

# Public Document Pack



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4 March 2013

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 Thursday 14 March 2013 at 6.00 pm when the following business will be transacted.

Members of the public who require further information are asked to contact Rebecca Brough on (01304) 872304 or by e-mail at [rebeccabrough@dover.gov.uk](mailto:rebeccabrough@dover.gov.uk).

Yours sincerely

A handwritten signature in black ink, appearing to read "Nicky", written over a white background.

Chief Executive

Governance Committee Membership:

Councillor T J Bartlett (Chairman)  
Councillor K E Morris (Vice-Chairman)  
Councillor M R Eddy  
Councillor S J Jones  
Councillor A S Pollitt  
Councillor M A Russell

AGENDA

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

To receive any declarations of interest from Members in respect of business to be transacted on the agenda.

Where a Member has a new or registered Disclosable Pecuniary Interest (DPI) in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Where a Member is declaring an Other Significant Interest (OSI) they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

4 **MINUTES** (Pages 4 - 6)

To confirm the attached Minutes of the meeting of the Committee held on 6 December 2012.

5 **INTERNAL AUDIT CHARTER, STRATEGY AND 2013-14 AUDIT PLAN** (Pages 7 - 24)

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

6 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 25 - 44)

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

7 **TREASURY MANAGEMENT QUARTER THREE REPORT** (Pages 45 - 62)

To consider the attached report of the Director of Finance, Housing and Community.

8 **PUBLIC SPEAKING AT CABINET** (Pages 63 - 65)

To consider the attached report of the Director of Governance.

9 **CERTIFICATION WORK REPORT 2011/12** (Pages 66 - 77)

To consider the attached report from Grant Thornton.

10 **AUDIT RISK ASSESSMENT**

To consider the report from Grant Thornton (to follow).

11 **AUDIT PLAN FOR DOVER DISTRICT COUNCIL** (Pages 78 - 97)

To consider the attached report from Grant Thornton.

12 **GOVERNANCE COMMITTEE UPDATE FOR DOVER DISTRICT COUNCIL**  
(Pages 98 - 110)

To consider the attached report from Grant Thornton.

**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 Rebecca Brough, Team Leader - Democratic Support, telephone: (01304) 872304 or email: [rebeccabrough@dover.gov.uk](mailto:rebeccabrough@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 Thursday, 6 December 2012 at 6.04 pm.

Present:

Chairman: Councillor T J Bartlett

Councillors: S J Jones  
G Lymer (In place of K E Morris)  
M A Russell  
P Walker (In place of A S Pollitt)

Also Present: Lynn Clayton, Engagement Manager – Grant Thornton  
Emily Hill, Engagement Lead – Grant Thornton

Officers: Director of Finance, Housing and Community  
Director of Governance  
Head of Audit Partnership (East Kent Audit Partnership)  
Deputy Head of Audit  
Senior Accountant (Revenue)  
Team Leader - Democratic Support

335 APPOINTMENT OF SUBSTITUTE MEMBERS

In accordance with Council Procedure Rule 4, Councillors G Lymer and P Walker were appointed as substitute members for Councillor K E Morris and A S Pollitt respectively.

336 DECLARATIONS OF INTEREST

There were no declarations of interest from Members.

337 MINUTES

The Minutes of the meeting of the Committee held on 27 September 2012 were approved as a correct record and signed by the Chairman.

The Director of Governance advised Members that a special meeting of the Governance Committee would be called in late January/early February 2013 to consider the Review of the Constitution.

338 QUARTERLY INTERNAL AUDIT UPDATE REPORT

The Head of Audit Partnership (East Kent Audit Partnership) presented the quarterly internal audit update report. The report summarised the work undertaken to 30 September 2012 and the Committee was informed verbally that as of 30 November 2012, the partnership had completed 209 days of work which was equivalent to approximately 69% of Dover District Council's agreed audit plan. It was expected that the partnership would deliver 98% of planned work by year end.

There had been 14 completed audits during the quarter and overall there were no areas of concern. The 14 audits had resulted in 3 substantial assurances, 1 split substantial/reasonable, 9 reasonable (5 of which related to shared services) and one audit (EK Services – Housing Benefit Quarterly Testing) for which an assurance level was not applicable. In respect of the audit of Homelessness of Young People,

it was found that the necessary practices and controls were now in place. It was acknowledged that while the use of temporary bed and breakfast accommodation was not ideal for young people there were limited alternative options available to the Council within Dover.

The Director of Finance, Housing and Community advised that the Youth Homelessness Action Plan identified the provision of suitable accommodation as an area that needed to be addressed and this would be investigated further to see if suitable alternatives could be delivered. Councillor G Lymer emphasised the importance of Social Services' role in assessing the needs of vulnerable young people in temporary accommodation to ensure that received the support they needed.

The Committee was informed that 3 audits had been deleted from the agreed audit plan:

- Contingency for an audit of VfM Strategy or Contribute to DES Projects;
- Insurance and Inventories of Portable Assets;
- Business Continuity & Emergency Planning; and
- HR Systems Development: I-Trent Project

In respect of the Business Continuity and Emergency Planning audit it was stated that this had been pushed back into the next financial year when the work could be accommodated.

RESOLVED: That the update report be received and noted.

### 339 TREASURY MANAGEMENT QUARTER TWO REPORT

The Director of Finance, Housing and Community presented the Quarter 2 report on Treasury Management to the Committee, reminding Members that the report had been written prior to the Chancellor's Autumn Statement. Overall, the Council's internally managed investments and its investments managed externally by Investec had outperformed the LIBID benchmark while still meeting the priorities set for investment of Safety, Liquidity and Return, in that order. The total interest received for the quarter was £80,000 above budget for the period.

The Council's investment priorities remained security first, liquidity second and returns third, so returns were likely to remain low in a low interest rate climate. However, it was felt that events in Iceland during the 2008 financial crisis continued to justify this approach.

RESOLVED: That the report be received and noted.

### 340 PLANNED AUDIT FEE FOR 2012/13

Ms E Hill presented the planned audit fee letter for 2012/13 to the Committee and introduced herself as the new Engagement Lead for Grant Thornton following its appointment as auditors to the Council. It was stated that there would be a degree of continuity from the previous arrangements with Ms L Clayton and Ms S Bubb remaining part of the audit team for the Council.

The Committee was advised that the Scale Fee for 2012/13 represented a 40% reduction in cost in comparison to the Fee for 2011/12. A detailed Audit Plan would be produced once audit planning and interim audit procedures had been undertaken, which was expected to be completed by March 2013.

RESOLVED: That the Planned Audit Fee for 2012/13 be noted.

341 TERMS OF REFERENCE OF THE JOINT HEALTH, SAFETY AND WELFARE CONSULTATIVE FORUM

The Director of Governance informed the Committee that recent changes in legislation had moved responsibility for health and safety matters from the Council to the Cabinet and as a consequence there was a requirement for a constitutional change to the terms of reference for the Joint Health, Safety and Welfare Consultative Forum to reflect the new arrangements.

RESOLVED: That it be recommended to Council that the Terms of Reference for the Joint Health, Safety and Welfare Consultative Forum be amended to enable it to submit recommendations and advice on health and safety matters to the Cabinet.

The meeting ended at 6.50 pm.

DOVER DISTRICT COUNCIL

REPORT OF THE HEAD OF AUDIT PARTNERSHIP

GOVERNANCE COMMITTEE – 14 MARCH 2013

**INTERNAL AUDIT CHARTER, STRATEGY AND 2013-14 PLAN**

**Recommendations**

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| <i>Members are asked to consider and adopt the Internal Audit Charter, the Internal Audit Strategy and consider and approve the Internal Audit 2013-14 plan of work</i> |
|---|

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 Annex 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 Annex B, details how the East Kent Audit Partnership will provide the Internal Audit function for the year to 31<sup>st</sup> March 2014. 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 2013 to 2014 is attached as Annex 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.
- 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 2013-14 plan at the present time and the 2014-15 plan (modified as necessary) will be presented for consideration in March 2014 and similarly the 2015-16 plan will be presented for consideration in March 2015. The purpose of showing an indicative 2014-15 and 2015-16 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 2013-14 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require.

#### 4.0 **Head of Internal Audit's Opinion of the 2013-14 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 2013-14 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 2013-14 internal audit plan.
- 4.3 Due to budget restrictions, the size of the Council's internal audit plan has been reduced again this year. In 2013-14 it is proposed to reduce the plan from 380 to 350 days. Together with the cuts in the size of the plan last year and in previous years, this will continue to have an impact upon the Council's ability to cover all areas of its operations within a three-year cycle. This risk can to some extent be mitigated by ensuring that it is the low risk areas that fall outside of the three-year plan; however it should be noted that the cost of the Council's audit service has reduced by 30% in the last five years from £133,082 to £93,300.



## **6.0 Recommendations**

- 6.1 That Members approve to adopt the Internal Audit Charter.
- 6.2 That Members approve to adopt the Internal Audit Strategy for delivery of the internal audit service.
- 6.3 That Members approve the Council's Internal Audit Plan for 2013/14

## **7.0 Background Papers**

- Internal Audit Annual Plan 2012/13 - Previously presented to and approved at the March 2011 Governance 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.

## **8.0 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 2013/14 budget.

## **9.0 Consultation Statement**

Not Applicable.

## **10.0 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**

|         |   |
|---------|---|
| Annex A | East Kent Audit Partnership Charter   |
| Annex B | East Kent Audit Partnership Strategy  |
| Annex C | Dover District Council draft 2013-14 Internal Audit Plan & draft 3 year strategic Internal Audit Plan 2013-16 |

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 host 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 external auditors 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 external auditors 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 external auditors,
- Receive copies of all relevant external audit reports to Management, and
- Gain knowledge of the external auditor's 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 Deputy Heads of Audit 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 Deputy Heads of Audit 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 Deputy Heads of Audit 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 2013



# **INTERNAL AUDIT STRATEGY**

## **2013-14**

### **Contents**

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  - 3.3 Strategic Audit Plan
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- 6. Quality Assurance**
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February 2013

## **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 Finance. Other key relationships for the EKAP are defined in the approved Audit Charter.

## **3. Internal Audit Strategy and Planning Approach 2013-14**

### **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 2013-16 is attached as ANNEX C.

#### 3.4 Annual Audit Plan 2013-14

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 2014-15 and 2015-16 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 2013-14 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 2013/14 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require.

The relevant draft annual audit plan for 2013-14 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 2014.

### **References:**

Audit Charter

Audit Manual

CIPFA Code of Practice for Internal Audit 2006



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|                          |   |
|--------------------------|---|
| <b>Subject:</b>          | <b>QUARTERLY INTERNAL AUDIT UPDATE REPORT</b>       |
| <b>Meeting and Date:</b> | <b>Governance Committee – 14 March 2013</b>         |
| <b>Report of:</b>        | <b>Christine Parker – Head of Audit Partnership</b> |
| <b>Classification:</b>   | <b>Unrestricted</b>                                 |

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|                               |   |
|-------------------------------|---|
| <b>Purpose of the report:</b> | 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 2012 |
|-------------------------------|---|

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|                        |                                      |
|------------------------|--------------------------------------|
| <b>Recommendation:</b> | That Members note the update report. |
|------------------------|--------------------------------------|

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**1. Summary**

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 2012.

**2. Introduction and Background**

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.

#### SUMMARY OF WORK

- 2.7 There have been seven Internal Audit reports that have been completed during the period. Three reviews were classified as providing Substantial Assurance, one as Reasonable assurance and two concluded a split assurance level of Reasonable/Limited. The remaining piece of work was of a nature for which an assurance level is not applicable i.e. quarterly housing benefit claim testing. Summaries of the report findings and the recommendations made are detailed within Annex 1 to this report.
- 2.8 In addition six follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.
- 2.9 For the nine-month period to 31<sup>st</sup> December 2012, 216.20 chargeable days were delivered against the planned target of 300, which equates to 72% plan completion.

### 3 Resource Implications

- 3.1 There are no additional financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2012/13 revenue budgets.
- 3.2 The financial performance of the EKAP is currently on target at the present time.

#### Appendices

Appendix 1 – Internal Audit update report from the Head of the East Kent Audit Partnership.

#### Background Papers

- Internal Audit Annual Plan 2012-13 - Previously presented to and approved at the 27th March 2012 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

Contact Officer: 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 2012.

**2. SUMMARY OF REPORTS:**

| Service / Topic |  | 'Delivering Effective Services' Standard | Assurance level     |
|-----------------|--|--|---------------------|
| 2.1             | Members' Allowances  | Silver                                   | Substantial         |
| 2.2             | EK Services – Council Tax  | Shared Service                           | Substantial         |
| 2.3             | Bank Reconciliation  | Gold                                     | Substantial         |
| 2.4             | Let Properties and Concessions                                     | Silver                                   | Reasonable          |
| 2.5             | VAT Compliance   | Gold                                     | Reasonable/ Limited |
| 2.6             | Data Protection Compliance   | Gold                                     | Reasonable/ Limited |
| 2.7             | EK Services – Housing Benefit Quarterly Testing (Qtr 3 of 2012-13) | Shared Service                           | Not Applicable      |

**2.1 Members' Allowances – Substantial Assurance:**

2.1.1 Audit Scope

To ensure that Members' allowances are calculated and paid in accordance with the prevailing rules.

2.1.2 Summary of Findings

The Members' Allowances process is generally working very well and almost all of the expected controls have been established, are effective, and are consistently adhered to. Positive action is taken to control risk with good processes in place to ensure that Members are paid correctly.

**2.2 Council Tax – Substantial Assurance:****2.2.1 Audit Scope**

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

**2.2.2 Summary of Findings**

There is an ongoing project in place to align working practices across all authorities (i.e. refunds) with the vision of having staff at any office being able to deal with council tax issues on behalf of any of the three authorities. A considerable amount of work has been carried out on this already by the Council Tax team across all three sites (i.e. aligning of court dates). In addition collection rate targets are on track to be achieved by the end of the financial year.

A special debt team was put in place by EK Services who specifically target debts over £4,000 in Thanet, Canterbury and Dover. Cases have been fully reviewed and action taken in respect of Dover and Canterbury, priority is now being given to Thanet where the majority of the debts over £4,000 are located.

Regular meetings are held with the bailiffs to ensure that they are providing a service that meets the requirements of the service level agreements that are in place with them and to assist in reducing the outstanding liabilities for each authority. In house reconciliation routines are also in place to ensure that all monies are correctly accounted for and credited to the correct council tax account.

**2.3 Bank Reconciliation – Substantial Assurance:****2.3.1 Audit Scope**

To ensure that the bank reconciliation is calculated correctly.

**2.3.2 Summary of Findings**

The bank reconciliation process was found to be well established with all of the expected controls being fully effective and adequate evidence being in place to support the entries on the bank reconciliation.

**2.4 Let Properties and Concessions - Reasonable Assurance:****2.4.1 Audit Scope**

To ensure that the Council derives the maximum value from its let properties and concessions and that where applicable these lettings further support the Council's regeneration aims and aspirations.

## 2.4.2 Summary of Findings

The majority of the requisite internal controls have been established to manage and safeguard the Council's commercial property portfolio.

The Council maintains good reliable hard copy file records and the department has established clear and effective lines of authorisation. The Council's Property Portfolio is much smaller than other councils within East Kent and the records are generally well kept and the portfolio is well managed.

The Council adopted its Asset Management Strategy in 2008. This is due to be reviewed in 2013. A review of the Corporate Disposals Policy could be undertaken as part of the implementation of the next Asset Management Strategy.

Steps have been recommended to address improvements to the records for tracking the issue and return of keys for Council property to minimise the risk of theft or misuse of Council property. Recommendations have also been made to strengthen the links between different departments such as Legal, Accountancy and Sundry Debtors. As it is important for staff to have access to information on its tenants, to mitigate the risk is that the Council renews leases to tenants who have a poor payment history.

The introduction of a number of key office procedures were also suggested to strengthen control, improve the resilience within the team and help reduce potential input errors.

## **2.5 VAT Compliance – Reasonable/ Limited Assurance:**

### 2.5.1 Audit Scope

To ensure that VAT is accounted for completely and correctly accounted for in a timely manner.

### 2.5.2 Summary of Findings

The audit focused on the procedures in place within the Council to ensure that input VAT on expenditure, and output VAT on income is completely and correctly accounted for in accordance with current VAT legislation. The review resulted in a split assurance where Reasonable Assurance is placed on the systems and processes to submit VAT returns accurately and on time, and a Limited assurance in respect of complying with the HMRC requirement for local authorities to complete a partial exemption calculation every year to show how much of the input tax that they have claimed back in the year relates to the exempt supplies they have made. An action plan has been agreed to rectify some of the issues raised and this will be reported on as part of follow up work later in the year.

