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12 June 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 20 June 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.

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**

To receive any apologies for absence.

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 - 7)

To confirm the attached Minutes of the meeting of the Committee held on 14 March 2013.

5 **WORK PROGRAMME** (Page 8)

To consider the work programme for the Committee for 2013/14.

6 **ANNUAL INTERNAL AUDIT REPORT** (Pages 9 - 27)

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

7 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 28 - 43)

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

8 **TREASURY MANAGEMENT YEAR END REPORT** (Pages 44 - 60)

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

9 **ANNUAL GOVERNANCE ASSURANCE STATEMENT 2012/13** (Pages 61 - 73)

To consider the attached report of the Director of Governance.

10 **GOVERNANCE COMMITTEE UPDATE FOR DOVER DISTRICT COUNCIL**
(Pages 74 - 85)

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. 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 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, 14 March 2013 at 6.02 pm.

Present:

Chairman: Councillor T J Bartlett

Councillors: M R Eddy
S J Jones
K E Morris
A S Pollitt
M A Russell

Also Present: Ms E Hill (Engagement Lead – Grant Thornton)
Ms L Clayton (Engagement Manager – Grant Thornton)

Officers: Director of Finance, Housing and Community
Director of Governance
Head of Audit Partnership (East Kent Audit Partnership)
Deputy Head of Audit Partnership (East Kent Audit Partnership)
Democratic Support Officer
Democratic Support Officer

560 APOLOGIES

It was noted that there were no apologies for absence.

561 APPOINTMENT OF SUBSTITUTE MEMBERS

It was noted that there were no substitute members.

562 DECLARATIONS OF INTEREST

There were no declarations of interest from Members.

563 MINUTES

In respect of Minute No 337, it was clarified that the special meeting of the Committee which it had been intended to hold in January/February had not in the event proved necessary.

The Minutes of the meeting of the Committee held on 6 December 2012 were approved as a correct record and signed by the Chairman.

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

The Deputy Head of Audit Partnership advised that only minor (i.e. housekeeping) changes had been made to the Internal Audit Charter and Strategy which had essentially not changed from previous years. Annex C of the report set out priorities for 2013/14 and indicated which areas were likely to be audited from 2014/15 onwards. The Committee was requested to consider whether the proposed areas for audit covered in the draft Audit Plan were appropriate and aligned with Corporate Plan objectives, etc.

In response to Councillor M R Eddy, the Deputy Head of Audit Partnership advised that, as a matter of course, areas that had been given a limited level of assurance would be followed up to ensure that remedial measures had been taken, and some provision for this was included in the Plan. It was clarified that the number of days indicated for certain areas would be shared amongst the four authorities.

In response to concerns raised by Councillor S J Jones, the Director of Finance, Housing and Community advised that areas for audit were identified using a proportionate, risk-based approach. It was not the case that problems were arising on a regular basis due to ineffective controls. Resources were tight, but the draft Plan had been drawn up in consultation with Corporate Management Team (CMT) who were comfortable with the level of coverage. The Head of Audit Partnership added that the number of audit days at Dover was comparable to those of its neighbours, and benchmarking should be carried out against best practice authorities in the Dover District Council 'Family Group', not simply against other councils in east Kent.

RESOLVED: That the Internal Audit Charter, Internal Audit Strategy and Internal Audit Plan 2013-14 be adopted.

565 QUARTERLY INTERNAL AUDIT UPDATE REPORT

The Head of Audit Partnership presented the quarterly internal audit update report which summarised the work undertaken by the Partnership since 6 December 2012.

Seven internal audits and six follow-up reviews had been completed during the period. Of the seven internal audits, three had received substantial assurance levels, one a reasonable assurance level and two split reasonable/limited assurance levels. The award of an assurance level for the remaining audit (Quarterly Housing Benefit Claim Testing) was not appropriate. The two audits of concern related to VAT and data protection compliance. The former related to the partial exemption calculation not being completed in line with the rules. In the case of the latter, fourteen recommendations had been made, including addressing the lack of intranet guidance. Progress reports on both issues would come back to Committee. Members were referred to page 31 of the report which summarised the outcome of the six follow-up reviews. In respect of Payroll, the Committee was advised that good progress had been made, but it was not possible to revise the assurance level at this stage.

The Director of Governance advised that, in respect of data protection, concerns did not relate to staff behaviour but to levels of guidance and training. An action plan had been agreed by CMT and would be rolled out to all staff over the coming months. This included Ivysoft training and further guidance on data retention.

RESOLVED: That the update report be received and noted.

566 TREASURY MANAGEMENT QUARTER THREE REPORT

The Director of Finance, Housing and Community presented the 3rd Quarter report on Treasury Management. Overall, the Council's internally managed investments and those managed externally by Investec had outperformed the LIBID benchmark.

A total of £4 million had been withheld from investment to support cash-flow over the financial year-end period. Given the ongoing economic climate and credit concerns, investments had been limited to three months' duration.

