENT UPDATE FOR THE QUARTER ENDED 31 DECEMBER 2013**

To: **Governance & Audit Committee – 20 March 2014**

Main Portfolio Area: **Financial Services**

By: **Financial Services Manager**

Classification: **Unrestricted**

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**Summary: To Update the Governance & Audit Committee on Treasury Activity during the Quarter ended 31 December 2013**

**For Information**

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**1.0 Introduction and Background**

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

**2.0 Capita's Economic Commentary on Developments during Quarter ended 31 December 2013 (issued by the Council's treasury advisor, Capita Asset Services, on 8 January 2014)**

2.1 The fourth quarter of 2013 saw:

- Signs that Gross Domestic Product (GDP) growth may have accelerated;
- Evidence pointed to a moderation of household spending growth;
- Inflation fell to its lowest level since November 2009;
- Unemployment approached the Monetary Policy Committee's (MPC) 7% forward guidance threshold;
- The MPC maintained the stance of monetary policy;
- 10-year gilt yields rose to 3% and the FTSE 100 reach 6749;
- The Federal Reserve decided to reduce the size of its monthly asset purchases by \$10bn (from \$85bn to \$75bn).

- 2.2 After growing at a healthy quarterly rate of 0.8% in Q3, some of the early signs are that GDP growth was even stronger in the final quarter of last year. On the basis of past form, the CIPS/Markit business activity surveys point to quarterly GDP growth of around 1.5% in the final quarter. The official data available for the fourth quarter so far have also been encouraging. For example, if October's 0.4% monthly expansion in industrial output was matched in the final two months of the year, quarterly growth in Q4 would have been almost 1%.
- 2.3 Household spending growth, though, may have slowed. Numerous indicators of retail sales, including the official measure and those produced by the Confederation of British Industry (CBI) and British Retail Consortium (BRC), suggest that consumer spending growth was weak in the first two months of Q4. This is not to say the consumer recovery has run its course. Indeed, the CBI survey showed a strong pick-up in sales in December. And the official measure of retail sales in the same month will be boosted by the inclusion of 'Black Friday' (despite this actually falling in the last week of November) which more timely data suggests saw a strong surge in sales. But it would take monthly growth of 1.6% in December for retail sales just to flat line in Q4 as a whole.
- 2.4 Nevertheless, growth in sales off the high street may not have done so badly. For instance, although growth in new car registrations slowed in Q4, it remained fairly strong, achieving 7% annual growth in December. So it still seems likely that overall household spending rose in the fourth quarter.
- 2.5 Although it is still high, the unemployment rate has been falling quickly towards the MPC's 7% threshold for re-assessing the stance of monetary policy. Employment rose by 250,000 in the three months to October, the largest quarterly gain since mid-2010. This brought the unemployment rate down to 7.4%, compared to a rate of 7.7% in the three months to July. What's more, the Office for National Statistics' (ONS) experimental single-month estimate of unemployment reached 7% in October.
- 2.6 The decline in unemployment, which has been faster than the MPC predicted in November, has prompted overnight index swap markets to price in a rate rise as soon as Q1 2015. But Committee members have increasingly emphasised that the 7% unemployment rate is a threshold for reconsidering policy, rather than a trigger for raising rates. Indeed, the Bank's Chief Economist Spencer Dale said that interest rates would remain low not just until unemployment had dropped, but also until the economy had "seen a prolonged period of strong growth...[and] real incomes are higher".
- 2.7 The recent fall in, and improvement in the outlook for, inflation, suggests that interest rates will probably remain on hold even if the unemployment rate falls quickly to the 7% threshold. Indeed, Consumer Price Index (CPI) inflation has fallen quite sharply, reaching 2.1% in November. This was the lowest rate in four years. A number of factors contributed to this. Falling commodity prices put downward pressure on food and petrol prices, while sterling's 7% appreciation on a trade-weighted basis since its low point in July may have helped core inflation

to fall. Admittedly, CPI inflation might have ticked up again in December when energy companies raised their prices. But inflation should continue to fall after that, given that commodity prices have been flat over the past year or so and sterling's recent strength has reduced import prices, which should begin feed into prices on the high street.

- 2.8 The housing market continued to recover in Q4, supported by the earlier implementation of the mortgage guarantee element of the Government's Help to Buy Scheme. Prices rose at an annual rate of 8.4% and 6.4% in November according to the Halifax and Nationwide measures, respectively. And would-be buyers continue to enter the market more quickly than sellers, with the Royal Institution of Chartered Surveyors (RICS) survey pointing to further price rises. The cost of new mortgages remains low, too, with the quoted interest rate on a 5-year fixed mortgage at a 75% loan-to-value ratio at 3.36% in November, 2 basis points lower than the average in Q3 and 81 basis points lower than when the Funding for Lending Scheme (FLS) was introduced in July 2012. But talk of a housing bubble on the national level still seems to be wide of the mark, with prices well below their pre-crisis peak in real terms. Moreover, the FLS was adjusted so that it no longer provides cheap finance for mortgages.
- 2.9 Meanwhile, there were few surprises in the Autumn Statement. The Chancellor announced a fiscally neutral package of policies, with measures to ease the cost of households' utility bills offset by further spending cuts. More bullish forecasts from the Office of Budget Responsibility (OBR) left expected public borrowing over the next five years £73 billion lower than projected in the March Budget. All this left Mr Osborne expected to meet his primary fiscal mandate to balance the cyclically adjusted current budget in five years a year early, though he still misses the supplementary target for the debt to GDP ratio to be falling in 2015/16.
- 2.10 Internationally, the biggest news was the Federal Reserve's decision at its December meeting to begin tapering its asset purchases. Although the announcement that the Fed's monthly purchases would be reduced by \$10bn was not the consensus view, which saw tapering beginning in the early part of 2014, it was not a big surprise. The decision reflected the relative strength of the US labour market, which on average added over 200,000 jobs per month in the four months up to November.
- 2.11 Markets took the Fed's move in their stride, with equities and bond yields up slightly on the day. Over the quarter, equities performed well domestically and overseas as economic prospects improved. The FTSE 100 was up by 4.4% to 6749, while the S&P 500 rose by almost 10%. Gilt yields also rose, with the ten-year rate ending Q4 28 basis points higher at 3%, having closely tracked US Treasury yields. Sterling rose by 2.3% against the dollar to finish the year at 1.66, while it rose by 0.5% against the euro to 1.20.
- 2.12 Activity indicators in the Eurozone point towards continued weak, albeit positive, economic growth in the fourth quarter of 2013 after a mere 0.1% quarterly expansion in Q3. And disinflationary pressures are intense. Although CPI inflation

rose from 0.7% to 0.9% in November, it remains well below the European Central Bank's (ECB) target of below but close to 2%. This is despite the ECB cutting its main refinancing rate by 25 basis points to 0.25% in November.

### 3.0 Capita's Economic Forecast (issued by Capita on 8 January 2014)

3.1 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
5yr PWLB rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB rate	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%

3.2 Capita Asset Services undertook a review of its interest rate forecasts in late November, after the Bank of England's latest quarterly Inflation Report. This latest forecast now includes a first increase in Bank Rate in quarter 2 of 2016 (previously quarter 3) and reflects greater caution as to the speed with which the MPC will start increasing Bank Rate than the current expectations of financial markets.

### 3.3 The UK Economy (issued by Capita on 8 January 2014)

**3.3.1 Economic growth.** Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.8%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%). The November Report stated that: -

*In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds — both at home and abroad — remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise. That underpins the MPC's intention to maintain the exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth.*



Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

**3.3.2 Forward guidance.** The Bank of England issued forward guidance in August which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The UK unemployment rate has already fallen to 7.4% on the three month rate to October 2013 (although the rate in October alone was actually 7.0%). The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that there is potential for a significant amount of GDP growth to be accommodated without a major reduction in unemployment. However, it has been particularly encouraging that the strong economic growth in 2013 has also been accompanied by a rapid increase in employment and forward hiring indicators are also currently very positive. It is therefore increasingly likely that early in 2014, the MPC will need to amend its forward guidance by reducing its 7.0% threshold rate and/or by adding further wording similar to the Fed's move in December (see below).

**3.3.3 Credit conditions.** While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy aimed at supporting the purchase of second hand properties, will also start in earnest in January 2014. These measures have been so successful in boosting the supply of credit for mortgages, and so of increasing house purchases, (though levels are still far below the pre-crisis level), that the Bank of England announced at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been minimal. However, bank lending to small and medium enterprises

continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

**3.3.4 Inflation.** Inflation has fallen from a peak of 3.1% in June 2013 to 2.1% in November. It is expected to remain near to the 2% target level over the MPC's two year time horizon.

**3.3.5 AAA rating.** The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

### **3.4 The Global Economy (issued by Capita on 8 January 2014)**

**3.4.1 The Eurozone (EZ).** The sovereign debt crisis has eased considerably during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. In December, Ireland escaped from its three year EZ bailout programme as it had dynamically addressed the need to substantially cut the growth in government debt, reduce internal price and wage levels and promote economic growth. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out, has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of Greece 176%, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Whilst a Greek exit from the Euro is now improbable in the short term, as Greece has made considerable progress in reducing its annual government deficit and a return towards some economic growth, some commentators still view an eventual exit as being likely. There are also concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity

programme and undertake overdue reforms to government and the economy. There are also concerns over the lack of political will in France to address issues of poor international competitiveness.

**3.4.2 USA.** The economy has managed to return to robust growth in Q2 2013 of 2.5% y/y and 4.1% y/y in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve therefore decided in December to reduce its \$85bn per month asset purchases programme of quantitative easing by \$10bn. It also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until 'well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal'. Consumer, investor and business confidence levels have all improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

**3.4.3 China.** There are concerns that Chinese growth could be on an overall marginal downward annual trend. There are also concerns that the new Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

**3.4.4 Japan.** The initial euphoria generated by "Abenomics", the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from the bog of stagnation and deflation and so help to support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and, on current trends, will fall from 128m to 100m by 2050.

