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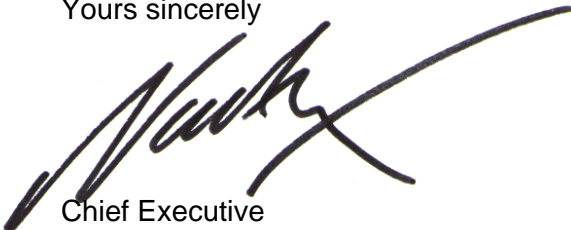
7 March 2011

Dear Councillor

NOTICE IS HEREBY GIVEN THAT a meeting of the **GOVERNANCE** Committee will be held in the HMS Brave Room at these Offices on Wednesday 16 March 2011 at 6.00 pm when the following business will be transacted.

Members of the public who require further information are asked to contact Pauline Hodding on (01304) 872305 or by e-mail at [paulinehodding@dover.gov.uk](mailto:paulinehodding@dover.gov.uk).

Yours sincerely



Chief Executive

Governance Committee Membership:

Councillor D A Mayes	(Chairman)
Councillor M D Conolly	(Vice-Chairman)
Councillor B W Bano	
Councillor M R Eddy	
Councillor C E Kirby	
Councillor J C Record	

AGENDA

1. **APOLOGIES**
2. **APPOINTMENT OF SUBSTITUTE MEMBERS**  
To note appointment of Substitute Members.
3. **DECLARATIONS OF INTEREST**

Members are required to disclose the existence and nature of a personal interest under this item of business or when the interest becomes apparent. An explanation in general terms of the interest should also be given to the meeting. If the interest is also a prejudicial interest, the Member should then withdraw from the room or chamber.

4. **MINUTES** (Pages 4-7)

To confirm the attached Minutes of the meeting of the Committee held on 8 December 2010.

5. **DRAFT ANNUAL REPORT OF THE GOVERNANCE COMMITTEE** (Pages 8-23)

To consider the draft annual report of the Governance Committee which will be presented to the Annual Meeting of Council in May.

6. **TREASURY MANAGEMENT UPDATE – QUARTER ENDED 31 DECEMBER 2010**  
(Pages 24-34)

To consider the attached report of the Director of Finance and ICT.

7. **ACCOUNTING POLICIES AND INTERNATIONAL FINANCIAL REPORTING STANDARDS** (Pages 35-53)

To consider the attached report of the Director of Finance and ICT.

8. **INTERNAL AUDIT QUARTERLY PROGRESS REPORT FOR THE PERIOD DECEMBER 2010 TO MARCH 2011** (Pages 54-80)

To consider the attached report of the Head of the Audit Partnership.

9. **INTERNAL AUDIT CHARTER, STRATEGY AND 2011-12 PLAN** (Pages 81-112)

To consider the attached report of the Head of the Audit Partnership.

10. **REFERENCE FROM SCRUTINY (POLICY AND PERFORMANCE) COMMITTEE – SETTING OF REVISED CHARGES FOR ON-STREET AND OFF-STREET CAR PARKING**

To consider the following reference from the Scrutiny (Policy and Performance) Committee from its meeting held on 18 January 2011 (Minute No 395(d)):

"That it be recommended to the Governance Committee that it review the delegation of authority to the Director of Property, Leisure and Waste Management to set the level of revised parking charges with a view to it being rescinded and authority returned to the Executive for the matter."

11. **AUDIT PLAN 2010/11** (Pages 113-140)

To consider the attached report of the Audit Commission.

12. **FUTURE MEETING DATES FOR GOVERNANCE COMMITTEE**

As reported to Council in December 2010, the proposed dates for meetings of the Committee in 2011/12 have been chosen to fit in with the annual statement of accounts. Any amendments to these dates, which will be confirmed at the Annual Meeting of Council on 18 May 2011, should be made as soon as possible.

Thursday 16 June  
Thursday 30 June

Friday 30 September  
Thursday 1 December 2011  
Thursday 15 March 2012

#### **Access to Meetings and Information**

- Members of the public are welcome to attend meetings of the Council, its Committees and Sub-Committees. You may remain present throughout them except during the consideration of exempt or confidential information.
- All meetings are held at the Council Offices, Whitfield unless otherwise indicated on the front page of the agenda. There is disabled access via the Council Chamber entrance and a disabled toilet is available in the foyer. In addition, there is a PA system and hearing loop within the Council Chamber.
- Agenda papers are published five clear working days before the meeting. Alternatively, a limited supply of agendas will be available at the meeting, free of charge, and all agendas, reports and minutes can be viewed and downloaded from our website [www.dover.gov.uk](http://www.dover.gov.uk). Minutes are normally published within five working days of each meeting. All agenda papers and minutes are available for public inspection for a period of six years from the date of the meeting. Basic translations of specific reports and the Minutes are available on request in 12 different languages.
- If you require any further information about the contents of this agenda or your right to gain access to information held by the Council please contact: Pauline Hodding, Senior Democratic Support Officer, telephone: (01304) 872305 or email: [paulinehodding@dover.gov.uk](mailto:paulinehodding@dover.gov.uk) for details.

**Large print copies of this agenda can be supplied on request.**

Minutes of the meeting of the **GOVERNANCE** Committee held at the Council Offices, Whitfield on Wednesday 8 December 2010 at 7.10 pm.

Present:

Chairman: Councillor D A Mayes

Councillors: M D Conolly  
M R Eddy  
D R Lloyd-Jones  
J C Record

Officers: Director of Finance and ICT  
Head of Audit Partnership  
Taxation and Enforcement Manager (Minute Nos 337 and 340 only)  
Governance Investigator (Minute Nos 347 to 342 only)  
Partnership Auditor  
Audit Manager, Audit Commission  
Democratic Services Officer

Apologies for absence were received from Councillors B W Bano and C E Kirby.

337 APPOINTMENT OF SUBSTITUTE MEMBERS

It was noted that in accordance with Rule 4 of the Council's Procedure Rules, Councillor D R Lloyd-Jones had been appointed as substitute for Councillor C E Kirby.

338 MINUTES

The Minutes of the meeting of the Committee held on 30 September 2010 were approved as a correct record and signed by the Chairman.

339 FRAUD INVESTIGATION AUDIT – RESPONSE

The Taxation and Enforcement Manager presented an update on the fraud investigation audit in response to a request from the Committee at its previous meeting.

The original audit identified four recommendations for improvement, for which the Taxation and Enforcement Manager updated the Committee:

- The Council advertised 'beat the cheat' in the Dover Express and publicised the sanctions awarded against those fraudulently claiming benefit.
- Risk management would be reviewed when the service joined the first tranche of East Kent Shared Services as part of a broader alignment of policies.
- All CRB checks had been completed and were up to date for the members of the fraud investigation team.
- A review had been conducted of the visiting policy as requested in the audit and found that the policy was fit for purpose. The structural barriers to

implementing the policy had also been resolved and confidence was expressed that the visiting policy was working effectively.

The Committee welcomed the update and urged the Taxation and Enforcement Manager to ensure that the visiting policy was properly followed in future for the safety of employees.

RESOLVED: That the report be noted.

340 WRITE-OFF OF INVOICES DEEMED IRRECOVERABLE (Minute No 238)

The Taxation and Enforcement Manager submitted a report giving details of debt which had been identified as irrecoverable and which totalled £220,180.36. All the accounts involved had been subject to rigorous actions including use of bailiffs, tracing and Court actions. The figure compared to £3,036.96 for the comparative period in 2008/2009.

The Committee was advised that write offs were either due to absconders or instances where the outstanding balance was uneconomic to pursue. In addition, some of the outstanding debt was being repaid in instalments and would be recovered in full.

It was emphasised that debt write off was not forgiveness and any debt that had been written off could be reinstated if it became appropriate to recover at a future date.

The Chairman requested that future reports contain a headline summary and direction of travel indication to enable Members to more easily digest the information.

RESOLVED: That the identified debt be accepted as being written off.

341 POLICY STATEMENT ON FRAUD AND OTHER IRREGULARITIES

The Committee considered the report of the Director of Governance on the introduction of the Bribery Act 2010 and its consequences for the Policy Statement on Fraud and Other Irregularities.

The Bribery Act 2010 repealed several previous pieces of anti-corruption legislation which were referred to in the previous policy statement and the new policy statement updated those references in line with the new legislation.

RESOLVED: That the proposed revisions to the Policy Statement on Fraud and Other Irregularities be approved.

342 UPDATE OF CORPORATE GOVERNANCE LOCAL CODE

The Governance Investigator presented the Update of the Corporate Governance Local Code to the committee.

The Code was reviewed annually as a matter of course, although this year the organisational change that the Council was undergoing as part of the Delivering Effective Services framework had required several changes to the document. In particular, the classification of risk management as 'bronze' by Cabinet at its meeting held on 4 October 2010 had changed the primary focus of risk

management to that of major projects and resulted in a substantially revised Section 5 of the Code.

RESOLVED: That the proposed revisions to the Corporate Governance Local Code be approved and the revised Basket of Measures be accepted.

343 UPDATE ON PROGRESS AGAINST THE ANNUAL ASSURANCE STATEMENT ACTION PLAN

At its meeting held on 6 December 2010 the Cabinet had noted the progress made in respect of actions identified as necessary arising from the Annual Governance Assurance Statement for 2009/2010.

RESOLVED: That the report be noted.

344 INTERNAL AUDIT QUARTERLY PROGRESS REPORT

The Head of Audit Partnership submitted a report summarising the work undertaken by Internal Audit since the September meeting of the Committee which included seven new reviews and four follow-up reviews. Substantial assurance levels had been given to Disabled Facilities Grants, CCTV, and Business Rates; and Reasonable assurance levels had been given to Value for Money Strategy and Employee Health and Safety. Assurance levels were not applicable to Absence Management and Housing Benefits Quarterly testing.

Overall, the Audit Partnership had completed 47% of its audits by mid-year which by the time of the meeting was now at 66% and on course for meeting the year end audit plan target. The Committee was advised that consideration was being given to revising next year's chargeable days target as productivity has been consistently maintained above 80% for several periods now, the target being set at 75%.

In response to Members' questions about absence management during adverse weather conditions, the Director of Finance and ICT stated that the East Kent Human Resources Partnership (EKHRP) had publicised advice to staff prior to the bad weather on what to do if they couldn't make it into the offices. The Council had fifty concurrent user licences to allow for remote working for those members of staff that could do so.

In respect of procurement, the Committee was advised that the contract register was being brought up to date and steps were being taken to introduce e-procurement, days previously programmed for audit by the East Kent Audit Partnership would be re-designated to providing advice and working with the project team on implementing this.

There had been no change to the assurance levels given to Compliance with Standing Orders, Waste Management, Cemeteries and Sundry Debtors. In response to questions from Members concerning when an improvement in assurance on Compliance With Contract Standing Orders would be achieved, the Director of Finance and ICT stated that it was expected that the work of the Procurement Board would deliver this next year. The Council had recently introduced a requirement for Director sign-off of all purchase orders which ensured that all requests for procurement were currently being robustly challenged.

RESOLVED: That the activity of Internal Audit for the third quarter of 2010/11 be noted.

345 UPDATE FROM THE AUDIT COMMISSION

The Audit Manager provided a verbal update to the Committee in respect of the future of the Audit Commission and the level of fee for 2011/12.

It was stated that legislation to abolish the Audit Commission was currently being drafted by the Coalition Government and it was expected that from 2012 local authorities would be able to procure their audit services from the private sector. There was consideration being given to the Audit Commission converting to a mutual trust and bidding for local authority audit business.

The Council would see a reduction in its audit fee from 2011/12 with the abolition of national studies and reports. Overall, it was expected that the Audit Commission would be applying a much lighter touch to its audit work in 2011/12 than in previous years and that would be reflected in the fee charged.

RESOLVED: That the report be noted.

346 ANNUAL AUDIT LETTER 2009/2010

The District Auditor presented the annual Audit Letter which showed a solid and sound performance with the authority's accounts maintaining a high standard despite the constraints on capacity within its Finance section. The Audit Manager praised the Council for continuing to deliver a solid standard of work despite the constraints.

The Council's performance on International Financial Reporting Standards (IFRS) had been assessed as 'red' (as opposed to 'amber' or 'green'). It had been recommended that the project timetable for completion of IFRS be revised and appropriate resources be put in place to deliver it. However, it was acknowledged that most authorities would struggle with the introduction of IFRS and the Audit Commission would work with the Council to share best practice gained from other authorities. The Director of Finance and ICT suggested that given the background of resource restraints that Council found itself under a 'reasonable' audit rating on IFRS for the first year would be a acceptable outcome.

The Council's arrangements to secure economy, efficiency and effectiveness in its use of resources were satisfactory. The Audit Manager welcomed the innovative Delivering Effective Services restructuring and felt that the Council had a positive direction of travel. As a consequence, an unqualified statement was issued to the Council in respect of Value for Money.

The District Audit team anticipated continuing to work with the Council on shared services and made specific mention of the significant financial challenges presented by the Government's Comprehensive Spending Review.

RESOLVED: (a) That the Finance Section be thanked for its hard work despite the constraints under which it was operating.

(b) That the Annual Audit Letter be received and accepted.

The meeting ended at 8.20 pm.

REPORT OF THE CHAIRMAN OF THE GOVERNANCE COMMITTEE AND THE  
DIRECTOR OF GOVERNANCE

ANNUAL COUNCIL – 18 MAY 2011

**ANNUAL REPORT OF THE GOVERNANCE COMMITTEE**

**Recommendation**

*That Council receives the Annual Report of the Governance Committee and endorses the work of the Committee.*

Contact Officer: David Randall, extension 2141.

**Reasons why a decision is required**

1. The Governance Committee Chairman, Councillor D A Mayes, is required by the Constitution to make an annual report to Council on the activities of the Governance Committee during the preceding municipal year.
2. In order to explain the work of the Committee and the importance of its audit function a guidance leaflet has also been prepared and is appended to the report.

**Background papers**

The Council's Constitution  
National Audit: Checklist for Effective Audit Committee

**Resource Implications**

None.

**Consultation Statement**

Consultation has been undertaken with members of the Committee and the Director of Governance.

**Impact on Corporate Objectives and Corporate Risks**

The promotion of effective governance arrangements is essential to the core activities and performance of the Council.

**Attachments**

Annex 1      The Annual Report of the Governance Committee.

COUNCILLOR D A MAYES  
Chairman of the Governance Committee

DAVID RANDALL  
Director of Governance

The officer to whom reference should be made concerning inspection of the background papers is the Director of Governance, Dover District Council, White Cliffs Business Park, Dover, Kent CT16 3PJ. Telephone: (01304) 821199, Extension 2141.





# **Annual Report 2010/11**

## **Report of the Governance Committee**

# Contents

## Page Nos

1. **Foreword**

Introduction by the Chairman on behalf of the Governance Committee.

Comment by the Director of Governance.

2. **Summary of the Role of the Governance Committee**

3. **Work undertaken by the Committee during 2010/11**

4. **Work Programme for 2011/12**

5. **Leaflet – The Governance Committee**

A copy of a leaflet, for use by both members and non-members of the Committee giving guidance on the functions, role and activities of the Governance Committee. -

## **Foreword by Chairman of the Committee**

This report summarises the work of the Committee during the preceding year and concludes that once again it received clear, concise and relevant information together with timely reports and actions taken in response to Members' requests. Members of the Committee and their nominated substitutes received training to keep them abreast of changes in areas specific to the work of the Committee.

The Governance Committee continued to be assured of the integrity and reliability of data held in financial statements and the work undertaken by Internal and External Audit provided detailed assurance on those areas of the Council's work which were the subject of reports.

The assurances from the Director of Finance and ICT and Director of Governance, and 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 the regulations

The submission of this Annual Report enhances the existing effective communication between the Committee and all sections of the Council including the Executive, Statutory Officers, the Head of Internal Audit, External Audit and other stakeholders.

**Councillor David Mayes**  
Chairman of the Governance Committee

## **Comment by Director of Governance**

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

**David Randall**  
Director of Governance and Monitoring Officer

## The Role of the Governance Committee

The role of the Governance Committee is set out clearly in the Council's Constitution and is also presented in greater detail in the attached leaflet 'Membership of the Governance Committee: Guidance for Members and information for non-Members'. The six appointed members of the Council provide independent assurance of the adequacy of the risk management framework and the associated control environment together with independent review of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment. The Committee also oversees the financial reporting process by considering the draft and final Statement of Accounts.

### Work Undertaken During 2010/2011

1. On 20 May 2010 the Council's Corporate Management Team accepted the 2009/10 Annual Governance Assurance Statement and authorised the Chief Executive to sign it following consultation with the Council's S151 Officer and Monitoring Officer. On 7 June 2010 the Cabinet in turn accepted the 2009/10 Annual Governance Assurance Statement and authorised the Leader of the Council to sign it. Once again the Statement included ICT in the Governance Framework together with a revised Basket of Measures for 2009/10.
2. During the year Governance Committee received a number of reports on progress against the agreed actions from the annual governance assurance process. The Committee was able to request service managers and, where necessary, the relevant portfolio holder to attend the committee to give an update on progress against agreed actions to reduce risk and/or improve governance.
3. The Committee considered the effectiveness of Internal Audit by reviewing the annual assessment of the Director of Finance and ICT and Director of Governance (S151 Officer and Monitoring Officer), the view of External Audit and the quality of reports, actions and follow up through the quarterly reports submitted throughout the year to Committee. The quarterly Internal Audit reports have included the following Council services or topics:
  - Write Off's
  - Leasehold Services
  - Compliance with Contract Standing orders
  - Payroll
  - Insurance
  - Members' Allowances
  - Regeneration
  - Performance Management
  - Local Code of Corporate Governance
  - Housing Benefits – overpayments, counter fraud arrangements
  - Debtors
  - Asset Management
  - Choice Based Lettings

- Climate Change
  - Waste Management
  - Events Management
  - Members' Code of Conduct and Standards Arrangements
  - Cemeteries
  - Risk Management
  - Receipt and Opening of Tenders
  - Housing Rents
  - Shared Revenues and Benefits database with Thanet District Council
  - Disabled Facilities Grants
  - CCTV
  - Business Rates
  - Value for Money Strategy
  - Employee Health & Safety
  - Absence Management
4. The Committee received the draft Annual Accounts for 2009/10 at its June 2010 meeting. These were fully scrutinised and recommended for approval. These were presented by the Head of ICT and S151 Officer. Training on this process was provided in advance to the Committee. The Committee received the Final Accounts with an unqualified audit opinion at its meeting in September 2010, presented by the Audit Commission.
5. The Committee considered the effectiveness of its Internal Audit Arrangements in accordance with the regular reviews required by the Accounts and Audit (Amendment) (England) Regulations 2006.
6. The Committee continued its commitment to improvement by working with neighbouring authorities to share excellence. While the two previous meetings of the four Chairpersons of the EK Audit Committee had been useful, the respective S151 Officers had not scheduled any further meetings.

## Work Programme for 2011/12

<b>2011/2012 Governance Committee</b>	
<b>Date</b>	<b>Main Agenda Items</b>
June 2011	Internal Audit Annual Report Internal Audit Quarterly Progress Report Draft Annual Accounts 2010/11 Annual Governance Assurance Statement Audit Commission's Annual Audit and Inspection Letter 2011
September 2011	Final Annual Accounts 2010/2011 Internal Audit Quarterly Progress Report Audit Commission's Quarterly update
December 2011	Internal Audit Quarterly Progress Report Annual Governance Assurance Statement Action Plan – progress report Audit Commission's Quarterly update
March 2012	Internal Audit Annual Plan 2011/12 Internal Audit Quarterly Progress Report Audit Commission's Quarterly update and Use of Resources Report Governance Committee Programme for 2012/2013 Draft Annual Report to Council



Membership of the  
Governance Committee:  
Guidance for Members  
and information for non-Members

January 2010

## **Governance Committee – Mission Statement**

Why is it important to have a Governance/Audit Committee?

Corporate Governance is all about doing the right thing in the right way.