In response to Councillor A S Pollitt, the Director of Finance, Housing and Community advised that the performance of external fund managers was reviewed on a six-monthly basis. Although internal investments had marginally outperformed external managers, it was not viable in the long-term to keep all investments in-house as the Council did not have the level of expertise required nor a wide spread of institutions in which it could invest, there being only 3 or 4 banks which were likely to offer low returns. Having a mixture of in-house and external investments was prudent practice in that it ensured that the Council's investment risk was spread across a number of institutions. The Director of Finance, Housing and Community clarified that year-end cash-flow issues had not related to Council Tax payment changes but to the retention of business rates.

RESOLVED: That the report be received and noted.

567 PUBLIC SPEAKING AT CABINET

The Director of Governance presented the report which outlined options regarding the introduction of public speaking at Cabinet meetings.

Councillor Pollitt suggested that non-Cabinet Members rather than members of the public should be allowed to speak at Cabinet, given that there was already a facility for members of the public to speak at Council meetings. In addition, the time of Cabinet meetings should be changed from 11.00 am to 6.00 pm. Councillor Eddy added that it was inconsistent that elected Members could speak at Planning Committee in representing their constituents but were unable to do so at other committees. He argued that debate at Cabinet meetings was not robust and would be improved by introducing speaking for non-Cabinet Members.

The Director of Governance responded that public speaking at Cabinet meetings across the county was evenly balanced. The timing of Cabinet meetings had been a relatively recent change, introduced at Cabinet Members' behest. As Monitoring Officer, it was his responsibility to ensure that Cabinet meetings were conducted in accordance with good governance principles and the relevant legislation. Any recommendation from the Committee for public speaking would require a constitutional change and would need to go to full Council for adoption.

It was proposed by Councillor A S Pollitt and duly seconded that there be a twelve-month pilot of allowing non-Cabinet Members to speak at Cabinet meetings, with a review at the end of that period regarding speaking by members of the public. There being an equality of votes, the Chairman exercised his casting vote and voted against the motion, whereupon the motion was LOST.

It was proposed by Councillor A S Pollitt and duly seconded that only the Leader of the Council be allowed to speak at Cabinet meetings. There being an equality of votes, the Chairman exercised his casting vote and voted against the motion, whereupon the motion was LOST.

568 CERTIFICATION WORK REPORT 2011/12

Ms Clayton introduced the report which detailed the certification work carried out by the Audit Commission during 2011/12 and finalised by Grant Thornton. Four grants had been certified during 2011/12 compared to six the preceding year. Of these, one relating to the Housing and Council Tax Benefit Scheme had been amended, at a cost to the authority of £30,700. In response to concerns raised, Ms Clayton

advised that the methodology for testing grant claims was specified in instructions. The additional cost would have been calculated on the basis of the additional time spent by Grant Thornton re-testing the claim. The Directors of Governance and Finance, Housing and Community recognised that grant claims had to be tested, but questioned the disproportionate cost to the authority where re-testing was necessary. Members agreed that it would be more cost effective for re-testing to be carried out by the authority itself.

RESOLVED: That the report be received and noted.

569 AUDIT RISK ASSESSMENT

Ms Clayton introduced the report which set out Grant Thornton's proposed approach to assessing the Council's audit risk. The Committee was requested to consider the report and forward any comments to Grant Thornton via the Chairman.

RESOLVED: That the report be received and Members' individual comments be forwarded to the Chairman (copied to the Director of Finance, Housing and Community) for onward transmission to Ms Clayton.

570 AUDIT PLAN FOR DOVER DISTRICT COUNCIL

Ms Hill presented the report which set out Grant Thornton's approach to conducting audits at Dover District Council, including outlining its understanding of the financial challenges and risks facing the authority. The Committee was requested to review the Plan and consider whether appropriate and adequate controls were in place. It was confirmed that Grant Thornton would work closely with Accountancy and had already discussed with them what data and evidence would be required. Only if the accounts were significantly wrong and assumptions not met would a charge additional to the normal fee be made.

RESOLVED: That the report be received and noted.

571 GOVERNANCE COMMITTEE UPDATE FOR DOVER DISTRICT COUNCIL

Ms Hill advised the Committee that a progress report on audit work undertaken and best practice findings would be provided at each Governance Committee meeting. A number of challenge questions were included in the report that were designed to ensure that the Committee had relevant information about key business areas. Councillor Eddy welcomed the suggestion that, from this and other information provided by Internal Audit and Senior Management, a forward plan could be developed for the Committee, covering issues such as briefing and training. The Director of Finance, Housing and Community welcomed the financial health review, and clarified that the Committee's role was to ensure that processes were correct. It was agreed that the progress report should be made available to the chairmen of the Scrutiny Committees and circulated with the Members' Weekly News.

RESOLVED: That the report be received and noted.

The meeting ended at 7.45 pm.