### **3.5 Capita's Forward View (issued by Capita on 8 January 2014)**

3.5.1 Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and

confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

3.5.2 There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, while the political deadlock and infighting between Democrats and Republicans over the budget has almost been resolved the raising of the debt limit, has only been kicked down the road. A final resolution of these issues could have a significant effect on gilt yields during 2014.

3.5.3 The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

3.5.4 The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

3.5.5 The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

3.5.6 Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the raising of the US debt ceiling.

- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.
- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

3.5.7 The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include:-

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of Quantitative Easing (QE) in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

#### **4.0 Annual Investment Strategy**

4.1 The Treasury Management Strategy Statement (TMSS) and revised TMSS for 2013/14, which includes the Annual Investment Strategy, were approved by the Council on 7 February 2013 and 16 May 2013 respectively. They set out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

- 4.2 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cashflow needs, but also to seek out value available in periods up to 370 days, with highly credit rated financial institutions, using the suggested Capita Credit List (which includes sovereign credit rating and Credit Default Swap (CDS) overlay information).
- 4.3 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31st December 2013.
- 4.4 Investment rates available in the market have continued at historically low levels and have fallen further during the quarter as a result of the Funding for Lending Scheme. The average level of funds available for investment purposes during the quarter was £35.463m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council does not invest funds for over 370 days.
- 4.5 The yield on deposits for the quarter ended 31 December 2013 was 0.49% against a benchmark (average 7-day LIBID rate) of 0.35%. The Council's budgeted deposit return for 2013/14 is £0.162m, and performance for the year to date is above budget at £0.145m.

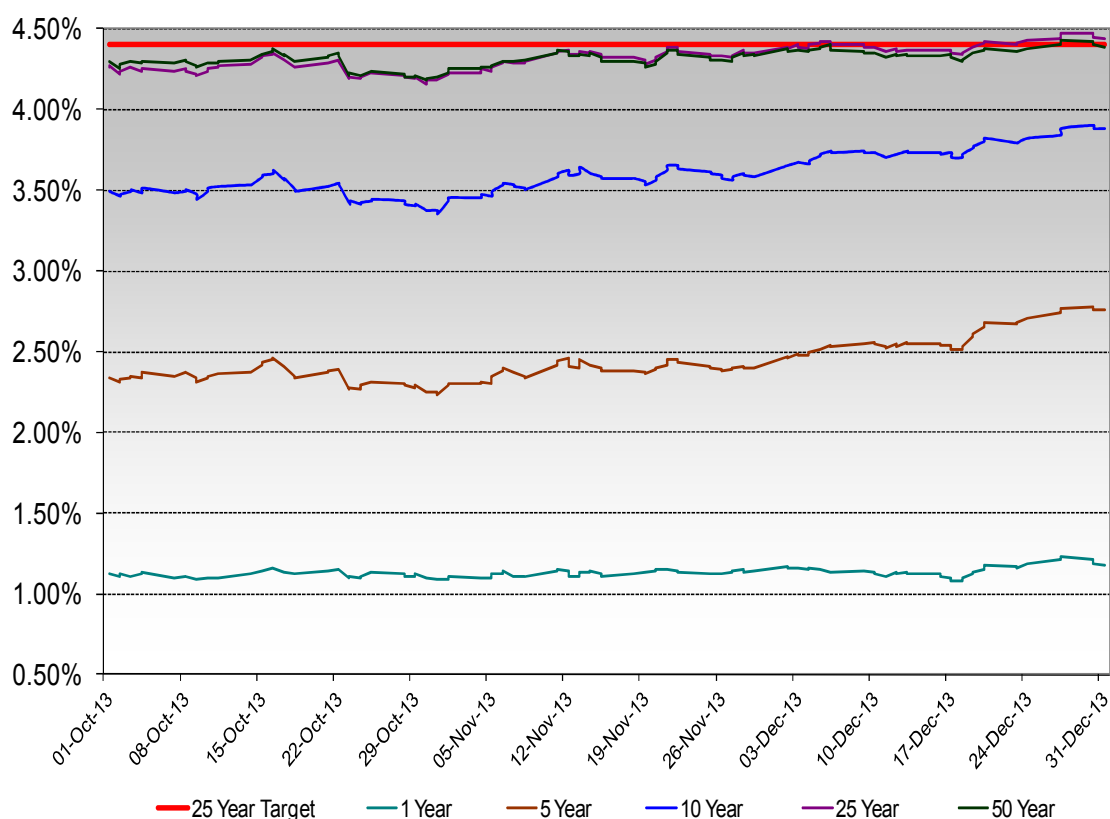
## **5.0 Borrowing**

- 5.1 Capita's 25 year PWLB target rate for new long term borrowing for the quarter remained at 4.40%. Due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement - CFR), new external borrowing was undertaken in November 2013 from the PWLB as shown below:
- £1,000,000 repayable by equal instalments of principal over 10 years at 2.48% pa.
  - £2,050,000 repayable by equal instalments of principal over 7 years at 1.97% pa.

To minimise investment risk, the Council repaid £1,920,071 of external PWLB debt which matured at the end of December 2013. However, this policy will require ongoing monitoring in the event that upside risk to gilt yields prevails.

## 5.2 PWLB certainty rates, quarter ended 31st December 2013

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.08%	2.23%	3.35%	4.16%	4.18%
Date	17/12/2013	31/10/2013	31/10/2013	30/10/2013	30/10/2013
High	1.23%	2.78%	3.90%	4.47%	4.43%
Date	27/12/2013	30/12/2013	30/12/2013	27/12/2013	27/12/2013
Average	1.13%	2.43%	3.59%	4.32%	4.31%



5.3 Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. During the quarter ended 31st December 2013 no debt rescheduling was undertaken.

## **6.0 Compliance with Treasury and Prudential Limits**

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

## **7.0 Options**

That the Governance & Audit Committee approves this report.

## **8.0 Corporate Implications**

### **8.1 Financial and VAT**

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

### **8.2 Legal**

8.2.1 It is best practice that this report is brought before the Governance & Audit Committee for approval, under the CIPFA Treasury Management Code of Practice.

### **8.3 Corporate**

8.3.1 This report evidences that the Council continues to carefully manage the risk associated with its treasury management activities.

### **8.4 Equity and Equalities**

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

## **9.0 Recommendation(s)**

9.1 That the Governance & Audit Committee approves this report.

## **10.0 Decision Making Process**

10.1 This report is presented to the 20 March 2014 Governance & Audit Committee meeting for approval.

## **11.0 Disclaimer**

11.1 This report is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or



liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

Contact Officer:	Sarah Martin, Financial Services Manager extn 7617
Reporting to:	Sue McGonigal, Chief Executive and S151 Officer

**Annex List**

N/A	
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**Corporate Consultation Undertaken**

Finance	N/A
Legal	N/A

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**INTERNAL AUDIT PROGRESS REPORT**

To: **Governance and Audit Committee - 20<sup>th</sup> March 2014**

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

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

Classification: **Unrestricted**

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**Summary:** This report gives Members a summary of the internal audit work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 31<sup>st</sup> December 2013.

**For Information**

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**1.0 Introduction**

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 31<sup>st</sup> December 2013.

**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 eight internal audit assignments completed during the period. Of these: three concluded Substantial assurance, one concluded Reasonable assurance, one concluded Limited assurance. and a further two had a split assurance which was partially Limited. There was one additional piece of work for which an assurance level was not applicable as it comprised quarterly housing benefit claim testing. 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.

- 3.3 For the nine month period to 31<sup>st</sup> December 2013, 211.23 chargeable days were delivered against the planned target of 300 days which equates to 70.41% plan completion.

- 3.4 The financial performance of the EKAP is on target at the present time.

### **4.0 Options**

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

- 4.2 That the changes to the agreed 2013-14 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved.

- 4.3 That Members consider (where appropriate) requesting an update from the relevant Director/s to the next meeting of the Committee in respect of any areas identified as still having either limited or no assurance after follow-up.

- 4.4 That Members consider registering their concerns with Cabinet in respect of any areas of the Council's corporate governance, control framework or risk management arrangements in respect of which they have on-going concerns after the completion of internal audit follow-up reviews and update presentations from the relevant Director.

### **5.0 Corporate Implications**

#### **5.1 Financial Implications**

- 5.1.1 There are no financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 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 on 8<sup>th</sup> December 2009, the Council is committed to comply with requirements for the independent review of the financial and operational reporting processes, through the external audit and inspection processes, and satisfactory arrangements for internal audit.

## 6.0 Recommendations

- 6.1 That the report be received by Members.
- 6.2 That any changes to the agreed 2013-14 internal audit plans, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved.

Contact Officers:	Christine Parker, Head of the Audit Partnership, Ext. 7190
	Simon Webb, Deputy Head of Audit, Ext 7190
Reporting to:	Sue McGonigal, Chief Executive (s.151 Officer) Ext. 7002

### **Annex List:**

Annex 1	East Kent Audit Partnership Update Report – 20-03-2014
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### **Background Papers:**

<b>Title</b>	<b>Details of where to access copy</b>
<i>Internal Audit Annual Plan 2013-14</i>	Previously presented to and approved at the 21 <sup>st</sup> 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, together with details of the performance of the EKAP to the 31<sup>st</sup> December 2013

### 2.0 SUMMARY OF REPORTS

	<b>Service / Topic</b>	<b>Assurance level</b>
2.1	Coastal Protection	Substantial
2.2	Disabled Facilities Grants	Substantial
2.3	HMO & Selective Licensing	Substantial
2.4	Homelessness	Substantial/Limited
2.5	Ramsgate Marina	Reasonable/Limited
2.6	East Kent Housing - Repairs and Maintenance	Reasonable
2.7	EK Services – ICT Software Procurement	Limited
2.8	EK Services – Housing Benefit Quarterly Testing (Qtr 3 of 2013-14)	Not Applicable

#### **2.1 Coast Protection – 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 following business objectives are met:

- To reduce the risk to people and the developed and natural environment from flooding and coastal erosion by encouraging the provision of technically, environmentally and economically sound and sustainable defence measures;
- To support the provision of adequate and cost effective flood warning systems.
- To support the provision of adequate, economically, technically and environmentally sound and sustainable flood and coastal defence measures.
- To discourage inappropriate development in areas at risk from flooding and coastal erosion.