The Governance Committee is the Council's Audit Committee monitoring to ensure Dover District Council delivers effective decision making, value for money in all expenditure and conducts itself in an open, ethical and transparent manner which displays the highest levels of integrity.

### **Introduction**

The aim of this Guidance is to tell those who are not members of Dover District Council's Governance Committee about the importance of its work not only to the Council as a whole but also to the communities of Dover District who benefit from good governance in their local authority.

It will also inform any potential or existing elected Member of the District Council as to what will be expected of them should they be appointed to serve on the Governance Committee.

Finally it serves as a reminder to those Councillors who already fulfil the role of member of the Governance Committee, helping them to explain their function, assess their own performance and benchmark with others in similar positions.

### **Statement of Purpose**

The purpose of the Governance Committee is to provide independent assurance of the adequacy of the Council's risk management framework and its associated control environment; independent examination of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment; and to oversee the financial reporting process.

The Governance Committee is an essential element of good governance and is best delivered by a Committee which is independent of the Executive (Cabinet) and Scrutiny functions. An effective Governance Committee can help to raise the profile and importance of internal control, risk management and financial reporting arrangements within the Council. It can also act as a forum for discussing issues raised by internal (East Kent Audit Partnership) and external (Audit Commission) audit.

The Audit Commission challenges local authorities to ensure that their Audit or Governance Committees work effectively. Greater emphasis is placed on the role of these committees under the Use of Resources Key Line of Enquiry (KLoE) 4.2 "the council has arrangements in place to maintain a sound system of internal control" which includes: 'The council can demonstrate that it is effectively delivering the core functions of an Audit Committee, as identified in the CIPFA guidance; that it provides challenge to the Executive when required; and provides for effective leadership on governance, financial reporting and audit issues (level 3).'

### **Core Functions**

The main issues with which the Governance Committee can deal are:

- Consider the effectiveness of the Council's risk management arrangements, the control environment and associated counter fraud and corruption arrangements;



- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors;
- Be satisfied that the Council's assurance statements, including the Governance Statement (formerly the Statement on Internal Control (SIC)) properly reflect the risk environment and any actions required to improve it;
- Approve (but not direct) internal audit's strategies and plans;
- Review summary internal audit reports and the main issues arising and seek assurances that action has been taken where necessary;
- Receive the annual report of the head of internal audit;
- Consider the reports of external audit and inspection agencies;
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies and that the value of the audit process is actively promoted;
- Review the financial statements, external auditor's opinion and reports to Members and monitor management action in response to the issues raised by external audit.

### **Features**

Good Governance Committees are characterised by strong chairmanship – displaying a depth of skills and interest. An interest and level of knowledge in financial and risk management, accounting concepts and standards and the regulatory regime are also essential. There needs to be unbiased attitudes – treating auditors, Cabinet and Corporate Management Team (CMT) equally, as well as having the ability to challenge the Cabinet/CMT where required. The membership of the Governance Committee should be balanced, objective, independent of mind and knowledgeable.

Other features of an effective Committee include:

- meetings characterised by free and open discussion by all members without political influence being displayed;
- prompt decisions on all matters put before the Committee;
- financial understanding displayed by one or more of the Members when considering issues;
- monitoring and, where necessary, supporting managers to secure successful outcomes to audit recommendations.

### **Structure and Administration**

Although no single Committee model is prescribed it should be independent of the Executive and Scrutiny functions. It should have clear reporting lines and rights of access to other committees and functions, for example scrutiny and service committees, the officer governance group and other strategic groups.

There must be terms of reference which are reviewed on an annual basis taking into account relevant governance developments and how the Governance Committee integrates with other committees of the Council.

Regular attendees to Governance Committee meetings should include the Chief Executive, Director of Governance & Monitoring Officer, Director of Finance & ICT (with S151 responsibility), Head of Internal Audit and the Audit Commission. The Committee should also have the right to call on any other officers or agencies of the Council as required.

### **The Benefits**

The Governance Committee will bring the following benefits to the Council:

- 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.

Stricter internal control and the establishment of a Governance 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.

### **Committee authority**

The Governance Committee is vested with sufficient authority to act with independence. It is constituted as a committee of the Council and the terms of Reference are contained within the Council's Constitution. The Committee has explicit authority to receive full access to information and the ability to investigate any matters within its Terms of Reference.

### **Frequency of meetings**

The frequency of meetings needs to be driven by the nature and timing of the business to be considered, any complementary work conducted by other committees and any work that can be carried out between meetings. This all needs to be determined at the outset of the financial year so that the Committee is not considering unnecessary issues, reacting to foreseeable events or commenting on matters that can no longer be influenced.

It is expected that the Governance Committee will meet 4 times per year but the Committee can decide to increase this if it is felt necessary to ensure that the Committee meets its Terms of Reference. The quorum for the meeting will be 50% of the Members.

### **Assurance Framework**

The majority of assurances to the Committee should come from management and auditors who provide a critical element of independence and assurance. In this context robust systems of risk management and application of an Assurance Framework should be at the core of any Committee's review process.

Therefore the Governance Committee will need to liaise closely with management and other committees dealing with and managing risk in order to minimise any duplication or overlap. The Governance Committee's role is not to manage risks but rather to ensure that the overall system is in place and effective.

### **Key Questions**

This list of questions is not intended to be exhaustive or restrictive, nor should it be treated as a tick list substituting for detailed consideration of the issues it raises. Rather it is intended to act as a "prompt" to help the Governance Committee ensure that their work is comprehensive.

#### **Strategic processes**

- How is the organisational risk management culture generated and is it appropriate?
- Is there a comprehensive process for identifying and evaluating risk and for deciding what levels of risk are tolerable?
- Is the Risk Register an appropriate reflection of the risks facing the organisation?
- Is appropriate ownership of risk in place?
- How are these risks being managed?
- What are the areas of greatest risk to the achievement of the Committee's aims and objectives?
- What areas in the internal control system give management the greatest concern and why?
- How does management know how effective internal control is?
- Is risk management carried out in a way that really benefits the organisation or is it treated as a box ticking exercise?
- Is the organisation as a whole aware of the importance of risk management and of the organisation's risk priorities?
- Does the system of internal control provide indicators of things going wrong?
- How meaningful is the Annual Governance Assurance Statement and what evidence underpins it?
- Does the Governance Statement appropriately disclose action to deal with material problems?
- Have the implications of the results of the effectiveness review been discussed at Management team level?
- Have any major changes been made in internal controls in the past year? Were these made in order to improve existing controls or were they new controls established due to changes in operating systems?

- Are appropriate procedures in place to ensure adequate user involvement in the development of new systems and major system changes, including the design of control checks and balances?
- What were the most significant internal control weaknesses uncovered by internal and external auditors during the period?
- What is the auditors' view on the balance between the risk of error in the present internal control system and the cost of additional controls?

#### Planned activity

- Is the internal audit strategy appropriate for delivery of a positive reasonable assurance on the whole of risk control and governance?
- Will the annual audit plan achieve the objectives of the internal audit strategy and in particular is it adequate to facilitate a positive, reasonable assurance?
- Does internal audit have appropriate resources, including skills, to deliver its objectives?
- Are there any issues arising from management not accepting internal audit recommendations and are agreed internal audit recommendations appropriately actioned?
- What assurance is there about the quality of internal audit's work?
- Is there appropriate co-operation between the internal and external auditors?

#### Policies of the organisation

- Is there an appropriate counter fraud policy in place and are losses suitable recorded?
- Are suitable processes in place to ensure accurate financial records are kept?
- Does financial control, including the structure of delegations, enable the organisation to achieve its objectives with good value for money?
- Have any cases of fraud or illegal, questionable or unethical activities been uncovered which might affect the accounts or which could cause embarrassment?
- Are issues raised by the external auditors given appropriate attention?

#### Response to audit activity

- Are agreed procedures in place for monitoring progress with the implementation of recommendations?
- If management reject audits recommendations, which the auditor stand by, are suitable resolution procedures in place?

## Assurances

- Do the assurances available facilitate the drafting of a meaningful Governance Statement?
- Do those producing the assurances understand fully the scope of the assurance they are being asked to provide and the purpose to which it will be put?
- What mechanisms are in place to ensure the assurances are reliable?
- Are the assurances 'positively' stated (ie – premised on sufficient, relevant evidence to support them)?
- Do the assurances draw out material weaknesses or losses, which should be addressed?

## The Governance Committee itself

- How does the Governance Committee know if it is being effective in achieving its terms of reference and adding value to corporate governance and control systems of the organisation?
- Is the Committee content that it has received sufficient training and has the appropriate skills mix?
- Is the Committee content with its level of understanding of the purpose of the work of the organisation?
- Is the Committee content that it has sufficient time to give proper consideration to its business?
- Is the Committee content that it is avoiding any conflict of interest?
- Is there any evidence of the Committee's advice having an impact on the organisation?

## Terms of Reference

The Committee comprises 6 members of the Authority

## Purpose

To provide independent assurance of the adequacy of the control and risk management framework and the associated control environment, independent scrutiny 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. The Governance Committee will also sit as the Council's Audit Committee receiving reports from both internal and external audit, approving the audit programmes and ensuring sufficient resources to deliver the internal audit service.

## Functions

1. Agree and then periodically review the Terms of Reference in relation to the Internal Audit Function.

2. Ensure effective internal audit and internal control arrangements.
3. Receive the Internal Audit Annual Programme of Work.
4. Receive audit activity reports and assurances contained therein relating to the level of internal control and risk management across the Council.
5. Ensure that audit recommendations agreed by management are implemented effectively.
6. Consider external audit reports and make recommendations to the Council.
7. Ensure effectiveness of the Council's risk management arrangements.
8. Seek assurances that effective action is being taken on risk and internal control related areas of weakness.
9. Receive the Governance Assurance Statement and monitor implementation of the action plan.
10. Approve the Council's Annual Statement of Accounts, income and expenditure and balance sheet prior to audit by 30 June and approve the audited Statement of Accounts after 30 September.
11. Monitor and review the Constitution and make recommendations to Council.
12. Consider electoral matters and Boundary Reviews and make recommendations to Council.
13. Consider reports of the Joint Independent Remuneration Panel and make recommendations to Council.
14. Independent scrutiny 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 information.
- 15.

#### Role and responsibilities of Governance Committee members

Members of the Governance Committee and nominated substitutes are required to:

- scrutinise draft and final accounts in June and after September each year
- consider audit reports on Council services
- receive and approve the Internal Audit action plan
- receive and consider the annual Audit and Inspection letter
- consider risk assessment and management
- review the Council's Constitution and recommend changes
- consider electoral and boundary review matters
- make recommendations to Council
- receive regular training and updating on relevant matters.

#### Skills and competencies required

- attention to detail
- understanding of Council functions and services
- understanding of audit processes
- familiarity with Council's statement of accounts and supporting processes
- familiarity with the Council's Constitution
- understanding of corporate risk and its management

NB: These skills and competencies are in addition to those required to be an elected Member of the Council.

#### Programme of meeting dates (to be confirmed)

16 June 2011  
30 June 2011 (draft accounts)  
30 September 2011 (final accounts)  
1 December 2011  
15 March 2012

**Internal Audit Plan 2011/12**

*Draft Audit Plan to be attached once agreed.*

**TREASURY MANAGEMENT UPDATE – QUARTER ENDED 31 DECEMBER 2010**

**Recommendation**

*That the report is received*

Contact Officer: Helen Lamb, extension 2063.

**Purpose of the report**

1. To provide an update on the treasury management activities of the Council for the quarter ended 31 December 2010.

**Summary of Performance**

2. The Council's in-house investments (approximately £5.5m or 26% of total investments) continue to outperform their benchmark<sup>1</sup>. The investments with the investment managers, Investec (approximately £15.5m or 74% of total investments) are currently not achieving the benchmark due to how the valuation of the fund is calculated<sup>2</sup>, however it is expected to outperform the benchmark by the end of the financial year.
3. The total interest received is forecast to be approximately £200k for the year. This is lower than the original budget and reductions have been reported to Members in the budget monitoring reports circulated throughout the year.
4. The Council has remained within its Treasury Management and Prudential Code guidelines and there are no other matters of concern to raise.

**Background**

5. CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2009: it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.
6. In order to comply with the CIPFA code referred to above, but minimise the resource requirements in producing this report, a brief summary is provided below, and Appendix 1 contains a full report based on that provided by the Council's Treasury Management Advisers, Sector.

<sup>1</sup> Benchmark used is the 7 day LIBD @ 0.43%

<sup>2</sup> The valuation on the fund is based on the accounting requirement to use "bid-market price" and not the actual interest that will be achieved if the investments are held to maturity.



### Annual Investment Strategy

7. The Council's in house investments continue to out perform their benchmark. However due to continuing low interest rates, investment income for the second quarter is below the original budget.

### Economic background

8. The report at Appendix 1 contains economic information based on 31<sup>st</sup> December 2010. We have received the following update from Sector:
- GDP growth has peaked in the current period of recovery at 1.2% in quarter 2 of 2010;
  - Growth in quarter 3 @ +0.7% was also unexpectedly high but the first estimate for Q4 was a huge shock at -0.5% and reflected the effect of snow in December;
  - Overall, the outlook is for anaemic growth in 2011/12 and the Bank of England has downgraded its estimate for growth in 2011 from 2.6% to 2.0% in the February 2011 Inflation Report.

### Interest Rates

9. The report at Appendix 1 contains information based on 31 December 2010. We have received the following updated projections of the base rate from Sector:

Mar 2011	Jun 2011	Sep 2011	Dec 2011	Mar 2012	Jun 2012	Sep 2012	Dec 2012	Mar 2013	Jun 2013	Sep 2013	Dec 2013
0.50%	0.50%	0.75%	1.00%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%	3.00%	3.25%

### New borrowing

10. It is anticipated that further borrowing will be undertaken during this financial year to finance the tennis centre project<sup>3</sup>. It may also be necessary to arrange some short term borrowing to help maintain the cash flow once we stop receiving council tax direct debit instalments for the year in February and March.

### Debt Rescheduling

11. Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the quarter and the position continues to be monitored by Sector.

### Compliance with Treasury and Prudential Limits

12. The Council has operated within the treasury limits and Prudential Indicators and in compliance with the Council's Treasury Management Practices.

### Iceland update

13. All advice received by the Council is subject to legal privilege, and restricted to three officers within the Council. Therefore all advice and information reported to Members has to be agreed with Bevan Brittan, who are acting as legal advisors to the group of

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<sup>3</sup> The cost of servicing this borrowing is offset by a reduced grant to Vista, reflecting the additional income the new centre will generate. The centre is expected to start operating from summer 2011.

local authorities seeking to recover monies from Iceland. The following note reflects their advice.

"UK Local Authorities and other UK wholesale depositors have claims in excess of £400m against Landsbanki in its winding up in Iceland which relate to monies which were on deposit with the bank prior to its collapse in October 2008. Although those claims were accepted as priority claims by the Winding Up Board, they have been challenged by other creditors. It is this challenge that we and the Winding Up Board are defending in court.

We are pleased that the matter is going before the Icelandic courts and remain confident in the strength of our case. We hope that these claims will be resolved as soon as possible - it has been almost three years since the failure of Landsbanki and we await the decision of the court."

14. The test cases were held mid-February and it is anticipated that judgment will be handed down during late April 2011.

#### Background Papers

Medium Term Financial Plan 2010/11 – 2012/13

#### Attachments

Appendix 1 - Sector Treasury Management Update

MIKE DAVIS

Director of Finance and ICT

The officer to whom reference should be made concerning inspection of the background papers is the Helen Lamb, Dover District Council, White Cliffs Business Park, Dover, Kent CT16 3PJ. Telephone: (01304) 821199, Extension 2063.

### Treasury Management Update Quarter Ended 31<sup>st</sup> December 2010

CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2009; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

#### 1. Economic background:

The quarter ended 31<sup>st</sup> December 2010 saw the following:

- Activity indicators strengthening again, suggesting that the recovery still has a reasonable amount of momentum;
- Spending on the high street continuing to recover;
- Conditions in the labour market deteriorating further;
- House prices continuing to fall with some regional exceptions;
- The public finances deteriorating, tentatively questioning whether the government can meet its fiscal forecasts;
- The UK's trade deficit widens further, pouring cold water on hopes of an export-led recovery;
- CPI inflation rise and pipeline price pressures continuing to build;
- The Monetary Policy Committee shying away from doing more quantitative easing;
- UK equities surging and gilt yields rising;
- Economic growth picking up strongly in the US and maintaining pace in the euro-zone.

Activity indicators suggested that the recovery still has a reasonable amount of momentum. The CIPS/Markit surveys improved in the third quarter and are now consistent again with modest growth, having briefly pointed to a double-dip in prior months. The surveys suggested that the recovery weakened in the construction sector, but strengthened in the larger manufacturing sector. GDP (Gross Domestic Product) expanded by 0.7%q/q in the third quarter of 2010.

There were signs that consumer spending improved during the quarter. Retail sales volumes rose by a solid 0.7% and 0.3% in October and November respectively. Survey evidence has suggested that December's heavy snowfall has not had too much of a negative effect on retail spending over the festive period as a whole, with consumers making up for weaker spending in early December during the post-Christmas "sales" period.

The resilience of consumer spending during the quarter was in sharp contrast to the renewed deterioration of conditions in the labour market. Employment on the Labour Force Survey (LFS) measure fell by 33,000 in the three months to October, which was far less than the large rises seen a few months ago. As a result, ILO unemployment rose by 35,000 over the same period.

House prices have also continued to fall during the quarter. The Nationwide measure fell by 0.7% m/m in October and 0.3% m/m in November, before rising by 0.4% m/m in December. The Halifax house price measure rose by 1.9% m/m in October, this only offset around half of the fall in September. The measure subsequently posted a small 0.1% m/m drop in November but a fall of 1.3% in December.

Public finances appear to have deteriorated during the quarter. Borrowing on the PSNB ex. measure was in line with 2009/10's figure in October but was £6bn higher than a year before in November. The figures therefore cast doubt on whether the Government will be able to meet its borrowing forecast of £149bn this year, some £7bn lower than last year's total. Elsewhere, there are still few signs that the external sector has begun to support the overall recovery. The trade in goods deficit widened again from £8.4bn to £8.5bn in

October, while the overall deficit also grew from £3.8bn to £3.9bn. While export goods volumes rose by 2.2% m/m in October, import goods volumes rose by a larger 2.6%.

CPI (consumer price inflation) inflation edged up from 3.1% to 3.2% in October and then to 3.3% in November. Part of the rise may have reflected retailers pushing up their prices ahead of the VAT rise in January 2011. The rise also seems to have reflected the surge in commodity prices during the quarter and earlier in the year. If these commodities hold onto their recent price gains, then their inflationary effects will build over the next few months.

Encouraging activity data and strong inflation data prevented the Monetary Policy Committee (MPC) from following the Fed in sanctioning more quantitative easing (QE) at its November meeting. The majority of members on the MPC have continued to vote for official interest rates to remain on hold at 0.5%; the minutes to their meetings suggested that most members thought that the risks that CPI inflation would overshoot the 2% target in two years time had grown. Some members also expressed concern about the recent rise in households' inflation expectations.