Governance Committee Work Programme for 2013/14

2013/14 Governance Committee	
Date	Main Agenda Items
June 2013	Internal Audit Annual Report Internal Audit Quarterly Progress Report Annual Governance Assurance Statement Grant Thornton's Quarterly update
September 2013	Final Annual Accounts 2013/14 Internal Audit Quarterly Progress Report Grant Thornton's Quarterly update
December 2013	Internal Audit Quarterly Progress Report Annual Governance Assurance Statement Action Plan – progress report Grant Thornton's Quarterly update Risk Management and Value for Money Update
March 2014	Internal Audit Annual Plan 2013/14 Internal Audit Quarterly Progress Report Grant Thornton's Quarterly update Governance Committee Programme for 2013/2014

Subject:	ANNUAL INTERNAL AUDIT REPORT
Meeting and Date:	Governance Committee – 20 June 2013
Report of:	Christine Parker – Head of Audit Partnership
Classification:	Unrestricted

Purpose of the report:	This report provides a summary of the work completed by the East Kent Audit Partnership together with details of the performance of the EKAP against its targets for the year ending 31 st March 2013.
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Recommendation:	That Members note the report.
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Internal Audit Annual Report 2012-13.

SUMMARY

The main points to note from the attached report are that the agreed programme of audits has been completed. The majority of reviews have given a substantial or reasonable assurance and there are no major areas of concern that would give rise to a qualified opinion.

1.0 INTRODUCTION

1.1 The primary objective of Internal Audit is to provide independent assurance to Members, the Chief Executive, Directors and the Section 151 Officer on the adequacy and security of those systems on which the Authority relies for its internal control. The purpose of bringing forward an annual report to members is to:

- Provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- Present a summary of the internal audit work undertaken to formulate the opinion.
- Draw attention to any issues the Head of the Audit Partnership judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare actual audit activity with that planned, and summarise the performance of Internal Audit against its performance criteria.
- Comment on compliance with the CiPFA Code of Practice for Internal Audit in Local Government, and report the results of the Internal Audit quality assurance programme.

1.2 The report attached as Annex A therefore summarises the performance of the East Kent Audit Partnership (EKAP) and the work it has performed over the financial year 2012-13 for Dover District Council, and provides an overall assurance on the system for internal control based on the audit work undertaken throughout the year, in accordance with best practice.

1.3 The internal audit team is proactive in providing guidance on procedures where particular issues are identified during audit reviews. The aim is to minimise the risk of loss to the Authority by securing adequate internal controls. Partnership working for the service has added the opportunity for the EKAP to port best practice across the

four sites within the East Kent Cluster to help drive forward continuous service improvement.

- 1.4 During 2012-13 the EKAP delivered 103% of the agreed audit plan days, with 8.86 days carried over as work in progress at the year-end. The performance figures for the East Kent Audit Partnership as a whole for the year show impressive performance against targets, particularly as the EKAP has once again delivered financial savings against its agreed budget to all its partners in the delivery of the service.

Background Papers

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

Resource Implications

Having delivered a cost per audit day in 2012-13 of £278.65 against the budget cost of £309.81 (a saving of 10%) this has resulted in a total budgetary saving for Dover District Council of £9,377.41.

There are no other financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2012-13 budget.

Consultation Statement

Not Applicable.

Impact on Corporate Objectives and Corporate Risks

The recommendations arising from each individual internal audit review are designed to strengthen the Council's corporate governance arrangements, controls framework, counter fraud arrangements and risk management arrangements, as well as contributing to the provision of economic, efficient and effective services to the residents of the District. This report summarises of the work of the East Kent Audit Partnership for the year 2012-13 in accordance with the CIPFA Code and best practice.

Attachments

Annex A – East Kent Audit Partnership Annual Report 2012-13

CHRISTINE PARKER

Head of Audit Partnership

Annual Internal Audit Report for Dover District Council 2012-13

1. Introduction

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

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

A more detailed explanation, of the role and responsibilities of internal audit, is set out in the approved Audit Charter (approved by this Committee in March 2012 and reviewed annually). The East Kent Audit Partnership (EKAP) aims to comply with the CIPFA Code of Practice, and to this end has produced evidence to the s.151 and Monitoring Officers to assist the Council's review of the system of internal control in operation throughout the year. From 1st April 2013 new Public Sector Internal Audit Standards (PSIAS) come into force. Therefore the annual report for 2013-14 will compare EKAP activity against the new standard and any additional requirements placed upon Internal Audit will be reflected in future annual reports thereafter.

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

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

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

2. Review of the Internal Control Environment

2.1 Risks and Assurances

The audit plan is agreed with members annually at the March Committee meeting following a risk assessment of all the key systems and issues facing the Council. This

assessment also ensures suitable time and resources are devoted to reviewing areas on a cyclical basis. The work of Internal Audit includes agreeing with service managers that a control risk exists and setting out a course of action to rectify this. The value of the advice given by Internal Audit is evidenced through the acceptance of the majority of audit recommendations, and the feedback from the customer satisfaction survey.

During 2012-13, 93 recommendations were made in the agreed final audit reports to Dover District Council. These are analysed as being High, Medium or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
High	45	48%
Medium	36	39%
Low	12	13%
TOTAL	93	100%

Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and members' attention through Internal Audit's quarterly update reports. During 2012-13 the EKAP has raised and reported to the quarterly Governance & Audit Committee meetings 93 recommendations, and whilst 87% were in the High or Medium Risk categories, none are so significant that they need to be escalated at this time.