##### 2.1.2 Summary of Findings

The Engineering and Technical Services Section is responsible for coastal management along Thanet's 16 miles of coastline. 11 miles of this coastline is protected by concrete sea walls which protect the land behind from erosion or

flooding by the sea. About 85% of the Thanet coastline is at risk from erosion, but some low lying areas are at risk of flooding such as the Old Town area of Margate.

The maintenance of Thanet's sea walls and promenades is a continuous job particularly in the tidal zone and the Engineering Team carry out programmed inspections to monitor the condition of the structures and identify necessary repair work.

The inter-tidal zone is an extremely harsh environment for engineered structures to exist in and regular maintenance is vital if the full design life of structures is to be realised and where practical exceeded to maximise their whole life value.

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- The Council has an appropriate policy on '*Flood and Coastal Defence*', which was recently reviewed and updated in September 2013, authorised by the Director of Operational Services and a copy placed on the Council's internet
- The Council has formally adopted the Isle of Grain to South Foreland Shoreline Management Plan.
- The Council has informative pages pertaining to coastal protection on its internet site.
- A comprehensive database is maintained of all coastal zone assets which is cross-referenced to an Ordnance Survey map of the district's coastline.
- All areas of the district's coastline are inspected twice per annum and these inspections are well documented with any identified repairs being prioritised.
- The Council has an excellent track record of delivering major capital flood improvement schemes e.g. the recent Margate Flood and Coast Protection scheme.
- Annual bids are submitted to the Environment Agency for funding for future capital schemes; and
- Effective flood warning systems are in place.

## **2.2 Disabled Facilities Grants – Substantial Assurance:**

### **2.2.1 Audit Scope**

To ensure that Disabled Facility Grants are efficiently and effectively administered to maximise the funds available to make the most difference to those in need of the scheme.

### **2.2.2 Summary of Findings**

The Council has a statutory obligation to provide mandatory disabled facilities grants to assist disabled residents to live independently in their own home. The Housing Regeneration Team administers these grants for providing adaptations in the home of a disabled person. Established processes are in place to ensure that an efficient service is carried out.

Finance has carried out a reconciliation on the 2013/14 budget to identify the current position and to clarify what monies are still to be allocated for works. As at 4th December 2013 out of a budget of £1.9million pounds there is only £199,726 still to be allocated with a current waiting list of approximately 6 months.



## **2.3 HMO & Selective Licensing – Substantial Assurance:**

### **2.3.1 Audit Scope**

To work with landlords and tenants to ensure the legal standards for housing are met.

### **2.3.2 Summary of Findings**

It is a mandatory responsibility for all Local Authorities to have a licensing scheme for housing in multiple occupancy. The Housing Regeneration Team Leader has created procedure notes so that all applications are dealt with in a consistent manner.

The Selective Licensing Scheme was introduced in 2011 to help tackle anti-social behaviour, low housing demand and improve the living conditions in properties in the Cliftonville and Margate Central area. The scheme has had a huge impact on resources in the team and new staff were recruited in 2010 and 2013

Thanet's Selective Licensing Scheme is one of a handful throughout the whole Country that has been implemented.

Effective processes and procedures have been implemented throughout these areas to ensure that the licensing schemes are administered correctly and efficiently.

The primary findings giving rise to this Substantial Assurance opinion are as follows:

- A full reconciliation of income recorded on the financial system to the applications received is being undertaken.
- A routine inspection schedule has been introduced for Selective Licensing and all HMO licensed properties are risk assessed and this determines their inspection schedules.
- A significant amount of work has been undertaken to ensure that all applications are dealt with in a consistent manner.
- A considerable amount of work has also been carried out in undertaking enforcement action on unlicensed properties.

Scope for improvement was however identified in the following areas:

- Gas certificate licence conditions are not being effectively monitored; and
- All action taken should be recorded on the relevant worksheets to provide a complete record of the licence and premise.

## **2.4 Homelessness – Substantial/Limited Assurance:**

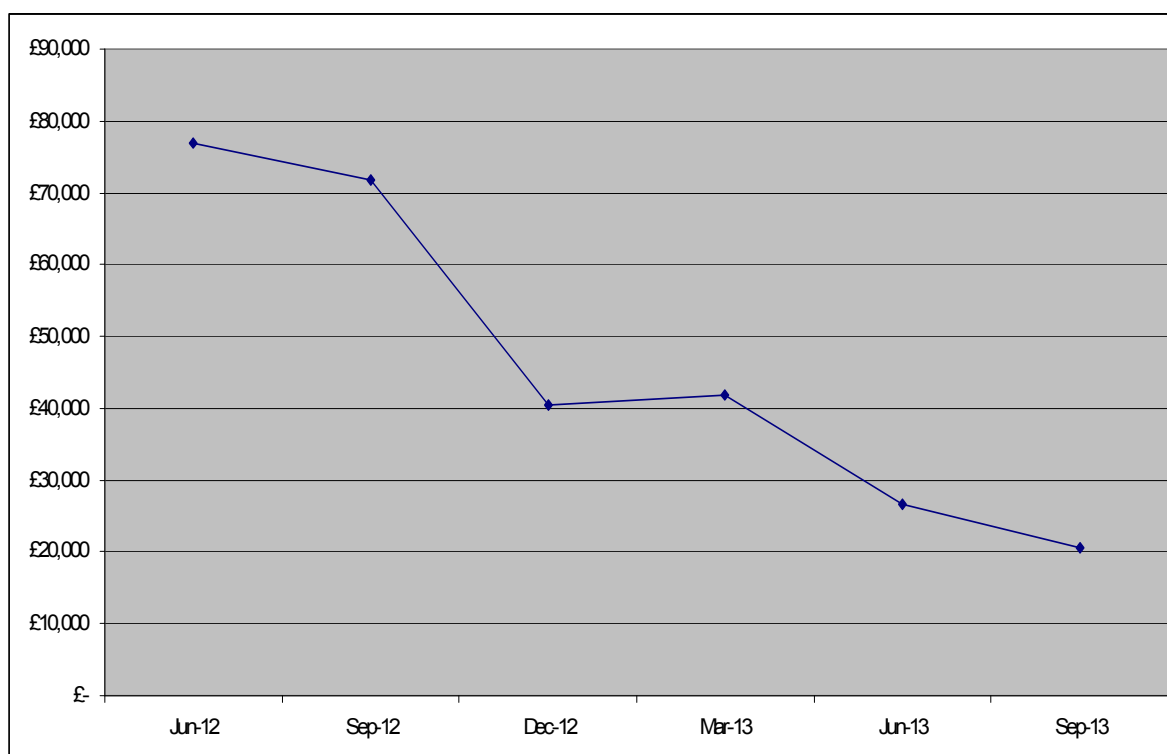
### **2.4.1 Audit Scope**

To provide assurance that the Council deals fairly and efficiently with all homelessness applications and provides advice and/or housing accommodation where appropriate, whilst complying with the Council's Homelessness Strategy and Policies.

## 2.4.2 Summary of Findings

For the period from 01.04.12 to 31.03.13 the Housing Options team made determinations on 336 homeless applications, this does not include the 318 households who presented themselves as homeless but with the Housing Options Team assistance found suitable accommodation and therefore did not register as homeless

The temporary accommodation expenditure had escalated last year however the Housing Options Manager is closely monitoring the budget and requesting that where possible staff find alternative accommodation for homeless applicants and this is being reflected significantly in the current expenditure each quarter:-



The Housing Options Team has recently been restructured to make the team more efficient and officers have been given a more specific role within the team opposed to being generic.

Management can place Substantial Assurance on the processes in place to ensure that homeless applications are dealt with fairly and efficiently, however only Limited Assurance can be placed on the processes in place regarding the recovery of temporary accommodation costs.

The primary findings giving rise to this split assurance opinion are as follows:

- Homeless applications are dealt with promptly and all evidence is held on Civica to support the decisions being made.
- Proactive work is being undertaken to reduce the expenditure on temporary accommodation by finding alternative solutions for homeless applicants.
- Payments made for rent deposits, rent in advance and bond scheme claims are being invoiced and with the plans to centralise invoicing in the immediate future this will alleviate any issues that have been identified during the audit.

- The shortfall between the housing benefit granted and the temporary accommodation costs is not being recovered.
- The decision to not recover these monies has not been formally agreed.

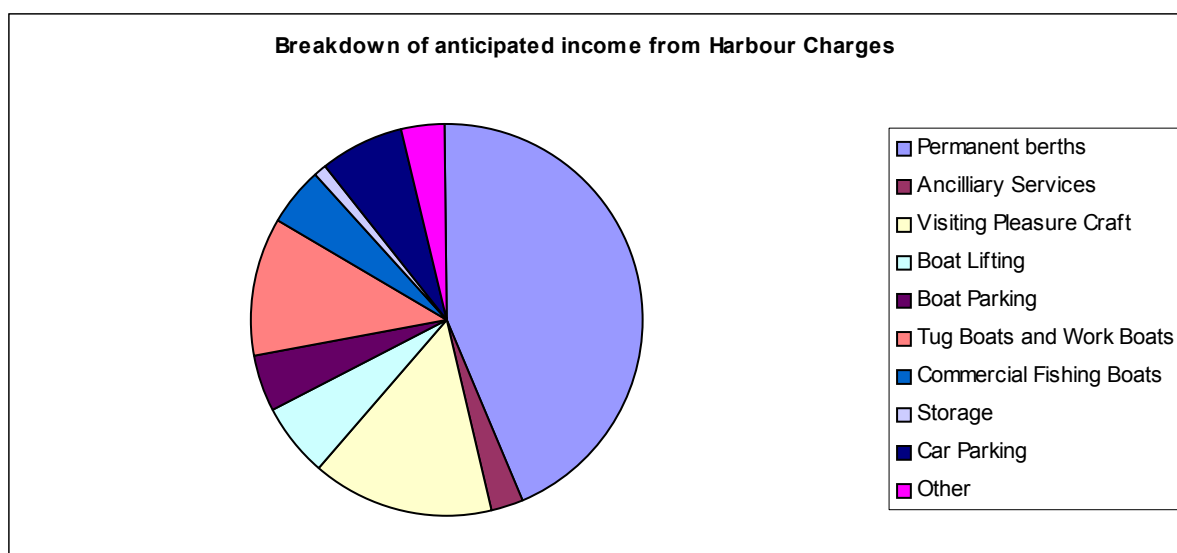
## 2.5 Ramsgate Marina – Reasonable/Limited Assurance:

### 2.5.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and internal controls established to ensure that all income arising from the Council's maritime operations at Ramsgate Harbour is completely and correctly accounted for.