## 2. Interest rate forecast

The Council's treasury adviser, Sector, provides the following forecast as at 31<sup>st</sup> December 2010:

Sector's Interest Rate View												
	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%
5yr PWLB Rate	3.30%	3.30%	3.40%	3.50%	3.60%	3.80%	3.90%	4.10%	4.30%	4.60%	4.80%	4.90%
10yr PWLB View	4.40%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%
25yr PWLB View	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%
50yr PWLB Rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.60%	5.70%

- Sector has undertaken a review of its interest rate forecasts to update them for recent events and in particular, the sell off in the bond markets that we have seen in November and December.
- Sector has not changed its view on Bank Rate, or the outlook for the UK economy, so this revised forecast is mainly focused on revisions to the 5 and 10 year forecasts to reflect this sell off.
- In recent months sentiment has focused on the potential for faster US economic recovery, which brings with it an increase in the potential for inflationary pressures and concerns as to whether the Fed will act quickly and resolutely enough to stop those pressures from building. There are also concerns at the extent to which US government debt is going to increase which means that extra sales will have to be made at a lower price to attract buyers i.e. that yields will rise. QE2 purchases of debt by the Fed would normally be expected to depress yields by increasing the price of bonds. However, what we have seen since the beginning of November is exactly the opposite – a steady rise in Treasury yields and right across the board from 5 to 30 years.
- In the UK, sentiment has shifted in terms of concerns around the build up of inflationary pressures and there is an increase in concern as to the credibility of the MPC when inflation has been so much above its 2% target for such a long time. The MPC will be particularly concerned that the public's inflation expectations could become unhinged and while we have not changed our Bank Rate forecast in this revision, there is a risk that the MPC may feel they will need to take action earlier than Q4, i.e. Q3, in order to do a damage limitation exercise to its credibility.
- In line with widespread comment that the Bank of England's previous forecasts for growth were on the optimistic side, the November Inflation Report did downgrade the forecast for 2011 to about 2.3%. However, the Bank then slightly upgraded its forecast for growth in 2012 to around 3%, helped by the continuation of strong monetary policy stimulus through an exceptionally low Bank Rate and the current level of QE.
- However, inherent in this optimistic forward looking view are major assumptions around a continuation of healthy world growth rates. This dependency is due to a combination of negative factors that are likely to dampen the UK growth rate: -
  - the public sector will be a negative contributor to the UK growth rate;
  - personal expenditure growth rates are likely to be weak;

- many corporates and people will be focused on cutting back over-borrowing in the years of easy and cheap credit;
- corporate and personal borrowing by borrowers seeking credit will be held back by banks caution in expanding credit when banks are faced with having to refinance huge sums of wholesale funding maturing over the next few years plus repaying all loans made by the Bank of England under the SLS scheme, which closes in early 2012.
- Sector still maintains that the general trend beyond the next twelve months of rising gilt yields and PWLB rates is expected to remain unchanged as market fundamentals must eventually re-establish the current disconnect between the sheer volume of UK gilt issuance and the price of issue of new debt. Negative (or positive) developments in the EU sovereign debt crisis could significantly impact current safe haven flows of investor money into UK gilts and produce shorter term movements away from our central forecasts.
- As there are significant potential downside risks to these forecasts and to the pace of both UK and world recovery, we would suggest that authorities err on the side of caution when setting their investment budgets.
- Any forecasts beyond a one year time horizon will be increasingly subject to being significantly amended as and when world events and financial markets change.

### 3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2010/11, which includes the Annual Investment Strategy, was approved by the Council on 3<sup>rd</sup> March 2010. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity; and
- Yield

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 short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Sector: this applies in particular to nationalised and semi nationalised UK banks.

A full list of investments held as at 31 December 2010, compared to Sector's counterparty list, and changes to Fitch, Moodys and S&P's credit ratings during quarter ended 31.12.2010 are shown in Annex 1.

Investment rates available in the market have continued at historically low levels. The average level of funds available for investment purposes during the quarter was £3m. 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 authority holds £21m core cash balances for investment purposes (i.e. funds available for more than one year).

#### Investment performance for quarter ended 31.12.2010

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.43%	0.93%	£154,000

As illustrated, the authority has outperformed the benchmark by 0.50%. The Council's original budgeted investment return for 2010/11 was £600k. The total interest received is forecast to be approximately £200k for the year. This is lower than the original budget and reductions have been reported to Members in the budget monitoring reports circulated throughout the year.

#### 4. New borrowing:

Sector's 25 year target rate for new long term borrowing for the quarter started at 4.20% and ended at 5.00%. No external borrowing was undertaken in the quarter.

It is anticipated that further borrowing will be undertaken during this financial year to finance the tennis centre project.

**Borrowing in advance of need.** This Council has not borrowed in advance of need during the quarter ended 31.12.2010 and has no intention to borrow in advance in the rest of 2010/11.

#### 5. Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the quarter.

#### 6. 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 limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Annex 2.

#### 7. Other

A briefing on the current Icelandic position is attached at Annex 3.

## ANNEX 1: Investment portfolio

Investments held as at 31<sup>st</sup> December 2010 compared to Sector's counterparty list:

### Investec Investments

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt Rating
Rabobank	Certificate of deposit	AA-/F1+/1	05/05/2011	0.83	1,500,000	Netherlands - Gov 'AAA'
Nordea Group	Certificate of deposit	AA-/F1+/1	22/02/2011	0.61	2,300,000	
Nationwide	Certificate of deposit	AA-/F1+/1	22/02/2011	0.61	599,731	UK - Gov 'AAA'
Deutsche Bank	Certificate of deposit	AA-/F1+/1	09/09/2011	1.21	1,300,064	Germany - Gov 'AAA'
Lloyds TSB	Certificate of deposit	AA-/F1+/1	30/09/2011	1.26	2,000,000	UK - Gov 'AAA'
Nationwide	Certificate of deposit	AA-/F1+/1	09/09/2011	1.21	1,400,000	UK - Gov 'AAA'
Barclays	Certificate of deposit	AA-/F1+/1	21/03/2011	0.69	1,500,000	UK - Gov 'AAA'
HSBC Securities	Certificate of deposit	AA-/F1+/1	10/08/2011	1.12	2,100,000	UK - Gov 'AAA'
Lloyds TSB	Certificate of deposit	AA-/F1+/1	22/02/2011	0.61	200,000	UK - Gov 'AAA'
					<b>12,899,796</b>	
UK	Gilt		07/12/2011	0.61	2,609,442	UK - Gov 'AAA'
	BNP Paribas		04/01/2011	0.47	100,000	France
GBP cash - settled balance					36,042	
<b>Total Investec Investments</b>					<b>15,645,280</b>	

## In House Investments

### Organisation

Landisbanke Islands	Term deposit	Not rated by sector	26/11/2008	6.170	1,000,000 Iceland - Gov 'BBB-'	364 days
Lloyds	Term deposit	AA-/F1+/1	22/11/2011	1.900	2,000,000 UK - Gov 'AAA'	364 days
Lloyds	Term deposit	AA-/F1+/1	14/12/2011	1.950	1,000,000 UK - Gov 'AAA'	364 days
Natwest	Bond	AA-/F1+/1	05/11/2011	2.000	1,000,000 UK - Gov 'AAA'	364 days
Natwest	Bond	AA-/F1+/1	19/03/2011	2.000	1,500,000 UK - Gov 'AAA'	364 days
					<b>6,500,000</b>	

Call Accounts/MMF	Balance as at 31/12/10	Rate
DMA	0	
Global Treasury Fund	40,106	0.58%
SIBA	3,464,927	0.75%
SIBA SEEDA	903,027	0.50%
SIBA HCA	46,739	0.50%
SIBA ASDA	10,866	0.50%
Alliance & Leicester	3,001,958	0.80%
BoS	3,599	0.75%
Abbey	1	
	<b>7,471,224</b>	



ANNEX 2: Prudential and Treasury Indicators as at 31<sup>st</sup> December 2010

<b>Prudential Indicator</b>	<b>2010/11 Indicator £000</b>	<b>Quarter 3 – Actual £000</b>
Capital Financing Requirement (CFR)	7,751	7,442
Net borrowing	5,260	4,678
Authorised limit for external debt	20,000	7,000
Operational boundary for external debt	15,000	7,000
Principal sums invested > 364 days	0	0
Maturity structure of borrowing limits		
Under 12 months	0	0
12 months to 2 years	1	1
2 years to 5 years	0	0
5 years to 10 years	0	0
10 years and above	7,000	7,000

## **ANNEX 3: Icelandic Trial Members' Briefing**

The test cases for the Local Government Icelandic deposits were held mid-February and it is anticipated that judgment will be handed down during late April 2011. All advice received by the Council is subject to legal privilege, and restricted to three officers within the Council. Therefore all advice and information reported to Members has to be agreed with Bevan Brittan, who are acting as legal advisors to the group of local authorities seeking to recover monies from Iceland. The following note reflects their advice.

### **Background**

We had £1m on deposit with Landsbanki.

We have received legal advice that we are priority creditors of the bank and along with the 91 other UK depositors who also had monies on deposits with the banks are pursuing recoveries on that basis, to help offset the extent of any losses to UK taxpayers.

Based on the current statement of assets and liabilities of the bank, if the court upholds our claim, we anticipate that we will recover between 85% and 90% of the value of our claim although this figure is wholly dependant on realisations made from the assets of the bank and may change. If we lose recoveries will be materially lower.

This trial is before the District Court. It is too early to pre-judge the outcome of the trial and an appeal to the Supreme Court is a real possibility given the sums at stake.

If so we do not expect a final decision until sometime between July and September 2011.

It is unlikely any distributions to creditors will be made before then.

### **Update Statement**

UK Local Authorities and other UK wholesale depositors have claims in excess of £400m against Landsbanki in its winding up in Iceland which relate to monies which were on deposit with the bank prior to its collapse in October 2008. Although those claims were accepted as priority claims by the Winding Up Board, they have been challenged by other creditors. It is this challenge that we and the Winding Up Board are defending in court.

We are pleased that the matter is going before the Icelandic courts and remain confident in the strength of our case. We hope that these claims will be resolved as soon as possible - it has been almost three years since the failure of Landsbanki and we await the decision of the court.

REPORT OF THE DIRECTOR OF FINANCE AND ICT

GOVERNANCE COMMITTEE – 16 MARCH 2011

**ACCOUNTING POLICIES AND INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**Recommendation**

<i>That Members note the report</i>
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Contact Officer: Mike Davis, extension 2107.

**Purpose of the Report**

1. The Council is required to prepare the Statement of Accounts in accordance with International Financial Reporting Standards (IFRS) from 1 April 2010. This is a major change and as Governance has oversight of the final accounts it is appropriate for them to consider the impact.
2. This report sets out the changes to the format of the financial statements and also asks the Committee to consider the draft Accounting Policies proposed for adoption in the preparation of the Accounts under IFRS.

**Background**

3. In the Budget statement of 2007 the then Chancellor of the Exchequer announced that public sector bodies would be required to prepare their Statement of Accounts in accordance with IFRS. This requirement is to apply to local authority accounts from 1 April 2010.
4. Members of this Committee received a report on progress being made in preparing for the move to IFRS in November 2009. This further report provides details of the format of the financial statements and the proposed accounting policies under IFRS.
5. The move to IFRS requires the 2009/10 financial statements to be restated and an opening balance sheet as at 1 April 2009 to be prepared on an IFRS basis.
6. The Audit Commission plan to review these restated financial statements in March 2011.

**Management of the Change**

7. In order to implement the change in accounting requirement the Accountancy team have been undertaking a number of steps including:
  - Meetings, consultation and training with members of the Audit Commission
  - Meetings, consultation and training with other Kent authorities
  - CIPFA training courses and events
  - Consultation with Legal Services
  - Consultation with Property Services
  - Monitoring progress against agreed timetables

### Resource Implications

8. The implementation of IFRS is a very challenging and time consuming process. Although progress is being made by the Accountancy section there are a number of other requirements for the team which are currently, and will continue to, put additional pressures on the resource requirement. These include:
- Support for the Delivering Effective Services project
  - Assessment and monitoring of the organisational restructure
  - Production of the annual budget and Medium Term Financial Plan
  - Implementation of East Kent Shared Services
  - Implementation of the Housing ALMO
9. The impact of new staff over the recent period and of the proposed loss of administrative support following the organisational restructure will also influence the implementation of these new requirements. We currently plan to implement IFRS within existing resources, with some help from other Kent authorities as required. This may need to be reviewed and further external support sought as the implementation progresses.

### Financial Statements

10. The 2009/10 Statement of Accounts comprised several core financial statements, these are being replaced and or amalgamated into four new core financial statements as shown below:

<b>SORP Code 2009/10</b>	<b>IFRS Code 2010/11</b>
Income and Expenditure Account	→ Comprehensive Income and Expenditure Account
Statement of Recognised Gains and Losses	→
Statement of Movement on the General Fund Balance	→ Movement in Reserves Statement
Balance Sheet	→ Balance Sheet
Cash Flow Statement	→ Cash Flow Statement

11. Attached at Appendices 1, 2, 3 and 4 are financial statements in both the old and new formats for comparative purposes showing how you get from one to the other. As can be seen they are very similar in format what differs is the accounting changes required under IFRS.
12. These accounting changes include, for example, changes to government grants used for capital purposes, the inclusion of lease arrangements through contractors, known as embedded leases and the inclusion of unpaid annual leave for staff at the end of the financial year.

### Accounting Policies

13. As part of the move to IFRS the Accounting Policies need to be reviewed and updated as appropriate. The draft Accounting Policies proposed to be adopted following this review are attached at Appendix 5.
14. Some amendments may be required to finalise the policies as the implementation of IFRS and the year-end processes progress. These will be reviewed and agreed by

the Director of Finance and ICT, in consultation with the Audit Commission (where appropriate).

15. The final accounting policies will be included in the completed Statement of Accounts which will be brought to Governance for approval later in the year.

#### Legal Implications

16. The Code of Practice on Local Authority Accounting in the United Kingdom sets out the proper accounting practices required by section 21 (2) of the Local Government Act 2003. These proper practices apply to Statement of Accounts prepared in accordance with the statutory framework established by the Accounts and Audit Regulations 2003.

#### Background Papers

International Financial Reporting Standards – report to Governance 26/11/09

#### Resource Implications

None.

#### Impact on Corporate Objectives and Corporate Risks

The Statement of Accounts is a statutory document and, therefore, failure to prepare and publish the Accounts in accordance with proper accounting practice and within the statutory timescale could lead to qualification of the Accounts by the District Auditor.

#### Attachments

- Appendix 1 – Income and Expenditure Account
- Appendix 2 – Statement of Movement on the General Fund Balance to the Movement in Reserves Statement
- Appendix 3 – Balance Sheet
- Appendix 4 – Cashflow Statement
- Appendix 5 – Statement of Accounting Policies

MIKE DAVIS

Director of Finance and ICT

The officer to whom reference should be made concerning inspection of the background papers is the Director of Finance and ICT, Dover District Council, White Cliffs Business Park, Dover, Kent CT16 3PJ. Telephone: (01304) 821199, Extension 2107.

**INCOME AND EXPENDITURE ACCOUNT**

SORP - Income & Expenditure Account	IFRS - Comprehensive Income and Expenditure Account
Cultural, Environmental, Regulatory & Planning Services Highways & Transport Services Housing Services Central Services to the Public Corporate & Democratic Core Non-Distributed Costs <b>Net Cost of Services</b>  (Gain) / Loss on Disposal of Fixed Assets Precepts paid to Parish Councils Drainage Board Levies Corporate Provisions for Bad Debts Contribution of Housing Capital Receipts to Government Pool  Trading Undertakings Interest Payable and Similar Charges Pensions Interest Cost Expected Return on Pension Assets Impairment of Icelandic Investments Interest and Investment Income Capital Grant Contributions <b>Net Operating Expenditure</b>  Tonbridge and Malling Borough Council Tax Precept Parish Council Precept Estimated Collection Fund (Surplus) / Deficit Actual Collection Fund (Surplus) / Deficit General Government Grants National Non-Domestic Rate Distribution <b>(SURPLUS) / DEFICIT FOR THE YEAR</b>	Cultural, Environmental, Regulatory & Planning Services Highways & Transport Services Housing Services Central Services to the Public Corporate & Democratic Core Non-Distributed Costs <b>Net Cost of Services</b>  <b>Other Operating Expenditure</b> (Gain) / Loss on Disposal of Fixed Assets Precepts paid to Parish Councils Drainage Board Levies Corporate Provisions for Bad Debts Contribution of Housing Capital Receipts to Government Pool  <b>Financing and Investment Income and Expenditure</b> Trading Undertakings Interest Payable and Similar Charges Pensions Interest Cost Expected Return on Pension Assets Impairment of Icelandic Investments Interest and Investment Income Capital Grant Contributions  <b>Taxation and Non-Specific Grant Income</b> Tonbridge and Malling Borough Council Tax Precept Parish Council Precept Estimated Collection Fund (Surplus) / Deficit Actual Collection Fund (Surplus) / Deficit General Government Grants National Non-Domestic Rate Distribution <b>(SURPLUS) / DEFICIT ON PROVISION OF SERVICES</b>
<b>Statement of Total Recognised Gains and Losses 2009/10</b>	
(Surplus) / Deficit on the General Fund (Surplus) / Deficit Arising on Revaluation of Fixed Assets (Surplus) / Deficit Arising on Revaluation of Available-for-Sale Financial Assets Actuarial (Gains) / Losses on Pension Fund Assets & Liabilities	(Surplus) / deficit arising on revaluation of fixed assets (Surplus) / deficit arising on revaluation of available-for-sale financial assets Actuarial (gains) / losses on pension fund assets and liabilities
<b>TOTAL RECOGNISED (GAIN) / LOSS</b>	<b>OTHER COMPREHENSIVE INCOME AND EXPENDITURE</b>
	<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>

**Adjustments will include:**

**Amortised Grants** - The IFRS code no longer also Government Grants to be written off against the asset over its useful life, therefore the credit incurred in 2009/10 needs to be reversed.

**Capital Grants** - In line with the amortised grants rather than writing them off they are fully recognised in the year of receipt.

**Embedded Leases** - The IFRS code requires the calculation and inclusion of lease financial for contractor assets which are used predominately by the authority to provide services.

**Annual Leave** - Under the IFRS code we should calculate the monetary values of outstanding leave owed to staff as at the end of the financial year.

**STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE TO THE MOVEMENT IN RESERVES STATEMENT**

**SORP - Statement of Total Movement on the General Fund Balance**

SORP - Statement of Total Movement on the General Fund Balance
<p><b>(SURPLUS) / DEFICIT FOR THE YEAR ON THE INCOME AND EXPENDITURE ACCOUNT</b></p> <p>Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year</p> <p>Increase in General Fund Balance for the year</p> <p>General Fund Balance brought forward</p>
GENERAL FUND BALANCE CARRIED FORWARD
<p><u>Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year.</u></p> <p><b>Amounts included in the Income and Expenditure Account but required to be excluded by Statute when determining the Movement on the General Fund</b></p> <p>Net Charges made for Retirement Benefits in accordance with FRS 17</p> <p>Gain/(Loss) on Disposal of Fixed Assets</p> <p>Collection Fund Adjustment Account</p> <p>Depreciation and Impairment of Fixed Assets</p> <p>Amortisation / Write-off of Capital Contributions</p> <p>Financial Instrument Adjustment Account</p> <p><b>Amounts not included in the Income and Expenditure Account but required to be included by Statute when determining the Movement on the General Fund</b></p> <p>Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool</p> <p>Capital Expenditure Charged to the General Fund Balance</p> <p>Employers' Contributions payable to the Pension Fund</p> <p><b>Transfers (to) / from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b></p> <p>Revenue Reserve for Capital Schemes</p> <p>Earmarked Reserves</p> <p>Building Repairs Reserve</p> <p>General Revenue Reserve</p>
NET ADDITIONAL AMOUNT REQUIRED TO BE CREDITED TO THE GENERAL FUND BALANCE FOR THE YEAR

IFRS - Movement in Reserves Statement						
	Earmarked Reserves	Contributions Unapplied	Capital Receipts	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<b>BALANCE AT 1 APRIL 20XX</b>						
<b>Comprehensive Income &amp; Expenditure</b>						
Surplus / (Deficit) on Provision of Services						
Other Comprehensive Income & Expenditure <b>(New)</b>						
<b>Total Comprehensive Income &amp; Expenditure</b>						
<b>Adjustments Between Accounting Basis &amp; Funding Basis Under Regulation:</b>						
Depreciation						
Impairment of Fixed Assets						
Pension Costs						
Minimum Revenue Provision <b>(New)</b>						
Net Gain / Loss on Sale of Fixed Assets						
Financial Instruments Adjustment Account						
Employee Benefits <b>(New)</b>						
Capital Grants Applied <b>(New)</b>						
Capital Expenditure Charged to the General Fund Balance						
Collection Fund Adjustment Account						
Transfer from Capital Receipts Reserves to Fund Payment to the Housing Capital Receipts Pool						
Transfer from Capital Receipts Reserves to Fund Purchase of Fixed Assets						
<b>Net Increase / (Decrease) Before Transfers to / from Earmarked Reserves</b>						
<b>Transfers to / from Earmarked Reserves</b>						
Revenue Reserve for Capital Schemes						
Earmarked Reserves						
Contributions Unapplied						
Building Repairs Reserve <b>(New)</b>						
General Revenue Reserve						
<b>Increase / (Decrease) in Year</b>						
<b>BALANCE AT 31 MARCH 20YY</b>						

**STATE SHEET**

SORP Balance Sheet	IFRS Balance Sheet
<p><b>Intangible Assets</b></p> <p><b>Tangible Fixed Assets</b> Operational Assets Land and Buildings Vehicles, Plant and Equipment Infrastructure Assets Community Assets</p> <p>Non-Operational Assets Investment Properties Surplus Assets held for Disposal Assets under Construction</p> <p><b>Investments (Long Term)</b></p> <p><b>Long Term Debtors</b> Mortgages Other</p> <p><b>Total Long Term Assets</b></p> <p><b>Current Assets</b> Stocks in Hand Investments (Short Term) Debtors Less Provision for Bad Debts Cash in Hand</p> <p><b>less Current Liabilities</b> Creditors Other</p> <p><b>Total Assets less Current Liabilities</b></p> <p>Provisions Capital Contributions Deferred Account Contributions Unapplied Account Pensions Liability</p>	<p>Land &amp; Buildings Vehicles, plant and equipment Infrastructure assets Community assets Assets Under Construction</p> <p><b>Property, Plant &amp; Equipment</b></p> <p>Investment Property Intangible Assets Long Term Investments Long Term Debtors</p> <p><b>Long Term Assets</b></p> <p>Short Term Investments Stocks &amp; Work in Progress Short Term Debtors Cash and Cash Equivalents Assets available for Sale</p> <p><b>Current Assets</b></p> <p>Bank Overdraft Short Term Creditors</p> <p><b>Current Liabilities</b></p> <p>Provisions Capital Contributions Deferred Embedded Lease Liability Pension Liability</p> <p><b>Long Term Liabilities</b></p>
<b>TOTAL ASSETS LESS LIABILITIES</b>	<b>NET ASSETS</b>
<p><b>Equity</b> Capital Adjustment Account Revaluation Reserve Deferred Capital Receipts Usable Capital Receipts Reserve Available-for-Sale Fin. Instruments Res. Financial Instruments Adjustment A/c Collection Fund Adjustment Account Pensions Reserve Reserves Revenue Balances</p>	<p>General Fund Balance Earmarked Reserves Deferred Liabilities Capital Receipts Deferred Capital Receipts</p> <p><b>Total Usable Reserves</b></p> <p>Revaluation Reserve Available-for-Sale Fin Inst Reserve Capital Adjustment Account Financial Instruments Adj Account Collection Fund Adjustment Account Employee Adjustment Account Pensions Reserve</p> <p><b>Total Unusable Reserves</b></p>
<b>TOTAL EQUITY</b>	<b>NET WORTH</b>

**Adjustments will include:**

**Investment Property Revaluation to Capital Adjustment Account** - Under the IFRS Code all gains and losses on investment property are charged to the Comprehensive Income and Expenditure Account and Reversed to the Capital Adjustment Account. Therefore all current balances held for Investment Properties within the Revaluation Reserve need to be moved to the Capital Adjustment Account.

**Embedded Leases** - Under the IFRS code we are required to recognise the value of assets held under embedded leases within the balance sheet, this net book value will be offset by a deferred liability on the balance sheet.

**Capital Contributions Deferred** - The contributions held against purchased assets are currently written down in line with the asset life, the new code recognises these contributions in the year that they arise and therefore requires them to be held on this account to be transferred to the Capital Adjustment Account.

**Cash Equivalents** - These are internally managed investments which have a maturity of less than 3 months of the balance sheet date.

**Annual Leave** - The accrued annual leave is shown within the creditors balance and is offset by a employee adjustment account on the lower half of the balance sheet.



**CASHFLOW STATEMENT**

SORP - Cashflow Statement
<b>REVENUE ACTIVITIES</b>
<b>Cash Outflows</b>
Cash Paid to & on Behalf of Employees / Members
Other Operating Cash Payments
Housing Benefits Paid Out & Council Tax Benefits
Parish Precepts Paid
Revenue Expenditure funded from Capital under Statute
<b>Cash Inflows</b>
Rents
Council Tax Receipts (Borough & Parish only)
NNDR Receipts from National Pool
Revenue Support Grant
DWP Grants for Benefits
Other Government Grants
Cash Received for Goods & Services
Other Operating Cash Receipts
<b>REVENUE ACTIVITIES NET CASH (INFLOW) / OUTFLOW</b>
<b>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>
<b>Cash Outflows</b>
Interest Paid
Interest Element of Finance Lease Rental Payments
<b>Cash Inflows</b>
Interest Received & Net Yield on Investments
<b>CAPITAL ACTIVITIES</b>
<b>Cash Outflows</b>
Purchase of Fixed Assets
Purchase of Long Term Investments
Other Capital Cash Payments
<b>Cash Inflows</b>
Sale of Fixed Assets
Capital Grants Received
Other Capital Cash Receipts
<b>NET CASH (INFLOW) / OUTFLOW BEFORE FINANCING</b>
<b>MANAGEMENT OF LIQUID RESOURCES</b>
Net Increase / Decrease in Short Term Deposits
Net Increase / Decrease in Other Liquid Resources
<b>FINANCING</b>
<b>Cash Outflows</b>
Repayments of Amounts Borrowed
Capital Element of Finance Lease Rentals
<b>Cash Inflows</b>
New Loans Raised
<b>(INCREASE) / DECREASE IN CASH</b>

IFRS - Cashflow Statement
<b>OPERATING ACTIVITIES</b>
<b>Cash Inflows</b>
Taxation
Grants
Sales of Goods & Rendering of Services
Interest Received
Other Receipts from Operating Activities
<b>Cash Outflows</b>
Cash Paid to & on Behalf of Employees
Housing Benefits Paid Out & Council Tax Benefits
Parish Precepts Paid
Cash Paid to Suppliers of Goods & Services
Interest Paid
Other Payments for Operating Activities
<b>Net Cash (Inflow) / Outflow from Operating Activities</b>
<b>INVESTING ACTIVITIES</b>
<b>Cash Inflows</b>
Proceeds from the Sale of Property, Plant & Equipment, Investment Property and Intangible Assets
Proceeds from Short-Term & Long-Term Investments
Capital Grants Received
Other Receipts from Investing Activities
<b>Cash Outflows</b>
Purchase of Property, Plant & Equipment, Investment Property and Intangible Assets
Purchase of Short-Term & Long-Term Investments
Other Payments for Investing Activities
<b>Net Cash (Inflow) / Outflow from Investing Activities</b>
<b>FINANCING ACTIVITIES</b>
<b>Cash Inflows</b>
Cash Receipts of Short-Term & Long-Term Borrowing
<b>Cash Outflows</b>
Repayments of Short-Term & Long-Term Borrowing
Other Payments for Financing Activities
<b>Net Cash (Inflow) / Outflow from Financing Activities</b>
<b>NET (INCREASE) / DECREASE IN CASH &amp; CASH EQUIVALENTS</b>
Cash & cash equivalents at the beginning of the reporting period
Cash & cash equivalents at the end of the reporting period
<b>(Increase) / Decrease in Cash &amp; Cash Equivalents</b>

**STATEMENT OF ACCOUNTING POLICIES****1. GENERAL**

The Statement of Accounts summarises the Council's income and expenditure for the year and its financial position at the year-end. The accounts have been drawn up in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11: Based on International Financial Reporting Standards. The Code is based on approved accounting standards, comprising International Accounting Standards (IAS), International Financial Reporting Standards (IFRS's) approved by the International Accounting Standards Board, International Public Sector Accounting Standards (IPSAS) and the Urgent Issues Task Force's (UITF) Abstracts. The accounting convention adopted for the preparation of these accounts is an historical cost basis modified by the revaluation of certain categories of assets.

**2. QUALITATIVE CHARACTERISTICS OF FINANCIAL INFORMATION**

- Relevance – in accordance with IAS 8, Accounting Polices, Changes in Accounting Estimates and Errors, the objective of the principal statements is to provide information on the Council's financial performance that is useful for assessing the stewardship of public funds and for making economic decisions.
- Reliability – the financial information can be depended upon to represent accurately the substance of the transactions that have taken place. The accounts are unbiased, free from material error, have been prepared in a prudent manner and have included all issues that would assist users to make adequate decisions on the authority's financial standing.
- Comparability – the Statement of Accounts contain comparative information about the Council so that performance may be compared with a prior period.
- Comprehension – although a reasonable knowledge of accounting and local government is required, all efforts have been made in the preparation of the financial statements to ensure that they are as easy to understand as possible.
- Materiality – an item of information is material to the accounts if its misstatement or omission might reasonably be expected to influence assessments of the Authority's stewardship and economic decisions.

**3. ACCOUNTING CONCEPTS**

- Going Concern – it is assumed that the Council will continue in operational existence for the foreseeable future and accordingly the Statement of Accounts have been prepared on a going concern basis.
- Accruals – the financial statements, other than the Cash Flow Statement, have been prepared on an accruals basis. The accruals basis requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.
- Primacy of Legislation – local authorities derive their power from statute and their financial and accounting framework is closely controlled by legislation. Where there is conflict between a legal requirement and an accounting standard, the legal requirement will take precedence.

#### **4. ACCRUALS OF INCOME AND EXPENDITURE**

Income and Expenditure of goods and services provided or received by the end of the financial year are accrued ensuring income and expenditure is accounted for in the period to which it relates.

Interest due on investment but not yet received is accrued to the appropriate financial year and is shown as interest received within the comprehensive income and expenditure account and against investments within the balance sheet.

An exception to this principle is car parking penalty charge notices which are accounted for on the day of receipt. This policy is consistently applied each year and, therefore, does not have a material effect on the year's accounts.

#### **5. ASSETS HELD FOR SALE (NON-CURRENT ASSETS)**

These are assets that have been declared surplus to the Council's operational requirements and are being actively marketed and have an estimated sale date within twelve months of the balance sheet date. They will be reported on the balance sheet date at the lower of the carrying amount or the fair value (market value) of the asset less the costs to sell the asset. Assets available for sale are not subject to depreciation.

#### **6. CASH AND CASH EQUIVALENTS**

Cash and Cash Equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and are shown on the balance sheet at their nominal value. The authority has defined cash equivalents as internally held investments with a maturity of three months or less from the balance sheet date. This is a variation from the Code, which requires all investments within this timeframe to be recognised as cash equivalents, the variation is not deemed to create a misstatement on the balance sheet.

#### **7. COUNCIL TAX AND NATIONAL NON-DOMESTIC RATES**

The Council is a billing authority and as much is required to bill local residents and businesses for Council Tax and National Non-Domestic (Business) Rates. The Council acts as an agent on behalf of the major precepting authorities, Kent County Council, Kent Police Authority and Kent and Medway Towns Fire Authority, for Council Tax and the Government for National Non-Domestic (Business) Rates.

As such the accounts only show the amount owed by and to taxpayers in respect of out Council Tax. Major precepting authorities will be shown as net debtors or creditors on the balance sheet. Similarly the accounts only show the net debtor or creditor in respect of National Non-Domestic (Business) Rates received and paid over to the Government.

The amount shown in the Comprehensive Income and Expenditure Account as the demand on the collection fund includes the accrued amount of council tax collected as well as amounts from previous year's estimates. This adjustment is subsequently reversed within the Movement in Reserves Statement to the Collection Fund Adjustment Account.

## **8. CONTINGENT ASSETS AND LIABILITIES**

Contingent assets are not recognised in the accounting statements, they are disclosed by way of notes if the inflow of a receipt or economic benefit is probable. Such disclosures should indicate the nature of the contingent asset and an estimate of its financial effect.

Contingent liabilities are not be recognised in the accounting statements, they are disclosed by way of notes if there is a possible obligation which may require a payment or a transfer of economic benefits. For each class of contingent liability the authority should disclose the nature of the contingency, a brief description, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

## **9. EMPLOYEE BENEFITS**

Three categories of employee benefits exist, under IAS 19 and IPSAS 25 Employee Benefits as detailed below.

### **Benefits payable during employment**

This covers:

- (a) Short-term employee benefits, such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees.
- (b) Benefits earned by current employees but payable twelve months or more after the end of the reporting period such as, long-service leave or jubilee payments and long-term disability benefits.

Where considered of a material nature these are accrued in accordance with Accounting Policy 4 above.

### **Termination benefits**

This covers costs that are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. These are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

In the event of notice of termination being served on an employee the costs of redundancy are accrued to the year that the notice is served, but other costs will be charged to the year they are incurred.

### **Post-employment benefits**

This not only covers pensions but also other benefits payable post-employment such as life insurance and medical care which are not offered to staff at this Council.

As part of the terms and conditions of employment of its employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs

to be disclosed at the time that employees earn their future entitlement. The Local Government Pension Scheme is administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

Under IAS 19 requires that the employer recognises as an asset or liability the surplus/deficit in a pension scheme. The surplus/deficit in a pension scheme is the excess/shortfall of the value of assets when compared to the present value of the scheme liabilities. A prerequisite of the introduction of IAS 19 was that it did not impact on taxation requirements. Where the contributions paid to the pension scheme do not match the change in the authority's recognised liability for the year, the recognised cost of pensions will not match the amount required to be raised in taxation. Any such mismatch is to be dealt with by an equivalent appropriation to or from a pension reserve. Actuarial gains/losses are shown as movements on the pensions asset/liability account and pensions reserve. There is no impact on the Comprehensive Income and Expenditure Account. The balance sheet is to show the net pension asset or liability and an equivalent pension reserve balance.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The latest formal valuation of the Kent County Council Pension Fund for funding purposes was at 31 March 2010 and changes to contribution rates as a result of that valuation will take effect from 1 April 2011.

## **10. EVENTS AFTER THE BALANCE SHEET DATE**

Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

The authorised for issue date can be any of the three dates given below:

- when the responsible finance officer certifies the statement as 'true and fair view' and makes them available to members for approval, this is normally the end of June.
- when the statement is ready for publication, this is normally the end of June.
- when the audit of the statement is certified closed, if later than the publication date, this is normally the end of September.

Events arising after the Balance Sheet date will be reflected in the Statement of Accounts if they provide additional evidence of conditions that existed at the Balance Sheet date and materially affect the amounts to be included (adjusting events). Such events:

- could materially alter an estimate of, for example, debtors, creditors or a bad debt provision, previously identified in the accounting processes
- could substitute a materially different actual figure for an estimate, or
- could reflect a permanent impairment or betterment in the financial position but only where the originating event took place prior to the year-end and the amounts are considered material to the accounts.

## **11. EXCEPTIONAL ITEMS AND PRIOR YEAR ADJUSTMENTS**

Exceptional items, when they occur, are included in the cost of the service to which they relate or on the face of the Comprehensive Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts. An adequate description of each exceptional item is given within the notes to the accounts.

Prior period adjustments arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified, and are accounted for accordingly. Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and notes and adjusting the opening balance of reserves for the cumulative effect.

## **12. FINANCIAL INSTRUMENTS**

Financial Instruments are broken down between Financial Assets (investments and debtors) and Financial Liabilities (creditors and loans payable).

Debtors and Creditors are measured at fair value and are carried in the balance sheet at amortised cost.

Investments are broken down in two ways. Firstly, by maturity in that any investment with a maturity date of more than 364 days after the balance sheet date will be classed as long-term and less than as short-term; and secondly by class of asset such as loans and receivables or available-for-sale.

Accrued interest receivable within 364 days of the balance sheet date will be recognised as part of the short term investment balance, irrespective of the date of maturity of the investment.

Unrealised gains and losses occur on externally managed funds where an active market is available for the purchase or sale of these investments. The unrealised gain or loss will not be recognised within the Comprehensive Income and Expenditure Account under Interest Received until the investment is realised or matures. The unrealised gain or loss will be recognised in the balance sheet under the investment headings but will be offset by a Financial Instruments Adjustment Account within the Council's unusable reserves.

Loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market, these are measured at fair value and are carried on the balance sheet at amortised cost.

Available-for-sale assets have a quoted active market price and do not have fixed or determinable payments. These are measured and carried on the balance sheet at fair value using determinations from our Fund Manager.

Accrued interest receivable on investments are shown against short or long term investment balances within the balance sheet depending whether the interest is due to be received within 364 days of the balance sheet date. This is contrary to the IFRS code which requires accrued interest to be shown separately within current

assets, however it is felt that it is appropriate that the entire balance for investments is shown within a single balance on the balance sheet.

The Council has one financial guarantee which was entered into prior to 1 April 2006, therefore, is not treated as a financial instrument, but as a contingent liability under Accounting Policy 8.

### **13. FOREIGN CURRENCY TRANSACTIONS**

When, and if, foreign currency transactions occur the Council will convert the amount received or paid to the prevailing sterling amount as at the date of the transaction.

### **14. GAINS OR LOSSES ON DISPOSAL OF FIXED ASSETS**

When an asset is disposed of or de-commissioned, the value of the asset and the income from the sale are both charged to the Comprehensive Income and Expenditure Account which, therefore, bears a net gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Receipts in excess of £10,000 are categorised as capital receipts. The receipt is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve via the Movement in Reserves Statement. Receipts below £10,000 are considered de-minimus and are included in revenue income.

The loss on disposal is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Movement on Reserves Statement.

### **15. GOVERNMENT GRANTS AND OTHER CONTRIBUTIONS**

Revenue grants received are accrued and credited to the Comprehensive Income and Expenditure Account in the same period as the related expenditure is incurred.

Grants specific to a particular service will be shown against the service expenditure line. General grant in the form of Revenue Support Grant and the contribution from the National Non-Domestic Rate Pool are credited and disclosed separately in the Comprehensive Income and Expenditure Account under General Government Grants.

Capital grants and capital contributions (such as Section 106 Developer Contributions) received will be credited to the Comprehensive Income and Expenditure Account in the year that the capital expenditure is incurred. This income will subsequently be transferred to the Capital Adjustment Account through the Movement in Reserves Statement.

### **16. IMPAIRMENT OF FIXED ASSETS**

A review for impairment of a fixed asset whether carried at historical cost or valuation should be carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Examples of events and changes in circumstances that indicate impairment may have been incurred include:

- a significant decline in a fixed asset's market value during the period;
- evidence of obsolescence or physical damage to the fixed asset;
- a significant adverse change in the statutory or other regulatory environment in which the authority operates;
- a commitment by the authority to undertake a significant reorganisation.

In the event that impairment is identified the value will either be written off to the revaluation reserve, where sufficient reserve levels for that asset exist or written off to revenue through the Comprehensive Income and Expenditure Account. Any impairment at the balance sheet date is shown in the notes to the core financial statements, along with the name, designation and qualifications of the officer making the impairment.

## **17. INTANGIBLE ASSETS**

These are non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights. The most common class of intangible asset in local authorities is computer software.

An intangible asset shall initially be measured at cost and is not subject to revaluation. It is, however, subject to amortisation which for computer software has been assessed as 5 years.

## **18. INVESTMENT PROPERTIES**

Investment property is property (land and/or buildings) held solely to earn rental income or for capital appreciation or both, for this authority these are properties that have been recognised as such through the Council's Asset Management Plan.

Investment property is initially recognised at cost, but is subject to valuation at fair value at the end of each accounting period, losses or gains shall be recognised in the Comprehensive Income and Expenditure statement.

Depreciation will not be charged against investment property.