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

The summary of Assurance Levels issued on the 25 pieces of work commissioned for Dover District Council over the course of the year is as follows:

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

Assurance	No.	Percentage of Completed Reviews
Substantial	7	33%
Reasonable	9	43%
Limited	5*	24%
No	0	0 %
Work in Progress at Year-End	2	-
Not Applicable	2	-

* See list in the table below

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

Taken together 76% of the reviews account for substantial or reasonable assurance, whilst 24% of reviews placed a limited assurance to management on the system of internal control in operation at the time of the review. There were no reviews assessed as having no assurance.

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

Area Under Review	Original Assurance	Follow Up Due/ Result
VAT	Limited	Quarter 3 2013-14
Data Protection	Limited	Quarter 3 2013-14
New Homes Bonus	Substantial/ Limited	Quarter 2 2013-14
Absence Management, Flexi and Annual Leave	Limited	Quarter 2 2013-14
Payroll Processing & Pay Accuracy SLA Performance Management SLA Governance Arrangements	Reasonable/ Limited / Limited	Complete – some progress however assurance levels remain the same.

2.2 Progress Reports

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

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

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

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

The results for the follow up activity for 2012-13 are set out below. The shift to the right in the third column in the table from the original opinion to the revised opinion also measures the positive impact that the EKAP has made on the system of internal control in operation throughout 2012-13.

Total Follow Ups undertaken 7	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	3	4	0
Revised Opinion	0	0	7	0

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

Area Under Review	Original Assurance	Follow Up Result
HRA Business Plan	Limited	Reasonable
Employee Health & Safety	Limited	Reasonable
Partnerships	Limited	Reasonable

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

2.3 Special Investigations and Fraud Related Work

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

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. Whilst some reactive work was carried out during the year at the request of management, to include the role of investigator in two staff matters, there has been no fraud investigations conducted by the EKAP on behalf of Dover District Council.

2.4 Completion of Strategic Audit Plan

Appendix B shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations or management requests. 313.85 audit days were completed for Dover District Council during 2012-2013 (including the 4.99 days carried forward); this compares to the budgeted 300 days and equates to 102.91% plan completion. The 8.86 days ahead will be carried forward as work in progress at the year-end 2012-13. The EKAP was formed in October 2007; it completes a rolling programme of work to cover a defined number of days each year. As at the 31st March each year there is undoubtedly some "work in progress" at each of the partner sites; some naturally being slightly ahead and some being slightly behind in any given year. However, the progress in ensuring adequate coverage against the agreed audit plan of work since

2007-08 concludes that EKAP is 8.86 days ahead of schedule as we commence 2013-14, as shown in the table below.

Year	Days Required	Plus B/Fwd	Adjusted Requirement from EKAP	Days Delivered	Percentage Completed	Days Carried Forward
2008-09	450	0	450.00	459.33	102.07%	+9.33
2009-10	450	+9.33	440.67	431.22	97.80%	-18.78
2010-11	420	-9.45	429.45	445.21	103.60%	+25.21
2011-12	312	+15.76	296.24	291.25	98.32%	-20.75
2012-13	300	+4.99	304.99	313.85	102.91%	+13.85
Total	1932			1940.86	100.45%	+8.86

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

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

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

Based on the work of the EKAP on behalf of Dover District Council during 2012-13, the overall opinion is:

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

There were five areas where only a limited assurance level was given which reflected a lack of confidence in arrangements, and this was brought to officers' attention. These reviews are shown in the table above (paragraph 2.1) along with the details of our planned follow up activity in (paragraph 2.2).

4. Significant issues arising in 2012-13

From the work undertaken during 2012-13, there were no instances of unsatisfactory responses to key control issues raised in internal audit reports by the end of the year. There are occasions when audit recommendations are not accepted for operational

reasons such as a manager's opinion that costs outweigh the risk, but none of these are significant and require reporting or escalation at this time. It is particularly pleasing to report that after follow up there were no high-risk recommendations outstanding at the year-end.

The review (shown in the table below) that was originally a partial Limited Assurance, which remained a partial Limited Assurance after follow up was noted at the Governance Committee at the March 2013 meeting.

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

The reviews previously assessed as providing a Limited Assurance that are yet to be followed up are shown in the table below.

Area Under Review	Original Assurance (Date to G&A Cttee)	Progress Report
Business Continuity	Limited June 2011	WIP Q1 2013-14
CSO Compliance	Limited June 2012	Full audit planned for 2013-14

5. Internal Audit Performance

5.1 EKAP Resources

The EKAP has provided the service to the partners based on a FTE of 8. Additional audit days have been provided via audit consultants or contractors in order to meet the planned workloads. How much Internal Audit resource is provided to each of the partner authorities depends on a variety of factors, including the council's historical internal control environment and the new demands of meeting the requirements of corporate governance. Any changes in the agreed plans or the level of resources are reported quarterly to each audit committee and through regular meetings with each Section 151 Officer.