## **2.6 Data Protection Act Compliance– Reasonable / Limited Assurance:**

### 2.6.1 Audit Scope

The audit examined and evaluated the procedures and controls established by management to ensure that the Council creates, holds and maintains personal

information about living individuals in accordance with the requirements of the Data Protection Act 1998 (DPA).

### 2.6.2 Summary of Findings

There are two angles to this review, giving rise to the split assurance level. The Reasonable assurance applies to the behaviour of staff, who act responsibly with personal data and are not taking risks on a daily basis, the Limited assurance applies to the physical access to the building and the exposure to risks our co-occupiers and visitors may pose, and the concerns over the ICT Network in terms of what potential mobile devices can be attached to it and removed (not that there is evidence of this happening, but there is the potential risk that it can). The review found good practice in high risk areas holding personal data such as HR and Housing Benefits however, examples of personal data were found to be held in virtually all Council departments. There is scope for additional controls to be developed to control both physical access to the building and strengthen the rules pertaining to permitting mobile devices access to the network, an officer working party will investigate and propose solutions to CMT to mitigate these risks.

The ICO recommends that every council continuously make staff aware of the existing information governance policies and guidelines, emphasising the importance of following them in practice and that a breach of policy will be regarded as a disciplinary matter. It was established that the DDC Information and Computer Security Policy is due to be reviewed, following which it will be publicised on the Intranet, and this will remind staff of what is 'acceptable' and is 'not acceptable' when using Council supplied ICT equipment and how to care for data. The Council will also use the Ivysoft corporate training system to ensure staff remain aware of the risks.

## **2.7 EK Services Housing Benefit Quarterly Testing (Quarter 3 of 2012-13):**

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

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

In total 20 benefit claims were checked and of these, two (10%) were found to have failed the criteria set by the former Audit Commission's verification guidelines.

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

- 3.1 As part of the period's work, six 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          | Original Number of Recs |              | No of Recs Outstanding |             |
|----------------|--|----------------------------------|----------------------------------|-------------------------|--------------|------------------------|-------------|
| a)             | Risk Management  | Reasonable                       | Reasonable                       | H<br>M<br>L             | 0<br>1<br>1  | H<br>M<br>L            | 0<br>0<br>1 |
| b)             | East Kent Housing – Rent Setting, Collection and       | Reasonable                       | Reasonable                       | H<br>M<br>L             | 1<br>6<br>3  | H<br>M<br>L            | 0<br>0<br>0 |
| c)             | EK Services – Business Rates                           | Reasonable                       | Reasonable                       | H<br>M<br>L             | 1<br>2<br>2  | H<br>M<br>L            | 1<br>0<br>0 |
| d)             | Partnerships   | Limited                          | Reasonable                       | H<br>M<br>L             | 5<br>3<br>0  | H<br>M<br>L            | 0<br>2<br>0 |
| e)             | Dog Warden   | Reasonable                       | Reasonable                       | H<br>M<br>L             | 0<br>3<br>3  | H<br>M<br>L            | 0<br>1<br>1 |
| f)             | Payroll - Accuracy<br>-Performance Mgmt<br>-Governance | Reasonable<br>Limited<br>Limited | Reasonable<br>Limited<br>Limited | H<br>M<br>L             | 15<br>6<br>0 | H<br>M<br>L            | 6<br>3<br>0 |

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

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

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

a) Payroll:

The main operational controls within the payroll system are working well with the right people paid the right amount and on time. 12 out of the 21 recommendations have been implemented and the remainder are either in progress or are being managed. However, at this time the assurance remains the same.

#### 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: Payroll, ICT – Software Licences, ICT – Network Security, Housing Repairs and Maintenance, Housing Benefit Payments, Housing Benefit Administration and Assessment, and Housing Allocations.

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

- 5.1 The 2012-13 Audit plan was agreed by Members at the meeting of this Committee on 27th March 2012.
- 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 to 31<sup>st</sup> December 2012, 216.20 chargeable days were delivered against the planned target of 300, which equates to 72% plan completion.
- 7.2 The financial performance of the EKAP is currently on target at the present 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 2012-13 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 first three quarters of 2011-12.
- 7.4 The EKAP 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**

- Annex 1 Summary of High priority recommendations outstanding after follow-up.
- Annex 2 Summary of services with Limited / No Assurances
- Annex 3 Progress to 31<sup>st</sup> December 2012 against the agreed 2012/13 Audit Plan.
- Annex 4 EKAP Balanced Scorecard of Performance Indicators to 31<sup>st</sup> December 2012.
- Annex 5 Assurance statements



**SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTADING OR IN PROGRESS AFTER FOLLOW-UP - ANNEX 1**

| Original Recommendation   | Agreed Management Action , Responsibility and Target Date  | Manager's Comment on Progress Towards Implementation.  |
|---|--|--|
| <b>EK Services – Business Rates</b>   |  |  |
| <p>The commitment to review each Discretionary Relief case as set out in the new Revenues &amp; Benefits - Council Tax &amp; Business Rates Discretionary And Hardship Relief Policy section 2.6.1 should be commenced immediately to allow the relevant notice to be applied in time for 2013.</p> | <p>Proposed to write out to discretionary relief cases advising that current entitlement will cease from 01.04.13 and invite them to complete a review form to renew entitlement from 01.04.13.</p> <p><b>Proposed Completion Date:</b> End of March 2012.</p> <p><b>Responsibility:</b> Business Rates Team Leader.</p> | <p>The Service Manager stated that they did not have the resources at year-end to progress with this. This task is now set to take place in Dec 2012 /Jan 2013 to end relief in 31.03.14.</p> <p align="center">Recommendation Outstanding</p> |

| <b>SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL 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>         |
| Business Continuity  | June 2011                    | Limited                   | On-going management action in progress to remedy the weaknesses identified. | Deferred until 2013-14              |
| CSO Compliance   | June 2012                    | Limited                   | On-going management action in progress to remedy the weaknesses identified. | As part of planned audit in 2013-14 |

## PROGRESS AGAINST THE AGREED 2012-13 AUDIT PLAN.

## DOVER DISTRICT COUNCIL:

| Review   | Original Planned Days | Revised Planned Days | Actual days to 31-12-12 | Status and Assurance Level                      |
|--|-----------------------|----------------------|-------------------------|---|
| <b>FINANCIAL SYSTEMS:</b>  |                       |                      |                         |   |
| Car Parking Income & Enforcement                                       | 10                    | 13                   | 13.22                   | Finalised - Reasonable                          |
| Bank Reconciliation  | 5                     | 5                    | 1.05                    | Finalised - Substantial                         |
| Creditors and CIS  | 10                    | 12                   | 12.05                   | Finalised - Reasonable                          |
| Income   | 10                    | 10                   | 9.71                    | Finalised - Substantial                         |
| VAT Compliance   | 8                     | 10                   | 10.22                   | Finalised – Reasonable/Limited                  |
| Insurance & Inventories of Portable Assets                             | 12                    | 0                    | 0                       | Deleted from plan to accommodate unplanned work |
| <b>RESIDUAL HOUSING SYSTEMS:</b>                                       |                       |                      |                         |   |
| Housing Allocations  | 10                    | 10                   | 0.34                    | Work-in-Progress                                |
| <b>GOVERNANCE RELATED:</b>   |                       |                      |                         |   |
| Governance Investigations  | 12                    | 25                   | 24.82                   | Work-in-Progress throughout 2012-13             |
| Officers' Code of Conduct, Gifts & Hospitality, and Whistleblowing     | 8                     | 8                    | 0.47                    | Work-in-Progress                                |
| Equality & Diversity   | 10                    | 10                   | 0.17                    | Deleted from plan to accommodate unplanned work |
| Contingency for an audit of VfM Strategy or Contribute to DES Projects | 10                    | 0                    | 0                       | Deleted from plan to accommodate unplanned work |
| Data Protection Act Compliance   | 10                    | 15                   | 12.82                   | Finalised – Reasonable/Limited                  |
| Business Continuity & Emergency Planning                               | 10                    | 0                    | 0.2                     | Deleted from plan to accommodate unplanned work |
| New Homes Bonus Validation   | 2                     | 2                    | 3.92                    | Finalised                                       |
| Risk Management  | 9                     | 9                    | 11.18                   | Finalised - Reasonable                          |
| Corporate Advice/CMT   | 2                     | 2                    | 8.69                    | Work-in-Progress throughout 2012-13             |
| s.151 Meetings and support   | 9                     | 9                    | 8.08                    | Work-in-Progress throughout 2012-13             |

| Review   | Original Planned Days | Revised Planned Days | Actual days to 31-12-12 | Status and Assurance Level          |
|--|-----------------------|----------------------|-------------------------|-------------------------------------|
| Governance Committee Meetings and Reports                        | 12                    | 12                   | 9.25                    | Work-in-Progress throughout 2012-13 |
| 2013-14 Audit Plan Preparation and Meetings                      | 9                     | 9                    | 2.01                    | Work-in-Progress                    |
| <b>SERVICE LEVEL:</b>  |                       |                      |                         |                                     |
| Dog Warden and Enforcement                                       | 8                     | 12                   | 11.91                   | Finalised - Reasonable              |
| Environmental Health - Environmental Protection Service Requests | 8                     | 8                    | 0.24                    | Work-in-Progress                    |
| Environmental Health - Port Health                               | 8                     | 8                    | 0.07                    | Work-in-Progress                    |
| Environmental Health - Health & Safety at Work                   | 8                     | 8                    | 11.11                   | Finalised - Substantial             |
| Licensing  | 10                    | 10                   | 7.57                    | Work-in-Progress                    |
| Events Management  | 8                     | 8                    | 3.19                    | Finalised                           |
| Let Properties and Concessions                                   | 10                    | 10                   | 14.1                    | Finalised - Reasonable              |
| Members' Allowances  | 8                     | 8                    | 1.74                    | Finalised - Substantial             |
| Sports and Leisure - VISTA                                       | 12                    | 12                   | 9.09                    | Finalised – Substantial/Reasonable  |
| Dover Museum and Visitor Information Arrangements                | 19                    | 19                   | 1.67                    | Work-in-Progress                    |
| <b>OTHER</b>   |                       |                      |                         |                                     |
| Liaison with External Auditors                                   | 3                     | 3                    | 0.49                    | Work-in-Progress throughout 2012-13 |
| Follow-up Work   | 17                    | 8                    | 4.7                     | Work-in-Progress throughout 2012-13 |
| <b>UNPLANNED WORK</b>  |                       |                      |                         |                                     |
| Internet Monitoring  | 0                     | 0                    | 1.43                    | Finalised                           |
| Homelessness of Young People                                     | 0                     | 11                   | 10.59                   | Finalised - Substantial             |
| <b>FINALISATION OF 2011-12 AUDITS</b>                            |                       |                      |                         |                                     |
| Absence Management, Flexi and Annual Leave                       | 0                     | 0                    | 8.06                    | Work-in-Progress                    |
| Waste Management   |                       |                      | 0.95                    | Finalised                           |
| Main Accounting Systems  |                       |                      | 0.12                    | Finalised                           |
| Compliance with Contract Standing Orders                         |                       |                      | 0.64                    | Finalised                           |
| Days under delivered in 2011-12                                  | 0                     | 0                    | -4.99                   | Finalised                           |
| <b>EK HUMAN RESOURCES</b>  |                       |                      |                         |                                     |

| Review  | Original Planned Days | Revised Planned Days | Actual days to 31-12-12 | Status and Assurance Level                              |
|---|-----------------------|----------------------|-------------------------|---|
| Recruitment   | 5                     | 5                    | 0.17                    | Work-in-Progress  |
| Payroll, SMP and SSP                                | 5                     | 5                    | 5.15                    | Work-in-Progress  |
| HR Systems Development – I-Trent project.           | 3                     | 0                    | 0                       | Deleted from plan to accommodate unplanned work         |
| <b>TOTAL - DOVER DISTRICT COUNCIL RESIDUAL DAYS</b> | <b>300</b>            | <b>300</b>           | <b>216.20</b>           | <b>72% complete as at 31<sup>st</sup> December 2012</b> |

**EAST KENT HOUSING LIMITED:**

| Review  | Original Planned Days | Revised Planned Days | Actual days to 31-12-12 | Status and Assurance Level           |
|---|-----------------------|----------------------|-------------------------|--------------------------------------|
| <b>Planned Work:</b>  |                       |                      |                         |                                      |
| Audit Committee/EA liaison/follow-up                                | 4                     | 12                   | 11.2                    | Work-in progress throughout 2012-13  |
| Repairs and Maintenance – Planned, responsive and Cyclical repairs. | 30                    | 25                   | 0.78                    | Work-in-Progress                     |
| Sheltered and Supported Housing                                     | 16                    | 0                    | 0                       | Delay until 2013-14                  |
| Tenancy and Estate Management                                       | 30                    | 30.35                | 30.88                   | Finalised                            |
| <b>Finalisation of 2011-12 Audits:</b>                              |                       |                      |                         |                                      |
| Rent Calculation, Collections and Arrears Management                | 17.35                 | 8.2                  | 7.05                    | Finalised                            |
| Finance and ICT   |                       |                      | 1.15                    | Finalised                            |
| <b>Responsive Work:</b>   |                       |                      |                         |                                      |
| Canterbury Capital and Revenue Budget Overspend Investigation       | 0                     | 8                    | 7.88                    | Finalised                            |
| Thanet Repairs and Maintenance                                      | 0                     | 10                   | 10                      | Draft Report                         |
| Former Tenant Arrears Policy Advice                                 | 0                     | 1                    | 0.96                    | Finalised                            |
| Current Tenant Arrears Policy Advice                                | 0                     | 1.5                  | 1.49                    | Finalised                            |
| CSO and Anti-Fraud Presentation                                     | 0                     | 1.3                  | 1.28                    | Finalised                            |
| <b>Total</b>  | <b>97.35</b>          | <b>97.35</b>         | <b>72.67</b>            | <b>75% Complete as at 31-12-2012</b> |

**EK SERVICES:**

| <b>Review</b>                         | <b>Original Planned Days</b> | <b>Revised Planned Days</b> | <b>Actual days to 31-12-12</b> | <b>Status and Assurance Level</b>    |
|---------------------------------------|------------------------------|-----------------------------|--------------------------------|--------------------------------------|
| <b>Planned Work:</b>                  |                              |                             |                                |                                      |
| Housing Benefits - Payments           | 15                           | 15                          | 5.36                           | Work-in-Progress                     |
| Housing Benefits – Admin & Assessment | 30                           | 30                          | 0.24                           | Work-in-Progress                     |
| Council Tax                           | 30                           | 30                          | 22.54                          | Finalised                            |
| ICT – Network Security                | 15                           | 15                          | 0.27                           | Quarter 4                            |
| ICT – Procurement & Disposals         | 15                           | 5                           | 3.01                           | Finalised                            |
| ICT – Software Licensing              | 15                           | 15                          | 8.83                           | Work-in-Progress                     |
| ICT – Internet / Email Forum          | 0                            | 2                           | 0.24                           | Work-in-Progress throughout 2012-13  |
| Corporate / Committee                 | 0                            | 5                           | 1.11                           | Work-in-Progress throughout 2012-13  |
| Follow up                             | 0                            | 3                           | 2.84                           | Work-in-Progress throughout 2012-13  |
| DDC / TDC HB Quarterly testing        | 40                           | 40                          | 39.85                          | Work-in-Progress                     |
| Prior Year b/fwd                      | 0                            | 25.10                       | 25.10                          | Completed                            |
| <b>Total</b>                          | <b>160</b>                   | <b>185.10</b>               | <b>109.39</b>                  | <b>59% Complete as at 31-12-2012</b> |