## **19. LEASES**

A lease is an agreement that conveys the right to use an asset for an agreed period of time in return for payment or a series of payments. The party giving out the use of the asset is referred to as the lessor and the party receiving the use of the asset is called the lessee.

Where the lease transfers substantially all the risk and rewards associated with the ownership of an asset (title may or may not eventually be transferred) the lease is defined as a finance lease. A lease other than a finance lease is called an operating lease.

The definition of a lease includes hire purchase arrangements.

When accounting for leases of land and building. The land will be separated from the building and treated as operational lease except where from its inception the title is intended to pass over to the lessee or there are other terms in the lease that makes the lease qualify to be treated as a finance lease.



Minimum lease payments are also accounted for separately between land and buildings. Where the initial payments attributable to land are not material, land and buildings would be accounted for as one unit.

### **Finance Leases**

As lessee, the Council shall recognise finance leases as assets and liabilities at amounts equal to the fair value of the property or, if lower, the present value of the minimum lease payments.

Minimum lease payments shall be apportioned between the finance charge (interest) and the reduction of the outstanding liability. The finance charge shall be calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The authority will recognise asset under finance lease in the balance sheet at an amount equal to the net investment of the lease.

Assets recognised under a finance lease shall be depreciated. The depreciation policy for leased assets shall be consistent with the policy for owned assets. Where it is not certain that ownership of the asset will transfer at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful economic life. After initial recognition, assets recognised under a finance lease are subject to revaluation in the same way as any other asset.

### **Operating Leases**

Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the benefits received by an authority.

### **Lease-Type Arrangements**

Other contracts and arrangements will be reviewed in order to identify arrangements containing a lease.

### **Embedded Leases**

These are arrangements involving the use of assets that although not owned by the Council are used primarily by the authority for service provision.

An embedded lease will be recognised where an arrangement is dependent on the use of a specific asset and where a right to use such specific asset has been conveyed to the authority as a result of the arrangement.

An estimated value for the assets will be calculated along the leased terms and in line with the contract period. The asset will be recognised in the balance sheet at the Net Book Value and offset by a Deferred Liability. The lease charge will then form part of the contract payment on behalf of these assets on a straight line basis over the life of the asset.

## **20. OVERHEADS**

The majority of management and administrative expenses, including buildings, are allocated to Services. Costs of Support Services are allocated on the basis of estimated time spent by officers on Services and costs of buildings are apportioned on a floor area basis. The costs of Corporate Management and Democratic Core, resulting from the Council being a multifunctional authority, are allocated to a separate objective head and, in accordance with the Code of Practice, are not reapportioned.

## **21. PRIVATE FINANCE INITIATIVE (PFI)**

PFI arrangements involve the operator undertaking an obligation to provide infrastructure (and related services) that is used to provide services to the public (irrespective of who provides those services to the public). By extension, this includes providing infrastructure (and related services) for the direct use of a public sector entity where these services contribute to the provision of services to the public (e.g. office and administrative buildings).

## **22. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are tangible assets (i.e. assets with physical substance) that are; held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

The category is split into five sub categories.

Land and Buildings.  
Vehicles, Plant and Equipment.  
Community Assets.  
Infrastructure Assets.  
Assets under Construction.

### **Componentisation, Valuation and De Minimis Limits**

IFRS requires the consideration of componentisation of material items property plant and equipment, where they are of a material financial nature or have significantly differing life expectancies. Following a review of our asset registers the Council has decided to apply the policy stated below.

The Council has set a de-minimis limit of £20,000.00 for the separate valuation of an individual asset. Assets valued at less than £20,000.00 will be recorded at historic cost.

The Council has also set a de-minimis threshold of £1m for the componentisation of assets. Assets valued under £1m will continue to be recorded in the asset register but will not be subject to componentisation. Only separately identifiable components that equal 10% or more of the total value of the asset will be disclosed.

Assets are revalued on a 5-year rolling basis, targeting a minimum of 20% of the total assets for valuation every year.

Whole assets or parts of assets that are not componentised will be depreciated under our standard depreciation policy - straight line over the life of the asset.

The following non-current assets are grouped into the components stated below, subject to the above de minimis, cycle of valuation and depreciated over the stipulated number of years:

<b>Non Current Asset</b>	<b>Components</b>	<b>Period of depreciation</b>
Other Land and Buildings (Building element only)  (NB - Land is not depreciated)	Building Sub Structure	5 to 80 years
	Building Super structure	5 to 80 years
	Building Services	5 to 80 years
	Building External Works	5 to 80 years
Vehicles, Plant and Equipment	Below de-minimus	
Community Assets	Below de-minimus	
Infrastructure Assets	Treated as a single structure	
Assets under Construction	Below de-minimus	

### **Acquisition, Disposals, Depreciation Revaluation and Impairments**

Land and building are treated as separate assets and are accounted for separately.

Acquisitions, disposals, valuations, depreciation and impairment will be applied to assets in accordance to the above valuation and componentisation levels and reported in our accounts according to the statutory accounting treatment.

### **Land and Buildings**

Land and buildings are classed as separate assets and will be accounted for separately even when acquired together.

These are held on the balance sheet at cost allowing for revaluation over a five year rolling programme.

The valuations are carried out by a qualified surveyor in accordance with the latest guidance issued by the Royal Institute of Chartered Surveyors (RICS) on a market value for existing use, unless it is felt the property is of a specialist nature where depreciated replacement cost may be used. The method used on the current year's valuation will be explained in the notes to the accounts. Items of plant that are functional to the operation of a building are included in the valuation for that building.

All buildings are subject to straight-line depreciation over their estimated useful lives that will be between 5 and 60 years depending on the asset type. In accordance with recognised accounting practice land is not depreciated.

## **Vehicles, Plant and Equipment**

Major items of plant are included within the valuation of buildings above. Other items of plant are recognised in the balance sheet at cost and are subject to straight line depreciation over a period between 2 and 20 years.

## **Community Assets**

These are defined as Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and allotments.

As such these assets are held on the balance sheet at historic cost and are not subject to revaluation or depreciation.

## **Infrastructure Assets**

These are defined as fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

These assets are carried on the balance sheet at historic cost (i.e. the amount paid in acquisition) and are not subject to revaluation. These assets are subject to straight line depreciation over a period between 10 and 40 years.

## **Assets under Construction**

This covers assets currently not yet ready for operational purposes, and in this Council's case will be in operation within one year of the balance sheet date, accordingly the Council does not depreciate or revalue assets under construction.

## **Capital de-minimi**

The authority has set a de-minimis level of £10,000 for new capital plan schemes and individual items of plant and equipment etc.

Within vehicles, plant and equipment there are items whose individual value is below the de-minimis level e.g. a computer. The aggregate value of all such like items purchased in the year would exceed the de-minimis level.

## **23. PROVISIONS**

The Council sets aside provisions for liabilities or losses that are either likely to, or certain to be incurred, but uncertain as to the amount or the date on which they will arise.

Provisions are recognised when:

- (a) the Council has a present obligation (legal or constructive) as a result of a past event:
- (b) it is probable that a transfer of economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

## **24. RESERVES**

The Council maintains both general and earmarked reserves. General reserves are to meet general, rather than specific, future expenditure and earmarked reserves, such as the building repairs reserve, are for specific purposes. No expenditure is charged directly to a reserve but is charged to the service revenue account within the Comprehensive Income and Expenditure Account, this is then offset by a reserve appropriation within the Movement in Reserves Statement.

## **25. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

Payments of a capital nature to external bodies or individuals where no fixed asset owned by the Council is created, for example house renovation grants or grants to voluntary organisations. Under Statute such expenditure is amortised in full to service revenue accounts in the year the grant is paid to the organisation concerned.

## **26. STOCKS AND WORK IN PROGRESS**

Stock is valued at the latest price paid. This is a departure from the requirements of the Code and IAS 2, which require stocks to be shown at actual cost or net realisable value, if lower. The difference in value is not considered to be material. Work in progress on uncompleted jobs is valued at cost.

## **27. VALUE ADDED TAX**

VAT is included in income and expenditure accounts, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

REPORT OF THE HEAD OF AUDIT PARTNERSHIP

GOVERNANCE COMMITTEE – 16 MARCH 2011

**INTERNAL AUDIT QUARTERLY PROGRESS REPORT FOR THE PERIOD  
DECEMBER 2010 TO MARCH 2011**

**Recommendations**

<i>Members are asked to note the Internal Audit Progress Report of the Head of the Audit Partnership.</i>
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Contact Officer: Mrs C Parker, extension 2160

1.0 INTRODUCTION

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

2.0 AUDIT REPORTING

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

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

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

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

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

2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit

reports and follow-up reviews since the report submitted to the last meeting of this Committee.

### 3.0 SUMMARY OF WORK

- 3.1 There have been eight Internal Audit reports that have been completed during the period. These have been allocated assurance levels as follows: One review was classified as providing Substantial assurance, two as Reasonable assurance and one as Limited Assurance. Additionally, for four reports an assurance level was not applicable as the review related to either Housing Benefit quarterly testing or a special project. Summaries of the report findings and the recommendations made are detailed within Annex 1 to this report.
- 3.2 In addition, seven follow-up reviews have been completed during the period. These are detailed in section 3 of the quarterly update report.
- 3.3 For the nine-month period to 31<sup>st</sup> December 2010, 300.83 chargeable days were spent out of a planned total of 429.45; 70.05% of the plan had therefore been completed.
- 3.4 Other performance figures for the East Kent Audit Partnership for the third quarter of 2010-11 show good progress towards the targets.

#### **Background Papers**

- Internal Audit Annual Plan 2010-11 - Previously presented to and approved at the 24 March 2009 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

#### **Resource Implications**

There are no financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2010/11 budget.

#### **Consultation Statement**

Not Applicable.

#### **Impact on Corporate Objectives and Corporate Risks**

The recommendations arising from each individual internal audit review are designed to strengthen the Council's corporate governance arrangements, controls framework and risk management arrangements, as well as contributing to the provision of economic, efficient and effective services to the residents of the District.

#### **Attachments**

Annex 1 – EKAP Internal Audit Progress Report

CHRISTINE PARKER

Head of Audit Partnership



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

### 1. INTRODUCTION AND BACKGROUND

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

### 2. SUMMARY OF REPORTS:

	<b>Service / Topic</b>	<b>Assurance level</b>
2.1	Public Health Burials	Substantial
2.2	Data Protection, FOI and Information Management	Reasonable
2.3	Right to Buy	Reasonable
2.4	Employee Benefits-in-Kind	Limited
2.5	Housing Benefits – Quarterly Testing (Quarter 2 of 2010-11)	Not Applicable
2.6	Shared Revenues and Benefits with Dover District Council – ICT Controls	Not Applicable
2.7	Shared Revenues and Benefits with Dover District Council – Service Level Agreement	Not Applicable
2.8	Shared Payroll Controls	Not Applicable

#### **2.1 Public Health Burials – Substantial Assurance:**

##### 2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established for Public Health Act Burials, ensuring that any burials in 2009/10 were performed in line with procedures, and sufficient records maintained to safeguard the officer(s) making arrangements / fulfil statutory requirements should there be any estate.

##### 2.1.2 Summary of Findings

The management of public health burials is undertaken by environmental health and the controls in place demonstrate that all appropriate measures are being taken to avoid any unnecessary expenditure in this area. Funds are being claimed from the estate where appropriate and administration charges applied where eligible.

##### 2.1.3 Management Response

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



## **2.2 Data Protection, FOI and Information Management - Reasonable Assurance:**

### 2.2.1 Audit Scope

To ensure that the Council fulfils its statutory obligations under the Data Protection Act, the Freedom of Information Act and the Environmental Information Regulations.

### 2.2.2 Summary of Findings

The Authority has examined the implications of the respective Acts and drawn up and approved a Records Management Strategy, a Records Retention Policy and A Data Protection Policy, each of which commits to meeting the obligations of the legislation. Implicit within the Council's actions is the need for staff to be made aware of their individual obligations in meeting these policies.

The Council has made their Publications Scheme available to the public through the Internet and a wide range of data is listed as accessible via the links from these pages. Some errors were noted in the links within the publication scheme web page which lead to old information. The scheme complies with the model scheme set out by the Information Commissioner's Office (ICO) and was approved correctly under delegated powers.

Testing of requests for information made under the Data Protection Act (DPA) and the Freedom of Information Act (FOI/EIR) demonstrated that officers were responding for the most part within the reasonable time frame of 20 days set by the ICO for FOI/EIR and 40 days for DPA requests. There were very minor improvements to the system suggested and accepted.

A further element of the approach to records management is that staff should receive training on the implications of the DPA and FOI/EIR. There is an Ivysoft on-line learning module for each of the two areas. Since 2008 the combined number of modules started is 54 and of these 28 have seen all individual tests passed. The total number of officers involved in the process is 43.

### 2.2.3 Management Response

Management welcome the findings of the internal audit report and have agreed target dates for the recommendations identified as part of the review.

## **2.3 Housing Right to Buy - Reasonable Assurance:**

### 2.3.1 Audit Scope

To ensure that to ensuring that tenants are able to exercise their rights in accordance with the Housing Act 1985 (Part V) which provides for the Right to Buy.

### 2.3.2 Summary of Findings

The Authority maintains a right to buy scheme operating under the relevant legislation offering tenants the opportunity to buy their current accommodation at a discount based upon their number of years as a secured tenant. A good range of information is available to the tenant in hard copy, from the Council website and from

Government literature. Applications are handled by a skilled officer who co-ordinates the applications process prior to passing to legal for completion.

### 2.3.3 Management Response

The findings of the internal audit report have agreed implementation dates identified for the recommendations identified as part of the review. Work is in hand to implement the recommendations by the target dates.

## **2.4 Employee Benefits-in-Kind - Limited Assurance:**

### 2.4.1 Audit Scope

To ensure that the Council complies with all prevailing legislation in respect of income tax and national insurance liabilities arising on benefits-in kind. To ensure payments made through the payroll by KCC are accurate.

### 2.4.2 Summary of Findings

The Benefits in Kind review has identified multiple failings within the processes at KCC that have resulted in incorrect payment of TAX and NI, incorrect payment of mileage and expenses, and the supply of equipment that could result in a taxable benefit charge to the employee.

Significant arrears of improvement have been identified, with tighter internal control required surrounding the payment of mileage by KCC below the HMRC rate, testing has evidence current additional cost to the Authority.

The majority of the recommendations within the action plan concerned payments made through payroll and are for KCC to implement and to confirm completion to the EKHR Strategic Board.

### 2.4.3 Management Response

The recommendations arising from the audit have been shared with both the HR Partnership and KCC and will be taken forward within the relevant timescales.

## **2.5 Housing Benefit Testing (Quarter 2 of 2010-11) – An assurance level is not applicable for this work:**

2.5.1 Over the course of the 2010/11 financial year the East Kent Audit Partnership will complete a sample check of council tax, rent allowance and rent rebate and Local Housing Allowance benefit claims to support the Audit Commission's verification work.

2.5.2 For the second quarter of the 2010/11 financial year five claims, including new, cancellation and change of circumstances, of each benefit type were randomly selected for verification.

2.5.3 In total 20 benefit claims were checked and of these 3 (15%) have failed the criteria set by the Audit Commission's verification guidelines and 1 is pending further action and may result in a further error.

2.5.4 There were also a further 2 queries raised in respect of data quality but these did not affect the subsidy claim.

2.5.5 In comparison, testing for Quarter 1 of 2010-11 identified one failure (5%) and there were also two queries raised concerning data quality. The cumulative error to date identified by Internal Audit testing for 2010-11 is therefore currently 10% compared to 11.25% in 2009-10 and 8% in 2008-09.

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

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

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

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

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

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

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

2.8.1 The aim of this assignment was to assist the EKHRP in establishing an effective suite of controls over the Shared Payroll service that will be used for all four of the East Kent Cluster councils from the client side in respect of the payroll service being provided by Kent County Council. The overarching aim of these payroll controls is to keep errors on the payroll to a minimum thus ensuring staff are paid correctly.

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

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

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

Service/ Topic		Original Assurance level	Revised Assurance level	No of Recs Implemented		No of Recs Outstanding /In Progress	
a)	Insurance	Substantial	Substantial	H	0	H	0
				M	1	M	0
				L	1	L	0
b)	Performance Indicator Validation	Reasonable	Reasonable	H	0	H	0
				M	4	M	0
				L	0	L	0
c)	DTIZ/Regeneration	Reasonable /Limited	Reasonable	H	0	H	11
				M	0	M	1
				L	0	L	0
d)	Asset Management	Limited	Reasonable	H	4	H	0
				M	1	M	1
				L	0	L	1
e)	CCTV	Substantial	Substantial	H	1	H	1
				M	4	M	0
				L	2	L	0
f)	Receipt and Opening of Tenders	Reasonable	Reasonable	H	0	H	2
				M	0	M	1
				L	1	L	0
g)	Housing Rents	Reasonable	Substantial	H	1	H	0
				M	4	M	1
				L	3	L	0

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

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

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

c) DTIZ/Regeneration:

Although all of the recommendations are still ongoing and will be until such time that the development is complete, a considerable amount of progress has been made to carry out and document up to date risk assessments and to drive this flagship project forward. Milestone objectives have been put in place which includes the completion of the draft revised planning application by the Spring of 2011 that takes into account the remodelling of the site following discussions with the developer and other relevant parties.

It should be noted that there is still one area of weakness that needs to be further enhanced, which is the need to ensure that Contract Procedure Rules are adhered to in the paying of consultants and contractors through the contracts register.

We are therefore able confirm that the level of assurance placed on the internal controls remains at Reasonable Assurance on the Council's aspiration to regenerate and revitalise Dover thereby turning Dover into a "World Class Town" and is increased to Reasonable on the systems of internal control for risk management, project management and non compliance with Contract Procedure Rules for the payments to consultants and contractors.

e) Asset Management:

The Council has made very good progress towards the implementation of the recommendations contained within the original audit report, consequently the assurance has been revised to the system of internal control now providing Reasonable Assurance.

**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: Planning and Building Control, HRA Business Plan, Coast Protection, Homelessness, Performance Management and Bank Reconciliation.

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

5.1 The 2010-11 Audit plan was agreed by Members at the meeting of this Committee on 24<sup>th</sup> March 2010.

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

**6.0 FRAUD AND CORRUPTION:**

6.1 There were no other new or recently reported instances of suspected fraud or irregularity that required either additional audit resources or which warranted a revision of the audit plan at this point in time.

**7.0 INTERNAL AUDIT PERFORMANCE**

7.1 For the nine-month period ended on 31<sup>st</sup> December 2010, 300.83 chargeable days were spent out of a planned total of 429.45. Approximately 70.05% of the plan has therefore been completed.

7.2 The financial performance of the EKAP is on target and there are no concerns to highlight at this time.

7.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has improved on the range of performance indicators it records and measures. The performance against each of these indicators for 2010-11 is attached as Appendix 4. There are no concerns regarding

the resources engaged or outputs achieved at this time, and the East Kent Audit partnership has performed well against it's targets for the third quarter of 2010-11.

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

<b>Summary of High Priority Recommendations Resulting From The Period's Work</b>		
<b>RECOMMENDATION/ WEAKNESS</b>	<b>ACTION TO BE TAKEN</b>	<b>RESPONSIBILITY AND TARGET DATE</b>
<b>Data Protection, FOI and Information Management – January 2011</b>		
The issue of which authority is responsible under the Data Protection Act for registering with the ICO for the security of the personal payroll data held for non-Dover staff, needs to be resolved as a matter of urgency bearing in mind that the records have been hosted for many months since the handover began in April 2010.	The Hosting Agreement is being drafted by KCC and will be between EKS and KCC. Once agreed the appropriate DP registration will be applied for.	Performance and Risk Manager.  March 2011.
a) Managers should assume responsibility for the safe storage, recording and destruction of their service records providing an evidenced trail as required by the current Strategy and Policy.	a) A reminder for managers to comply with the retention schedule will be included in the annual review notification mentioned above.	Performance Officer and Professional Standards Officer.  April 2011.
b) The Civica Data Cleansing Module should be run as a matter of urgency.	b) The Benefits Manager has been asked to run the Civica Data Cleansing module.	Interim Revenues and Benefits Manager for EKS (MK). 30 June 2011.
<b>Employee Benefits in Kind – November 2010</b>		
KCC should immediately amend the treatment of essential car user payments for PAYE purposes to ensure that this is taxed at source for all employees. This should also include the adjustment for under payment of TAX to date.	Actioned in the presence of the Auditor. This was corrected prior to September's payroll run.	Completed.
KCC should immediately amend the treatment of essential car user payments for NI, as it is currently being treated as a Nlable element twice within the calculations. This should also include the adjustment for over payment of NI to date.	Actioned in the presence of the Auditor. This was corrected prior to September's payroll run.	Completed.