5.2 Skills and Development

The East Kent Audit Partnership is staffed by a mix of qualified and part-qualified officers, who all continue to develop their skills through a range of on-the-job training, external and in-house training courses and seminars and use of the corporate e-learning resource. Skills development during 2012-13 included:

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

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

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

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

5.3. Plan Performance

The analysis in Appendix B shows the individual reviews that were completed during the year. As at 31st March 2013 delivery was slightly ahead of plan and EKAP had delivered 185.75 days against 182.49 owed (102%). The 3.26 days carried forward will be adjusted in 2013-14 as part of the rolling five-year plan process. The EKAP has not achieved 100% plan completion at all sites this year, and this was a decision made collectively by the s151 Officers who directed the EKAP to deliver a financial saving over achieving 100% of the agreed plans.

5.4 Internal Audit Performance against its Targets

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

5.4.1 Satisfaction with Internal Audit Service

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

5.4.2 Internal Quality Assurance and Performance Management.

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

these meetings provide additional evidence to the strategic management of the EKAP performance.

5.4.3 External Quality Assurance

The Audit Commission has previously carried out a light touch annual assessment and a more detailed quality assessment of internal audit every three years. The Audit Commission ceased to be the council's External Auditors in November 2012, the new appointed auditors, Grant Thornton, have conducted a review in February 2013 of the Internal Audit arrangements at EKAP. Their report is currently awaited.

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

The Accounts & Audit Regulations require that each authority undertake an annual review of the effectiveness of internal audit arrangements and to report this alongside the Annual Governance Statement within the Council's Statement of Accounts. Consequently, this report, summarising the achievements of Internal Audit for the year to 31st March 2013, is also designed to feed into that overall assessment process.

5.4.4 Liaison between Internal Audit and External Audit.

Joint liaison meetings with the Audit Commission's audit managers for the partner authorities and the EKAP were held prior to the changeover to Grant Thornton to ensure adequate audit coverage, to agree any complementary work and to avoid any duplication of effort. To date the Internal Audit Team has met once with Grant Thornton as they have taken over as the Council's External Auditors. The EKAP has not met with any other review body during the year in its role as the Internal Auditor to Dover District Council. Consequently, the assurance, which follows is based on EKAP reviews of Dover District Council's services.

5.4.5 Financial Performance

Expenditure and recharges for year 2012-13 are all in line with the budget. The financial management of the Internal Audit cost centre held by Dover District Council has performed well and has delivered a 10% saving against budget.

The EKAP has been able to exceed its targets for financial performance for 2012-13 through careful financial management. The EKAP now has a track record for bringing down daily rates (see table below). This daily rate excludes any internal recharges that are added to the service by the Council, which are not under the control or management of the EKAP. This equates to a saving of £31.26 per day against the original target for 2012-13 of £309.91/day; a total financial saving to Dover District Council of £9,377.41 for 2012-13.

Year	Cost / Audit Day
2006-07	£288
2007-08	£277
2008-09	£262 (Reserve Refunded to Partners)
2009-10	£281
2010-11	£268
2011-12	£257

Year	Cost / Audit Day
2012.13	£279

The EKAP was formed to provide a resilient, professional service and therefore to achieve financial savings was not the main driver, despite this considerable efficiencies have been gained through forming the partnership. Additionally, external fee earning work that has been carried out, this year some £17,802 was procured from EKAP for Interreg Grant reviews which reduces the costs to the partners. The net result is a reduced EKAP cost per audit day of some £31 per day below the original budget estimate. In the current climate this is excellent performance and the partner authorities have all enjoyed the overall savings of £42,824 generated by the EKAP.

6. Overall Conclusion

The Internal Audit function provided by the EKAP has performed well against its targets for the year. Clearly there have been some adjustments to the original audit plan for the year 2012-13, however, this is as expected and there are no matters of concern to be raised at this time.

The work of Internal Audit and this report contribute to the overall internal control environment in operation within the Council, and also assists in providing an audit trail to the statements that must be published annually with the financial accounts. The EKAP assesses the overall system of internal control in operation throughout 2012-13 as providing reasonable assurance. No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

AUDIT ASSURANCE

Definition of Audit Assurance Statements

Substantial Assurance

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

Reasonable Assurance

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

Limited Assurance

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

No Assurance

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

Performance Against the Agreed 2012-13 Audit Plan

Dover District Council

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-13	Status and Assurance Level
FINANCIAL SYSTEMS:				
Car Parking Income & Enforcement	10	13	13.22	Finalised - Reasonable
Bank Reconciliation	5	5	5.69	Finalised - Substantial
Creditors and CIS	10	12	12.05	Finalised - Reasonable
Income	10	10	9.71	Finalised - Substantial
VAT Compliance	8	10	11.81	Finalised – Reasonable/Limited
Insurance & Inventories of Portable Assets	12	0	0	Deferred
RESIDUAL HOUSING SYSTEMS:				
Housing Allocations	10	10	12.27	Finalised - Reasonable
GOVERNANCE RELATED:				
Governance Investigations	12	25	25.08	Finalised
Officers' Code of Conduct, Gifts & Hospitality, and Whistleblowing	8	8	9.55	Finalised - Reasonable
Equality & Diversity	10	10	0.17	Deferred
Contingency for an audit of VfM Strategy or Contribute to DES Projects	10	0	0	Deferred
Data Protection Act Compliance	10	15	21.27	Finalised – Reasonable/ Limited
Business Continuity & Emergency Planning	10	0	0.2	Deferred
New Homes Bonus Validation	2	2	3.92	Finalised
Risk Management	9	9	11.18	Finalised - Reasonable
Corporate Advice/CMT	2	2	8.99	Finalised for 2012-13
s.151 Meetings and support	9	9	10.21	Finalised for 2012-13
Governance Committee Meetings and Reports	12	12	11.81	Finalised for 2012-13
2013-14 Audit Plan Preparation and Meetings	9	9	10.94	Finalised for 2012-13