### 2.5.2 Summary of Findings

The income generated from the services provided at Ramsgate Marina for 2013/14 is expected to be just over £2m. Expenditure is projected to be just under £1.7m leaving a net surplus of just over £300k. The projected out-turn is down by just over £200k from 2012/13 mainly due to the economic downturn affecting the way customers use leisure craft facilities. Expected income can be analysed across the various income streams as illustrated in the following table



From the testing completed during this review most of the necessary controls of the systems in place are managed and achieved which would normally lead us to conclude reasonable assurance in this area. There is however a lack of control surrounding the accuracy of records relating to visiting vessel movements and also small levels of non-compliance with HMRC VAT guidelines which has resulted in a more than marginal level of risk to the achievement of the system objectives. This leads us to conclude a partially Limited Assurance opinion.

The primary findings giving rise to the Reasonable Assurance opinion in this area as follows:

- Cash collection and cash receipting arrangements are robust;
- Arrangements in place for invoicing for use of permanent berths, boat lifting, boat parking, commercial fishing boats, storage facilities and car parking are sufficient and well exercised;

- All services provided are well documented; and
- Correct administration of fees and charges was found to be in place.

Scope for improvement was however identified in the following key areas, and it is these that lead us to conclude a partially Limited Assurance opinion:

- Non-compliance with HMRC VAT guidelines when offering settlement (early payment) discounts to customers;
- Certain aspects of the invoicing arrangements needed to be reviewed;
- The controls in place for capturing visiting vessels could be a major issue which may expose the Council to significant risks;
- The process for invoicing Tugboats and Workboats needs to be reviewed; and
- No procedure notes are in place, which could affect the resilience within the team.

## **2.6 East Kent Housing Repairs & Maintenance – Reasonable Assurance:**

### 2.6.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that that each Councils' housing stock is well maintained, providing a good level of service to Council tenants (which demonstrates value for money and tenant participation), in partnership with the Councils' contractors and in accordance with each Councils' policy and procedures.

### 2.6.2 Summary of Findings

The East Kent Housing Service provides repairs and maintenance support for 16125 rented properties and 1367 leaseholder properties utilising a Revenue budget of £14.5m and a Capital budget of £12.8m. The number of individual jobs registered within the various databases is not directly comparable because of the way the local systems work; some include works done as part of the basic price per property contract whereas others do not. Bearing this variable in mind the sample size from which testing was undertaken was in excess of 31000 recorded jobs.

From the testing completed during this review most of the necessary controls of the systems in place are managed and achieved. There is however evidence of non-compliance with some of the key controls around the inspection of completed jobs and independent validation of Performance Indicators resulting in some risk to the achievement of the system objectives.

The audit has looked at the service provided to East Kent Housing by the main responsive repairs contractor at each site and has found a number of common themes which affect each site equally, as well as individual site specific issues. Mears provided the works for three sites and during the course of the audit assumed responsibility for the fourth when they took over Morrison. There are no items of a confidential nature which would need to be redacted when the report is circulated to each of the client officers and therefore it is logical to issue just the single report as it provides both a view on where the service is and an insight into the difficulties faced by EKH in utilising the current systems inherited from the local Councils.

Relevant staff have received training on the importance of complying with Financial Procedure Rules (FPRs) and Contract Standing Orders. An authorised signatories list is available in two formats, one for managed budgets and the other for EKH

expenditure these do not reflect accurately the current staff or their titles. A new procedure for obtaining quotations was drafted with different financial limits and was designed to enhance and strengthen normal procurement rules. These were trialled but suspended pending further review.

The most significant problem would appear to be the various databases used for storing repairs and maintenance data for each Council, how current the information is and their ability to effectively communicate with the database systems used by the main contractor Mears. At present the services are operating within the constraints placed upon them at initial start-up and there may be interim fixes available to overcome these handicaps but the ultimate long term aim should be to explore the feasibility of a single operational database weighing the benefits which would be obtained against the cost of implementation. Any new system would, logically, be able to hold current and all historic data and be able to communicate efficiently with any supplier systems.

The influence of separate identities amongst the individual Councils when EKH took up their role is reflected in the inconsistency of approach adopted where major works require tenants to be decanted. The situation could be improved by issuing current, relevant guidance and advice on amounts payable.

Inspections of completed repairs are a requirement of the current maintenance contracts and are a valuable management aid to test the quality of works undertaken by the contractors. During the reviewed period the documentation supporting the inspections was limited and the number of inspections undertaken was quite substantially below the anticipated level with one site not completing any; the lack of compliance with this key control exposes the overall process to significant risk. Whilst improvements in the inspection regime were being planned there remain a number of issues still to be addressed.

Customer satisfaction information on responsive repairs is collected by the main contractor and statistical data on performance is then supplied to EKH. There is limited independent verification of satisfaction levels undertaken by EKH and therefore the reliability of the data could be called in to question. Consideration should be given to establishing an in-house system to test the validity of the satisfaction levels reported.

Each service has access to a computerised system which has the facility to record details of all responsive repairs. The same system is also able to hold details of the attributes of each property i.e. the number of bedrooms, wiring, heating, roofing, kitchen etc together with the date of installation and refurbishment. The use of these two sets of data, if accurate, would provide a picture for each property which could drive and inform the planned maintenance schedule. Neither set of data is fully up to date. As a result separate spreadsheets have been developed to hold the planned programme. By ensuring the accuracy of base data and using the four systems in place the process of planning should be enhanced and simplified.

The audit found that there is neither obvious nor consistent evidence of overcharging for responsive repairs work, with the exception of scaffold charges at SDC and DDC which at the time of the audit were under discussion with a view to obtaining refunds. These refunds have now been obtained. Nevertheless, there are working practices in use which are not consistent with satisfactory controls. There was evidence that contract clauses were being interpreted differently at separate sites, of verbal orders being placed and of a lack of rigor in challenging contractors' assessment of non PPP works. Approval for one contractor to spend up to £250 more per job than the base

price without reference to EKH staff effectively doubled the price baseline. Such practices create an environment in which overcharging could occur and should be addressed.

The process for budgetary control is in place and practiced, however, the action taken to address possible overspends did not appear to be documented during the audit period. In addition the known error rate for estimates was not taken into account when budgets were prepared.

### Management Response

We believe that we have made significant progress in the management of the repairs service in the last 18 months, especially in regard to budget management and compliance with contract standing orders. It is pleasing that this is recognised in the findings.

Two common themes underpin a number of the other findings in the report. The inconsistency and variance in approach to maintenance of the four Councils and the overriding need for a single IT system to adequately support the maintenance service. These weaknesses have been highlighted to the Councils and a detailed costed business case to move to a single IT system has been presented to them. Proposals to move to maintenance contracts that are better aligned were presented to the Councils in May 2013. These proposals not only would improve efficiency but would deliver significant savings and added value to the Councils.

Agreement by the Councils to a single IT system and to revised contracts will, we believe, significantly improve performance and efficiency. We also note the report finds no evidence of over-charging by the contractor. We believe that disputes with contractors are a recurrent and wasteful feature of a schedule of rates contracts and we have made proposals to the Councils that would reduce these kinds of disputes in future.

A number of recommendations refer to the validation of performance data provided by the contractor. We would question whether increasing resources to achieve this would represent value for money for the councils and would make a significant difference to the quality of service received by tenants. We already had plans in place to do some verification testing of tenant satisfaction with the creation of a new Customer Insight function. Checks on the quality and quantity of contractors work takes place through the system of post inspections.

The only outstanding performance area that could be checked is the timeliness of repairs. However, it is difficult to check this data without a reliance on the contractors system and data they have input. The vast majority of repairs are now carried out by appointment at a time agreed with the tenant and there are other monitoring arrangements in place for critical activities such as works to void properties.

## **2.7 EK Services – ICT Software Procurement - Limited Assurance**

### 2.7.1 Audit Scope

To ensure that the procedures and internal controls established by EK Services are sufficient to provide the level of service required by the partner Councils with regard to the control and administration of software procurement and that these procedures are being complied with, both by officers of EK Services and the partner councils.

## 2.7.2 Summary of Findings

Management can place Limited Assurance on the system of internal controls in operation. This is mainly due to the lack of readily available guidance to officers advising that all ICT purchases should be made via EK Services ICT team and also that some instances have been found of service areas purchasing their own software without reference to ICT which reinforces the lack of guidance comment above.

The concern of management was that purchases of software were being made by individual services outside of the arrangements contained within the existing three way collective agreement in place for each council. This states that ICT will “provide associated procurement administration including all quotations, ordering, invoicing and contract management”. It is clear from this that software purchasing should be conducted through ICT, what is not clear is that annual licence renewals also fall within this category. The collaborative arrangement for East Kent Housing is less comprehensive in its wording. By purchasing outside of the agreement councils could find that the software is unnecessary, too expensive, unsupported or not fit for purpose.

The information available to staff on the intranet at each site advising on the route to follow for software purchasing was not clearly signposted and insufficient in content to ensure that purchases were made through the correct channel. Canterbury City Council recognised that there may be an issue and have developed a new formal procedure to be adopted. Staff were advised through a directive issued on 27 August 2013. It was noted that there are still insufficient links to the new guidance through the CCC intranet. Generally the information available to staff across the three Councils and EKH is an area where some improvements are needed.