<b>Summary of High Priority Recommendations Resulting From The Period's Work</b>		
<b>RECOMMENDATION/ WEAKNESS</b>	<b>ACTION TO BE TAKEN</b>	<b>RESPONSIBILITY AND TARGET DATE</b>
KCC should immediately amend the treatment of cash for car mileage claims paid to date for PAYE & NI purposes to ensure that full relief is obtained, including back dating for the year to date.	<p>The PAYE status of this element has now been changed to include the taxable benefit with immediate effect for all new claims. All authorities have been reviewed and amended where necessary.</p> <p>We are happy to back date this amendment with effect from next month, but will first require confirmation that DDC are happy for this to be immediately corrected.</p>	<p>Confirmation needed by 05/11/10 to make changes for November payroll run.</p> <p>Confirmation facilitated by the Auditor.</p> <p>KCC to implement and to confirm completion to the EKHR Strategic Board.</p>
KCC should immediately amend the treatment of cash for car mileage claims paid to date for employers NI to reduce the amount payable by the authority, including back dating for the year to date.	<p>This has been amended with immediate effect for all new claims. All authorities have been reviewed and amended where necessary.</p> <p>This was caused by a single error to the master scheme that was the base consistently replicated across all authorities</p>	<p>Confirmation needed by 05/11/10 to make changes for November payroll run.</p> <p>Confirmation facilitated by the Auditor.</p> <p>KCC to implement and to confirm completion to the EKHR Strategic Board.</p>



<b>Summary of High Priority Recommendations Resulting From The Period's Work</b>		
<b>RECOMMENDATION/ WEAKNESS</b>	<b>ACTION TO BE TAKEN</b>	<b>RESPONSIBILITY AND TARGET DATE</b>
The Council must ensure that all new processes put in place for the processing of mileage claims and expenses are rigorously tested. Key controls must be identifiable and also auditable. The Auditor has detected key failures in the processing of both mileage and expenses payments at another East Kent council, and this should inform checks made at Dover District Council.	Agreed. Any new process will require rigorous testing to alleviate risk.	Timeline unknown.  Director of Finance and ICT (MD)  Director of Governance (DR)
<b>Right to Buy – February 2011</b>		
The cost floor provision list should be reinstated to ensure that discounts are correctly allowed.	Action Added to the procedure for RTB. Email request will be made to property services to provide the information. It will then be checked against sale price to ensure correct discount is applied.	Housing Services Manager.  1 Feb 2011

<b>Summary of High Priority Recommendations Outstanding Or In Progress After Follow-Up</b>			
<b>Original Recommendation</b>	<b>Agreed Management Action at the Time of the Final Report</b>	<b>Responsibility and Original Target Date</b>	<b>Manager's Comment on Progress Towards Implementation.</b>
<b>DTIZ/Regeneration – December 2010</b>			
1. Any future redrafts of the 2010 to 2013 Corporate Plan should include deliverables in the form of key milestones for the Dover Town Investment Zone.	The Regeneration Team has proposed, through its annual service plan, to refocus its efforts on project management with the aim of delivering key projects. If this is agreed by CMT, then a more structured project management system can be introduced and key milestones and related information will be identified and monitored within the new Covalent system. In the case of DTIZ, Bond City will be presenting to Cabinet on 10 May and a report will be placed before Council on 19 May.	Second Quarter 2010/11 – Regeneration Manager and Head of Regeneration.  Report to Cabinet 10 May and Council 19 May in respect of DTIZ.	The 2010 – 2013 Corporate Plan makes no clear reference to the DTIZ project.  Reports went to Cabinet and Council in May, July and November 2010 along with Bond carrying out a presentation to council in May.  The Director of Regeneration has acknowledged that time is now of the essence to get this development started. As Aim is draft planning application by April 2011 and the full planning application submitted by June 2011.  (Revised application has to be submitted as the new scheme is different to the one that planning permission has been granted on)  Also as part of the restructure within the authority, the Regeneration team will be working with the Forward Planning team under another director. The Director of Regeneration post is becoming the Head of Inward Investment and this role will be strategic while the new directorate

Summary of High Priority Recommendations Outstanding Or In Progress After Follow-Up			
Original Recommendation	Agreed Management Action at the Time of the Final Report	Responsibility and Original Target Date	Manager's Comment on Progress Towards Implementation.
			<p>under Mike Dawson will be responsible for delivery of regeneration projects</p> <p><b>Recommendation is ongoing</b></p>
<p>2. The Council should establish a formal corporate project management methodology that is consistently used across the Council, used by all staff and driven forward by CMT.</p>	<p>See recommendation 1 above. However, it is suggested that the Project Advisory Group (which includes key members of CMT) undertakes the role of Project Board enabling projects to be driven forward.</p>	<p>Project Advisory Group to be requested to act as Project Board – May 2010. Head of Regeneration.</p>	<p>The report that went to the Extraordinary Council on the 3<sup>rd</sup> November approved the recommendation that Director of Regeneration convenes the DTIZ Working Group at an appropriate time as options emerge.</p> <p>In addition the Director of Regeneration has been requested to report back to Council in 6 months or sooner if so required on progress of the project.</p> <p>The 2010/11 Service Plan has identified project management development as part of the departmental training programme.</p> <p>PAG notes of 15<sup>th</sup> October 2010 show that</p> <p><b>Recommendation is ongoing</b></p>
<p>3. Management should develop a resilient contingency plan or succession plan to include the</p>	<p>The Regeneration Team has reallocated resources to increase the number of project managers</p>	<p>Additional consideration should be given to this via the Employment Stability Review –</p>	<p>As part of the restructure within the authority, the Regeneration team will be working with the Forward Planning</p>

<b>Summary of High Priority Recommendations Outstanding Or In Progress After Follow-Up</b>			
<b>Original Recommendation</b>	<b>Agreed Management Action at the Time of the Final Report</b>	<b>Responsibility and Original Target Date</b>	<b>Manager's Comment on Progress Towards Implementation.</b>
provision of additional management support to avoid the loss of organisational memory if something should happen to the officers responsible for the various regeneration projects.	by 1FTE. This means that the Head of Regeneration will be able to provide the resilience and management required as he will no longer undertake a project management role.	June/July 2010.	team under another director. The Director of Regeneration post is becoming the Head of Inward Investment and this role will be strategic while the new directorate under Mike Dawson will be responsible for delivery of regeneration projects  <b>Recommendation is ongoing</b>
4. All future possible expenditure for the DTIZ development should be identified to estimate what funding will be required to complete the project. This should include an internal valuation of the properties and land that need to be purchased.	This needs to be seen in the context of revised proposals coming forward through the current Development Partner – in the absence of these, DDC will be liaising further with the regeneration agencies. This will be reviewed by the Project Advisory Group.	This will be determined following consideration by Cabinet and Council following the presentation and report on 10 May and 19 May respectively.	Discussion are ongoing with SEEDA in respect of the releasing of the final grant monies before the organisation ceases to exist. This grant money is important as an owner of one of the pockets of land that is required for the development has expressed an interest in selling.  In the report of 3 <sup>rd</sup> November 2010 it was noted that no budget has been allocated within the MTFP / MTCP for DTIZ expenditure beyond 2010/11. No resource implications have been identified in this report but should any arise they will need to be financed from the Council's limited revenue or capital resources.  <b>Recommendation is ongoing</b>
5. For each of the regeneration projects that Dover District	This will be determined through the Project Brief/Capital Appraisal	This will be determined through the Project Advisory	In the report of 3 <sup>rd</sup> November 2010 it

<b>Summary of High Priority Recommendations Outstanding Or In Progress After Follow-Up</b>			
<b>Original Recommendation</b>	<b>Agreed Management Action at the Time of the Final Report</b>	<b>Responsibility and Original Target Date</b>	<b>Manager's Comment on Progress Towards Implementation.</b>
Council is involved in there should be in pace an estimate of possible future expenditure (i.e. Land Bridge) to ensure that funds are available from within the MTFP or to identify where the required monies can be obtained from (i.e. grants).	process.	Group and reported to CMT.	was noted that no budget has been allocated within the MTFP / MTCP for DTIZ expenditure beyond 2010/11. No resource implications have been identified in this report but should any arise they will need to be financed from the Council's limited revenue or capital resources.
6. The BBP Regeneration risk assessment of December 2008 for DTIZ should be updated to take into account the current position of the risks identified and to identify new risks that have identified themselves as the regeneration project has developed and what would happen if the development did not take place.	The Regeneration Risk Register will be updated regularly with a quarterly report being considered by the Project Advisory Group	This will be determined through the Project Advisory Group and reported to CMT.	PAG notes of 15 <sup>th</sup> October 2010 had a piece on a risk assessment that was being carried out on DTIZ.  Extract from minutes <ul style="list-style-type: none"> <li>• "D Randall submitted a draft Risk Assessment which was being prepared as a working paper to help inform the report for Members and help them come to a decision and asked for the Group's comments by close of play on Tuesday 19 October. The report would be submitted to Council on 3 November and would need to be considered at CMT on 26 October.</li> <li>• It was suggested that the risk assessment should appear in the report to Council as a</li> </ul>

Summary of High Priority Recommendations Outstanding Or In Progress After Follow-Up			
Original Recommendation	Agreed Management Action at the Time of the Final Report	Responsibility and Original Target Date	Manager's Comment on Progress Towards Implementation.
			<p>table/matrix.</p> <p>Updated risk assessment was completed in October 2010 by the Project Board.</p> <p><b>Recommendation is ongoing</b></p>
<p>7. Risk assessments should be documented , reviewed and updated on a continual basis throughout the life of the regeneration projects in a formal format and included within the operational risk register for Regeneration that also needs to be put in place.</p>	<p>This will become a role for the Project Advisory Group who will document the risk management activity.</p>	<p>To be considered by the Project Advisory Group – May 2010.</p>	<p>PAG notes of 15<sup>th</sup> October 2010 had a piece on a risk assessment that was being carried out on DTIZ.</p> <p>Extract from minutes</p> <ul style="list-style-type: none"> <li>• “D Randall submitted a draft Risk Assessment which was being prepared as a working paper to help inform the report for Members and help them come to a decision and asked for the Group's comments by close of play on Tuesday 19 October. The report would be submitted to Council on 3 November and would need to be considered at CMT on 26 October.</li> <li>• It was suggested that the risk assessment should appear in the report to Council as a table/matrix.</li> </ul>

<b>Summary of High Priority Recommendations Outstanding Or In Progress After Follow-Up</b>			
<b>Original Recommendation</b>	<b>Agreed Management Action at the Time of the Final Report</b>	<b>Responsibility and Original Target Date</b>	<b>Manager's Comment on Progress Towards Implementation.</b>
			Updated risk assessment was completed in October 2010 by the Project Board.  <b>Recommendation is ongoing</b>
8. As the revised corporate plan has now been approved by members, there is the need to ensure that management action is now carried out to address the risk as stated in the quarterly performance report for regeneration.	See response at recommendation 8 above	As above.	See 8 above  <b>Recommendation is ongoing</b>
9. The Head of Regeneration should ensure that all correspondence is saved within the shared area of the system and not within the personal inbox. This would be in compliance with the ICT Security Policy.	This needs to be reviewed. The implication here is that all email traffic or attachments across the authority should be copied and saved. Central storage of such documentation is relevant only for projects. Activity around potential regeneration activity is only of benefit corporately if a project emerges from it. At that stage, a formal project brief with all the relevant information will be available to the PAG and passed to the relevant project manager	Second quarter 2010/11 and via liaison with ICT and Head of Regeneration.	From discussions with the Director of Regeneration emails are being saved on the shared area where appropriate.  <b>Recommendation is ongoing</b>
10. Utilise all forms of communication (i.e. the district wide newsletter) to keep the residents informed	See response at recommendation 10 above	As above.	Press releases have been issued to update on the current position with the DTIZ scheme The intranet pages on Regeneration

<b>Summary of High Priority Recommendations Outstanding Or In Progress After Follow-Up</b>			
<b>Original Recommendation</b>	<b>Agreed Management Action at the Time of the Final Report</b>	<b>Responsibility and Original Target Date</b>	<b>Manager's Comment on Progress Towards Implementation.</b>
on the current position of the various regeneration projects that are in place and where necessary take guidance from the Communication Group headed up by Head of Business and Community Transformation on the best channels to be used (Press, Radio etc).			have not been updated since 2007  <b>Recommendation is still ongoing</b>
<b>CCTV – February 2011</b>			
1. An internal procedure to monitor the Police vetting renewal dates should be established to ensure that the reviews are not overlooked.	The reviews are a Police initiative, and it is their responsibility to maintain current records. However, it is accepted that it would be advantageous for the CCTV Unit to independently monitor this.	CCTV (Operations) Manager – ongoing requirement.	Diarised for 2011.
<b>Receipt and Opening of Tenders – February 2011</b>			
1. To ensure that has e-tendering is developed that controls are put in place so that the processes set by the Democratic Services Team comply with Contract Standing Orders.	This will be included in the Procurement work plan that is being put in place.	Financial Services Supervisor -December 2010.	At the last Procurement Panel (January 2011) meeting discussions were held in respect of the e-tendering process with ICT about exploring with ICT possible future electronic options. (e-mail etc).
2. The Monitoring Officer to ensure that the relevant officer delegations are in place so that the Democratic Services Manager and	The required amendments to the Constitution will be made to clearly delegate authority as part of the 2010 Constitution Review.	Head of Governance - December 2010.	The major review of the Constitution has not yet been completed due to the constant requirements for updating to reflect changes to the structure of CMT, the New Executive



<b>Summary of High Priority Recommendations Outstanding Or In Progress After Follow-Up</b>			
<b>Original Recommendation</b>	<b>Agreed Management Action at the Time of the Final Report</b>	<b>Responsibility and Original Target Date</b>	<b>Manager's Comment on Progress Towards Implementation.</b>
Officers are able to carry out their role within the tender opening and receipting process.			arrangements.

<b>Services Given Limited or No Assurance Levels To Be Reviewed</b>				
<b>Service</b>	<b>Reported to Committee</b>	<b>Level of Assurance</b>	<b>Management Action</b>	<b>Follow-up Action Due</b>
Leasehold Services	16-06-10	Limited	Management action plan agreed and in the process of implementation.	Early Spring 2011
Procurement	29-09-10	Limited	Management action plan agreed and in the process of implementation.	Early Spring 2011
Employee Benefits-in-Kind	16-03-11	Limited	Management action plan agreed and in the process of implementation.	Early Spring 2011
Child Protection	29-09-11	Limited	Management action plan agreed and in the process of implementation.	Early Spring 2011

**PROGRESS AGAINST THE AGREED 2010-11 AUDIT PLAN.**

<b>Review</b>	<b>Original Planned Days</b>	<b>Revised Planned Days</b>	<b>Actual days to 31-12-10</b>	<b>Status and Assurance Level</b>
<b>FINANCIAL SYSTEMS:</b>				
Housing Benefits – Payments	10	10	0.17	Quarter 4
Shared Revenues and Benefits database with Thanet District Council	10	5.49	5.49	Finalised – Not Applicable
Housing Benefits – Quarterly Testing	20	20	12.37	2009-10 Quarter 4 – Finalised 2010-11 Quarter 1 – Finalised
Payroll	5	5	3.37	Work-in-Progress
Bank Reconciliation	5	5	0.17	Work-in-Progress
Miscellaneous Income/Cash Collection	15	15	0.17	Work-in-Progress
Business Rates	10	8.22	8.22	Finalised - Substantial
<b>HOUSING SYSTEMS:</b>				
Housing Rents	10	9.51	9.51	Finalised - Reasonable
HRA Business Plan	8	8	1.09	Work-in-Progress
Right to Buy	8	9.99	9.99	Finalised - Reasonable
Homelessness	10	10	0.3	Work-in-Progress
<b>ICT SYSTEMS:</b>				
ICT – Procurement and Disposal	7	0	0	Include in 2011-12 plan
ICT - Internet and e-mail	7	0	0	Include in 2011-12 plan
ICT – Physical and Environment	7	0	0	Include in 2011-12 plan
<b>HUMAN RESOURCES RELATED:</b>				
Recruitment and CRB	10	0.17	0.17	Deleted from Plan due to very low levels of recruitment.
Absence Management	10	11.98	11.98	Finalised – Not Applicable
<b>GOVERNANCE RELATED:</b>				
Data Protection and FOI	10	13.76	13.76	Finalised - Reasonable
Members' Code of Conduct and Standards Arrangements	8	7.77	7.77	Finalised - Substantial
Performance Management	10	10	0.17	Work-in-Progress
Value for Money Strategy	10	11.31	11.31	Finalised - Reasonable
Business Continuity	10	10	0.51	Finalised - Limited
Corporate/CMT/Committee	30	34	28.1	Work-in-Progress throughout 2010-11

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-10	Status and Assurance Level
<b>CONTRACT RELATED:</b>				
Compliance with Contract Standing Orders	15	4.76	0.45	May 2011
Contract Monitoring	10	10	0.25	Work-in-Progress
Receipt and Opening of Tenders	5	3.62	3.62	Finalised – Reasonable
Procurement	15	17.16	17.16	Finalised - Limited
<b>SERVICE LEVEL:</b>				
Employee Benefits-in-Kind	10	14.8	14.8	Finalised - Limited
Customer Services/Gateway	10	0	0	Delete from plan to accommodate higher risk audit work and include in 2011-12 plan.
Public Health Burials	8	8.04	8.04	Finalised - Substantial
Coast Protection	10	10	1.72	Quarter 4
Cemeteries	10	10.82	10.82	Finalised - Substantial
Planning and Building Control	20	20	7.83	Work-in-Progress
Museums	10	0	0	Delete from plan to accommodate higher risk audit work
Electoral Registration	10	0	0	Delete from plan to accommodate higher risk audit work
Equality and Diversity	7	0.37	0.37	Delete from plan to accommodate higher risk audit work
Disabled Facilities Grants	10	9.63	9.63	Finalised – Substantial
CCTV	10	11.35	11.35	Finalised - Substantial
<b>OTHER</b>				
Liaison with Audit Commission	5	3	0.53	Work-in-Progress throughout 2010-11
Follow-up Work	15	25	21.49	Work-in-Progress throughout 2010-11
<b>UNPLANNED WORK</b>				
Procurement Panel	0	5	1.45	Work-in-Progress
Sheltered Accommodation Expenditure	0	4	0	Finalised
EK Services – Validation of Tranche 1 Performance Indicators	0	4.1	4.1	Finalised
<b>FINALISATION OF 2009-10 AUDITS</b>				

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-10	Status and Assurance Level
Child Protection	19.45	62.6	15.03	Finalised - Limited
Insurance			3.39	Finalised – Substantial
Choice Based Lettings			5.95	Finalised – Substantial
Debtors			5.39	Finalised - Reasonable
Housing Benefits – Fraud Investigation Arrangements			1.28	Finalised – Limited
Regeneration			1.97	Finalised – Reasonable/Limited
Main Accounting System			0.47	Finalised – Substantial
Housing Benefits - Overpayments			3.55	Finalised – Substantial
Write-offs			0.75	Finalised – Limited/Nil
Climate Change			0.33	Finalised – Reasonable
Performance Management			0.07	Finalised – Reasonable
Employee Health & Safety			12.35	Work-in-Progress
Leasehold Services			0.31	Finalised – Limited
Local Code of Corporate Governance			2.53	Finalised – Substantial
Payroll			0.41	Finalised – Reasonable
Risk Management	8.82	Finalised - Reasonable		
<b>Total</b>	<b>429.45</b>	<b>429.45</b>	<b>300.83</b>	<b>70.05% Complete as at 31-12-10</b>
<b>UNPLANNED ADDITIONAL WORK</b>				
Interreg Grant – Customer Services	4	4	3.44	First Level Controller sign off charged to project