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-13	Status and Assurance Level
SERVICE LEVEL:				
Dog Warden and Enforcement	8	12	11.91	Finalised - Reasonable
Environmental Health - Environmental Protection Service Requests	8	8	7.02	Finalised - Substantial
Environmental Health - Port Health	8	8	5.89	Finalised - Substantial
Environmental Health - Health & Safety at Work	8	8	11.11	Finalised - Substantial
Licensing	10	13	18.63	Finalised - Reasonable
Events Management	8	8	3.19	Finalised
Let Properties and Concessions	10	10	15.3	Finalised - Reasonable
Members' Allowances	8	8	6.41	Finalised - Substantial
Sports and Leisure - VISTA	12	12	9.09	Finalised – Substantial/ Reasonable
Dover Museum and Visitor Information Arrangements	19	19	8.3	Work-in-Progress
OTHER				
Liaison with External Auditors	3	3	1.51	Finalised for 2012-13
Follow-up Work	17	8	5.92	Finalised for 2012-13
UNPLANNED WORK				
Internet Monitoring	0	1	1.17	Finalised
Homelessness of Young People	0	11	10.59	Finalised - Substantial
FINALISATION OF 2011-12 AUDITS				
Absence Management, Flexi and Annual Leave	0	0	8.09	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
EK HUMAN RESOURCES				
Recruitment	5	5	4	Work-in-Progress
Payroll, SMP and SSP	5	5	5.94	Finalised – Reasonable/Limited

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-13	Status and Assurance Level
HR Systems Development – I-Trent project.	3	0	0	Not Required
TOTAL - DOVER DISTRICT COUNCIL RESIDUAL DAYS	300	300	308.86	102% complete as at 31st March 2013

Performance against the Agreed 2012-13 EKH Audit Plan

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

Performance against the Agreed 2012-13 EKS Audit Plan

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31.03.2013	Status and Assurance Level
EK SERVICES SYSTEMS:				
Benefits - Payments	15	15	13.58	Complete - Substantial
Benefits – Admin & Assessment	30	30	17.72	WIP
Council Tax	23	23	22.68	Complete - Substantial
ICT Network Security	15	15	6.15	WIP
ICT Procurement & Disposals	15	5	5.20	Complete - Reasonable
ICT Software Licensing	15	12	11.27	Complete - Limited
DDC HB Testing	20	26	25.31	N/A
TDC HB Testing	20	27	26.84	N/A
EKS Corporate (Reports/Advice/etc)	0	3	3.11	-
Work Carried over from 2011-12 Total 25.1 Days;-				
Customer Services / Gateway	0	10	8.08	Complete - Reasonable
ICT Physical Environment	0	15.1	13.01	Complete - Reasonable
Follow Ups	7	4	Revised Assurance	
Housing Benefit Fraud			1.05	Reasonable
Sundry Debtors			1.84	Substantial / Reasonable
Business Rates			0.43	Reasonable
ICT Internet & Email			0.72	Reasonable
Sub-Total - EK Services days	160	185.10	156.99	84.81% Complete as at 31-03-2013



Balanced Scorecard

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

<u>CUSTOMER PERSPECTIVE:</u>	<u>2012-13 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2012-13 Actual</u>	<u>Target</u>
	Quarter 4		Quarter 4		
Number of Satisfaction Questionnaires Issued;	94		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	39 (=41%)		Percentage of staff holding a relevant higher level qualification	33%	33%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	13%	13%
<ul style="list-style-type: none"> • Interviews were conducted in a professional manner 	100%	100%	Number of days technical training per FTE	5.74	3.5
<ul style="list-style-type: none"> • The audit report was 'Excellent or Very Good' 	90%	90%	Percentage of staff meeting formal CPD requirements	33%	33%
<ul style="list-style-type: none"> • That the audit was worthwhile. 	97%	100%			

Subject:	QUARTERLY INTERNAL AUDIT UPDATE REPORT
Meeting and Date:	Governance Committee – 20 June 2013
Report of:	Christine Parker – Head of Audit Partnership
Classification:	Unrestricted

Purpose of the report: 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 31st March 2013

Recommendation: That Members note the update report.

1. Summary

This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting.

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 twelve Internal Audit reports that have been completed during the period. Three reviews were classified as providing Substantial Assurance, six as Reasonable assurance and two concluded Limited assurance. 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 three follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.

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 and 2013-14 revenue budgets.

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 Annual Plan 2013-14 - Previously presented to and approved at the 14th 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 31st March 2013.