**BALANCED SCORECARD – QUARTER 3**

| <u>INTERNAL PROCESSES PERSPECTIVE:</u>                            | <u>2012-13 Actual</u> | <u>Target</u> | <u>FINANCIAL PERSPECTIVE:</u>          | <u>2012-13 Actual</u> | <u>Target</u> |
|---|-----------------------|---------------|--|-----------------------|---------------|
|   | Quarter 3             |               |  |                       |               |
| Chargeable as % of available days                                 | 84%                   | 80%           | Cost per Audit Day (Reported Annually) |                       | £309.15       |
| Chargeable days as % of planned days                              |                       |               |  |                       |               |
| CCC   | 69%                   | 75%           |  |                       |               |
| DDC   | 73%                   | 75%           |  |                       |               |
| SDC   | 60%                   | 75%           |  |                       |               |
| TDC   | 83%                   | 75%           |  |                       |               |
| EKS   | 59%                   | 75%           |  |                       |               |
| EKH   | 75%                   | 75%           |  |                       |               |
| Overall   | 70%                   | 75%           |  |                       |               |
| Follow up/ Progress Reviews;                                      |                       |               |  |                       |               |
| • Issued  | 45                    | -             |  |                       |               |
| • Not yet due   | 20                    | -             |  |                       |               |
| • Now overdue for Follow Up                                       | 14                    | -             |  |                       |               |
| Percentage compliance with the CIPFA Code for Internal Audit 2006 | 97%                   | 97%           |  |                       |               |

**BALANCED SCORECARD – QUARTER 3**

| <u>CUSTOMER PERSPECTIVE:</u>   | <u>2012-13 Actual</u> | <u>Target</u> | <u>INNOVATION &amp; LEARNING PERSPECTIVE:</u>                          | <u>2012-13 Actual</u> | <u>Target</u> |
|--|-----------------------|---------------|--|-----------------------|---------------|
|  | Quarter 3             |               |  |                       |               |
| Number of Satisfaction Questionnaires Issued;  | 72                    |               | Percentage of staff qualified to relevant technician level             | 75%                   | 75%           |
| Number of completed questionnaires received back;  | 31 =43%               |               | Percentage of staff holding a relevant higher level qualification      | 33%                   | 33%           |
| Percentage of Customers who felt that;   |                       |               | Percentage of staff studying for a relevant professional qualification | 13%                   | 13%           |
| <ul style="list-style-type: none"> <li>• Interviews were conducted in a professional manner</li> </ul> | 100%                  | 100%          | Number of days technical training per FTE                              | 4.9                   | 3.5           |
| <ul style="list-style-type: none"> <li>• The audit report was 'Excellent or Very Good'</li> </ul>      | 87%                   | 90%           | Percentage of staff meeting formal CPD requirements                    | 33%                   | 33%           |
| <ul style="list-style-type: none"> <li>• That the audit was worthwhile.</li> </ul>                     | 97%                   | 100%          |  |                       |               |





## **ANNEX 5**

### **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.

| Plan Area  | Year last audited | Previous Assurance level | 2013-14<br>Planned Days | Quarter<br>Prioritised<br>for<br>2013-14 | 2014-15<br>Planned Days | 2015-16<br>Planned Days |
|--|-------------------|--------------------------|-------------------------|--|-------------------------|-------------------------|
| <b>Financial:</b>  |                   |                          |                         |  |                         |                         |
| Capital  | 2011-12           | Substantial              | 5                       | 3  |                         | 6                       |
| Treasury Management  | 2011-12           | Substantial              | 5                       | 3  |                         | 6                       |
| Car Parking and PCNs   | 2012-13           | Reasonable               |                         |  | 10                      | 10                      |
| Bank Reconciliation  | 2012-13           | 2012-13 WIP              |                         |  | 5                       |                         |
| Creditors and CIS  | 2012-13           | Reasonable               |                         |  | 10                      |                         |
| Main Accounting System   | 2011-12           | Substantial              | 5                       | 3  |                         | 10                      |
| Income   | 2012-13           | Substantial              |                         |  | 10                      |                         |
| Budgetary Control  | 2011-12           | Substantial              | 5                       | 3  |                         | 10                      |
| VAT  | 2012-13           | Reasonable/ Limited      |                         |  | 10                      |                         |
| Insurance and Inventories of Portable Assets   | 2009-10           | Substantial              | 12                      | 1  |                         | 12                      |
| <b>Residual Housing Systems:</b>   |                   |                          |                         |  |                         |                         |
| Homelessness   | 2010-11           | Substantial              | 10                      | 4  |                         | 10                      |
| Housing Allocations  | 2012-13           | 2012-13 WIP              |                         |  |                         | 10                      |
| Right to Buy   | 2010-11           | Reasonable               | 5                       |  |                         |                         |
| HRA Business Plan  | 2010-11           | Limited                  |                         |  | 10                      |                         |
| <b>Governance Related:</b>   |                   |                          |                         |  |                         |                         |
| Data Protection;   | 2012-13           | Reasonable/ Limited      |                         |  | 10                      |                         |
| Freedom of Information and Information Management.   | 2010-11           | Reasonable               | 10                      |  |                         |                         |
| Asset Management   | 2009-10           | Reasonable               |                         |  | 10                      |                         |
| Members' Code of Conduct, Register of Interests, Gifts & Hospitality (incl. The Bribery Act) and Standards Arrangement | 2010-11           | Substantial              | 10                      | 1  |                         |                         |
| Officers' Code of Conduct, Gifts & Hospitality (incl. the Bribery Act) and Whistle Blowing Arrangements                | 2012-13           | 2012-13 WIP              |                         |  |                         | 10                      |
| Local Code of Corporate Governance   | 2009-10           | Substantial              | 6                       |  |                         | 5                       |
| Equality and Diversity   | 2012-13           | 2012-13 WIP              |                         |  |                         |                         |
| Performance Management/Validation  | 2010-11           | Reasonable               | 10                      | 4  |                         |                         |
| Anti-Money Laundering  | 2011-12           | Substantial              |                         |  | 5                       |                         |
| Complaints Monitoring  | 2011-12           | Reasonable/Limited       |                         |  | 10                      |                         |
| RIPA   | 2009-10           | Audit part of system     |                         |  |                         |                         |
| Partnerships and Shared Service Monitoring   | 2011-12           | Reasonable               |                         |  | 10                      |                         |
| Scheme of Officer Delegations  | 2007-08           | Substantial              |                         |  |                         |                         |
| Climate Change   | 2009-10           | Reasonable               |                         |  |                         |                         |
| Business Continuity & Emergency Planning   | 2010-11           | Limited                  | 10                      | 1  |                         |                         |
| Corporate/Governance and Audit Committee   | 2011-12           | N/A                      | 32                      | 1 to 4                                   | 32                      | 32                      |
| Risk Management  | 2012-13           | Reasonable               |                         |  |                         | 10                      |
| <b>Other:</b>  |                   |                          |                         |  |                         |                         |
| Liaison with the External Auditors   | 2011-12           | N/A                      | 3                       | 1 to 4                                   | 3                       | 3                       |
| Previous Year Work in Progress b/fwd   | 2011-12           | N/A                      | 5                       | 1  | 10                      | 10                      |
| Follow-up  | 2011-12           | N/A                      | 17                      | 1 to 4                                   | 17                      | 17                      |
| <b>Contract Audits:</b>  |                   |                          |                         |  |                         |                         |
| CSO Compliance   | 2011-12           | Limited                  | 10                      |  |                         |                         |
| Service Contract Monitoring  | 2010-11           | Substantial              | 10                      |  |                         |                         |
| Receipt and Opening of Tenders   | 2010-11           | Reasonable               |                         |  | 9                       |                         |
| Procurement Strategy and e-procurement   | 2010-11           | Limited                  |                         |  | 10                      |                         |

| Plan Area  | Year last audited | Previous Assurance level         | 2013-14<br>Planned Days | Quarter<br>Prioritised<br>for<br>2013-14 | 2014-15<br>Planned Days | 2015-16<br>Planned Days |
|--|-------------------|----------------------------------|-------------------------|--|-------------------------|-------------------------|
| <b>Service Level:</b>  |                   |                                  |                         |  |                         |                         |
| Cemeteries & Crematoria  | 2010-11           | Substantial                      | 10                      |  |                         |                         |
| Child Protection/CRB   | 2011-12           | Reasonable                       |                         |  | 10                      |                         |
| Community Safety   | 2011-12           | Substantial                      |                         |  | 10                      |                         |
| Coast Protection   | 2010-11           | Reasonable                       | 6                       |  |                         |                         |
| CCTV   | 2010-11           | Substantial                      | 10                      |  |                         |                         |
| Dog Warden Service and Enforcement   | 2012-13           | Reasonable                       |                         |  |                         |                         |
| Electoral Registration   | 2011-12           | Substantial                      |                         |  |                         |                         |
| Environmental Health – Environmental Protection Service Requests   | 2012-13           | 2012-13 WIP                      |                         |  |                         | 10                      |
| Environmental Health - Food Safety   | 2009-10           | Substantial                      | 10                      |  |                         |                         |
| Environmental Health – Public Health Burials   | 2010-11           | Substantial                      |                         |  |                         |                         |
| Environmental Health - Port Health   | 2012-13           | 2012-13 WIP                      |                         |  |                         | 10                      |
| Environmental Health – Pest Control  | 2011-12           | Reasonable                       |                         |  | 10                      |                         |
| Environmental Health – Health and Safety at Work   | 2012-13           | Substantial                      |                         |  |                         | 10                      |
| Environmental Health - Environmental Protection (Contaminated Land, Air Quality Mngmt & Monitoring, Pollution Prevention, Bathing and Drinking Water). | Pre-2004-05       | To be Assessed                   | 10                      |  |                         |                         |
| Licensing  | 2012-13           | 2012-13 WIP                      |                         |  |                         | 10                      |
| Events Management  | 2009-10           | To be Assessed                   |                         |  |                         |                         |
| Grounds Maintenance  | 2011-12           | Reasonable                       |                         |  | 12                      |                         |
| Disabled Facilities Grants   | 2010-11           | Substantial                      | 10                      | 1  |                         |                         |
| DES Project Work   | N/A               | N/A                              | 12                      |  |                         |                         |
| Health & Wellbeing   | New               | N/A                              | 12                      |  |                         |                         |
| Land Charges   | 2011-12           | Reasonable                       |                         |  | 10                      |                         |
| Museums  | 2012-13           | 2012-13 WIP                      |                         |  |                         | 12                      |
| Let Properties and Concessions   | 2012-13           | 2012-13 WIP                      |                         |  |                         | 10                      |
| Members' Allowances and Expenses   | 2012-13           | 2012-13 WIP                      |                         |  |                         | 10                      |
| Planning (including s.106 agreements)  | 2010-11           | Reasonable                       | 10                      | 4  |                         |                         |
| Building Control   | 2010-11           | Reasonable                       |                         |  | 12                      |                         |
| Sports and Leisure   | 2012-13           | Substantial/ Reasonable          |                         |  |                         | 12                      |
| Visitor Information Arrangements   | 2012-13           | 2012-13 WIP                      |                         |  |                         | 10                      |
| Waste Management and Street Cleansing  | 2011-12           | Substantial                      |                         |  | 10                      |                         |
| Whitecliffs Countryside Project  | 2011-12           | Reasonable                       |                         |  |                         |                         |
| Youth Development Strategy   | 2009-10           | Substantial                      |                         |  |                         |                         |
| <b>Human Resources</b>   |                   |                                  |                         |  |                         |                         |
| Recruitment  | 2012-13           | 2012-13 WP                       |                         |  |                         | 5                       |
| Absence Management, Annual Leave and Flexi Leave   | 2011-12           | Limited                          |                         |  | 5                       |                         |
| Payroll, SMP and SSP   | 2011-12           | Limited<br>Limited<br>Reasonable | 5                       | 2  | 5                       | 5                       |
| Post Entry Training  | Pre-2004-05       | To be Assessed                   |                         |  |                         |                         |
| Employee Health, Safety and Welfare  | 2011-12           | Reasonable                       |                         |  |                         | 5                       |
| Appraisal System   | Pre-2004-05       | To be Assessed                   |                         |  |                         |                         |
| Employee Allowances and Expenses   | 2011-12           | Reasonable                       |                         |  | 5                       |                         |
| Employee Benefits-in-Kind  | 2010-11           | Reasonable                       | 5                       |  |                         |                         |
| <b>Total Planned Days</b>  |                   |                                  | <b>270</b>              |  | <b>270</b>              | <b>270</b>              |

| Plan Area | Year last audited | Previous Assurance level | 2013-14 Planned Days | Quarter Prioritised for 2013-14 | 2014-15 Planned Days | 2015-16 Planned Days |
|-----------|-------------------|--------------------------|----------------------|---------------------------------|----------------------|----------------------|
|-----------|-------------------|--------------------------|----------------------|---------------------------------|----------------------|----------------------|

**Shared Service Audit Plans:**

**EK Services (Note: Benefit work beyond 2013-14 subject to actual date of Welfare reform implementation):**

|  |         |             |            |        |            |            |
|--|---------|-------------|------------|--------|------------|------------|
| Housing Benefits - Payments                  | 2012-13 | 2012-13 WIP |            |        | 15         |            |
| Housing Benefits - Overpayments              | 2011-12 | Substantial | 15         |        |            | 15         |
| Housing Benefits – Fraud Investigations Unit | 2011-12 | Reasonable  | 15         |        |            | 15         |
| Housing Benefits – Admin & Assessment        | 2010-11 | Substantial |            |        | 15         |            |
| Housing Benefits – Quarterly Testing         | 2012-13 | N/A         | 40         | 1 to 4 | 40         | 40         |
| Council Tax                                  | 2012-13 | Substantial |            |        | 30         |            |
| Business Rates                               | 2011-12 | Reasonable  | 30         |        |            | 30         |
| Customer Services/Gateway                    | 2011-12 | Reasonable  |            |        | 15         |            |
| Debtors and Rechargeable Works               | 2011-12 | Reasonable  | 15         |        |            | 15         |
| ICT – Change Controls                        | 2007-08 | Reasonable  | 15         |        |            |            |
| ICT – File Security                          | 2007-08 | Reasonable  |            |        | 15         |            |
| ICT – Network Security                       | 2012-13 | 2012-13 WIP |            |        |            | 15         |
| ICT – Procurement and Disposal               | 2012-13 | Reasonable  | 15         |        |            |            |
| ICT – Internet and e-mail                    | 2011-12 | Reasonable  |            |        | 15         |            |
| ICT – Management and Finance                 | 2011-12 | Reasonable  |            |        |            | 15         |
| ICT – Physical and Environment               | 2011-12 | Reasonable  |            |        | 15         |            |
| ICT – Software Licensing                     | 2012-13 | 2012-13 WIP |            |        |            | 15         |
| ICT – PC Controls and Application Controls   | 2007-08 | Reasonable  | 15         |        |            |            |
| <b>Total EK Services Planned Days:</b>       |         |             | <b>160</b> |        | <b>160</b> | <b>160</b> |

**East Kent Housing (ALMO):**

|  |         |                |           |        |           |           |
|--|---------|----------------|-----------|--------|-----------|-----------|
| Interfaces with Finance and ICT Systems        | 2011-12 | Substantial    |           |        | 8         |           |
| Audit Ctte/EA Liaison/Follow-up                | 2012-13 | N/A            | 8         | 1 to 4 | 8         | 8         |
| Rent Accounting, Collection and Debt           | 2011-12 | Reasonable     | 12        | 4      |           | 28        |
| Planned and Responsive Repairs and Maintenance | 2012-13 | 2012-13 WIP    |           |        | 40        |           |
| Leasehold Services                             | 2010-11 | Limited        | 40        | 2      |           |           |
| Health and Safety (Fire, Gas etc)              | 2011-12 | Reasonable     |           |        | 24        |           |
| Sheltered and Supported Housing (including     | 2012-13 | To be Assessed | 20        | 1      |           | 16        |
| Tenancy and Estate Management                  | 2012-13 | Reasonable     |           |        |           | 28        |
| <b>Total East Kent Housing Planned Days:</b>   |         |                | <b>80</b> |        | <b>80</b> | <b>80</b> |

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|                          |   |
|--------------------------|---|
| <b>Subject:</b>          | <b>TREASURY MANAGEMENT QUARTER THREE REPORT</b>                 |
| <b>Meeting and Date:</b> | <b>Governance Committee – 14 March 2013</b>                     |
| <b>Report of:</b>        | <b>Mike Davis, Director of Finance, Housing &amp; Community</b> |
| <b>Classification:</b>   | <b>Unrestricted</b>   |

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|                               |   |
|-------------------------------|---|
| <b>Purpose of the report:</b> | To provide details of the Council's treasury management for the quarter ended 31 <sup>st</sup> December 2012 and an update of activity to date. |
|-------------------------------|---|

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|                        |                             |
|------------------------|-----------------------------|
| <b>Recommendation:</b> | That the report is received |
|------------------------|-----------------------------|

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### 1. Summary

As at 31<sup>st</sup> December 2012, the Council's in-house investments (approximately £10.5m or 45% of total investments) and investments with the investment managers, Investec (approximately £12.9m or 55% of total investments) are currently outperforming their benchmark<sup>1</sup>. The total interest received for the quarter (£137k) is above budget for the period.