Test sampling identified some examples of software purchases that had been made outside of the proper arrangements. The general reasoning behind these separate arrangements was that ICT did not support the software and were not therefore involved and/or that there was only one supplier for a bespoke system. Although the number of cases identified was not of sufficient quantity to confirm that the practice was as widespread as feared, the practice needs to be restrained and brought in to line with the arrangements set out in the collective agreements.

Purchases undertaken by the ICT Business Unit conformed to the financial procedures applicable to each authority. Purchases made by the local service units similarly complied with the local financial procedure rules.

### Management Response

EK Services will liaise with client officers in each authority to ensure the recommended changes are actioned within the specified timescales. (Head of ICT - EK Services).

## **2.8 EK Services Housing Benefit Quarterly Testing (Quarter 3 of 2013-14):**

2.8.1 Over the course of the 2013/14 financial year the East Kent Audit Partnership will be completing a sample check of council tax, rent allowance and rent rebate and Local Housing Allowance benefit claims to support the Audit Commission’s verification work.

For the third quarter of 2013/14 financial year (October to December 2013) 20 claims including new and change of circumstances of each benefit type were selected by using Excel software to randomly select the various claims for verification.

In total 20 benefit claims were checked and of these all (100%) were found to have passed the criteria set by the external auditor's verification guidelines. Two claims were however found to have data quality errors, however these have no effect on the subsidy claim or the amount payable to the claimant.

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

3.1 As part of the period's work, seven 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)	Data Protection	Reasonable/ Limited	Reasonable /Limited	H M L	12 2 0	H M L	3 2 0
b)	Phones, Mobiles and Utilities	Substantial	Substantial	H M L	0 2 2	H M L	0 1 0
c)	Housing Allocations	Reasonable	Substantial	H M L	1 2 1	H M L	0 0 0
d)	Officers' Code of Conduct & Whistleblowing	Reasonable	Substantial	H M L	2 6 2	H M L	0 2 0
e)	Members' Code of Conduct & Standards Arrangements	Reasonable	Reasonable	H M L	1 4 3	H M L	0 1 0
f)	EK Services – ICT Network Security	Substantial	Substantial	H M L	1 0 2	H M L	1 0 0
g)	Health and Safety at Work	Reasonable	Reasonable	H M L	2 0 0	H M L	0 0 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:

a) Data Protection

A significant amount of work was undertaken by the Legal Services Manager on Data Protection before leaving the Council in 2012. However, since that officer's departure no further action appears to have been taken to address the recommendations and agreed management actions made in the report. The main issue that needs to be addressed is the use of portable storage equipment on the Council's network. This could potentially be resolved with the introduction of new PC's throughout the Council in the imminent future.

- 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 currently outstanding recommendations is as follows:

Service/ Topic		Assurance level	No of Recs. Outstanding	
a)	Business Continuity and Emergency Planning – 2012-13	Reasonable	H M L	0 1 1
b)	HRA Business Plan – 2009-10	Substantial	H M L	1 0 0
c)	Your Leisure – 2012-13	Substantial Limited Limited	H M L	1 2 0
d)	Telephones, Mobiles and Utilities – 2013-14	Substantial	H M L	0 1 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: Business Rates, Budgetary Control, Main Accounting System, Housing Rents, Equality and Diversity, Procurement, Payroll, Employee Benefits-in-Kind, Housing Benefit Overpayments, Housing Benefit Fraud Investigations, Debtors, ICT Change Controls, ICT Procurement & Disposal, and Planning.

**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 21<sup>st</sup> March 2013.
- 5.2 The Head of the Audit Partnership meets on a monthly basis with the Section 151 Officer or their nominated representative to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments have been made to the plan during the course of the year as some high profile projects or high-risk areas have been requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Appendix 3.

**6.0 FRAUD AND CORRUPTION:**

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

**7.0 UNPLANNED WORK:**

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

**8.0 INTERNAL AUDIT PERFORMANCE**

- 8.1 For the nine month period to 31<sup>st</sup> December 2013, 211.23 chargeable days were delivered against the planned target of 300 days which equates to 70.41% plan completion.
- 8.2 The financial performance of the EKAP is on target at the present time.
- 8.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has established a range of performance indicators which it records and measures. The performance against each of these indicators for 2013-14 is attached as Appendix 5.
- 8.4 The EKAP audit maintains an electronic client satisfaction questionnaire which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service. Current feedback arising from the customer satisfaction surveys is featured in the Balanced Scorecard attached as Appendix 4.

**Attachments**

- Appendix 1 Summary of High priority recommendations outstanding after follow-up.
- Appendix 2 Summary of services with Limited / No Assurances
- Appendix 3 Progress to 31<sup>st</sup> December 2013 against the agreed 2013-14 Audit Plan.
- Appendix 4 EKAP Balanced Scorecard of Performance Indicators to 31<sup>st</sup> December 2013.
- Appendix 5 Assurance statements

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

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager’s Comment on Progress Towards Implementation.
<i>Data Protection – November 2013:</i>		
<p>Consideration needs to be given to how the Council’s IT equipment can be secured to prevent staff using their own equipment and downloading confidential information.</p>	<p>This can be done and can be tailored to machines [this one can do ‘x’, that one cannot]. ICT can report against machines and are working toward a low level of monitoring [as it is resource intensive]. Detailed discussion with ICT should take place.</p> <p><b>Responsibility/Completion Date</b> February 2013</p> <p>Technical Systems Manager EKS Senior Management at TDC</p>	<p>The PSN CoCo is mandating that only LA owned devices be used, so personal computers use will be banned [as per current TDC policy]. Technical controls for this will be introduced – currently in test; roll out would follow large-scale PC refresh at TDC that is expected to start soon. Only TDC encrypted memory sticks can be officially used, but there are no technical controls on this; it could be done, but this has not been requested.</p> <p><b>Conclusion</b></p> <p>Still outstanding – Senior Management need to consider ‘locking’ down the new PC’s so that only TDC encrypted memory sticks can be used. The encrypted memory sticks are recorded and issued by ICT. These will then be recovered as part of the leaver’s process.</p> <p><b>Revised Implementation Date</b> 31<sup>st</sup> December 2013 – the new PC’s are due to be installed imminently and Senior Management need to consider the issue prior to this</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.
		commencing.
<p>Action must be taken to assist EK Services in compiling a comprehensive list of all USB memory sticks within the council</p>	<p>EKS manage the secure memory sticks. As such items are readily available from stationery catalogues, ICT could not police this. This item should be linked to data theft above.</p> <p><b>Responsibility/Completion Date</b> February 2013</p> <p>Technical Systems Manager EKS Legal Services Manager</p>	<p>The PSN CoCo is mandating that only LA owned devices be used, so personal computer use will be banned [as per current TDC policy]. Technical controls for this will be introduced – currently in test; roll out would follow large-scale PC refresh at TDC that is expected to start soon. Only TDC encrypted memory sticks can be officially used, but there are no technical controls on this; it could be done, but this has not been requested. Net Consent policies have been issues to staff.</p> <p><b>Conclusion</b></p> <p>Outstanding but is linked to recommendation 4 above.</p> <p><b>Revised Implementation Date</b> 31<sup>st</sup> December 2013 – the new PC’s are due to be installed very shortly and Senior Management need to consider the issue prior to this commencing.</p>
<p>to identify the officers with council USB sticks, consideration should be given to labelling each one with a unique reference number so that they can be monitored and recovered when an officer leaves.</p>	<p>Refer to above – as ICT cannot control procurement, we would be unable to police this.</p> <p>USB sticks are only one method of data theft; DVDs, email, printed matter, camera phones are</p>	<p>The PSN CoCo is mandating that only LA owned devices be used, so personal computer use will be banned [as per current TDC policy].</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>Although the cost of the USB stick is minimal the actual risk of the stick having council information stored on it and this being misappropriated is significant.</p>	<p>among others.</p> <p><b>Responsibility/Completion Date</b> February 2013</p> <p>Technical Systems Manager EKS Legal Services Manager</p>	<p>Technical controls for this will be introduced – currently in test; roll out would follow large-scale PC refresh at TDC that is expected to start soon. Only TDC encrypted memory sticks can be officially used, but there are no technical controls on this; it could be done, but this has not been requested. Net Consent policies have been issues to staff.</p> <p><b>Conclusion</b></p> <p>Outstanding but is linked to recommendation 4 above.</p> <p><b>Revised Implementation Date</b> 31<sup>st</sup> December 2013 – the new PC’s are due to be installed very shortly and Senior Management need to consider the issue prior to this commencing.</p>
<p><i>EK Services ICT Network Security – January 2014:</i></p>		
<p>Management should consider introducing a single comprehensive policy on network and information security for all partners to follow; this should include password control, remote access controls and 3<sup>rd</sup> party access. Once approved this should be available to all staff on the appropriate intranet pages and new users should be emailed a copy or once netconsent is available the policy should be mandatory when they first log on to the system.</p>	<p>An objective has been set to harmonise the 3 LA policies into a common document that addresses the points specifically covered and others.</p> <p>Information Security, or rather Information Assurance [IA] and Governance – as this is wider than IT controls – is also being discussed with the Legal/Governance staff within the LAs.</p>	<p><b>Follow Up Findings as at 24.01.2014</b></p> <p>The objective to harmonise LA policies was delayed by other priorities and has been rolled over to 2014 objectives. A lot of work for PSN compliance has brought clients closer together operationally and</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>This would be out of scope of this audit on ‘network security’ and is an LA responsibility supported by ICT.</p> <p><b>Responsibility / Completion Date</b></p> <p>Technical Systems Manager</p> <p>Dec 2013</p>	<p>this will aid the policy alignment; example being remote access and 2FA tokens. The role of SIRO within LAs has also been acknowledged and has allowed progress of related IAG work.</p> <p><b>Conclusion</b></p> <p>Progressing with intent to implement</p>

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

<b>Service</b>	<b>Reported to Committee</b>	<b>Level of Assurance</b>	<b>Management Action</b>	<b>Follow-up Action Due</b>
EK Services – Software Licences	June 2013	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-Progress – March 2014
Absence Management	June 2013	Limited	On-going management action in progress to remedy the weaknesses identified.	As part of a planned audit in 2014-15
Public Health Burials	December 2013	Limited	On-going management action in progress to remedy the weaknesses identified.	Spring 2014
Homelessness	March 2014	Substantial/Limited	On-going management action in progress to remedy the weaknesses identified.	Summer 2014