2. SUMMARY OF REPORTS:

Service / Topic		Assurance level
2.1	Port Health	Substantial
2.2	Environmental Protection Service Requests	Substantial
2.3	EK Services – Housing Benefit Payments	Substantial
2.4	EK Services – Housing Benefit Admin. & Assessment	Reasonable
2.5	Housing Allocations	Reasonable
2.6	Officer Code of Conduct and Counter Fraud Arrangements	Reasonable
2.7	Licensing	Reasonable
2.8	Payroll	Reasonable
2.9	Recruitment and Induction	Reasonable
2.10	EK Services – ICT Software Licensing	Limited
2.11	Absence Management (Sickness, Annual and Flexi Leave)	Limited
2.12	EK Services – Housing Benefit Quarterly Testing (Qtr 4 of 2012-13)	Not Applicable

2.1 Port Health – Substantial Assurance:

2.1.1 Audit Scope

The aim is to protect and promote the public health of the people of the district and the nation as a whole by broadening access to food that is safe and wholesome to eat and through the control and prevention of infectious disease, reported cases of food poisoning and food borne illness. We achieve this through the provision of advice, support, training and consultation on food safety and infectious disease control issues both to the commercial and voluntary sector, whilst ensuring a competent, comprehensive and consistent approach towards the enforcement of domestic and European legislation.

2.1.2 Summary of Findings

All of the controls and processes in place for Port Health are working well and the expected controls are effective. Positive action is taken to control risk.

The Dover Port Health Authority Order 1978 designated the Port of Dover in the County of Kent as a Port Health district and Dover District Council (DDC) as the Port Health Authority (PHA) for that district.

As the Port Health Authority Dover District Council is responsible for monitoring the safety of imported food not of animal origin at the point of import, as well as infectious disease control, ship inspections, food safety and hygiene standards and general public health within the Port District. The Channel Tunnel is also located within the district and import controls and checks are also the responsibility of the Council.

The Food Standards Agency provide support if needed on Import Controls and have produced a basic manual to assist Port Health Authorities. In addition the Association of Port Health Authorities (APHA) have produced guidance on Ship Inspections which is also available to the Authority.. All controls are carried out as prescribed by legislation and in accordance with in house procedures and national guidance documents.

Significant work has been undertaken by the Public Protection Team Leader to ensure that there are effective controls and procedures in place regarding Port Health for the district.

2.2 Environmental Protection Service Requests – Substantial Assurance:

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council has an effective system of controls and procedures for investigating and responding to environmental protection complaints in the following areas:

1. Dust;
2. Smoke;
3. Odour;
4. Fumes;
5. Animals;
6. Noise;
7. Accumulations ;
8. Filthy and verminous premises ;
9. Drainage ; and
10. Fly tipping.

2.2.2 Summary of Findings

The processes in place to deal with environmental protection complaints are working very well. The Council takes pro-active steps to try and address issues that impact on the public without the need of issuing simple cautions, prosecutions or seizing equipment. However if these steps fail then the Council does and has successfully proceeded to carrying out formal intervention.

2.3 EK Services Housing Benefit Payments – Substantial Assurance:

2.3.1 Audit Scope

To ensure that the processes and procedures established by EK Services are sufficient to provide the level of service required by the partner authorities of Canterbury CC, Dover DC and Thanet DC and incorporate relevant internal controls regarding the payments of Housing Benefit.

2.3.2 Summary of Findings

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

2.4 EK Services Housing Benefit Admin. & Assessment – Reasonable Assurance:

2.4.1 Audit Scope

To ensure that the processes and procedures established by EK Services are sufficient to provide the level of service required by the partner authorities of Canterbury CC, Dover DC and Thanet DC and incorporate relevant internal controls regarding the administration & assessment of Housing Benefit claims.

2.4.2 Summary of Findings

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

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

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

need should be encouraged to use the tools to assist with their assessment accuracy.

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

2.5 Housing Allocations – Reasonable Assurance:

2.5.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that housing property is allocated efficiently and effectively to qualifying tenants in accordance with Council policy and procedures and offers choice to prospective tenants through the allocations process in accordance with prevailing legislation.

2.5.2 Summary of Findings

The Housing Allocations process is generally working well and most of the expected controls are effective following the recent change to using the Locator system for processing housing applications and verifying shortlists. In addition consideration could be given to requesting references from private landlords in the same way as they are requested from Housing Associations and other local authorities to ensure that a consistent approach is applied across the whole of the rented market.

Housing Allocation staff are required, from time to time, to undertake home visits to interview applicants. There is however a concern that staff could be at risk by not having access to information concerning any special issues concerning individuals as they do not have access to this register. The Housing Options Manager is waiting for a response from EKHR as they are responsible for sorting out the access rights for the register for the Housing Options staff. Once access has been sorted out then the officers have been reminded that they should access the register before carrying out home visits.

2.6 Officer Code of Conduct & Counter Fraud Arrangements – Reasonable Assurance:

2.6.1 Audit Scope

To provide assurance that the key controls and operating procedures surrounding officer compliance with the Code of Conduct and Statement on the Prevention of Fraud & Corruption are found to be operative throughout the year and that the business objectives were met.