The Council has remained within its Treasury Management and Prudential Code guidelines during the period.

### 2. Introduction and Background

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.

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 Annex 1 contains a full report from the Council's Treasury Management Advisers, Sector.

Council adopted the 2012/13 Treasury Management Strategy on 7<sup>th</sup> March 2012 as part of the 2012/13 Budget and Medium Term Financial Plan.

### 3. Annual investment strategy

The investment portfolio as at the end of September is attached at Annex 2. Since the end of quarter three, in-house investments with Bank of Scotland totalling £4m have matured and are currently held in a call account to support the cash flow over the year-end period. In addition, a number of externally managed investments have matured or been sold since the end of the quarter. An update is attached at Annex 4.

In the current economic climate and with heightened credit concerns it is considered appropriate to keep investments short term with a maximum duration of 3 months. This limit will apply to all entities on the suggested Sector Credit List with the following exceptions:

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<sup>1</sup> The "benchmark" is the interest rate against which performance is assessed. DDC use the London Inter-Bank Bid Rate or LIBID, as its benchmark.

- UK Government and related entities such as Local Authorities. Their suggested duration limit remains at 5 years.
- UK semi-nationalised institutions (Lloyds / RBS). Sector continue to view the current significant UK ownership of these entities as providing significant comfort to investors. Their suggested duration limit is 12 months.
- Money Market Funds, which are “instant access” accounts.

Sector do not believe we should be unduly worried about prior investment decisions, rather that by restricting new investments to the above limits portfolios will be allowed to lower risk naturally as investments mature.

#### 4. **Economic background**

The report attached contains information up to the end of December 2012; since then we have received the following update from Sector:

##### **UK Sovereign Rating**

Moody's Investors Service downgraded the sovereign rating of the United Kingdom by one notch to AA1 from AAA. The Outlook on the rating is now Stable. The downgrade itself was not a real surprise to the markets as Moody's had the UK on negative watch since February 2012. The move did not tell us anything we did not already know. It has been clear for some time that the coalition Government's fiscal consolidation plans have been blown off course. Indeed, stripping out special factors, underlying public borrowing is set to rise slightly this year and will be some £35bn above the forecast in the original plans published back in 2010.

The main drivers of the downgrade were as follows:

- The continuing weakness in the UK's medium-term growth outlook, with a period of sluggish growth which Moody's now expects will extend into the second half of the decade;
- The challenges that subdued medium-term growth prospects pose to the government's fiscal consolidation programme, which will now extend well into the next parliament;
- And, as a consequence of the UK's high and rising debt burden, a deterioration in the shock absorption capacity of the government's balance sheet, which is unlikely to reverse before 2016.

Moody's stated that the UK's creditworthiness remains extremely high, rated at AA1, because of the country's significant credit strengths. These include (i) a highly competitive, well-diversified economy; (ii) a strong track record of fiscal consolidation and a robust institutional structure; and (iii) a favourable debt structure, with supportive domestic demand for government debt, the longest average maturity structure (15 years) among all highly-rated sovereigns globally and the resulting reduced interest rate risk on UK debt.

The Stable Outlook on the UK's AA1 sovereign rating reflects Moody's expectation that a combination of political will and medium-term fundamental underlying economic strengths will, in time, allow the Government to implement its fiscal consolidation plan and reverse the UK's debt trajectory.

We would also like to stress that Moody's has said it "...does not consider this rating change has any implications for the standalone strength of UK financial institutions, or for the systemic support uplift factored into certain UK financial institutions' unguaranteed debt ratings." Sector, therefore, does not expect any consequent action on UK entities in the near term.

## **UK GDP**

The UK economy contracted by 0.3% in the final quarter of 2012 as originally estimated, but yearly growth was revised up. The figures highlight the danger of a third recession since the 2008 financial crisis, less than a month before finance minister George Osborne lays out his budget plans for the coming year. Admittedly, there were a few positives in this release. For a start, GDP is now estimated to have grown by 0.2% rather than to have flat-lined in 2012, reflecting small upward revisions to growth in the first and third quarters. And of course, the drop in GDP in Q4 largely reflected the fading of the Olympics boost in Q3.

## **Bank of England (BoE) – MPC minutes**

The Bank of England's Monetary Policy Committee was split 6-3 on more bond purchases at its latest meeting, unexpectedly reviving the prospect that the central bank might restart its quantitative easing programme. Bank of England governor Mervyn King, executive director for markets Paul Fisher and external MPC member David Miles all voted for an increase in the central bank's bond purchases to 400 billion pounds from 375 billion pounds. The last time there was a similar 6-3 split on the MPC was in June 2012, and the following month a majority of the MPC backed a 50 billion pound increase in asset purchases. In recent months, only Miles had supported more bond purchases

## **UK CPI**

Britain's inflation rate unexpectedly remained unchanged for the fourth consecutive month in January, holding at its highest level since May. The Office for National Statistics said that annual consumer price inflation held at 2.7 percent. This was the first time inflation remained unchanged for four months in a row since records began in 1996, the ONS said. The biggest upward contribution to the annual rate came from an 8.5 percent rise in the prices of alcohol and tobacco, while the main downward pressures came from slower increases in the prices of miscellaneous goods and services, such as money transfer fees, as well as clothes and shoes. Persistently high inflation has in the past few years restrained consumer spending - traditionally a key driver of economic growth in Britain - and limited the scope for asset purchases by the central bank, aimed at supporting the economy.

## **UK Consumer Confidence**

British consumer morale rose in January when people grew less pessimistic about the year ahead and more willing to undertake major purchases, a survey from GfK NOP showed. GfK NOP's headline consumer confidence index rose to -26 from December's -29, beating analysts' forecasts for it to remain unchanged and moving back towards the 18-month high of -22 hit in November. There have been some more positive signs for consumers from the Bank of England's Funding for Lending Scheme, which appears to have boosted mortgage availability and supported house prices.

## **UK Retail Sales**

British retail sales posted a surprise fall in January as unusually snowy weather hurt food stores in particular. The Office for National Statistics said sales volumes including automotive fuel fell 0.6 percent on the month and on the year - confounding economists' forecasts for higher sales. The ONS said the main reason behind the falls was bad weather during the month, which led to shutdowns of some smaller grocers and drove the biggest monthly fall in food sales since May 2011.

### **5. Interest Rates**

Given the circumstances, and the potential for damaging prospects for recovery, Sector sees the prospects for any interest rate changes before early 2014 as very limited.

### **6. New Borrowing**

The Council's borrowing portfolio is attached at Annex 3. No new borrowing was undertaken during the quarter.

### **7. Debt Rescheduling**

At this time it is not of benefit to the Council to consider rescheduling of its long-term debt, as advised by Sector.

### **8. Compliance with Treasury and Prudential Limits**

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

### **9. Iceland update**

The Icelandic Supreme Court found in favour of UK local authorities and other UK wholesale depositors last year. This judgment means that UK local authorities' claims have been recognised as deposits with priority status over other creditors' claims and that they will be paid first when it comes to getting their money back.

It is estimated that we will receive approximately 100% of the value of the deposit back. However, this will fluctuate due to currency valuations as the sums are being paid in sterling, US dollars, Euros and Icelandic Kroner. To date we have received £499,515, leaving a balance of £500,485, as shown in Annex 2.

### **10. Appendices**

Appendix 1 – Sector treasury management report for quarter two

Appendix 2 – Investment portfolio as at 31<sup>st</sup> December 2012

Appendix 3 – Borrowing portfolio as at 31<sup>st</sup> December 2012

Appendix 4 – Investment portfolio as at 31<sup>st</sup> January 2013 (Sector) and 28<sup>th</sup> February 2013 (In-House)

### **11. Background Papers**

Medium Term Financial Plan 2012/13 – 2014/15

Contact Officer: Stuart Groom, extension 2072



# Treasury Management Update

## Quarter Ended 31st December 2012

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

### 1. Economic background:

- During the quarter ended 31 December: -
  - Indicators suggest that the economy probably contracted;
  - Retail sales weakened but spending off the high street held up;
  - Employment continued to rise, albeit at a slower pace;
  - Inflation remained stubbornly above the MPC's 2% target;
  - The MPC paused its programme of asset purchases;
  - UK equity prices rose and government bond prices fell;
  - The US economy continued to recover at a modest pace.
- The unwinding of the boost from the Olympic Games in August means that GDP probably contracted in the fourth quarter of 2012. The CIPS/Markit business surveys generally weakened, with the measure of services activity in December falling to its lowest level since December 2010.
- The weakness of the surveys seemed in part to reflect the washing out of the impact of the Olympics, which will have given a temporary boost to activity in the third quarter. Indeed, the official data deteriorated at the start of Q4. Following a 2.1% monthly drop in September, industrial production fell by a further 0.8% in October. In addition, the overall trade deficit widened from £2.5bn in September to £3.6bn in October.
- Meanwhile, high street spending, which is excluded from the CIPS surveys, was relatively weak. The official measure of retail sales volumes fell by 0.7% in October. With sales volumes stagnant in November, retail sales are likely to detract from overall GDP growth in Q4. For example, if sales volumes remain unchanged again in December, then sales will be 0.6% lower than in the third quarter.
- However, spending off the high street continued to show evidence of recovery. In particular, private new car registrations were 12% and 11% higher than a year ago in October and November respectively.

- All in all, the above indicate there is likely to have been a 0.4% quarterly fall in GDP in Q4 2012, which would leave growth for 2012 as a whole at about -0.1%.
- Meanwhile, although the resilience of the labour market continued, it faded a bit through the quarter. Admittedly, the claimant count measure of unemployment fell by 3,000 in November, while the Labour Force Survey measure of employment rose by 40,000 in the three months to October. However, this was the smallest increase since the start of the year.
- Pay growth remained depressed. Annual growth of overall average earnings dropped from 1.8% in June to 1.3% in October. Given the rate of inflation over this period, real pay continued to fall on an annual basis.
- Meanwhile, news on the housing market was mixed. The Halifax measure of house prices declined by 0.1% m/m in October, but then rose by 1% in November. However, the Nationwide measure was flat in November, having risen by 0.6% in October. The big picture is that prices on both measures fell slightly over the year. Elsewhere, mortgage approvals for new house purchase continued to edge up. The total of 52,982 in October was the fifth consecutive monthly rise. Although an encouraging sign, the level is still far below that seen pre-crisis.
- Banks' funding costs continued to ease over the quarter, reflecting the Bank of England's provision of low cost funding via the Funding for Lending Scheme. Rates on new fixed and floating rate mortgages both declined in October compared to their average level in Q3.
- Meanwhile, although public borrowing has continued to overshoot last year's level, the Government was helped by a number of one offs in December's Autumn Statement. Borrowing from April to November was £93bn, £9bn higher than the same period in 2011/12. However, the Office for Budget Responsibility (OBR) expects net borrowing to come in at £108bn in 2012/13, about £10bn below last year's level, largely reflecting the receipt of funds from the Bank of England's Asset Purchase Facility and the anticipated auction of 4G licences early next year.
- As far as the Autumn Statement went, there were few surprises. Austerity was extended for a further year, to 2017/18, and in light of the deterioration in the borrowing forecasts, the Chancellor chose to disregard one of his fiscal targets, to get debt as a share of GDP falling by 2015/16. While he did announce a number of growth friendly measures, including a cut in corporation tax, it was largely a case of give with one hand and take away with the other.
- Inflation remained stubbornly sticky in Q4. Indeed, CPI inflation rose from 2.2% in September to 2.7% in October, and remained at that level in November. October's jump in university tuition fees, hefty rises in utility prices at the end of

the 2012 and a pick-up in food price inflation following poor harvests, mean that inflation is likely to hover between 2.5% and 3% for the best part of 2013.

- Meanwhile, the MPC voted in November to pause its programme of quantitative easing, leaving total asset purchases at £375bn. The announcement in November that Mark Carney, the current Governor of the Bank of Canada, will take on the Governorship of the Bank of England from June 2013, raised speculation that the MPC's current 2% inflation target may be reformulated.
- Equity prices in the UK and overseas largely continued to rise over the course of the fourth quarter, with the FTSE 100 picking up from 5,820 to 5,898. Over the period gilt prices fell, causing 10-year gilt yields to rise from about 1.55% to 1.80%. Meanwhile, the pound was unchanged against the dollar, at about \$1.63, but weakened slightly against the euro from €1.25 to €1.23.
- Internationally, the US economy's recovery has remained soft. A weighted average of the manufacturing and non-manufacturing ISM indices points to annualised GDP growth of 2.0% in Q4. Total non-farm payroll employment rose by 138,000 in October and 146,000 in November, compared to an average increase of 168,000 in the third quarter. However, the agreement reached on 1st January to avert some of the "fiscal cliff" scheduled for the start of 2013 reduces the risk of a new recession.
- In the Eurozone, market sentiment continued to be steadied by the ECB's pledge to buy "unlimited" quantities of peripheral government's sovereign debt. However, activity indicators point to a deepening recession in the region. On past form, the composite Eurozone PMI points to a quarterly drop in GDP of about 0.5% in Q4.

## 2. Interest rate forecast

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

|                       | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Bank rate</b>      | 0.50%  | 0.50%  | 0.50%  | 0.50%  | 0.50%  | 0.50%  | 0.50%  | 0.50%  | 0.75%  |
| <b>5yr PWLB rate</b>  | 1.50%  | 1.50%  | 1.60%  | 1.60%  | 1.70%  | 1.70%  | 1.80%  | 2.00%  | 2.20%  |
| <b>10yr PWLB rate</b> | 2.50%  | 2.50%  | 2.60%  | 2.60%  | 2.70%  | 2.70%  | 2.80%  | 3.00%  | 3.20%  |
| <b>25yr PWLB rate</b> | 3.80%  | 3.80%  | 3.80%  | 3.80%  | 3.90%  | 3.90%  | 4.00%  | 4.10%  | 4.30%  |
| <b>50yr PWLB rate</b> | 4.00%  | 4.00%  | 4.00%  | 4.00%  | 4.10%  | 4.10%  | 4.20%  | 4.30%  | 4.50%  |

Sector undertook a review of its interest rate forecasts following the issue of the latest Bank of England Inflation Report for November 2012. In the August Inflation Report, the Bank changed its position significantly in as much as it markedly downgraded its forecasts for the strength and speed of recovery in GDP growth whereas previously it had consistently been forecasting a strong recovery to over 3% p.a. In its November Report, the Bank has continued this shift towards pessimism in the speed and strength of recovery; it is now only forecasting growth at around 1% in 2013 and 2% in 2014. These developments have pushed back Sector's expectations of the timing of the eventual start of increases in Bank Rate from Q4 2014 to Q1 2015, as well as the pace of rises in gilt yields.

## SUMMARY ECONOMIC OUTLOOK

### UK economy

- Mervyn King was downbeat at the press conference, after the November Inflation Report was published, about the combination of stronger inflation and weaker growth facing the UK. He blamed the downturn in the global economy and viewed the recent reversal of the 25% devaluation of Sterling after the financial crash, to 20%, as being unhelpful to encouraging an export led recovery. However, some commentators are now questioning whether Sterling devaluation is a positive for an economy which is focused on producing high value added specialised goods and services which may not be as price sensitive as UK exports were in previous decades. He also commented that the banks were keeping financially weak "zombie firms" on life support systems by allowing them to breach borrowing covenants so as to avoid debt write offs hitting bank balance sheets. This may mean that more viable firms with expansion plans are being starved of credit and that the potential for a more rapid recovery is being stifled.
- The Chancellor's Autumn Statement recognised that the Government is not going to achieve its original timetable for reducing the budget deficit and total debt; the timescale has accordingly been extended. The housing market looks as if it will continue to be weak for a long time yet and the construction industry is contracting.

### Eurozone

- Although market anxiety about Greece has currently subsided after the agreement to a further major financial support package amounting to nearly €50bn in December, markets are still concerned that the eventual end game could be that Greece is eventually forced to exit (dubbed "Grexit") the Eurozone and return to the drachma. There is also increasing concern that the contraction in Spain's economy and the very high level of unemployment of 25%, similar to Greece's level, could mean that both countries could get into a downward deflationary spiral which makes achieving fiscal correction increasingly difficult and unachievable.
- The ECB's pledge to provide unlimited bond buying support for countries that request an official bailout means that market anxiety about Spain and Greece is likely to be subdued in the immediate future. However, the poor economic fundamentals and outlook for both economies could well mean that a storm in financial markets has only been delayed, not cancelled. Spain has also resisted asking for an official national bailout, although it has received financial support to recapitalise its four largest banks.
- The imminent general election in Italy also creates uncertainty over which political parties will eventually create a coalition and what their eventual compromise will amount to in terms of economic policy to contain Italy's own fiscal challenges. There could therefore be volatility in Spanish and Italian bond yields in the near future, depending on political and economic developments.