**PROGRESS TO DATE AGAINST THE AGREED 2013-14 AUDIT PLAN – APPENDIX 3**

**THANET DISTRICT COUNCIL:**

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-12-2013	Status and Assurance Level
<b>FINANCIAL SYSTEMS:</b>				
Main Accounting System	10	10	0.17	Work-in-progress
Budget Monitoring	10	10	0.17	Work-in-progress
Income	10	0	0	Postponed until 2014-15 plan
<b>RESIDUAL HOUSING SERVICES:</b>				
Homelessness	10	10	12.74	Finalised – Substantial/Limited
<b>GOVERNANCE RELATED:</b>				
Asset Management	10	10	0	Postponed to accommodate unplanned work
Members' Code of Conduct & Standards Arrangements	10	10	11.09	Finalised - Reasonable
Officers Code of Conduct and Whistle blowing Arrangements	10	10	12.23	Finalised - Reasonable
Local Code of Corporate Governance	7	7	9.8	Finalised - Substantial
Performance Management	10	10	9.93	Finalised - Reasonable
Corporate Advice/SMT	2	2	.92	Work-in-progress throughout 2013-14
s.151 Officer Meetings and Support	9	9	7.11	Work-in-progress throughout 2013-14
Governance & Audit Committee Meetings and Report Preparation	12	12	10.03	Work-in-progress throughout 2013-14
2014-15 Audit Plan and Preparation Meetings	9	9	1.92	Work-in-progress
<b>CONTRACT RELATED:</b>				
Service Contract Monitoring and Management	10	10	11.4	Finalised - Reasonable
Procurement Strategy	10	10	0.17	Work-in-progress
<b>SERVICE LEVEL:</b>				
Cemeteries and Crematoria	10	10	9.52	Finalised - Reasonable
HMO Licensing and Selective Licensing Scheme	10	10	2	Finalised - Substantial
Coast Protection	8	8	8.29	Finalised - Substantial
Environmental Health – Food Safety	10	10	0.20	Postponed due to FSA inspection



Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-12-2013	Status and Assurance Level
Environmental Health – Public Health Burials	6	6	10.56	Finalised - Limited
Environmental Protection Service Requests	10	10	8.33	Finalised - Reasonable
Equality & Diversity	10	10	0.17	Work-in-progress
Disabled Facilities Grants	10	10	9.94	Finalised - Substantial
Maritime – Ramsgate Marina	10	10	12.43	Finalised – Reasonable/Limited
Members' Allowances	10	10	10.23	Finalised – Substantial
Planning & s.106 Agreements	10	10	0	Work-in-Progress
Building Control	10	10	9.54	Finalised - Substantial
Travel Warrants and Imprest Floats	5	5	4.85	Finalised – Substantial
Phones, Mobiles and Utilities	7	7	7.21	Finalised – Substantial
<b>OTHER :</b>				
Liaison With External Auditors	3	3	0.31	Work-in-progress throughout 2013-14
Follow-up Reviews	17	21	20.15	Work-in-progress throughout 2013-14
<b>UNPLANNED WORK:</b>				
Election Duty – 1 Presiding Officer at KCC May Elections	0	1	1	Finalised
Broadstairs Visitor Information Kiosk –Financial Arrangements	0	0	1.19	Finalised
Tackling Tenancy Fraud	0	5	0.49	Work-in-progress
<b>FINALISATION OF 2012-13 AUDITS:</b>				
Days under delivered in 2012-13	0	0	-9.01	Completed
Housing Allocations	5	5	7.41	Finalised - Reasonable
Child Protection and CRB Checks			6.8	Finalised - Reasonable
Recruitment & Induction			1.75	Finalised - Reasonable
<b>EK HUMAN RESOURCES:</b>				
Payroll, SMP and SSP	5	5	0.07	Work-in-progress
Employee Benefits-in-Kind	5	5	0.12	Work-in-progress
<b>TOTAL - THANET DISTRICT COUNCIL RESIDUAL DAYS</b>	<b>300</b>	<b>300</b>	<b>211.23</b>	<b>70.41 % Complete as at 31-12-2013</b>
<b>UNPLANNED ADDITIONAL WORK</b>				
Interreg Grant – Maritime (Yacht Valley)	4	12	9.47	Work-in-progress throughout 2013-14

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-12-2013	Status and Assurance Level
Interreg Grant – LOPINOD	4	4	4.03	Work-in-progress throughout 2013-14
English Heritage Grant	2	2	2.4	Finalised
Cluster of Empty Homes Grant	0	1	0.55	Finalised

**EAST KENT HOUSING LIMITED:**

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-13	Status and Assurance Level
<b>Planned Work:</b>				
Audit Ctte/EA Liaison/Follow-up	8	7	4.77	Work-in-Progress throughout 2013-14
Rents Accounting, Collection and Debt Management	12	12	1.89	Work-in-progress
Leasehold Services	40	37	3.14	Work-in-Progress
Sheltered Housing	20	0	0.27	Postpone until 2014-15
<b>Finalisation of 2012-13 Audits:</b>				
Housing Repairs and Maintenance	9	33	33.18	Finalised - Reasonable
Days over delivered in 2012-13	0	0	6.65	Completed
<b>Total</b>	<b>89</b>	<b>89</b>	<b>49.9</b>	<b>56.07 % Complete as at 31-12-2013</b>

**EK SERVICES:**

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-13	Status and Assurance Level
<b>Planned Work:</b>				
Housing Benefits – Overpayments	15	15	0.04	Work-in-progress
Housing Benefits – Fraud Investigation Unit	15	15	0.09	Work-in-progress
Council Tax Reduction Scheme	0	15	4.8	Finalised
Housing Benefits – Quarterly	40	40	18.01	Work-in-progress throughout

<b>Review</b>	<b>Original Planned Days</b>	<b>Revised Planned Days</b>	<b>Actual days to 31-12-13</b>	<b>Status and Assurance Level</b>
Testing				2013-14
Business Rates	30	23	22.98	Work-in-Progress
Debtors and Rechargeable Works	15	15	0.04	Work-in-progress
ICT – Change Controls	15	15	1.49	Work-in-progress
ICT – Software Procurement	15	15	14.93	Finalised - Limited
ICT – PC Controls and Application Controls	15	15	0.03	Work-in-progress
Corporate/Committee	0	2	2.01	Work-in-progress throughout 2013-14
Follow-up	0	5	4.56	Work-in-progress throughout 2013-14
New Homes Bonus	0	0	0.34	Work-in-progress
<u>Finalisation of 2012-13 Audits:</u>				
Housing Benefits and Assessment	0	9	8.68	Finalised
ICT – Network Security	0	4	4.02	Finalised
Days under delivered in 2012-13	0	-28	-28.11	Work-in-progress
<b>Total</b>	<b>160</b>	<b>160</b>	<b>53.91</b>	<b>33.69% Complete as at 31-12-2013</b>

**BALANCED SCORECARD – QUARTER 3**

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2013-14 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2013-14 Actual</u>	<u>Target</u>
	<b>Quarter 3</b>				
Chargeable as % of available days	81%	80%	Cost per Audit Day (Reported Annually)		£319.56
Chargeable days as % of planned days			Revised Budget November 13		£302.28
CCC	79%	75%			
DDC	78%	75%			
SDC	63%	75%			
TDC	70%	75%			
EKS	34%	75%			
EKH	56%	75%			
Overall	66%	75%			
Follow up/ Progress Reviews;					
• Issued	50	-			
• Not yet due	22	-			
• Now due for Follow Up	29	-			

**BALANCED SCORECARD – QUARTER 3**

<u>CUSTOMER PERSPECTIVE:</u>	<u>2013-14 Actual</u> Quarter 3	<u>Target</u>	<u>INNOVATION &amp; LEARNING PERSPECTIVE:</u>	<u>2013-14 Actual</u> Quarter 3	<u>Target</u>
Number of Satisfaction Questionnaires Issued;	74		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	41 =55%		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	25%	13%
<ul style="list-style-type: none"> <li>• Interviews were conducted in a professional manner</li> <li>• The audit report was 'Good' or better</li> <li>• That the audit was worthwhile.</li> </ul>	100%	100%	Number of days technical training per FTE	4.43	3.5
	100%	90%	Percentage of staff meeting formal CPD requirements	33%	33%
	100%	100%			



## AUDIT ASSURANCE

### Definition of Audit Assurance Statements

#### **Substantial Assurance**

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

#### **Reasonable Assurance**

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

#### **Limited Assurance**

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

#### **No Assurance**

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

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**INTERNAL AUDIT PLAN 2014/15**

To: **Governance and Audit Committee - 20<sup>th</sup> March 2014**

By: **Chief Executive**

Subject: **REPORT OF THE HEAD OF THE AUDIT PARTNERSHIP INTERNAL AUDIT PLAN FOR 2014/15**

Classification: **Unrestricted**

Ward: **Thanet Wide**

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**Summary:** **This report gives Members a summary of the internal audit coverage the EKAP intends to provide controls assurance on for the period 1 April 2014 to 31 March 2015.**

**For Decision**

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**1.0 Introduction and Background**

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

**2.0 Audit Plan 2014-15**

- 2.1 The Audit Plan for the year 2014 to 2015 is attached as Annex 1 and has been produced from an audit software database (APACE) maintained by the EKAP which records our risk assessments on each service area based upon previous audit experience, criticality, financial risk, risk of fraud and corruption etc.
- 2.2 The plan has then been modified to reflect emerging risks and opportunities identified by the Chief Executive, Directors, and the Council's Risk Registers.
- 2.3 Additionally, the plan is based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a three-year cycle of audits. In order to provide Members with assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations, a three-year strategic plan has been included.
- 2.4 To comply with the Public Sector Internal Audit Standards, the agreed audit plan should cover a fixed period of no more than 1 year. Accordingly, Members are only being asked to approve the 2014-15 plan at the present time and the 2015-16 plan (modified as

necessary) will be presented for consideration in March 2015 and similarly the 2016-17 plan will be presented for consideration in March 2016. The purpose of showing an indicative 2015-16 and 2016-17 plan at this time is to provide Members with assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle.