**BALANCED SCORECARD – QUARTER 3**

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2010-11 Actual</u>	<u>Target</u>
	Quarter 3				
Chargeable as % of available days	87%	75%	Cost per Audit Day (Reported Annually)		£300
Chargeable days as % of planned days	70%	75%			
Follow up Reviews;					
<ul style="list-style-type: none"> <li>• Issued</li> <li>• Not yet due</li> <li>• Now overdue for Follow Up</li> </ul>	24 13 4	- - 0			
Percentage compliance with the CIPFA Code for Internal Audit 2006	97%	97%			

**BALANCED SCORECARD – QUARTER 3**

<b><u>CUSTOMER PERSPECTIVE:</u></b>	<b><u>2010-11 Actual</u></b>	<b><u>Target</u></b>	<b><u>INNOVATION &amp; LEARNING PERSPECTIVE:</u></b>	<b><u>2010-11 Actual</u></b>	<b><u>Target</u></b>
	<b>Quarter 3</b>			<b>Quarter 3</b>	
<b>Number of Satisfaction Questionnaires Issued;</b>	<b>32</b>		<b>Percentage of staff qualified to relevant technician level</b>	<b>76%</b>	<b>75%</b>
<b>Number of completed questionnaires received back;</b>	<b>6</b>		<b>Percentage of staff holding a relevant higher level qualification</b>	<b>32%</b>	<b>32%</b>
<b>Percentage of Customers who felt that;</b>			<b>Percentage of staff studying for a relevant professional qualification</b>	<b>24%</b>	<b>24%</b>
<ul style="list-style-type: none"> <li><b>• Interviews were conducted in a professional manner</b></li> </ul>	<b>100%</b>	<b>100%</b>	<b>Number of days technical training per FTE</b>	<b>3.05</b>	<b>3.5</b>
<ul style="list-style-type: none"> <li><b>• The audit report was 'Excellent or Very Good'</b></li> </ul>	<b>83%</b>	<b>90%</b>	<b>Percentage of staff meeting formal CPD requirements</b>	<b>32%</b>	<b>32%</b>
<ul style="list-style-type: none"> <li><b>• That the audit was worthwhile.</b></li> </ul>	<b>83%</b>	<b>100%</b>	<b>Number of business efficiency/ service Improvement recommendations introduced</b>	<b>10</b>	<b>-</b>



## Appendix 6

### 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.



REPORT OF THE HEAD OF AUDIT PARTNERSHIP

GOVERNANCE COMMITTEE – 16 MARCH 2010

**INTERNAL AUDIT CHARTER, STRATEGY AND 2011-12 PLAN**

**Recommendations**

<i>Members are asked to consider and adopt the Internal Audit Charter, the Internal Audit Strategy and consider and approve the Internal Audit 2011-12 plan of work</i>
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Contact Officer: Mrs C Parker, extension 2160

**1.0 Introduction and Background**

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

**2.0 Audit Charter**

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

**3.0 Audit Strategy**

- 3.1 The Internal Audit Strategy, attached as Annexe B, details how the East Kent Audit Partnership will provide the Internal Audit function for the year to 31<sup>st</sup> March 2012. The strategy sets out the resources required across the four partnership sites and details how the resource requirements will be met.
- 3.2 The Audit Plan for the year 2011 to 2012 is attached as Annexe C and has been produced from an audit software database (APACE) maintained by the EKAP which

records our risk assessments on each service area based upon previous audit experience, criticality, financial risk, risk of fraud and corruption etc.

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

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

- 4.1 This report is presented to Members by the Council's Director of Finance whose s.151 responsibility it is to maintain an effective internal audit plan. In the interests of openness and transparency and in order to enable Members to make an informed decision on the internal audit plan presented for their approval consideration should also be given to the opinion of the Head of Internal Audit on the effectiveness of the plan.
- 4.2 In the professional opinion of the Head of the East Kent Audit Partnership the draft 2011-12 internal plan presented for Members consideration represents an effective internal audit plan which ensures reasonable coverage of the vast majority of the Council's operations within a three year period. The Head of the East Kent Audit Partnership recommends to Members the approval of the 2011-12 internal audit plan.
- 4.3 In order to assist the Council's finances during the current economic recession the size of the Council's internal audit plan has been reduced slightly in the short term. In 2011-12 it is proposed to reduce the plan from 420 to 400 days.
- 4.4 In 2012-13 and 2013-14 it is proposed to reduce the size of the plan to 380 days per annum. This will have a small impact upon the Council's ability to cover all areas of the Council's operations within a three-year cycle however I am confident that ensuring that it is the low risk areas, which fall outside of the three-year plan during this time, can mitigate this risk.

## **5.0 Recommendations**

- 5.1 That Members approve to adopt the Internal Audit Charter.
- 5.2 That Members approve to adopt the Internal Audit Strategy for delivery of the internal audit service.
- 5.3 That Members approve the Council's Internal Audit Plan for 2011/12

## **6.0 Background Papers**

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

## **7.0 Resource Implications**

There are no additional financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2011/12 budget.

## **8.0 Consultation Statement**

Not Applicable.

## **9.0 Impact on Corporate Objectives and Corporate Risks**

The recommendations arising from each individual internal audit review are designed to strengthen the Council's corporate governance arrangements, controls framework and risk management arrangements, as well as contributing to the provision of economic, efficient and effective services to the resident of the District.

### **Attachments**

- |          |   |
|----------|---|
| Annexe A | East Kent Audit Partnership Charter   |
| Annexe B | East Kent Audit Partnership Strategy  |
| Annexe C | Dover District Council draft 2011-12 Internal Audit Plan and 3 year strategic Internal Audit Plan |

CHRISTINE PARKER

Head of Audit Partnership

The officer to whom reference should be made concerning inspection of the background papers is the Head of Audit Partnership, White Cliffs Business Park, Dover, Kent CT16 3PJ. Telephone: (01304) 821199, Extension 2160.



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

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

## **1 Introduction**

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

## **2 Terms of Reference**

### **2.1 Strategy & Purpose**

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

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

This definition sets out the primary purpose of the Audit Partnership, but the guidance also recognises that other work may be undertaken which may include consultancy services and fraud-related work. Where relevant and applicable the Audit Partnership also follows the professional and ethical standards of the Institute of Internal Auditors, being that many of the staff are members of this Institute.

### **2.2 Scope**

- 2.2.1 Audit shall appraise and review:

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

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

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

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

## 2.3 Authority

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

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

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

- a) carry out activities in an orderly, efficient and effective manner,
- b) ensure that policies and directives are adhered to,
- c) ensure compliance with statutory requirements,
- d) safeguard assets & to prevent fraud,
- e) maintain complete and reliable records and information, and
- f) prevent waste & promote best value for money.

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

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

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

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

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

- 3.2.1 It is the responsibility of management, not auditors, to maintain systems of internal control.
- 3.2.2 To preserve its independence and objectivity, staff involved in the Audit Partnership shall not have direct responsibility for, or authority over, any of the activities subject to audit review. Staff transferring to EKAP may not review an area they were previously operationally responsible for, for a period of two years (current year plus one).
- 3.2.3 The involvement of an auditor through conducting an audit review, or providing advice, does not in any way diminish the responsibility of line management for the proper execution and control of their activities.
- 3.2.4 Co-operative relationships will be fostered with management to enhance the ability of the Audit Partnership to achieve its objectives effectively.

3.2.5 All employees should have complete confidence in the integrity, independence and capability of the Audit Partnership. We recognise that the relationship between auditors and service managers is a privileged one, and information gained in the course of audit work will be treated confidentially, and only reported appropriately.

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

3.3.1 The Head of Audit Partnership will have regular monthly meetings with each of the Partner's Section 151 Officer / nominated client officer. Any events that may have an adverse affect on the audit plan, or a significant impact on the Council will be reported immediately.

3.3.2 Any high risk matters of concern, which have not been adequately dealt with after an appropriate period of time and after follow up, will be escalated to the Section 151 Officer / nominated client officer, who will be asked to decide for each high risk matter whether:

- Resources should be allocated to enable the risk to be reduced in the agreed way, or
- To approve that the risk will be accepted and tolerated, or
- To determine some other action to treat the risk.

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

3.4.1 The East Kent Audit Partnership overall performance is reported to all the partner authorities annually. Key performance measures and indicators have been agreed and these are also reported quarterly. As well as individual assurance reports, and the quarterly Audit Committee reports, an Annual Audit Report will:

- Provide an individual summary of the work completed for each Partner,
- Compare actual audit activity with that planned, and summarise the performance of the East Kent Audit Partnership against its performance criteria, and
- Include the cost of the service for the partner.

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

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

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

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

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

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



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

### 3.7 Other Regulators, Inspectors and Audit Bodies

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

## 4 Competence and Standards of Auditors

### 4.1 Competence

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

### 4.2 Standards

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

### 4.3 Quality Assurance

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

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

## 5 Audit Process

### 5.1 Planning

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

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

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

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

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

## 5.2 Documentation

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

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

## 5.3 Consultation

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

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

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

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

- ensure that information gathered is accurate and properly interpreted,
- allow Management to present adequate/reliable evidence to ensure a balanced judgment is formed,

- ensure recommendations add value, are cost effective and practicable, and
- keep Management informed of the progress of the audit.

## 5.4 Reporting

- 5.4.1 A written discussion document is prepared and issued by the responsible Auditor at the conclusion of each audit. Prior to its issue, the appropriate Audit Manager reviews the discussion document together with the supporting working papers. The purpose of this document is to allow the service manager the opportunity to challenge any of the findings of the review.
- 5.4.2 The draft document will contain an outline action plan listing proposed individual recommendations for internal control improvement. These recommendations are categorised to indicate whether there is a high, medium or low risk of the control objectives failing. It is at this stage that the Service Manager accepts or negotiates that the risks are in fact present, that they accept responsibility for the risks and discuss how they proposed to control them.
- 5.4.3 The document is then updated, and if changes are required following the discussion, is presented to the Service Manager as a Draft Report. On completion of the Action Plan, a final version of the report containing “Agreed Actions” is issued to the Service Manager with a copy to the relevant Director. Additional copies are circulated as agreed with each Partner Authority.
- 5.4.4 The agreed actions will be followed up, and high priority recommendations will be tested to ensure they have been effective after their due date has passed.
- 5.4.5 Audit reports are to be clear, objective, balanced and timely. They are to be constructed in a standardised format which will include:
- The objectives of the audit,
  - The scope of the audit, and where appropriate anything omitted from the review,
  - An overall conclusion and opinion on the subject area,
  - Proposed actions for improvement,
  - Service Manager’s comments (where appropriate), and
  - A table summarising all the Proposed/Agreed Actions, risk category, a due date and any management responses.
- 5.4.6 In addition to individual audit reports for each topic, the performance of the East Kent Audit Partnership is analysed and reviewed as described in section 3.4 of this Charter.

## 5.5 Follow Up

- 5.5.1 The Audit Partnership will follow up on management action arising from its assignments. Each individual recommendation is recorded on the specialist auditing software used. Each recommendation is classified as to whether it is high, medium or low risk. The due date for implementation and the responsible person are also recorded.
- 5.5.2 Following the last due date within the Action Plan, the auditors follow up whether or not action has been taken to reduce the identified risk. They ask the responsible officer for each individual recommendation whether:

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

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

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

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

## **6 Amendment to Charter**

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

February 2011



# **INTERNAL AUDIT STRATEGY**

2011-12

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January 2011

## **1. Introduction**

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

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

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

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

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

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

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

### **3.1 Internal Audit Objectives**

The EKAP seeks to deliver effective outcomes by;

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

### **3.2 Audit Planning Methodology and Scope of Coverage**

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

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

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

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

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

### 3.3 Strategic Audit Plans

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

The relevant draft strategic audit plan for 2010-13 is attached as ANNEX D.

### 3.4 Annual Audit Plan 2011-12

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

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

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

### 3.5 Audit Plan Resource Requirements

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

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

### 3.6 Staff Resources

Dover District Council is the host authority for the shared internal audit service therefore it employs or contracts with all the staff engaged to deliver the service. The current team is made up of nine full or part time staff all providing a range of skills and abilities within the Internal Audit profession. Those staff accredited to a professional body are required to record their Continued Professional Development (CPD) in order



to evidence that they maintain their skills and keep up to date. Additionally, the staff are bound by the professional standards and code of ethics for their professional body, either CIPFA, the ACCA or the IIA.

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

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

#### **4. Additional Services**

##### **4.1 Special Investigations and Fraud Related Work**

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

Consequently, a provision for any additional time in the event of fraud related work being required has not been included in any of the annual audit plans. Any special investigations which the EKAP is requested to undertake may be accommodated from re-allocating time within the relevant partner's own plan, or through buying in additional resource to either investigate the case, or to back-fill whilst partnership staff carry out the investigation. The provision of resources decision will be made on a case-by-case basis in conjunction with the relevant partner's s.151 Officer and other management as necessary.

An added advantage due to the flexibility of the arrangements within the EKAP means that we are able to use auditors who are not known at an authority to complete special investigations as this strengthens independence.

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

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

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

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

### **5. Independence**

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

### **6. Quality assurance**

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

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

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

#### **References:**

Audit Charter

Audit Manual

CIPFA Code of Practice for Internal Audit 2006

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

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
<b>Financial Systems:</b>							
Capital	2009-10	Reasonable	8	3	<b>Risk</b> – MAS critical to the production of the Financial Statements. <b>CP</b> – Ensure that spending plans and financial management respond to prevailing economic circumstances.		8
Treasury Management	2009-10	Substantial	8	3	<b>Risk</b> – Potentially Limited scope for safe investments in the current economic climate. <b>CP</b> – Ensure that spending plans and financial management respond to prevailing economic circumstances.		8
Car Parking and PCNs	2010-11	Substantial				10	
Bank Reconciliation	2010-11	2010-11 WIP				6	
Creditors and CIS	2009-10	Substantial				9	
Main Accounting System	2009-10	Substantial	10	3	<b>Risk</b> – MAS critical to the production of the Financial Statements. <b>CP</b> – Ensure that spending plans and financial management respond to prevailing economic circumstances.		10
Miscellaneous Income/Cash Collection and Internet payments	2010-11	2010-11 WIP				10	
Budgetary Control	2009-10	Substantial	10	3	<b>Risk</b> – MAS critical to the budgeting processes. <b>CP</b> – Ensure that spending plans and financial management respond to prevailing economic circumstances.		10
Insurance	2009-10	Substantial	8	2	<b>Risk</b> – Potential to be over or under insured against risks.		

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

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
<b>Residual Housing Systems:</b>							
Homelessness	2010-11	Substantial				10	
Rent Deposit Scheme	2010-11	Substantial					6
Right to Buy	2010-11	Reasonable					7
HRA Business Plan	2010-11	2010-11 WIP					8
<b>Governance Related:</b>							
Data Protection; Freedom of Information; and Information Management.	2009-10	Reasonable					10
Governance Investigations	New Audit Area	Previously undertaken by Governance Investigator	10	1 to 4	<b>Risk</b> – Potential for internal and external fraud during uncertain economic climate.		
Asset Management	2009-10	Reasonable					10
Members' Code of Conduct and Standards Arrangement	2010-11	Substantial					8
Officers' Code of Conduct and Whistle blowing Arrangements	Pre 2004-05	To be Assessed					8

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

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
Local Code of Corporate Governance	2009-10	Substantial				5	
Performance Management/Validation	2010-11	Reasonable				10	10
VfM Strategy	2010-11	Reasonable				10	
Anti-Money Laundering	2008-09	Substantial	5	1	<b>Risk</b> – Potential for external fraud during uncertain economic climate.		
Complaints Monitoring	Pre 2004-05	To be Assessed	8	1	<b>Risk</b> – Potential for increase in complaints due to service cutbacks.		
RIPA	2009-10	Audit part of system					8
Partnerships	2008-09	Reasonable	10	3	<b>Risk/Opportunity</b> – Emerging ‘Big Society’ agenda.		
Scheme of Officer Delegations	2007-08	Substantial				8	
Climate Change	2009-10	Reasonable				10	
Business Continuity	2010-11	Limited				10	
Corporate/Governance and Audit Committee	2010-11	N/A	33	1 to 4	Meetings with s.151 officer, production of Ctte reports and attendance at Committee meetings.	32	32
Risk Management	2009-10	Reasonable	10	4	<b>Risk</b> – Changes to the Council’s Risk Management arrangements.		

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<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
<b>Other:</b>							
Liaison with the External Auditors	2010-11	N/A	3	1 to 4	<b>Opportunity</b> – Co-ordinate internal and external audit work.	3	3
Previous Year Work in Progress b/fwd	2010-11	N/A	10	1	Completion of 2010-11 work in progress as at 31 <sup>st</sup> March 2011	10	10
Follow-up	2010-11	N/A	27	1 to 4	<b>Opportunity</b> – To confirm the implementation of recommendations & update assurance.	25	25
<b>Contract Audits:</b>							
CSO Compliance	2009-10	Limited	12	4	<b>Risk</b> – Previous Limited assurance in this area. Failure to adequately demonstrate VfM.		12
Contract Monitoring	2010-11	2010-11 WIP					10
Receipt and Opening of Tenders	2010-11	Reasonable				5	
Procurement Strategy and e-procurement	2010-11	Limited	4	2	<b>Risk</b> – Previous Limited assurance in this area. Failure to adequately demonstrate VfM. <b>Opportunity</b> – To follow-up on the work of the Council's Procurement Panel.	10	
<b>Service Level:</b>							
Cemeteries and Crematoria	2010-11	Substantial					10
Child Protection	2009-10	Limited	5	2	<b>Risk</b> – Previous Limited assurance in this area.	10	
Community Safety	2009-10	Substantial	10	1	<b>Risk</b> – Reducing grant provision from Central Government. <b>CP:</b> Strong and safe Communities; aim to maintain top 5 position (Kent's safest		

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

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
					communities).		
Coast Protection	2010-11	Reasonable					10
CCTV	2010-11	Substantial					8
Dog Warden Service and Litter Enforcement	2006-07	Reasonable	8	4	<b>CP:</b> An attractive Dover Town.		
Electoral Registration	Pre 2004-05	To be Assessed	10	2	<b>Risk</b> - District elections and Referendum in May 2011. Not audited within the last three years.		
Environmental Health – Food Safety	2008-09	Substantial				10	
Environmental Health – Public Health Burials	2010-11	Substantial					8
Environmental Health – Pest Control	Pre-2004-05	To be Assessed	8	1	<b>Risk/Opportunity</b> – Not audited within the past three years.		
Environmental Health – Health and Safety/Public Protection	Pre 2004-05	To be Assessed				10	
Emergency Planning	2009-10	Reasonable				10	
Equality and Diversity	2008-09	Reasonable					8
Events Management	2009-10	N/A				10	
Grounds Maintenance	2008-09	Reasonable	10	1	<b>CP</b> - An attractive Dover Town.		