- There will also be a general election in Germany in 2013 though it currently looks likely that this will lead to little change in current policy on the Euro and support for peripheral countries.

In summary, our views on the prospects for GDP growth in the major global economies are as follows: --

### UK

- The Bank of England November 2012 Inflation Report has again pushed back the timing of a return to trend growth and the rate at which inflation will fall back towards the target rate of 2%.
- It now looks likely that Q4 2012 will see a return to negative growth. If this negativity continues into the first quarter of 2013 it would be the first triple dip recession since records began in 1955.
- A fair proportion of UK GDP is dependent on overseas trade; the high correlation of UK growth to US and Eurozone GDP growth means that the UK economy is likely to register weak growth over 2013 and 2014.
- Consumers are likely to remain focused on paying down debt. Weak consumer sentiment and job fears will all act to keep consumer expenditure suppressed; this will be compounded by inflation being higher than increases in average earnings i.e. disposable income will still be eroded.
- The Coalition government is hampered in promoting growth by the need to tackle the budget deficit.
- Little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.
- There is potential for more QE in 2013 which will help to keep gilt yields lower than they would be otherwise.
- On the other hand, recent discussion around reformulating how RPI is calculated could adversely affect demand for inflation indexed gilts in particular, but also gilts generally, if this proposal is taken forward and was perceived to be a softening of the stand against inflation in the UK.
- The main rating agencies have all made it clear they are reviewing the UK's "AAA" status in early 2013. There is a material chance of the current ratings being downgraded. Although the UK will retain its "safe haven" status, a change in rating may place some upside pressure on gilt yields.

### US

- GDP growth is likely to remain weak at around 2% - but that is a lot better than the prospects for the UK and Eurozone.
- The Fed has indicated that is unlikely to increase the central rate until 2015. It changed its policy targets to focus specifically on the employment sector. The new target is for unemployment to fall to 6.5% before official policy rates are raised.
- The "fiscal cliff" has only been partially dealt with at the beginning of January 2013. Increasing the debt ceiling and agreeing the cuts in expenditure part of the "fiscal cliff" will need to be resolved within the next two months.

- The housing market is showing some sustainable signs of having turned a corner.

### Eurozone

- Austerity programmes in the various “peripheral” countries are starting to show signs of having an effect in reducing growth rates in “core” countries. The Eurozone looks as if it is heading for another quarter of negative growth in Q4 2012 and prolong the recession which began in Q3.

### China

- Efforts to stimulate the economy appear to be succeeding towards the end of 2012. However, there are still concerns around the unbalanced nature of the economy which is heavily dependent on new investment expenditure. The potential for the bubble in the property sector to burst, as it did in Japan in the 1990s, could have a material impact on the economy as a whole.

### **Sector’s forward view**

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during 2013 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds. Equity prices staged a significant rise during the second half of 2012 and the start of January, accompanied by a fall in bond prices and a rise in bond yields. 2013 is likely to see a tug of war between bond and equity prices as ebbs and flows in investor confidence and fears cause recurring spikes and falls in their prices.

The overall balance of risks to economic recovery in the UK remains weighted to the downside. Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. Although the prospect of further QE is likely to keep gilt yields lower than they would otherwise be in the near term, this programme is not everlasting. At some stage, the expectation of a conclusion to QE will add to the upside pressure on gilt yields

### 3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2012/13, which includes the Annual Investment Strategy, was approved by the Council on 7<sup>th</sup> March 2012. 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. During the period under review, the unsettled economic climate and heightened credit concerns made it appropriate to keep investments short term with a maximum duration of three months.

This limit applied to all entities on the suggested Sector Credit List with the following exceptions:

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

A full list of investments held as at 31st December 2012, compared to Sector's counterparty list, and changes to Fitch, Moody's and S&P's credit ratings during quarter ended 31st December 2012 are shown in Appendix 2.

Investment rates available in the market have continued at historically low levels and have fallen further during the quarter as a result of a number of UK and overseas factors. Key among these were the UK Funding for Lending Scheme and the ECB's pledge to support the Eurozone. £4m of in-house funds were available for investment purposes during the quarter. These funds were available on a temporary basis, and were invested for two months (£2m) and three months (£2m). The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and the changes due to Housing Finance Reform. The Council holds **£19m** core cash balances for investment purposes (i.e. funds available for more than one year).

#### Investment performance for quarter ended 31st December 2012

| Benchmark | Benchmark Return | Council Performance | Investment Interest Earned |
|-----------|------------------|---------------------|----------------------------|
| 7 day     | 0.36%            | 1.25%               | £290,000                   |



As illustrated, the Council outperformed the benchmark by 0.89%. The Council's budgeted investment return for 2012/13 is £287,000, and performance for the year to date is approximately £75k above budget.

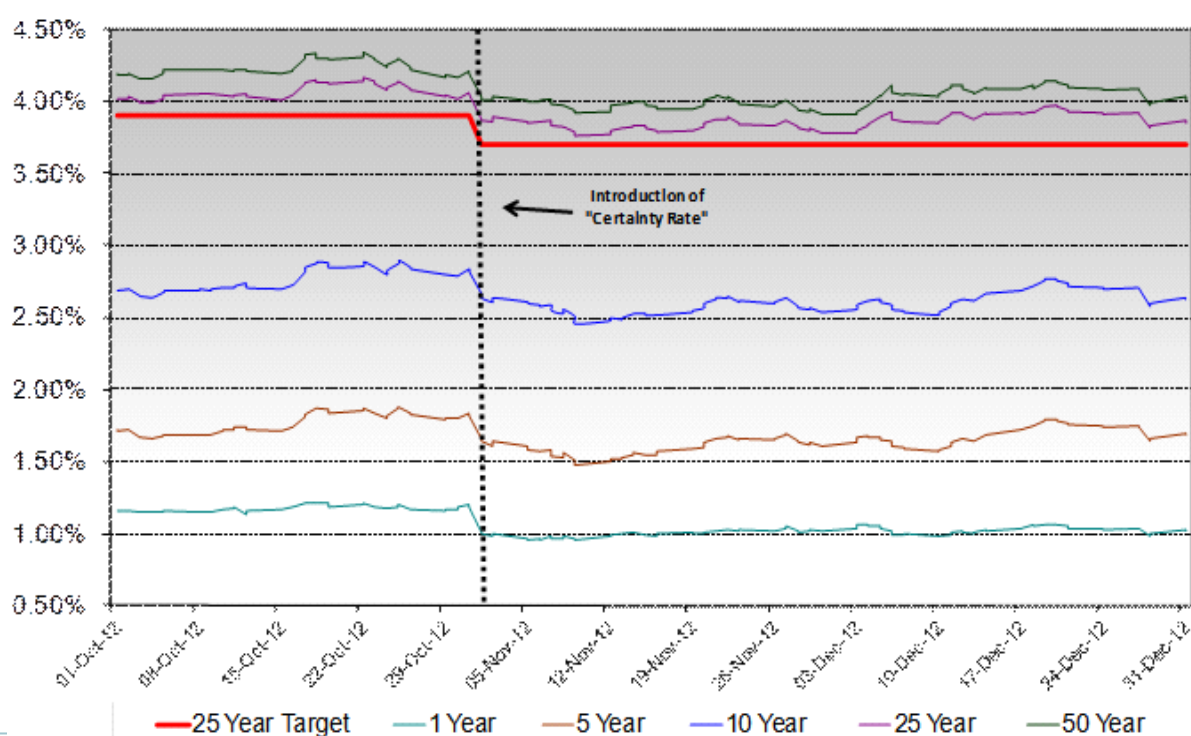
## 4. New borrowing:

No borrowing was undertaken during the quarter.

Sector's 25 year PWLB target rate for new long term borrowing for the quarter was lowered to 3.70% from 3.90% following the introduction of the "Certainty Rate" on 1st November 2012. The table below has been complicated by the introduction of this. However, gilt yields (on which PWLB rates are based), generally rose during the quarter.

### PWLB rates quarter ended 31.12.2012

|                | 1 Year   | 5 Year   | 10 Year  | 25 Year  | 50 Year  |
|----------------|----------|----------|----------|----------|----------|
| <b>Low</b>     | 0.96%    | 1.48%    | 2.46%    | 3.76%    | 3.91%    |
| <b>Date</b>    | 05/11/12 | 09/11/12 | 09/11/12 | 09/11/12 | 30/11/12 |
| <b>High</b>    | 1.21%    | 1.88%    | 2.90%    | 4.17%    | 4.34%    |
| <b>Date</b>    | 17/10/12 | 25/10/12 | 25/10/12 | 22/10/12 | 22/10/12 |
| <b>Average</b> | 1.07%    | 1.68%    | 2.66%    | 3.93%    | 4.09%    |



**Borrowing in advance of need**

This Council has not borrowed in advance of need during the quarter ended 31st December 2012 and has no intention to borrow in advance in 2012/13.

## 5. Debt rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and structure of interest rates following increases in PWLB new borrowing rates in October 2010. 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 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 below:

**Prudential and Treasury Indicators as at 31st December 2012**

| <b>Prudential Indicator</b>             | <b>2012/13<br/>Budget<br/>£000</b> | <b>Quarter 3<br/>Actual<br/>£000</b> |
|---|------------------------------------|--------------------------------------|
| Authorised limit for external debt      | 111,000                            | 111,000                              |
| Operational boundary for external debt  | 105,473                            | 105,473                              |
| Net borrowing                           | 91,266                             | 91,266                               |
| Capital Financing Requirement (CFR)     | 98,233                             | 98,233                               |
| Maturity structure of borrowing limits: |                                    |                                      |
| Under 12 months                         | 10,186                             | 10,186                               |
| 12 months to 2 years                    | 2,837                              | 2,837                                |
| 2 years to 5 years                      | 6,095                              | 6,095                                |

|                     |        |        |
|---------------------|--------|--------|
| 5 years to 10 years | 11,526 | 11,526 |
| 10 years and above  | 76,226 | 76,226 |

Investments held as at 31st December 2012 compared to Sector's counterparty list:

| Organisation                              | Type of investment     | Current rating              | Maturity date              | Market yield % | Book cost         | Government<br>Sovereign Debt rating | Options available                                     |
|---|------------------------|-----------------------------|----------------------------|----------------|-------------------|-------------------------------------|---|
| <b>Investec Investments</b>               |                        |                             |                            |                |                   |                                     |   |
| ING Bank                                  | Certificate of deposit | A+/F1+1                     | 12/02/13                   | 0.470          | 1,900,000         | Netherlands - Gov 'AAA'             |   |
| Svenska Handelsbanken                     | Certificate of deposit | AA/F1+1                     | 14/01/13                   | 0.470          | 700,000           | Sweden - Gov 'AAA'                  |   |
| Standard Chartered Bank                   | Certificate of deposit | AA-/F1+1                    | 28/02/13                   | 0.480          | 1,000,000         | UK - Gov 'AAA'                      |   |
| Nationwide BS                             | Certificate of deposit | A/F1/1                      | 10/01/13                   | 0.460          | 1,500,000         | UK - Gov 'AAA'                      |   |
| Deutsche Bank                             | Certificate of deposit | AA-/F1+1                    | 12/02/13                   | 0.470          | 2,000,000         | Germany - Gov 'AAA'                 |   |
| Rabobank                                  | Certificate of deposit | AA/F1+1                     | 16/08/13                   | 0.730          | 1,200,000         | Netherlands - Gov 'AAA'             |   |
| Rabobank                                  | Certificate of deposit | AA/F1+1                     | 25/01/13                   | 0.460          | 698,911           | Netherlands - Gov 'AAA'             |   |
| HSBC Securities                           | Certificate of deposit | AA/F1+1                     | 14/01/13                   | 0.460          | 900,012           | UK - Gov 'AAA'                      |   |
| Barclays                                  | Certificate of deposit | AA/F1+1                     | 26/03/13                   | 0.480          | 1,300,000         | UK - Gov 'AAA'                      |   |
|   |                        |                             |                            |                | <b>11,198,923</b> |                                     |   |
| European Bank for reconstruction          | Fixed bond             |                             | 01/12/13                   | 0.580          | 314,895           |                                     |   |
| Bank of Nova Scotia                       |                        |                             | 02/01/13                   | 0.200          | 60,000            |                                     |   |
| <b>GBP cash - settled balance</b>         |                        |                             |                            |                | <b>16,922</b>     |                                     |   |
| <b>GBP cash - outstanding settlements</b> |                        |                             |                            |                | <b>1,283,912</b>  |                                     |   |
|   |                        |                             |                            |                | <b>12,874,651</b> |                                     |   |
| <b>In-house Investments - Portfolio</b>   |                        |                             |                            |                |                   |                                     |   |
| Landisbanke Islands                       | Term deposit           | Not rated by sectr          | 26/11/08                   | 6.170          | 500,485           | Iceland - Gov 'BBB-'                | Duration<br>364 days - Repayment received £499,514.61 |
| Lloyds                                    | Term deposit           | A/F1/1                      | 17/12/12                   | 2.500          | 3,000,000         | UK - Gov 'AAA'                      | 364 days  |
| BoS                                       | Bond                   | A/F1/1                      | 07/11/13                   | 1.900          | 1,000,000         | UK - Gov 'AAA'                      | 364 days  |
| Lloyds                                    | Term deposit           | A/F1/1                      | 11/04/13                   | 3.000          | 2,000,000         | UK - Gov 'AAA'                      | 364 days  |
|   |                        |                             |                            |                | <b>6,500,485</b>  |                                     |   |
| <b>Total Portfolio</b>                    |                        |                             |                            |                | <b>19,375,137</b> |                                     |   |
| <b>Cash flow:</b>                         |                        |                             |                            |                |                   |                                     |   |
| Bank of Scotland                          | Term deposit           | A/F1/1                      | 07/01/13                   | 1.350          | 2,000,000         | UK - Gov 'AAA'                      | 60 days   |
| Bank of Scotland                          | Term deposit           | A/F1/1                      | 08/02/13                   | 1.150          | 2,000,000         | UK - Gov 'AAA'                      | 92 days   |
|   |                        |                             |                            |                | <b>4,000,000</b>  |                                     |   |
| <b>Call Accounts/MMF</b>                  |                        |                             |                            |                |                   |                                     |   |
| <b>Balance at 31/12/12</b>                |                        | <b>Rate</b>                 | <b>Call Accounts / MMF</b> |                | <b>0</b>          |                                     |   |
| <b>Total Cashflow</b>                     |                        |                             |                            |                | <b>4,000,000</b>  |                                     |   |
| DMA                                       | Call account           |                             |                            |                | 0                 |                                     |   |
| Global Treasury Fund                      | Money market fund      |                             |                            | 0.34%          | 4,020,106         |                                     |   |
| SIBA                                      | Call account           |                             |                            | 0.75%          | 6,297,916         |                                     |   |
| SIBA SEEDA                                | Call account           |                             |                            | 0.50%          | 55,427            |                                     |   |
| SIBA HCA                                  | Call account           |                             |                            | 0.50%          | 47,209            |                                     |   |
| SIBA ASDA                                 | Call account           |                             |                            | 0.50%          | 10,975            |                                     |   |
| Alliance & Leicester                      | Call account           |                             |                            | 0.80%          | 24                |                                     |   |
| BoS                                       | Call account           |                             |                            | 0.75%          | 31,510            |                                     |   |
| Barclays                                  | Call account           |                             |                            | 0.75%          | 3,500,000         |                                     |   |
| Abbey                                     | Call account           |                             |                            |                | 1                 |                                     |   |
| <b>0</b>                                  |                        | <b>Portfolio + Cashflow</b> |                            |                | <b>23,375,137</b> |                                     |   |