- 2.5 The plan has been prepared in consultation with the Directors and the Council's 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 2014-15 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require.

### **3.0 Head of Internal Audit's Opinion of the 2014-15 Internal Audit Plan**

- 3.1 This report is presented to Members by the Council's Chief Executive whose s.151 responsibility it is to maintain an effective internal audit plan. In the interests of openness and transparency and in order to enable Members to make an informed decision on the internal audit plan presented for their approval consideration should also be given to the opinion of the Head of Internal Audit on the effectiveness of the plan.

- 3.2 In the professional opinion of the Head of the East Kent Audit Partnership the draft 2014-15 internal plan presented for Members' consideration represents an effective internal audit plan which ensures reasonable coverage of the vast majority of the Council's operations within a three year period. The Head of the East Kent Audit Partnership recommends to Members the approval of the 2014-15 internal audit plan.

## **5.0 Corporate Implications**

### **5.1 Financial Implications**

- 5.1.1 There are no additional financial implications arising directly from this report. The costs of the audit work will be met from the Financial Services 2014/15 budget and are detailed in the attached report.

### **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 Recommendation**

- 6.1 That Members approve the Council's Internal Audit Plan for 2014/15.



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

### Annex List

Annex 1	Thanet District Council draft 2014-15 Internal Audit Plan and 3 year strategic plan
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### Background Papers

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

### Corporate Consultation Undertaken

Finance	N/A
Legal	N/A

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Plan Area (including cross references to Corporate Risk Register Control Measures where applicable)	Year last audited	Previous Assurance level	2014-15 Planned Days	Quarter Prioritised for 2014-15	2015-16 Planned Days	2016-17 Planned Days
<b>Financial Systems (2 Year Cycle):</b>						
Capital	2012-13	Substantial			5	
Treasury Management	2012-13	Substantial			5	
Car Parking & Enforcement	2012-13	Substantial	10	2		10
Bank Reconciliation	2012-13	Substantial			5	
Creditors and CIS	2012-13	Substantial	8	3		10
External Funding Protocol	2012-13	Substantial			9	
Main Accounting System	2013-14	2013-14 WIP				10
Income	2012-13	Substantial	10	3		10
Budgetary Control - R1018.04	2013-14	2013-14 WIP				10
VAT	2012-13	Reasonable			10	
Insurance and Inventories of Portable Assets	2011-12	Reasonable	10	3		
<b>Residual Housing Systems (3 Year Cycle):</b>						
Homelessness	2013-14	Substantial/ Limited			10	
Housing Allocations	2012-13	Reasonable			10	
Right to Buy	2011-12	Substantial	8	1		
HRA Business Plan	2010-11	Substantial	10	3		
<b>Governance Related (3 Year Cycle):</b>						
Data Protection; Freedom of Information; and Information Management.	2012-13 2012-13 2012-13	Reasonable/ Limited			10	
Members' Code of Conduct, Register of Interests, Gifts and Hospitality (incl The Bribery Act) and Standards Arrangement	2013-14	Reasonable				10
Officers' Code of Conduct, Gifts and Hospitality (incl The Bribery Act) and Whistle Blowing Arrangements - R1019.01-05	2013-14	Reasonable				10
Local Code of Corporate Governance	2013-14	Substantial				7
Performance Management/Validation	2013-14	Substantial				10
Value for Money Strategy - R1018.02/06	2010-11	Not Applicable				
Fraud Resilience Review	New Area	To be Assessed	10	2		
Anti-Money Laundering	2011-12	Substantial	6	1		
Complaints Monitoring	2011-12	Substantial	10	1		
Partnerships and Shared Services Monitoring -10005.02/03/06-10/12-17)	2012-13	Reasonable			10	
Scheme of Officer Delegations	2007-08	Reasonable	7	4		
Climate Change	2011-12	Substantial				
Corporate/Governance and Audit Committee	2012-13	N/A	32	1 to 4	32	32
Project Management	Pre 2004-05	To be Assessed				
Risk Management	2012-13	Substantial			10	
<b>Other:</b>						
Liaison with the External Auditors	2013-14	N/A	2	1 to 4	2	2
Previous Year Work in Progress b/fwd	2013-14	N/A	5	1	5	5
Follow-up	2013-14	N/A	15	1 to 4	15	15
<b>Contract Audits (3 Year Cycle):</b>						
CSO Compliance	2012-13	Reasonable			10	
Service Contract Monitoring	2013-14	Reasonable				10
Receipt and Opening of Tenders	2011-12	Substantial	6	1		
Procurement Strategy and e-procurement	2013-14	2013-14 WIP				10
<b>Service Level (Primarily a 3 Year Cycle):</b>						
Cemeteries and Crematoria	2013-14	Substantial				10
Child Protection/CRB Checks	2012-13	Reasonable			10	
Private Sector Housing – HMO Licensing and Selective Licensing	2013-14	2013-14 WIP				10
Community Safety	2011-12	Substantial	10	3		
Coast Protection	2013-14	Substantial				8
CCTV	2011-12	Reasonable	10	2		

Plan Area (including cross references to Corporate Risk Register Control Measures where applicable)	Year last audited	Previous Assurance level	2014-15 Planned Days	Quarter Prioritised for 2014-15	2015-16 Planned Days	2016-17 Planned Days
Dog Warden Service, Street Scene and Litter Enforcement (incl. graffiti and flytipping)	2012-13	Reasonable/ Limited	10	4		
Electoral Registration & Election Management	2011-12	Reasonable				
Environmental Health – Food Safety	2009-10	Limited			10	
Environmental Health - Airport Health Inspections	New Area	To be Assessed	10	4		
Environmental Health – Public Health Burials	2013-14	Limited				8
Environmental Health – Pest Control	2011-12	Reasonable	10	2		
Environmental Health – Health and Safety at Work	2012-13	Reasonable			10	
Environmental Health - Environmental Protection Service Requests	2013-14	Reasonable				10
Environmental Health - Contaminated Land, Air and Water Quality	Pre 2004-05	To be Assessed	8	1		
Business Continuity and Emergency Planning - R1011.01-06	2012-13	Reasonable			10	
Equality and Diversity (R1005.12/13)	2010-11	Reasonable	10	3		10
Events Management	2010-11	Reasonable			10	
Grounds Maintenance	2012-13	Reasonable			15	
Dalby Square Heritage Grants and Housing Intervention Grants	2012-13	Reasonable	10	4		
Disabled Facilities Grants	2013-14	2013-14 WIP				10
Land Charges	2011-12	Substantial	8	2		
Licensing	2011-12	Substantial	10	3		
Museums	2012-13	Reasonable/ Limited			12	
Let Properties and Concessions (incl allotments, Industrial estates, Media Centre, Innovation centre etc) - R1010.01-02	2012-13	Reasonable			10	
Maritime – Port Operations	2011-12	Reasonable				10
Maritime – Marina	2013-14	Reasonable/ Limited				10
Members' Allowances and Expenses	2013-14	Substantial				10
Mortgages (delayed from 3 year cycle due to very low number of transactions and Substantial assurance level).	2009-10	Substantial				5
Planning and s.106 Agreements	2013-14	2013-14 WIP			10	
Building Control	2013-14	Substantial			10	
Petty Cash, Imprest Floats and Travel Warrants	2013-14	Substantial				6
Phones, Mobiles and Utilities - Expenditure and Controls	2013-14	Substantial				7
Printing and Post	Pre 2004-05	To be Assessed	5	1		
YourLeisure - Sports and Leisure	2012-13	Reasonable/ Limited	10	4		10
Sports Development & Footprints in the Sand	Pre 2004-05	To be Assessed	8	1		
Visitor Information Arrangements	2012-13	Reasonable			10	
Waste and Street Cleansing Vehicle Fleet Management - R1012.02-04	2012-13	Reasonable	12	1	10	
Waste Recycling Income - R1012.02-04	Pre 2004-05	To be Assessed				
Garden Waste Collection Service - R1012.02-04	Pre 2004-05	To be Assessed	5	4		
Youth Development Strategy	2009/10	Reasonable			10	
<b>Human Resources:</b>						
Recruitment	2012-13	Reasonable			5	
Absence Management, Annual Leave and Flexi Leave (R1001.09)	2011-12	Limited	5	1		
Payroll Processing - R1019.04	2013-14	2013-14 WIP	5	1 to 4	5	5
Relocation Expenses	Pre 2004-05	To be Assessed				5
Post Entry Training	Pre 2004-05	To be Assessed				
Employee Health, Safety and Welfare - R1008.01-04	2011-12	Reasonable			5	

Plan Area (including cross references to Corporate Risk Register Control Measures where applicable)	Year last audited	Previous Assurance level	2014-15 Planned Days	Quarter Prioritised for 2014-15	2015-16 Planned Days	2016-17 Planned Days
Appraisal System	Pre 2004-05	To be Assessed				
Employee Allowances and Expenses	2011-12	Reasonable	5	2		
Employee Benefits-in-Kind	2013-14	2013-14 WIP				5
<b>Total Planned Days</b>			<b>300</b>		<b>300</b>	<b>300</b>