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

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
Disabled Facilities Grants	2010-11	Substantial					8
Inventories of Portable Assets	Pre 2004-05	To be Assessed				8	
Land Charges	2008-09	Reasonable	8	4	<b>Risk</b> – Compliance with legislation and source of income.		
Licensing	2008-09	Reasonable	10	4	<b>Risk</b> – Compliance with legislation and source of income		
Museums	2005-06	Reasonable	5	4	<b>Risk/Opportunity</b> – Change of arrangements during 2011-12. Undertake in conjunction with the VIC audit. <b>CP</b> – Maintain current level of Museum service.		
Let Properties and Concessions	2009-10	Reasonable				10	
Members' Allowances and Expenses	2009-10	Reasonable					8
Planning, Building Control; and s.106 agreements	2010-11	Reasonable Reasonable 2010-11 WIP					20
Regeneration	2009-10	Reasonable	10	3	<b>CP:</b> Council's top priority, working with partners is to regenerate the district in a sustainable way resulting in a World Class future.		8
Sports and Leisure	2008-09	Reasonable				11	



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

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
VAT	2007-08	Reasonable				10	
Visitor Information Arrangements	Pre-2004-05	To be Assessed	6	4	<b>Risk/Opportunity</b> – Change of arrangements during 2011-12. Undertake in conjunction with the VIC audit. <b>CP:</b> A popular short break destination. <b>CP -</b> Seek an alternative provider for the Dover VIC.		
Waste Management and Street Cleansing	2009-10	Substantial	10	4	<b>Risk</b> – New waste contract and arrangements commencing in 2011.	10	
Whitecliffs Countryside Project	Pre 2004-05	To be Assessed	8	1	<b>Risk/Opportunity</b> – Not audited within the past three years.		
Youth Development Strategy	2009-10	Substantial				8	
<b>Sub Total Authority Planned Days:</b>			<b>284</b>			<b>290</b>	<b>291</b>
<b>East Kent HR Partnership</b>							
Recruitment	Pre 2004-05	To be Assessed				5	
Absence Management, Annual Leave and Flexi Leave	2007-08	Limited	5	4	<b>Risk</b> – Rising sickness levels and potential for employee fraud during uncertain economic climate. <b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings.		
Payroll, SMP and SSP	2009-10	Reasonable	5	3	<b>Risk</b> – transfer of payment to KCC and potential for employee fraud during uncertain economic climate. <b>CP</b> – Working with neighbouring	5	5

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

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
					authorities and services to deliver joint solutions and savings.		
Employee Health, Safety and Welfare	2010-11	Reasonable	8	2	<b>Risk</b> – Possible Corporate Manslaughter implications. <b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings.		
Employee Allowances and Expenses	2009-10	Reasonable	5	3	<b>Risk</b> – transfer of payment to KCC and potential for employee fraud during uncertain economic climate. <b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings.		
Employee Benefits-in-Kind	2010-11	Limited					8
HR Systems Development	New Audit Area	Not Applicable	5	2	<b>Risk/Opportunity</b> - Establishment of controls within emerging systems.		
<b>Sub Total EKHRP Planned Days:</b>			<b>25</b>			<b>10</b>	<b>13</b>
<b>EK Services:</b>							
Housing Benefits – Payment	2010-11	2010-11 WIP				5	
Housing Benefits – Overpayments	2009-10	Substantial	5	4	<b>Risk</b> – Significant area of Council expenditure. <b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings.		8
Housing Benefits – Fraud Investigations Unit	2009-10	Limited	5	3	<b>Risk</b> – Potential for increased external fraud during uncertain economic climate. <b>CP</b> – Working with neighbouring		

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

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
					authorities and services to deliver joint solutions and savings.		
Housing Benefits – Admin & Assessment	2008-09	Reasonable				10	
Housing Benefits – Quarterly Testing	2010-11	N/A	20	1 to 4	<b>Risk/Opportunity</b> - Quarterly benefit testing of claims to support the external auditors work and inform the training programme.	20	20
Council Tax	2009-10	Reasonable				10	
Business Rates	2010-11	Substantial	8	3	<b>Risk</b> – MAS/Income System critical to the production of the Financial Statements. <b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings.		8
Customer Services/Gateway	2007-08	Reasonable	5	2	<b>Risk/Opportunity</b> – Essential Customer interface. <b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings.		
Debtors and Rechargeable Works	2009-10	Reasonable	5	3	<b>Risk</b> – MAS critical to the production of the Financial Statements. <b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings.		5
ICT – Change Controls	2009-10	Substantial					5
ICT – File Security	2009-10	Substantial					5
ICT – Network Security	2009-10	Reasonable				5	
ICT – Procurement and Disposal	2007-08	Reasonable				5	
ICT – Internet and e-mail	2007-08	Limited	5	4	<b>Risk</b> – Key system which supports all Council service delivery.		

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

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
					<b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings.		
ICT – Management and Finance	2008-09	Reasonable	5	2	<b>Risk</b> – Key system which supports all Council service delivery. <b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings.		
ICT – Physical and Environment	2008-09	Reasonable	5	3	<b>Risk</b> – Key system which supports all Council service delivery. <b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings.		
ICT – Software Licensing	2008-09	Reasonable				5	
ICT – PC Controls and Application Controls	2008-09	Reasonable					5
<b>Sub Total EK Services Planned Days:</b>			<b>63</b>			<b>60</b>	<b>56</b>
<b>East Kent Homes (ALMO):</b>							
ALMO Governance	New Audit Area	To be Assessed	3	3	<b>CP</b> - Good quality and accessible housing. <b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings.		
Internal Controls and Finance Systems	New Audit Area	To be Assessed	3	2	<b>CP</b> - Good quality and accessible housing. <b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings. <b>Risk</b> – MAS/Income System critical to the production of the HRA Financial Statements.		

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

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
Interfaces with Finance and ICT Systems	New Audit Area	To be Assessed	2	2	<b>CP-</b> Good quality and accessible housing. <b>CP –</b> Working with neighbouring authorities and services to deliver joint solutions and savings.		2
Audit Ctte/EA Liaison/Follow-up	New Audit Area	To be Assessed	1	1 to 4	<b>CP-</b> Good quality and accessible housing. <b>CP –</b> Working with neighbouring authorities and services to deliver joint solutions and savings.	1	1
Rent Accounting	2010-11	Substantial	3	2	<b>Risk –</b> MAS/Income System critical to the production of the HRA Financial Statements. <b>CP –</b> Working with neighbouring authorities and services to deliver joint solutions and savings. <b>CP-</b> Good quality and accessible housing.		3
Rent Collection and Debt Management (incl. Write-offs)	2010-11	Substantial	5	2	<b>Risk –</b> MAS/Income System critical to the production of the HRA Financial Statements. <b>CP-</b> Good quality and accessible housing. <b>CP –</b> Working with neighbouring authorities and services to deliver joint solutions and savings.		5
Responsive Repairs	2010-11	Reasonable				5	
Planned and Cyclical Repairs	2010-11	Reasonable				5	
Leasehold Services	2010-11	Reasonable					8
Health and Safety (Fire, Gas etc)	2010-11	Reasonable				4	
Sheltered and Supported Housing	Pre 2004-	To be				5	

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

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>2011-12 Planned Days</b>	<b>Quarter Prioritised for 2011-12</b>	<b>Reason for Inclusion in 2011-12: Risk/Opportunity; Link to Corporate Plan (CP)</b>	<b>2012-13 Planned Days</b>	<b>2013-14 Planned Days</b>
(including Supporting People)	05	Assessed					
Void Property management	2010-11	Reasonable					1
Tenancy and Estate Management	Pre 2004-05	To be Assessed	8	2	<b>Risk</b> – Housing supply may not meet local demand. <b>CP</b> – Working with neighbouring authorities and services to deliver joint solutions and savings. <b>CP-</b> Good quality and accessible housing.		
<b>Sub Total East Kent Homes Planned Days:</b>			<b>25</b>			<b>20</b>	<b>20</b>
<b>Total Planned Days</b>			<b>400</b>			<b>380</b>	<b>380</b>

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

**Notes:**

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

<b>Plan Area</b>	<b>Year last audited</b>	<b>Previous Assurance level</b>	<b>Year next audit proposed</b>	<b>Planned days</b>
Officers' Code of Conduct and Whistle blowing Arrangements	Pre 2004-05	To be Assessed	2013-14	8
Sports and Leisure	2008-09	Limited/ Reasonable	2012-13	11
Recruitment including CRB	Pre 2004-05	To be assessed	To be determined	8
Environmental Health - Food Safety	2008-09	Substantial	2012-13	10
Environmental Health – Health and Safety	Pre 2004-05	To be Assessed	2012-13	10
Inventories of Portable Assets (partially covered by other audits)	Pre-2004-05	To be Assessed	2012-13	8
Equality and Diversity	2008-09	Reasonable	2013-14	8
Housing Liaison/Tenant Participation	Pre 2004-05	To be Assessed	2011-12	10
Housing Benefits – Admin & Assessment	2008-09	Reasonable	2012-13	8

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Scheme of Officer Delegations	2007-08	Substantial	2012-13	8
ICT – Procurement and Disposal	2007-08	Reasonable	2012-13	7
ICT – Software Licensing	2008-09	Reasonable	2012-13	7
ICT – PC Controls and Application Controls	2008-09	Reasonable	2013-14	7
VAT	2007-08	Reasonable	2012-13	10
Sheltered and Supported Housing (including Supporting People)	Pre 2004-05	To be assessed	2012-13	5
Housing - Responsive Repairs	2008-09	Substantial	2012-13	5
Housing - Planned and Cyclical Repairs	2008-09	Substantial	2012-13	5
Housing – Health and Safety (Fire, Gas etc)	2008-09	Substantial	2012-13	4
Housing - Void Property Management	2008-09	Substantial	2013-14	1



# Audit plan

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**Dover District Council**

**Audit 2010/11**

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

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

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

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# Introduction

**This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.**

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

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

# Responsibilities

**The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.**

**2** The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

**3** I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

## Fee for the audit

4 I propose a fee for the audit of £124,000. This compares with my initial estimate for the combined audit and inspection programme of £133,152. It also compares with a scale fee for the audit of £124,115. This is analysed below.

Area of work	2009/10 Actual fee	2010/11 Initial estimate Apr 2010	2010/11 Revised estimate Jan 2011
	£	£	£
Audit	122,700	124,000	124,000
Inspection	9,152	9,152	0
Total	131,852	133,152	124,000

5 In my initial fee letter of April 2010, I advised that the Audit Commission would be issuing council's with a rebate for the cost of the one-off first year audit of IFRS. At Dover this represents a rebate of £7,456 against the figures above.

6 In addition, the Commission has consulted on fees for 2010/11 and agreed district councils should receive a further rebate of 1.5 per cent of the scale fee. At Dover this means a rebate of £1,862. This reflects both the new approach to local VFM audit work and a reduction in the ongoing audit costs associated with introducing IFRS.

7 In setting the fee, I have assumed that:

- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support restating 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on material systems and this is available for our review by 30 April 2011.

8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Director of Finance and ICT and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

9 Appendix 1 sets out further information on the basis for the fee.

## **Specific actions Dover District Council could take to reduce its audit fees**

**10** The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions the Council could take and to provide ongoing audit support. There are no areas where I recommend you take action or can improve which would result in a reduced fee at the moment.



# Auditors report on the financial statements

## **I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).**

**11** I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

### **Materiality**

**12** I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

### **Identifying opinion audit risks**

**13** I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

**14** Appendix 2 to this report sets out those areas where we require a formal response from the Governance Committee as part of completing our work. We would appreciate it if members could discuss the matters raised and provide a formal response either through email or letter by 30 April 2011.

# Identification of specific risks

**I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.**

---

Table 1: **Significant and specific risks identified**

Risk area	Audit response
<p><b>Implementation of IFRS</b></p> <p>The 2010/11 financial statements will be produced in accordance with International Financial Reporting Standards (IFRS). The new standards will require restatement of both opening and closing balances from the previous year as well as additional disclosures. There is a risk that council's which are not well prepared for the new requirements will not succeed in preparing the necessary information in time.</p>	<p>We will monitor the Council's progress in introducing IFRS as set out in its implementation plan. We will undertake specific work to review the restated balances from 2009/10 and to review the treatment of complex transactions such as leases. We will assess your progress during the year and report our findings to your Governance Committee.</p>
<p><b>Shared services</b></p> <p>Dover District Council is working closely with other East Kent authorities to develop shared services where a single function serves 2 or more authorities. HR transferred to a shared service in 2009, and Revenues, Benefits, ICT and Customer Service are all due to move to shared services in 2011.</p> <p>Controls may be weakened during this transfer and there is an increased risk of error in the accounting treatment of the shared services.</p>	<p>We will identify and test the controls in the new shared service environment for systems which are material to the financial statements (in this instance Revenues and Benefits processing) and use the results to inform our audit approach.</p> <p>In addition, we will review the accounting treatment adopted for each of the shared services for reasonableness.</p>

Risk area	Audit response
<p><b>Payroll</b></p> <p>Kent County Council (KCC) took over payroll processing on 1 April 2010. Councils experienced some problems following the transfer, although we understand these have been largely resolved.</p> <p>However, we need to reassess and test the new controls in place to determine whether there is any increased risk of material misstatement.</p>	<p>Our review of the payroll controls at KCC and controls over the interface between KCC and Dover District Council is due for completion in March 2011. We will use the results of this to develop our post-statements testing strategy for payroll, placing reliance on controls as appropriate.</p>
<p><b>IT risk assessment</b></p> <p>International Standards on Auditing (ISA 315) requires us to carry out a risk assessment of the general IT control environment at each audited body. From 2010/11 we have revised our approach to focus on a risk assessment exercise and an evaluation of the operating effectiveness of the general IT controls. Its purpose is to identify any weaknesses in the general IT control environment that may undermine the effectiveness of controls within the material information systems that run in that environment. This work needs to be completed in time to inform the controls testing being completed in March.</p>	<p>We have contacted the relevant member of staff at the Council and outlined our requirements; we are currently awaiting a response.</p>

# Testing strategy

**Based on risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.**

**15** I can carry out the testing both before and after the production of draft financial statements (pre- and post-statement testing).

**16** Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where I could carry out early substantive testing.

- Review of restatement of 2009/10 accounts from UK GAAP to IFRS.
- Review of IFRS accounting policies.
- Bank reconciliation.
- Investments – ownership.

Where I identify other possible early testing, I will discuss it with officers.

**17** Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of the following pieces of work:

- Housing and Council tax benefits - quarterly testing
- Housing Benefits
- Housing Rents
- Business Rates
- Payroll
- Bank Reconciliation
- HRA

**18** I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in the following areas:

- Pension disclosures - Auditors of the Kent County Council pension scheme.

**19** I also plan to rely on the work of experts in the following areas:

- Asset valuations- Council internal valuer.
- Pension fund actuary - Barnett Waddingham

## Changes to International Standards on Auditing (ISAs)

**20** My audit of your financial statements is governed by a framework established by International Standards on Auditing (ISAs). These set out the basic principles and essential procedures which govern my work.

**21** As with all guidance and frameworks, auditing standards are frequently revised and updated, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to enhance the clarity of all of the ISAs. This is known as the Clarity Project.

**22** One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within the existing ISAs and improving their overall readability and understandability.

**23** The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they request from you. Appendix 3 sets out the main changes you will see.

# Value for money conclusion

## **I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.**

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

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

## **Value for money risks**

**25** I will plan a programme of VFM audit work based on my risk assessment. At your Council, I envisage that we will focus on:

- your medium term financial strategy and savings plans including a review of the impact of the shared service agenda; and
- financial standing, including resilience of future cost efficiency plans.

**26** The work will not be scored, but we will report on our findings, including examples of good practice and any areas for improvement. We will minimise the burden for you from this work, by making use as far as possible of existing Council information. We will aim to provide helpful and constructive feedback during and at the end of the audit.

## Key milestones and deadlines

**The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.**

**27** The key stages in producing and auditing the financial statements are in Table 2.

**28** I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

**29** Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

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Table 2: **Proposed timetable**

<b>Activity</b>	<b>Date</b>
Control and early substantive testing	March 2011
Receipt of accounts	30 June 2011
Sending audit working papers to the auditor	4 July 2011
Start of detailed testing	4 July 2011
Progress meetings	Weekly
Present report to those charged with governance at the Governance committee	September 2011
Issue opinion and value for money conclusion	By 30 September 2011

# The audit team

**Table 3 shows the key members of the audit team for the 2010/11 audit.**

Table 3: **Audit team**

Name	Contact details	Responsibilities
Andy Mack District Auditor	<a href="mailto:a-mack@audit-commission.gov.uk">a-mack@audit-commission.gov.uk</a> 07765 898682	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Deborah Moorhouse Engagement Manager	d-moorhouse@audit-commission.gov.uk 0844 798 1373	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance and ICT. Manager up to March 2011
Lynn Clayton Engagement Manager	l-clayton@audit-commission.gov.uk 0844 798 1358	Lynn will cover for Deborah from March 2011 while she is on maternity leave. Deborah and Lynn will ensure there is an effective handover with minimal disruption to the audit process.

## Independence and objectivity

**30** I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

**31** I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 4.

## Meetings

**32** The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Appendix 5 sets out our proposals.



## Quality of service

**33** I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

**34** If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

## Planned outputs

**35** My team will discuss and agree reports with the Director of Finance and ICT before issuing them to the Governance Committee.

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Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	By 30 September 2011
Annual audit letter	November 2011

## Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

### Assumptions

In setting the fee, I have assumed that:

- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
  - good quality working papers and records to support the financial statements by 4 July 2011;
  - information asked for within agreed timescales;
  - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

## Appendix 2 Audit of Dover District Council's Financial Statements - Compliance with International Auditing Standards

In order to comply with a number of International Standard on Auditing I am required to obtain an understanding of the following:

1) How those charged with governance exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- identifying and responding to risks of fraud in the organisation;
- communication to employees of views on business practice and ethical behaviour; and
- communication to those charged with governance the processes for identifying and responding to fraud.

2) How the Governance Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.

3) Whether you have knowledge of any actual, suspected or alleged frauds

4) How you gain assurance that all relevant laws and regulations have been complied with.

Please discuss the current arrangements and provide a brief formal response to Lynn Clayton ([l-clayton@audit-commission.gov.uk](mailto:l-clayton@audit-commission.gov.uk)) by letter or email by 30 April 2011.

## Appendix 3 Changes to International Standards on Auditing (ISAs)

The main changes you will see as a result of changes to International Standards on Auditing (ISAs) are as follows:

### **Journals**

I will be required to review all material year-end adjustment journals. I can do this by using IT interrogation tools, depending on the compatibility of your general ledger software. Deborah Moorhouse, your Engagement Manager, will discuss a suitable approach to this work soon.

### **Related Party Transactions**

I am required to review your procedures for identifying related party transactions and to obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in your financial statements are complete and accurate.

### **Accounting Estimates**

I will be required to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates and the controls you have put in place;
- whether you use an expert to assist you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact); and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

### **Deficiencies in internal control**

A new standard (ISA 265) has been introduced relating to how I must communicate deficiencies in Internal Control to 'those charged with governance' and the Trust's management.

If I identify a deficiency in any of your internal controls during my audit, I will undertake further audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to your Governance Committee as 'those charged with governance'.

### **Impact on Audit Fees**

It is likely that these changes to the auditing standards will increase the audit procedures that I will need to carry out. However, as previously advised, the Audit Commission will use its own efficiency savings to absorb the cost of any additional requirements.

## Appendix 4 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Governance Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules.

The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last 2 years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

# Appendix 5 Working together

## Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

<b>Council officers/ members</b>	<b>Audit Commission staff</b>	<b>Timing</b>	<b>Purpose</b>
Director of Finance & ICT and/or Head of Finance	Audit Manager (AM) and Team Leader (TL)	Quarterly	General update plus: January - audit planning July - accounts progress September - annual governance report
Governance Committee	District Auditor and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Annual audit letter Other issues as appropriate

## Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.



# Appendix 6 Glossary

## **Annual audit letter**

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

## **Auditor(s)**

Auditors appointed by the Audit Commission.

## **Code (the)**

The Code of Audit Practice.

## **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

## **Internal control**

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality (and significance)**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

## **Members**

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

## **Regularity (of expenditure and income)**

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

## **Statement on internal control/Annual Governance Statement**

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

## **Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are:

- for local authorities – the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;
- for police or fire authorities – the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;
- for local probation boards and trusts – the board or audit committee; and
- for other local government bodies – the full authority or board or council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

## **Whole of Government Accounts**

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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



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