| INT. TYPE | Date Loan Taken Out | Date Loan Matures | REPAYMNT DATES | LOAN NO | PRINCIPAL BALANCE 01-Apr-12 | INT RATE % | Principal repaid 2012/13 | Annual Interest 2012/13 | Lender     | Type of loan                   |
|-----------|---------------------|-------------------|----------------|---------|-----------------------------|------------|--------------------------|-------------------------|------------|--------------------------------|
| Fixed     | 02/10/97            | 02/10/57          | APR-OCT        | 479961  | 1,000,000                   | 6.75       |                          | 67,500                  | PWLB       | Principal due on maturity      |
| Fixed     | 28/05/97            | 28/05/57          | MAY-NOV        | 479542  | 2,000,000                   | 7.38       |                          | 147,500                 | PWLB       | Principal due on maturity      |
| Fixed     | 23/08/46            | 23/06/26          | JUNE-DEC       | 131582  | 647                         | 2.50       | 44.64                    | 16                      | PWLB       | Equal installment of principal |
| Fixed     | 27/09/46            | 27/06/26          | JUNE-DEC       | 131583  | 121                         | 2.50       | 8.40                     | 3                       | PWLB       | Equal installment of principal |
| Fixed     | 16/11/01            | 30/09/26          | SEPT-MAR       | 486237  | 1,000,000                   | 4.75       |                          | 47,500                  | PWLB       | Principal due on maturity      |
| Variable  | 16/12/02            | 16/12/42          | JUNE-DEC       | NA      | 3,000,000                   | 4.75       |                          | 142,500                 | KA Finanaz | Repayable if called by bank    |
| Fixed     | 26/03/12            | 26/03/42          | SEPT-MAR       | 499853  | 90,473,000                  | 3.18       | 1,839,273.15             | 2,862,535               | PWLB       | Annuity                        |
| Fixed     | 01/05/12            | 01/11/27          | MAY-NOV        |         | 130,644                     | 0.00       | 8,709.60                 | 0                       | LTA        | interest free                  |
|           |                     |                   |                |         | <b>97,604,412</b>           |            | <b>1,848,036</b>         | <b>3,267,553</b>        |            |                                |

| Organisation                              | Type of investment        | Current rating     | Maturity date | Market yield % | Book cost         | Government<br>Sovereign Debt rating | Options available                                     |
|---|---------------------------|--------------------|---------------|----------------|-------------------|-------------------------------------|---|
| <b>Investec Investments</b>               |                           |                    |               |                |                   |                                     |   |
| ING Bank                                  | Certificate of deposit    | A+/F1+1            | 12/02/13      | 0.460          | 1,900,000         | Netherlands - Gov 'AAA'             |   |
| Svenska Handelsbanken                     | Certificate of deposit    | AA/F1+1            | 19/02/13      | 0.460          | 700,000           | Sweden - Gov 'AAA'                  |   |
| Standard Chartered Bank                   | Certificate of deposit    | AA-/F1+1           | 28/02/13      | 0.460          | 1,000,000         | UK - Gov 'AAA'                      |   |
| Nationwide BS                             | Certificate of deposit    | A/F1/1             | 10/05/13      | 0.490          | 1,500,000         | UK - Gov 'AAA'                      |   |
| Deutsche Bank                             | Certificate of deposit    | AA-/F1+1           | 12/02/13      | 0.460          | 2,000,000         | Germany - Gov 'AAA'                 |   |
| Rabobank                                  | Certificate of deposit    | AA/F1+1            | 16/08/13      | 0.640          | 1,200,000         | Netherlands - Gov 'AAA'             |   |
| Nordea Group                              | Certificate of deposit    | AA/F1+1            | 02/04/13      | 0.460          | 1,300,000         | Sweden - Gov 'AAA'                  |   |
| HSBC Securities                           | Certificate of deposit    | AA/F1+1            | 16/04/13      | 0.480          | 900,012           | UK - Gov 'AAA'                      |   |
| Barclays                                  | Certificate of deposit    | AA/F1+1            | 26/03/13      | 0.470          | 1,300,000         | UK - Gov 'AAA'                      |   |
|   |                           |                    |               |                | <b>11,800,012</b> |                                     |   |
| European Bank for reconstruction          | Fixed bond                |                    | 01/12/13      | 0.580          | 314,895           |                                     |   |
| UK Treasury bills                         | Fixed interest securities |                    | 07/09/22      | 2.070          | 504,145           |                                     |   |
| Bank of Novia Scotia                      | Deposit                   |                    | 02/01/13      | 0.200          | 260,005           |                                     |   |
| <b>GBP cash - settled balance</b>         |                           |                    |               |                | <b>4,789</b>      |                                     |   |
| <b>GBP cash - outstanding settlements</b> |                           |                    |               |                |                   |                                     |   |
|   |                           |                    |               |                | <b>12,883,846</b> |                                     |   |
| <b>In-house Investments - Portfolio</b>   |                           |                    |               |                |                   |                                     |   |
| Nandisbanke Islands                       | Term deposit              | Not rated by secto | 26/11/08      | 6.170          | 500,485           | Iceland - Gov 'BBB-'                | Duration<br>364 days - Repayment received £499,514.61 |
| Lloyds                                    | Term deposit              | A/F1/1             | 17/12/12      | 2.500          | 3,000,000         | UK - Gov 'AAA'                      | 364 days  |
| BOS                                       | Bond                      | A/F1/1             | 07/11/13      | 1.900          | 1,000,000         | UK - Gov 'AAA'                      | 364 days  |
| Lloyds                                    | Term deposit              | A/F1/1             | 11/04/13      | 3.000          | 2,000,000         | UK - Gov 'AAA'                      | 364 days  |
|   |                           |                    |               |                | <b>6,500,485</b>  |                                     |   |
|   |                           |                    |               |                | <b>19,384,331</b> |                                     |   |
| <b>Call Accounts/MMF (as at 28/2/13)</b>  |                           |                    |               | <b>Rate</b>    |                   |                                     |   |
| DMA                                       | Call account              |                    |               |                |                   |                                     | 0   |
| Global Treasury Fund                      | Money market fund         |                    |               | 0.34%          | 4,465,106         |                                     |   |
| SIBA                                      | Call account              |                    |               | 0.75%          | 5,335,716         |                                     |   |
| SIBA SEEDA                                | Call account              |                    |               | 0.50%          | 55,427            |                                     |   |
| SIBA HCA                                  | Call account              |                    |               | 0.50%          | 47,209            |                                     |   |
| SIBA ASDA                                 | Call account              |                    |               | 0.50%          | 10,975            |                                     |   |
| Alliance & Leicester                      | Call account              |                    |               | 0.80%          | 24                |                                     |   |
| BoS                                       | Call account              |                    |               | 0.75%          | 4,043,454         |                                     |   |
| Barclays                                  | Call account              |                    |               | 0.75%          | 3,500,000         |                                     |   |
| Abbey                                     | Call account              |                    |               |                | 1                 |                                     |   |
|   |                           |                    |               |                | <b>17,457,913</b> |                                     |   |
|   |                           |                    |               |                | <b>36,842,244</b> |                                     |   |

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|                          |  |
|--------------------------|--|
| <b>Subject:</b>          | <b>PUBLIC SPEAKING AT CABINET</b>            |
| <b>Meeting and Date:</b> | <b>Governance Committee – 14 March 2013</b>  |
| <b>Report of:</b>        | <b>David Randall, Director of Governance</b> |
| <b>Classification:</b>   | <b>Unrestricted</b>                          |

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**Purpose of the report:** At the Council meeting on 25 July 2012 a question was put to the Chairman of the Governance Committee regarding public speaking at Cabinet meetings. The Chairman in answering the supplementary question agreed to a paper on the topic being considered by the Governance Committee, as custodians of the Constitution.

**Recommendation:** That the Governance Committee considers this report and determine whether it would wish to make any recommendations to Council .

---

**1. Summary**

- 1.1 The Chairman of the Governance Committee agreed to receive a paper on the topic of Public Speaking at Cabinet meetings when answering a question put at Council on 25 July 2012.
- 1.2 This report outlines the various options and invites the Committee to recommend its preferred option to the next Council meeting.

**2. Background**

- 2.1 At present no public participation is allowed at Cabinet meetings. Both Scrutiny Committees allow public participation but this is rarely exercised. The Planning Committee allows public speaking in relation to a certain category of agenda item – namely applications for planning permission. Advance notification is required and the amount of time allocated to each speaker is limited and strictly controlled.
- 2.2 Although the Leader is responsible for chairing Cabinet meetings, the Governance Committee is responsible for considering proposed constitutional changes and recommending these or otherwise to Council for adoption. Any changes proposed would need to be approved by the majority of the Council.

**3. Options**

- 3.1 To allow public speaking at Cabinet meetings.
- 3.2 To allow the public and non Cabinet members to speak at Cabinet meetings.
- 3.3 To not allow either the public or non Cabinet members to speak at Cabinet meetings.

**4. Evaluation of Options**

- 4.1 Legislation places the responsibility for discharging the majority of the Council functions on the Cabinet. All members can ask questions and put forward motions at

Ordinary Council meetings to hold the Cabinet to account. This has been utilised at every Ordinary Council meeting for the last 5 years and beyond.

- 4.2 In addition, the Council has two scrutiny Committees, which scrutinise the decisions of the Executive, by either including these decisions on their work programme, or by instigating the call in procedure in relation to decisions of the Cabinet already made but not implemented. Both scrutiny committees have the facility for public speaking, but this is rarely exercised.
- 4.3 If members were minded to recommend public speaking at the Cabinet meetings, it would be necessary to decide what format this would take. Would the public be required to give notice, as at Planning Committee, having perused the published agenda and papers in advance? Alternatively, would the public be free to interject/interrupt, similar to the House of Commons when an MP "gives way". The former alternative appears to be much more manageable, as this still maintains some structure to the proceedings. If this alternative was pursued, a time limit would need to be set to allow the member of the public sufficient time to get across their point, but not to labour the point or ramble on. The three minutes allowed at Planning Committee, would appear to work well and would be a sensible option. Then there is the issue of how many speakers on a topic/Cabinet report? Members may again be minded to follow the approach of Planning Committee – ordinarily one speaker for and one against a development proposal.
- 4.4 After considering all of the above, it is suggested that the key questions for the committee are:
  - (a) Why introduce public speaking; and
  - (b) What benefits will it bring?
- 4.5 As identified earlier, the Cabinet are responsible for the discharge of most of the Council functions, the question to consider is whether public participation would improve the decision making process? In considering this point, it is important to remember that it is quite legitimate for members of the public to lobby an individual portfolio holder or Cabinet as a whole in advance of a decision being taken. In fact this is the exact reason for the publishing of a forward plan of key decisions to be taken in the near future by the Cabinet. It allows the public to ask questions and find out more about what is proposed. Additionally, it should be borne in mind that there is nothing to prevent the Cabinet inviting anyone to address it on any particular matter should it consider that it would be useful to do so.
- 4.6 Although officers have not attempted to conduct an empirical survey it is by no means uncommon for local authorities to allow public speaking at executive meetings – even in only in the nature of a ‘question time’. Presumably the rationale for this was felt by those authorities to relate to issues of public engagement. However, the benefit of this needs to be weighed against the possibility of the process resulting in the effectiveness of the proper and legitimate decision making functions of the Cabinet being undermined . Further, there is no evidence of any particular public pressure for the facility for public speaking – the Democratic Services Team receives few (if any) requests from members of the public who would wish to participate.
- 4.7 Many of the arguments and logistical solutions for and against public speaking and participation outlined in paragraphs 4.1 to 4.5 would also apply to non Cabinet members being able to speak at Cabinet meetings. However, it should be remembered that non-executive council members are able to participate in Council



meetings and meetings of the scrutiny committees which can be used as a vehicle for holding the Cabinet to account. These are not avenues which are open to the general public.

- 4.8 There are strong arguments on both sides and it is for members of the Governance Committee to decide what they wish to recommend to Council. It will ultimately be for Council at its next meeting to decide how it wishes its Cabinet to operate.

5. **Resource Implications**

There would be a marginal increase in resource to manage any public speaking process at Cabinet, if adopted by the Council. In addition, the Monitoring Officer would need to make associated changes to the Executive Functions section of the Constitution.

6. **Corporate Implications**

- 6.1 Comment from the Section 151 Officer: Finance has been consulted and has no further comments to add (SJL).
- 6.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.
- 6.3 Comment from the Equalities Officer: This report does not specifically highlight any equalities implications however, in discharging their responsibilities members are required to comply with the public sector equality duty as set out in section 149 of the Equality Act 2010 <http://www.legislation.gov.uk/ukpga/2010/15>.

7. **Appendices**

None.

8. **Background Papers**

Minutes of Council Meeting on 25 July 2012.

Contact Officer: David Randall, Director of Governance



## **Dover District Council**

Certification work report 2011/12

January 2013

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## **Appendices**

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| <b>B</b> | <b>Details of claims and returns certified for 2011/12</b> | <b>9</b>  |
| <b>C</b> | <b>Action plan</b>   | <b>10</b> |

# 1 Executive Summary

## Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.2 Prior to our appointment as the Council's auditors the Audit Commission (the Council's previous auditor) certified the claims submitted by the Council. The Audit Commission certified all four claims and returns for the financial year 2011/12 relating to expenditure of £86 million.
- 1.3 This report summarises the overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

## Key messages

- 1.6 It should be noted that all work reported in this certification report was completed by the Audit Commission prior to our appointment as the Council's auditors. The findings set out in this report therefore represent the results of your previous auditor's work.
- 1.7 A summary of all claims and returns subject to certification and details of the certification fees is provided at Appendix B. The key messages from the reviews are summarised in Exhibit One, and set out in detail in the next section of the report.

### Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

**Exhibit One: Summary of Council performance**

| <b>Aspect of certification arrangements</b>                                       | <b>Key Messages</b>  |
|---|--|
| Submission and certification  | The majority of the claims were submitted to audit on time and all claims were certified before the required deadline.   |
| Accuracy of claim forms submitted to the auditor<br>Amendments and qualifications | No issues arising from the certification work had a significant impact on the figures in the claim or return or a material impact on the Council's financial statement.<br>Several amendments and a qualification letter were required for the housing and council tax benefit scheme, to report the findings of the audit to the sponsoring department and amend the return to correct their extrapolated impact, in line with auditor guidance. No amendments or qualifications were required for any of the other claims and returns. |
| Supporting working papers   | Supporting working papers for the claims and returns are generally good and facilitate certification of the claims and returns before the deadlines.   |

**The way forward**

- 1.8 We have made a number of recommendations to address the key messages above and other findings arising from the certification work at Appendix C.
- 1.9 Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

**Acknowledgements**

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

**Grant Thornton UK LLP**

**January 2013**

## 2 Results of certification work

### Key messages

- 2.1 Four claims and returns were certified for the financial year 2011/12 relating to expenditure of £86 million.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

#### Exhibit Two: Performance against key certification targets

| Performance measure                           | Target | Achievement in 2011-12 |     | Achievement in 2010-11 |     | Direction of travel |
|---|--------|------------------------|-----|------------------------|-----|---------------------|
|   |        | No.                    | %   | No.                    | %   |                     |
| <b>Total claims/returns</b>                   |        | 4                      |     | 6                      |     |                     |
| Number of claims submitted on time            | 100%   | 3                      | 75  | 6                      | 100 | ↓                   |
| Number of claims certified on time            | 100%   | 4                      | 100 | 6                      | 100 | →                   |
| Number of claims certified with amendment     | 0%     | 1                      | 25  | 2                      | 33  | ↑                   |
| Number of claims certified with qualification | 0%     | 1                      | 25  | 1                      | 17  | ↓                   |

- 2.3 This analysis of performance shows that:
- the majority of claims and returns were submitted for audit on time. Auditors were made aware of the late submission of the housing subsidy return and a later audit date was agreed
  - all claims and returns were certified before the certification deadlines
  - less amendments to claims and returns were required in 2011/12 compared with the previous year
  - one claim (the housing and council tax benefit scheme) was certified with qualification in 2011/12, the same as the previous year.
- 2.4 Details on the certification of all claims and returns are included at Appendix B.
- 2.5 Where we have identified significant matters or opportunities for improvement in the compilation of claims and returns, these are summarised below and recommendations are included in the action plan at Appendix C.

- 2.6 We charged a total fee of £293 for the certification and report of claims and returns in 2011-12. In addition, your previous auditors the Audit Commission, charged a total fee of £34,395. The fees charged were less than the indicative budget for the year and significantly lower than the previous year due to the limited amount of follow up work required for the housing and council tax benefit scheme.. Details of fees charged for specific claims and returns are included at Appendix B.