**Shared Service Audit Plans:**

<b>EK Services</b>						
Plan Area	Year last audited	Previous Assurance level	2014-15 Planned Days	Quarter Prioritised for 2014-15	2015-16 Planned Days	2016-17 Planned Days
Housing Benefits - Payments	2012-13	Substantial	15			15
Housing Benefits - Overpayments	2011-12	Substantial			15	
Housing Benefits – Fraud Investigations Unit	2011-12	Reasonable			15	
Housing Benefits – Admin & Assessment	2010-11	Substantial	15	1		15
Housing Benefits – Quarterly Testing	2012-13	N/A	40	1 to 4	40	40
Council Tax - R1020.01	2012-13	Substantial	30	2		30
Business Rates	2013-14	2012-13 WIP			30	
Customer Services/Gateway	2011-12	Reasonable	15			15
Debtors and Rechargeable Works	2013-14	2013-14 WIP			15	
Corporate/Audit plan/Follow-up	2013-14	Not Applicable	9	1 to 4	9	9
ICT – Change Controls	2013-14	2013-14 WIP				12
ICT – File Security	2007-08	Reasonable	12	3		
ICT – Network Security	2012-13	2012-13 WIP			12	
ICT – Procurement and Disposal	2013-14	2013-14 WIP				12
ICT – Internet and e-mail	2011-12	Reasonable	12	2		
ICT – Management and Finance	2011-12	Reasonable			12	
ICT – Physical and Environment	2011-12	Reasonable	12	4		
ICT – Software Licensing	2012-13	Limited			12	
ICT – PC Controls and Application Controls	2013-14	2013-14 WIP				12
<b>Total EK Services Planned Days:</b>			<b>160</b>		<b>160</b>	<b>160</b>

<b>East Kent Housing (ALMO):</b>						
Plan Area	Year last audited	Previous Assurance level	2014-15 Planned Days	Quarter Prioritised for 2014-15	2015-16 Planned Days	2016-17 Planned Days
<b>Governance</b>	2011-12	Reasonable				15
Interfaces with Finance and ICT Systems	2011-12	Substantial	10	3		
Audit Ctte/EA Liaison/Follow-up	2013-14	N/A	8	1 to 4	8	8
Rent Accounting, Collection and Debt Management	2013-14	2013-14 WIP				30
Repairs and Maintenance	2013-14	Reasonable			40	
Leasehold Services	2013-14	2013-14 WIP				27
Health and Safety (Fire, Gas etc)	2011-12	Reasonable	17	1		
Sheltered and Supported Housing (including Supporting People)	2012-13	To be Assessed	30	2		
Void Property Management	2010-11	Reasonable	15	4		
Tenancy and Estate Management	2012-13	Reasonable			32	
<b>Total East Kent Housing Planned Days:</b>			<b>80</b>		<b>80</b>	<b>80</b>

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## Exclusion of Public and Press

To: **Governance & Audit Committee – 20 March 2014**

By: **Democratic Services and Scrutiny Manager**

Classification: **Unrestricted**

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**Summary:** This report seeks the approval of the Governance & Audit Committee to exclude the public and press from the meeting for agenda item 17 as it contains exempt information as defined in Paragraphs 1 and 2 of Schedule 12A of the Local Government Act 1972 (as amended).

## For Decision

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### 1.0 Introduction

1.1 Whilst the starting point for all public meetings of the Council is to admit the public and press, they may be excluded from meetings whenever it is likely, in view of the nature of the business to be transacted that confidential or exempt information would be disclosed. Under such circumstances, confidential or exempt information may be excluded from the public agenda. The public and press **must** be excluded from meetings if confidential information will be considered and disclosed, and such material must be excluded from the public agenda.

#### **Meaning of confidential information**

1.2 Confidential information **means** information given to the Council by a Government Department on terms which forbid its public disclosure, or information which cannot be publicly disclosed by Court Order.

#### **Exempt information – discretion to exclude public**

1.3 Subject to Article 6 of the Human Rights Act 1998 (right to a fair trial) the public may be excluded from meetings whenever it is likely in view of the nature of the business to be transacted or the nature of the proceedings that “exempt” information would be disclosed.

### 2.0 Exempt information

2.1 The full rules are set out in Part V and Schedule 12A Local Government Act 1972 (as Amended).

### 3.0 Reason(s) Why Agenda Item 17 is considered to be “exempt”

3.1 The report author has classified Agenda Item 17 as disclosing exempt information under Paragraphs 1 (*Information relating to an individual*) and 2 (*Information that is likely to reveal the identity of an individual*) of Schedule 12A of the Local Government Act 1972 (as amended) thereby suggesting that the press and public be excluded from the meeting whilst this item is debated.

#### **4.0 Justification/Public Interest Test**

- 4.1 Thanet District Council has a duty to protect personal confidential information about an employee of Council. The Council also has a duty to the public to protect confidential information and hence keep such information exempt from a public meeting. Divulging confidential personal information would open the local authority to litigation. It is therefore not in the public interest to publish such information in the public domain.

#### **5.0 Not Excluding the Press and Public**

- 5.1 There will be occasions when the meeting may decline to exclude the press and public from the meeting. If that occurs it does not simply mean that those members of the press and public who are present are allowed to stay for the discussion of the item. Declining to exclude the press and public would also mean that the press and public are allowed access to the actual report contained within the confidential part of the agenda (what Democratic Services refer to as the “pink pages”).
- 5.2 If a committee member thinks that it is possible that the recommendation in this report may not be approved at the meeting, it would be helpful to let Democratic Services know that in order that spare copies are available to distribute, if necessary, at the meeting.
- 5.3 If this report is not exempted, Democratic Services would also make arrangements for the report to be retrospectively published on the Council’s website.

#### **6.0 Corporate Implications**

##### **6.1 Financial**

- 6.1.1 There are no direct financial implications.

##### **6.2 Legal**

- 6.2.1 As per Schedule 12A of the Local Government Act 1972 (as amended).

##### **6.3 Corporate**

- 6.3.1 Thanet District Council will endeavour to keep the number of exempt reports it produces to a minimum in order to promote transparency.

##### **6.4 Equity and Equalities**

- 6.4.1 There are no specific equity and equality considerations that need to be addressed in this report.

#### **7.0 Recommendation**

- 7.1 That the public and press be excluded from the meeting for agenda item 17 as it contains exempt information as defined in Paragraphs 1 and 2 of Schedule 12A of the Local Government Act 1972 (as amended).



## 8.0 Decision Making Process

8.1 If the press and public are to be excluded for the agenda item this Committee must exercise its power to agree the recommendation.

Contact Officer:	Glenn Back, Democratic Services and Scrutiny Manager, Ext 7187
Reporting to:	Harvey Patterson, Corporate & Regulatory Services Manager

### Corporate Consultation Undertaken

Finance	N/A
Legal	Harvey Patterson, Corporate & Regulatory Services Manager

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# Agenda Item 17

By virtue of paragraph(s) 1, 2 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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## THANET DISTRICT COUNCIL DECLARATION OF INTEREST FORM

### Do I have a Disclosable Pecuniary Interest and if so what action should I take?

Your Disclosable Pecuniary Interests (DPI) are those interests that are, or should be, listed on your Register of Interest Form.

If you are at a meeting and the subject relating to one of your DPIs is to be discussed, in so far as you are aware of the DPI, you **must** declare the existence **and** explain the nature of the DPI during the declarations of interest agenda item, at the commencement of the item under discussion, or when the interest has become apparent

Once you have declared that you have a DPI (unless you have been granted a dispensation by the Standards Committee or the Monitoring Officer, for which you will have applied to the Monitoring Officer prior to the meeting) you **must**:-

1. Not speak or vote on the matter;
2. Withdraw from the meeting room during the consideration of the matter;
3. Not seek to improperly influence the decision on the matter.

### Do I have a significant interest and if so what action should I take?

A significant interest is an interest (other than a DPI or an interest in an Authority Function) which:

1. Affects the financial position of yourself and/or an associated person; or Relates to the determination of your application for any approval, consent, licence, permission or registration made by, or on your behalf of, you and/or an associated person;
2. And which, in either case, a member of the public with knowledge of the relevant facts would reasonably regard as being so significant that it is likely to prejudice your judgment of the public interest.

An associated person is defined as:

- A family member or any other person with whom you have a close association, including your spouse, civil partner, or somebody with whom you are living as a husband or wife, or as if you are civil partners; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors; or
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;
- Any body of which you are in a position of general control or management and to which you are appointed or nominated by the Authority; or
- any body in respect of which you are in a position of general control or management and which:
  - exercises functions of a public nature; or
  - is directed to charitable purposes; or
  - has as its principal purpose or one of its principal purposes the influence of public opinion or policy (including any political party or trade union)

An Authority Function is defined as: -

- Housing - where you are a tenant of the Council provided that those functions do not relate particularly to your tenancy or lease; or
- Any allowance, payment or indemnity given to members of the Council;
- Any ceremonial honour given to members of the Council
- Setting the Council Tax or a precept under the Local Government Finance Act 1992

If you are at a meeting and you think that you have a significant interest then you **must** declare the existence **and** nature of the significant interest at the commencement of the

matter, or when the interest has become apparent, or the declarations of interest agenda item.

Once you have declared that you have a significant interest (unless you have been granted a dispensation by the Standards Committee or the Monitoring Officer, for which you will have applied to the Monitoring Officer prior to the meeting) you **must**:-

1. Not speak or vote (unless the public have speaking rights, or you are present to make representations, answer questions or to give evidence relating to the business being discussed in which case you can speak only)
2. Withdraw from the meeting during consideration of the matter or immediately after speaking.
3. Not seek to improperly influence the decision.

### **Gifts, Benefits and Hospitality**

Councillors must declare at meetings any gift, benefit or hospitality with an estimated value (or cumulative value if a series of gifts etc.) of £100 or more. You **must**, at the commencement of the meeting or when the interest becomes apparent, disclose the existence and nature of the gift, benefit or hospitality, the identity of the donor and how the business under consideration relates to that person or body. However you can stay in the meeting unless it constitutes a significant interest, in which case it should be declared as outlined above.

### **What if I am unsure?**

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

## **DECLARATION OF DISCLOSABLE PECUNIARY INTERESTS, SIGNIFICANT INTERESTS AND GIFTS, BENEFITS AND HOSPITALITY**

MEETING.....

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

DISCLOSABLE PECUNIARY INTEREST

SIGNIFICANT INTEREST

GIFTS, BENEFITS AND HOSPITALITY

THE NATURE OF THE INTEREST, GIFT, BENEFITS OR HOSPITALITY:

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

NAME (PRINT): .....

SIGNATURE: .....

Please detach and hand this form to the Democratic Services Officer when you are asked to declare any interests.