### **Significant findings**

- 2.7 The following significant findings were identified in relation to the management arrangements and certification of individual grant claims and returns:

#### **Management arrangements**

- 2.8 No significant issues were identified in relation to the Council's management arrangements for the compilation and submission of the claims and returns. One claim was submitted late due to conflicting pressures in finance, but the late submission was agreed with the relevant department and the auditors were advised so a later audit date could be agreed.

#### **Certification of housing and council tax benefit scheme**

- 2.9 The housing and council tax benefit claim is by far the Council's largest grant claim totalling over £47 million. A key element of our certification approach is detailed testing of a sample of benefit cases from the entries on the Council's subsidy claim form. The testing considers whether the Council has awarded benefit in accordance with the regulations and recorded it correctly for subsidy purposes.
- 2.10 The initial testing of 80 benefit cases identified only a small number of errors.
- 2.11 On non HRA rent rebates three errors were identified:
- One where the full applicable weekly LHA rate was applied in error for the last day of the year and one where the claim had two duplicate case numbers. Follow up work by the Council confirmed both these issues were isolated errors. The subsidy claim was amended for the actual errors identified.
  - One where no service charges had been deducted from rents. The Council reviewed all non-HRA rent rebate claims to identify any other cases with no service charge deductions. All these cases were reviewed (as there were less than 40 in total) and five further overpayments were identified. The claim form was amended to reflect all overpayments, based on the full population tested.
- 2.12 On council tax one error was identified in the cases reviewed, where one week's entitlement was duplicated in error. This error arose due to a system fault. The system supplier provided a full list of all affected cases and the claim form was amended to remove all these duplicate entries. A system patch has been provided by the system supplier to prevent the re-occurrence of this error in 2012/13.
- 2.13 No errors were identified from the review of 20 rent allowance cases and 20 rent rebate cases.
- 2.14 The results of all the testing completed has been reported to the Department for Works and Pensions in a qualification letter, together with the minor unresolved differences shown in the reconciliation of benefits granted to benefits paid.

- 2.15 All errors identified from testing have also been shared with both the Council and East Kent Services (who manage this service). East Kent Services has agreed to feed this information into individual and departmental training plans (in line with last year).

Recommendations

- Review the report of council tax duplicated periods provided by Civica and remove all duplicate entries from the housing benefit system
- Manually amend the 2012/13 subsidy claim to reverse the above system adjustments which were reflected in the certified 2011/12 subsidy claim

**Other claims and returns**

- 2.16 There are no significant issues to report in relation to the other claims and returns certified in 2011/12. All other claims were certified without amendment or qualification letters.



## A Approach and context to certification

### Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

### Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the authority; or
- with a qualification letter (with or without agreed amendments incorporated by the authority).

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

### Certification fees

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the tables below.

#### Standard

| Role            | 2011/12 | 2010/11 |
|-----------------|---------|---------|
| Engagement lead | £325    | £325    |
| Manager         | £180    | £180    |
| Senior auditor  | £115    | £115    |
| Other staff     | £85     | £85     |

#### South East England

| Role            | 2011/12 | 2010/11 |
|-----------------|---------|---------|
| Engagement lead | £345    | £345    |
| Manager         | £195    | £195    |
| Senior auditor  | £125    | £125    |
| Other staff     | £95     | £95     |

#### London

| Role            | 2011/12 | 2010/11 |
|-----------------|---------|---------|
| Engagement lead | £380    | £380    |
| Manager         | £210    | £210    |
| Senior auditor  | £135    | £135    |
| Other staff     | £105    | £105    |

## B Details of claims and returns certified for 2011-12

| Claim or return  | Value (£)         | Amended<br>? | Amendment<br>Amount (£) | Qualified<br>? | Fee<br>2010/11<br>(£) | Fee<br>2011/12<br>(£) | Comments   |
|--|-------------------|--------------|-------------------------|----------------|-----------------------|-----------------------|--|
| Housing and council tax benefit scheme                                 | 47,276,577        | Yes          | + 31                    | Yes            | 40,576                | 30,700                | Results of initial testing required limited follow up  |
| National non-domestic rates return                                     | 31,478,404        | No           | 0                       | No             | 1,476                 | 1,327                 | Results of initial testing required limited follow up  |
| Housing revenue account subsidy  | 5,909,522         | No           | 0                       | No             | 3,618                 | 982                   | Full year audit last year under cyclical plan. Results of initial testing required limited follow up |
| Pooling of housing capital receipts                                    | 1,243,175         | No           | 0                       | No             | 813                   | 822                   |  |
| Other claims audited in 2010/11 for which no audit required in 2011/12 |                   |              |                         |                | 3,045                 | 0                     | No audits required of disabled facilities grant and housing base data in 2011/12                     |
| Reporting to those charged with Governance                             |                   |              |                         |                | 1,334                 | 857                   |  |
| <b>Total</b>   | <b>85,907,678</b> |              | <b>31</b>               |                | <b>50,862</b>         | <b>34,688</b>         |  |

## C Action plan

| Claim or return                        | Recommendation  | Priority (L/M/H) | Management response & implementation details   |
|--|---|------------------|--|
| Housing and council tax benefit scheme | Review the report of council tax duplicated periods provided by Civica and remove all duplicate entries from the housing benefit system.      | M                | All affected claims will be amended on the housing benefit system to remove all duplicate entries. Date for implementation 31 December 2012.   |
| Housing and council tax benefit scheme | Manually amend the 2012/13 subsidy claim to reverse the above system adjustments which were reflected in the certified 2011/12 subsidy claim. | M                | As this adjustment has been reflected in the 2011/12 subsidy claim it will be manually corrected in the 2012/13 claim to avoid double counting. Date for implementation 31 March 2013. |

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# The Audit Plan for Dover District Council

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

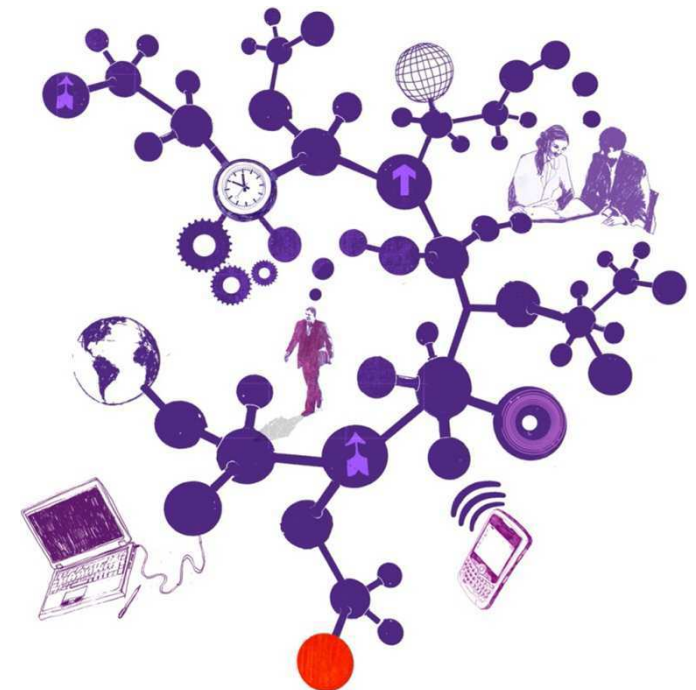
**Year ended 31 March 2013**

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

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# Contents

## **Section**

1. Understanding your business
2. Developments relevant to your business and the audit
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7. Group audit scope and risk assessment
8. Interim audit work
9. Value for Money
10. Logistics and our team
11. Fees and independence
12. Communication of audit matters with those charged with governance
13. Appendix 1 – Acton plans from 2011/12 Annual Governance Statement



# Understanding your business

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

## Challenges/opportunities

### 1. Reduction in funding and financial position

- Since the Chancellor's Autumn statement in 2010, central government funding has been reducing year on year. This poses significant challenges to the authority in balancing its budget in current and future years.

### 2. Participation in shared service arrangements

- The Council has committed to a number of shared service arrangements with neighbouring authorities in recent years. These include East Kent Housing, East Kent Services and Kent County Council payroll services .

### 3. Local government reforms

- The Local Government Finance Act 2012 introduced amendments to council tax support arrangements and business rate retention. These changes increase the council's exposure to finance risks and could have a significant impact on the authority's funding.

### 4. Housing refinancing

- In March 2012 the Council took out a new PWLB loan for £90.5million to refinance its housing revenue account.
- In 2012/13 the Council will start making capital repayments against this debt

## Our response

We will review:

- how income assumptions have been incorporated into the medium term financial plan; and
- progress in developing and delivering savings plans.

We will :

- review how the benefits of shared service arrangements and partnerships are being monitored; and
- assess the extent to which the anticipated cost reductions from shared services have been delivered.

We will :

- review how the Council has assessed the risks and opportunities attached to the new arrangements for council tax support and business rate retention for 2013/14 onwards; and
- assess how the impact of the reforms has been incorporated into the Council's medium term financial plan.

We will:

- review and conclude on the appropriateness of the accounting entries in relation to the repayments of the new HRA refinancing PWLB loan.

# Developments relevant to your business and the audit

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

## Developments and other requirements

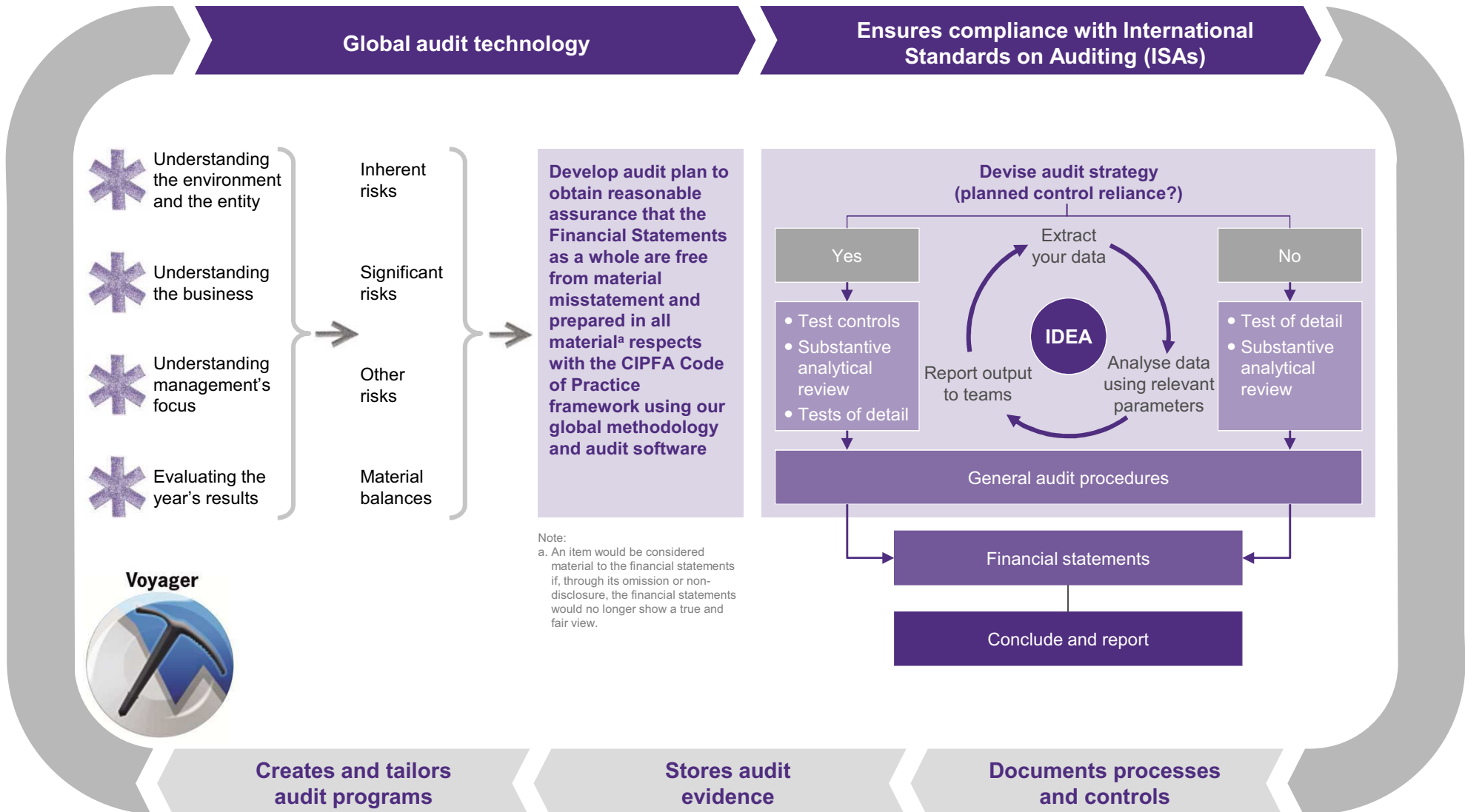
|  |   |   |  |  |   |
|--|---|---|--|--|---|
| <p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Recognition of grant conditions and income</li> <li>• Self financing Housing Revenue Account</li> </ul> | <p><b>2. Legislation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

## Our response

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

# Our audit approach

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## An audit focused on risks

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

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

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

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

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

## An audit focused on risks (continued)

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

## An audit focused on risks (continued)

| Account  | Material (or potentially material) balance? | Transaction Cycle           | Inherent risk | Material misstatement risk? | Description of Risk | Substantive testing? |
|--|---|-----------------------------|---------------|-----------------------------|---------------------|----------------------|
| (Surplus)/ Deficit on revaluation of non current assets        | Yes   | Property, Plant & Equipment | Low           | None                        |                     | ×                    |
| Actuarial (gains)/ Losses on pension fund assets & liabilities | Yes   | Employee remuneration       | Low           | None                        |                     | ✓                    |
| Other comprehensive (gains)/ Losses                            | No  | Revenue/ Operating expenses | Low           | None                        |                     | ×                    |
| Property, Plant & Equipment                                    | Yes   | Property, Plant & Equipment | Low           | None                        |                     | ✓                    |
| Heritage assets & Investment property                          | Yes   | Property, Plant & Equipment | Low           | None                        |                     | ✓                    |
| Investments (long & short term)                                | Yes   | Investments                 | Low           | None                        |                     | ✓                    |
| Debtors (long & short term)                                    | Yes   | Revenue                     | Low           | None                        |                     | ✓                    |
| Assets held for sale   | No  | Property, Plant & Equipment | Low           | None                        |                     | ×                    |
| Inventories  | No  | Inventories                 | Low           | None                        |                     | ×                    |
| Cash & cash Equivalents  | Yes   | Bank & Cash                 | Low           | None                        |                     | ✓                    |

## An audit focused on risks (continued)

| Account                        | Material (or potentially material) balance? | Transaction Cycle     | Inherent risk | Material misstatement risk? | Description of Risk   | Substantive testing? |
|--------------------------------|---|-----------------------|---------------|-----------------------------|---|----------------------|
| Borrowing (long & short term)  | Yes   | Debt                  | Low           | None                        |   | ✓                    |
| Creditors (long & Short term)  | Yes   | Operating Expenses    | Medium        | Other                       | Creditors understated or not recorded in the correct period | ✓                    |
| Provisions (long & short term) | No  | Provision             | Low           | None                        |   | ×                    |
| Pension liability              | Yes   | Employee remuneration | Low           | None                        |   | ✓                    |
| Reserves                       | Yes   | Equity                | Low           | None                        |   | ✓                    |

# Significant risks identified

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

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below. We have not identified any additional significant risks.

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



## Other risks

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

| Other reasonably possible risks | Description  | Work completed to date                              | Further work planned   |
|---------------------------------|--|---|--|
| Operating expenses              | Operating expenses and creditors understated or not recorded in the correct period | None – interim audit work scheduled for March 2013  | <ul style="list-style-type: none"> <li>Identify and walk through activity level controls</li> <li>Perform attribute testing on material expense streams</li> <li>Assess the method of allocating/apportioning expenses to functional categories for compliance with the Service Reporting Code of Practice</li> <li>Cut-off testing</li> </ul>   |
| Employee remuneration           | Remuneration expenses not correct or understated                                   | None – interim audit work scheduled for March 2013  | <ul style="list-style-type: none"> <li>Identify and walk through activity level controls</li> <li>Predictive analytical review of employee remuneration</li> <li>Performance of attribute testing on payroll expenses</li> </ul>   |
| Welfare Expenditure             | Welfare benefits improperly computed   | None – interim audit work scheduled for March 2013  | <ul style="list-style-type: none"> <li>Identify and walk through activity level controls</li> <li>Substantive testing of a sample of benefit claims</li> <li>Reconcile benefit expenditure to the benefit subsidy claim and assess the impact of any significant differences</li> <li>Complete benefit software diagnostic tool, uprating checks and analytical review compared to prior year subsidy claim</li> </ul> |
| Housing Rent Revenue Account    | Revenue transactions not recorded  | None – interim audit work scheduled for March 2013. | <ul style="list-style-type: none"> <li>Identify and walk through activity level controls</li> <li>Predictive analytical review of housing revenue</li> <li>Perform attribute testing on the rental income stream</li> <li>Review for large or unusual transactions</li> <li>Cut-off testing</li> </ul>   |

# Group audit scope and risk assessment

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

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

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

# Interim audit work

## Scope

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

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

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|   | Work performed/ planned   | Findings/Conclusion   |
|---|---|---|
| <b>Internal audit</b>                                 | We will review internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.   | Work scheduled for completion February/ March 2013          |
| <b>Walkthrough testing</b>                            | Walkthrough tests will be completed on the specific transaction cycles and assertions for which we have identified a potential risk of material misstatement to the financial statements. We have identified four risks, as set out in the 'Other Risks' section above: <ul style="list-style-type: none"> <li>- Operating expenses and creditors understated or not recorded in the correct period</li> <li>- Remuneration expenses not correct or understated</li> <li>- Welfare benefits improperly computed</li> <li>- Housing revenue transactions not recorded</li> </ul> | Walkthrough testing scheduled for completion in March 2013  |
| <b>Review of information technology (IT) controls</b> | Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.   | IT review work planned for completion in April 2013.        |
| <b>Journal entry controls</b>                         | We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.   | Interim review scheduled for completion in March 2013       |
| <b>Follow up of prior year recommendations</b>        | We have reviewed the Council's progress in addressing the recommendations raised in our 2011/12 Annual Governance Report.   | Current status of recommendations is set out in Appendix 1. |

# Value for Money

## Introduction

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

## 2012/13 VfM conclusion

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

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance for members.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report, separate Financial Resilience report and Annual Audit Letter.

## Code criteria

The Council has proper arrangements in place for:

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

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

## Work to be undertaken

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

Specifically we will review:

- the Council's medium term financial plan including the assumptions made;
- 2012/13 financial performance; and
- progress in development and delivery of savings plans.

# Logistics and our team

## The audit cycle



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| Date      | Activity  |
|-----------|---|
| 18/1/2013 | Planning meeting                                    |
| 4/3/2013  | Interim onsite work                                 |
| 14/3/2013 | Audit plan presented to Governance Committee        |
| 22/7/2013 | Year end fieldwork commences                        |
| TBC       | Audit findings clearance meeting                    |
| 26/9/2013 | Governance Committee meeting to report our findings |
| 27/9/2013 | Sign financial statements and VfM conclusion        |
| TBC       | Issue Annual Audit Letter                           |

## Our team

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# Fees and independence

## Fees

|                     | £             |
|---------------------|---------------|
| Council audit       | 70,680        |
| Grant certification | 26,450        |
| <b>Total</b>        | <b>97,130</b> |

## Fees for other services

| Service                     | Fees £ |
|-----------------------------|--------|
| No other services requested | Nil    |

### Our fee assumptions include:

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

### Independence and ethics

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

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

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

# Communication of audit matters with those charged with governance

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

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

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

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## Respective responsibilities

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

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

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

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

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

# Appendix 1

## Action plans from 2011/12 Annual Governance Statement

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| Recommendation                              | Agreed action plan  | Responsibility and target date                                    | Current status   |
|---|---|---|--|
| <b>1 - Valuations</b>                       | Where interim valuations are used during the accounts production process these should be reviewed when the year end indices become available to identify any material valuation changes which need to be reflected in the financial statements. | Senior Accountant, HRA and Capital<br>30 April 2013               | Outstanding  |
| <b>2 – Soft loan balances</b>               | For 2012/13 review and reconcile all soft loan debtor and creditor balances in the financial ledger to the supporting valuation schedules provided by Sector.   | Senior Accountant, Revenue and Treasury<br>31 March 2013          | Outstanding  |
| <b>3 – IT access</b>                        | Review processes to ensure the timely removal of employee access to e-fin when a member of staff leaves the Council's employment.   | Software Support Officers, East Kent Services<br>30 November 2012 | The IT procedures for removing e- fin access for staff leavers is understood to have been amended.<br><br>Evidence of action taken is awaited. |
| <b>4 – Financial instruments disclosure</b> | For 2012/13 reassess required financial instruments disclosures to ensure these are more clearly reflected in the financial statements and that the correct balances and disclosures are included.  | Senior Accountant, Revenue and Treasury<br>31 March 2013          | Outstanding  |
| <b>5 – Cash flow statement</b>              | For 2012/13 ensure that capital and interest debtors and creditors are correctly excluded from cash flows in the cash flow statement.   | Financial Services Manager<br>31 March 2013                       | Outstanding  |





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# Governance Committee Update for Dover District Council

**Year ended 31 March 2013**

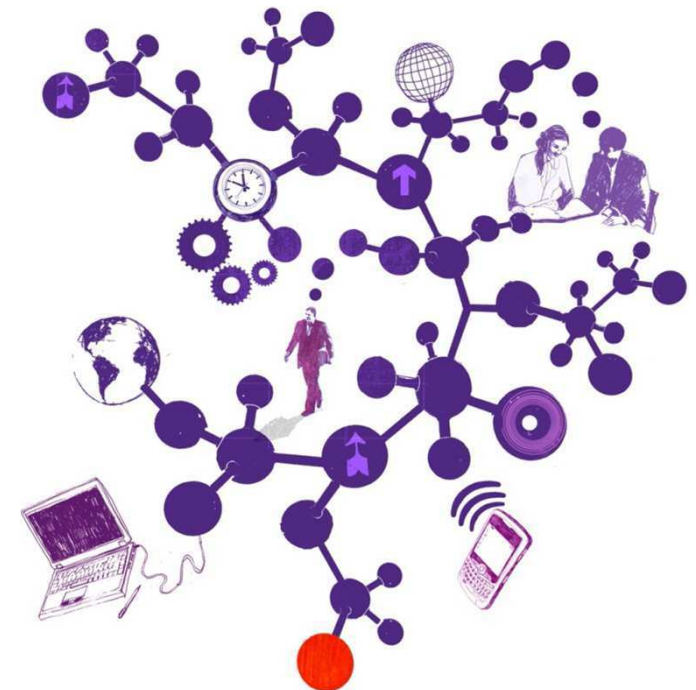
28 February 2013

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

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# Introduction

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

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

Members of the Governance Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications - 'Local Government Governance Review 2012', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

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

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## Progress at 28 February 2013

| Work  | Planned date  | Complete?                     | Comments  |
|---|---|-------------------------------|---|
| <b>2012-13 Fee letter</b><br>We prepare a fee letter annually, setting out the fee for the audit and grant certification work for the year.   | 30 November 2012  | Yes                           | We issued our 2012/13 fee letter on 12 November 2012 and presented it at the last Governance Committee meeting.   |
| <b>2012-13 Accounts Audit Plan</b><br>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.   | 28 February 2013  | Yes                           | We have agreed the accounts audit plan with officers and it is a separate item on today's agenda.   |
| <b>Interim accounts audit</b><br>Our interim fieldwork visits include the following: <ul style="list-style-type: none"> <li>• review of the Council's control environment</li> <li>• documentation and walkthrough of financial systems</li> <li>• review of Internal Audit and their reports on core financial systems</li> <li>• early substantive testing</li> </ul> | Ongoing<br>w/c 4 March 2013<br>w/c 28 February 2013<br>To be agreed | In progress<br>No<br>No<br>No | We have started to review the Council's control environment and have received initial responses from officers. Further work will be carried out on IT controls during subsequent interim visits.<br>We will be carrying out our first interim visit on site from 4 March 2013. During the visit we will document the Council's financial systems and carry out the required walkthroughs.<br>The results of all interim work completed to date are set out in our accounts audit plan. We will report the findings of all further work in our regular Governance Committee updates. |
| <b>2012-13 final accounts audit</b><br>Including: <ul style="list-style-type: none"> <li>• audit of the 2012-13 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• Whole of Government accounts review</li> </ul>  | 22 July- 9 August 2013<br>To be confirmed                           | No<br>No                      | We held an initial liaison meeting with officers in January to discuss emerging accounts issues and agree the dates of our final accounts audit visit. We have sent an arrangements letter to officers, which clarifies the working papers we would expect the Council to produce to support its financial statements.  |

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## Progress at 28 February 2013

| Work  | Planned date  | Complete? | Comments   |
|---|---|-----------|--|
| <p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2012/13 VfM conclusion is based on the reporting criteria specified by the Audit Commission:</p> <p>The Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> <li>• securing financial resilience</li> <li>• challenging how it secures economy, efficiency and effectiveness in its use of resources.</li> </ul> <p>Our review will focus on arrangements relating to financial governance, strategic financial planning and financial control.</p> | w/c 8 April 2013  | No        | <p>We have completed our VfM planning. The specific areas we plan to review are set out in our audit plan.</p> <p>Work is ongoing. The majority of our financial resilience review work is scheduled for completion in April 2013. Work will be concluded during the year end final accounts audit.</p> <p>We will report our findings in a separate Financial Resilience report alongside our Audit Findings report in September 2013.</p>              |
| <p><b>Other areas of work – grant certification</b></p> <p>We will be required to certify the following grants for the Council in 2012/13:</p> <ul style="list-style-type: none"> <li>• Housing and council tax benefit</li> <li>• Local non domestic rates</li> <li>• Pooling of housing capital receipts (if value of claim greater than £500,000)</li> </ul>   | Dates for individual grants yet to be agreed. We will carry out the majority of the certification work before the end of September 2013 | No        | <p>Dates of grant certification work are currently being discussed with officers. These will be scheduled to ensure compliance with all grant certification deadlines.</p> <p>The housing and council tax benefit grant is the only grant where we need to carry out a substantial amount of work. All initial testing on the claim will be completed before the end of September and used to support our audit opinion on the financial statements.</p> |

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# Emerging issues and developments

## Accounting and audit issues

### Implications of the Local Government Finance Act 2012

The Local Government Finance Act 2012 has now been given Royal Assent. The Act has amendments in two areas of local government finance:

- Council tax support will now be localised and local authorities will be responsible for implementing their own council tax reduction schemes.
- 50% of the non domestic rates collected locally will be retained by the local authority. Billing authorities will pay over a share to central government and proportionate shares to their precepting bodies.

In December 2012, CIPFA issued a consultation on proposed amendments to the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom for the implications of business rates retention schemes. In summary, the changes are to account for business rates in a similar way to council tax. The Comprehensive Income and Expenditure Statement will need to show amounts collectible by each authority. Debtors/creditors will be recognised when these amounts do not match the actual amounts paid by each billing authority over to preceptors and government. The Collection Fund adjustment account will be used for accounting for the differences. Top-ups and tariffs and the safety net and levy will be recognised as grant income or expenditure. Individual authorities in a pool will need to account for their share of income and expenditure debtors/creditors as stipulated in any agreement made by individual authorities in the pool.

Challenge questions:

- Have officers ensured the financial impact is fed into medium term financial plans?
- Have officers undertaken modelling of future business rates growth?
- Have officers considered the possible impact on council tax collection rates?
- Has your Director of Finance, Housing and Communities reviewed the proposed amendments to the 2013/14 Code and assessed the potential impact?



# Emerging issues and developments

## Accounting and audit issues

### Provisions

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', the criteria for recognising a provision is that there is:

- a current obligation as a result of a past event;
- a transfer of economic benefit is probable; and
- a reliable estimate of the liability can be made.

We wish to highlight the following matters to you for consideration where a provision may be required:

- Mutual Municipal Insurance – the Scheme of Arrangement was triggered in November 2012, therefore it is now virtually certain that there will be a transfer of economic benefit. If this liability has not been discharged by 31 March 2013, we would expect local authorities to recognise a creditor or, if the timing or amount of the payment is uncertain, a provision in their financial statements. Last year you included a contingent liability in your financial statements. You will need to reconsider the treatment of this item in 2012/13.
- Equal pay - in October 2012 the supreme court ruled that more than 170 former Birmingham City Council employees can make equal pay claims. This effectively extends the time workers have to bring equal pay compensation claims from six months to six years. We would expect local authorities to consider whether they have received any additional claims and, where the criteria set out in IAS 37 have been met, recognise a provision.
- Redundancy costs –the recognition point for termination benefits fall under IAS 19 'Employee Benefits'. This is generally earlier than the IAS 37 recognition criteria for restructuring which requires that a valid expectation has been raised in those affected. The requirement in IAS 19 is that the entity is 'demonstrably committed'.

Challenge question:

- Has your Head of Financial Services considered the need for additional provisions for the above matters?

# Emerging issues and developments

## Accounting and audit issues

### Accounting for joint arrangements

IAS 31 classified joint ventures into jointly controlled operations, jointly controlled assets and jointly controlled entities. Under IFRS 11 both jointly controlled operations and jointly controlled assets are classified as joint operations.

Under IAS 31 members of jointly controlled entities were permitted to use proportionate consolidation or equity accounting to account for their interests in the jointly controlled entity's assets, liabilities, revenue and expenses. Under IFRS 11 the ability to use proportional consolidation for interests in joint ventures is no longer permitted. Equity accounting is required.

Last year, Grant Thornton published a flyer '[Accounting for joint arrangements by local authorities under IFRS 11](#)' to highlight the changes being introduced by IFRS 11 'Joint arrangements' compared to IAS 31 'Interests in joint ventures' for 2013/14.

Challenge question:

- Have officers considered the impact of these new arrangements on the accounting treatment of the ALMO and other joint arrangements?

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# Emerging issues and developments

## Grant Thornton

### 'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities '

In December 2012, Grant Thornton published ['Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities'](#). This financial health review considers key indicators of financial performance, financial governance, strategic financial planning and financial controls to provide a summary update on how the sector is coping with the service and financial challenges faced. The report provides a summary of the key issues, trends and good practice emerging from the review.

#### Challenge questions:

- Have you considered the findings of the report?
- Are there any issues that relate to your Council and what action are you going to take?

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# Emerging issues and developments

## Local government guidance

### 'Auditing the Accounts 2011/12' report

In December, the Audit Commission published '[Auditing the Accounts 2011/12](#)'. The report summarises the results of auditors' work on the financial statements of both principal and small bodies. The key finding in the report is that bodies improved the quality and timeliness of their financial reporting in 2011/12.

Challenge questions:

- Has your Head of Financial Services identified the key risks for the authority in preparing the 2012/13 financial statements?
- Has your Head of Financial Services produced a robust and adequately resourced timetable for the production and submission of its 2012/13 financial statements?
- Has this been discussed and agreed with the External Auditors?

### 'Striking a balance: improving councils' decision making on reserves'

In December, the Audit Commission published '[Striking a balance: improving councils' decision making on reserves](#).' The report covers the findings from research undertaken by the Audit Commission on the level of reserves that councils hold and the decisions councils make on them.

The report encourages English councils to focus more attention on their reserves. It suggests that management should be providing more comprehensive information on reserves to elected members and councils should provide greater clarity on the reasons for holding reserves. The report includes questions for elected members that will help them in their decision making and scrutiny roles.

Challenge questions:

- Are your officers providing you with the right information about reserves?
- Have you considered the findings of the report and identified where actions are required?

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# Emerging issues and developments

## Local government guidance

### 'Tough Times: Councils' financial health in challenging times'

In November, the Audit Commission published '[Tough times 2012: Councils' financial health in challenging times](#).' This is the second report it has produced looking at how councils are dealing with the issues from the Spending Review and focuses on the financial health of councils.

The report finds that councils generally delivered on their planned savings, however, auditors reported that signs of financial stress were visible.

Challenge question:

- Have you considered the findings of the report and any actions required?

### 'Protecting the public purse 2012'

In November, the Audit Commission published '[Protecting the public purse 2012: Fighting fraud against local government](#)'. The report provides the results of the Audit Commission's annual survey of English local government bodies. It finds that local government bodies are targeting their investigative resources more efficiently and effectively. Local government bodies detected more than 124,000 cases of fraud in 2011/12 totalling £179m. It also reports that new frauds are emerging in areas such as business rates, Right to Buy housing discounts and schools.

The report includes a checklist for those charged with governance to use to review their counter-fraud arrangements.

Challenge questions:

- Have you considered the findings of the report?
- Are there any issues that could relate to your Council and how are these being dealt with?
- Have you reviewed your existing arrangements for tackling fraud?

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



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