2.6.2 Summary of Findings

The Council's Counter Fraud and Corruption and Counter Bribery policies are appropriate and up to date and are available to staff via the intranet. The Officers'

Code of Conduct was approved in 2004 and needs to be reviewed and updated and to reflect recent trends such as the use of social media. The Council has recently started using net consent to ensure staff are aware of, and have seen, the policies, and that a record of this is maintained. In view of the importance of good governance, and the potential liability to the Council if it has not taken adequate steps to prevent its officers, Members and agents from acting improperly, the situation would be further strengthened if the Council:

- Reviewed and updated its Officers' Code of Conduct;
- Used net consent and induction training to ensure staff are aware of all of these policies including an updated Officers' Code of Conduct;
- Ensured that the Council's Counter Fraud and Corruption and Counter Bribery policies are easily available to the public, suppliers and contractors on the Councils internet; and
- Ensured that relevant clauses are included in all contracts.

2.7 Licensing – Reasonable Assurance:

2.7.1 Audit Scope

To ensure that licences are issued correctly to applicants who qualify for the various licensing categories, that the information is recorded accurately and the income receivable by the Council is collected correctly and on a timely basis in line with the procedures laid down.

2.7.2 Summary of Findings

The Licensing Team have been proactive in reviewing and improving procedures to maintain an appropriate level of internal control whilst delivering a legislative compliant service. Looking forward the majority of expected controls are in place or have been included in a management action plan to improve the service between 2012-2015.

Identified improvements to the service which are being addressed include future fees and charges to be set based on the actual cost of providing the service; and random sample checks of licences issued to ensure that legislation and procedures are correctly applied.

2.8 Payroll – Reasonable Assurance:

2.8.1 Audit Scope

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

2.8.2 Summary of Findings

The Payroll process is generally working accurately, but at each of the authorities there are inconsistencies regarding how much payroll processing and checking is being carried out, in addition to the role being carried out by EKHRP each month. The payroll processing and checking at the authorities was set up as a short term

action whilst the new payroll process was implemented. However it is still required following the delay of any further system development.

2.9 Recruitment and Induction – Reasonable Assurance:

2.9.1 Audit Scope

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

2.9.2 Summary of Findings

The Recruitment and Induction process is generally working well and most of the expected controls are effective. The process has recently been revised and the new toolkit has led to a culture change for managers which will need time to embed into each organisation. Presentations have been made to the managers' forums at each authority apart from Canterbury City Council where this is still to be arranged. In addition various communication channels have been utilised to get the new toolkit message out to managers.

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

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

2.10 EK Service Software Licensing – Limited Assurance:

2.10.1 Audit Scope

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

2.10.2 Summary of Findings

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

It should be noted that due to the wording set out in the Collaboration Agreement (paragraph 15) the exposure to legal challenges is borne entirely by Thanet District Council. The first risk is borne by all three councils and relates to the potential for poor value for money from under or oversubscription of software licences. The second and main risk bared by the host Council relates to financial penalties resulting from a possible legal challenge from either the Federation Against Software Theft (FAST) or from companies like Microsoft (amongst other software producing companies) that the councils use. The longer this reconciliation takes the bigger exposure to these two risks. This is going to be an extremely complicated task but all steps should be taken to ensure this reconciliation process is carried out by adequately trained member/s of staff as soon as possible. Since this audit was undertaken Microsoft have made contact with Canterbury City Council. They have requested information on its software licences and as a result Microsoft are now aware of the shared service arrangements, therefore the risk of Microsoft or other large vendor investigating the software licensing arrangements within the shared service has increased further.

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

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

Management Comment:

EK Services recognise the importance of software licence control. Progress has been made on identifying an approach to asset and licence management by implementing

a single software system and processes to ensure that all partnership software licences are controlled and managed effectively.

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

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

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

2.11 Absence Management – Limited Assurance:

2.11.1 Audit Scope

To provide the four s.151 officers with assurance that staff absences are valid and authorised by management either in advance or in the case of sickness immediately after the event. To ensure that staff resources are adequately controlled and managed.

2.11.2 Summary of Findings

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

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

Sickness absence monitoring:

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

The full follow up process was not being implemented for all staff within the sample tested leading to concern that all staff were not being treated equally. The return to work interview should be documented and evidence of the interview retained by both the line manager and EKHR; this was not always the case. Poor records could

influence adversely any disciplinary or supportive action planned for those with persistent sickness. Trigger points for further action, set out within the policy, had also been missed. The guidance notes, whilst easily available through EKHR links, would benefit from small modifications to improve staff understanding and to clarify the correct processes.

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

Annual leave:

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

Flexi-leave:

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

2.12 EK Services Housing Benefit Quarterly Testing (Quarter 4 of 2012-13):

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

For the fourth quarter of 2012/13 financial year (January to March 2013) 20 claims including new and change of circumstances of each benefit type were selected by using Excel software to randomly select the various claims for verification.

In total 20 benefit claims were checked and of these none were found to have failed the criteria set by the former Audit Commission's verification guidelines (a 100% accuracy level), but two did contain minor data quality errors, however these do not affect either the amount payable to the claimant nor the Council's subsidy claim.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

- 3.1 As part of the period's work, three follow up reviews have been completed of 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)	Car Parking Income and PCN enforcement	Reasonable	Reasonable	H M L	5 1 0	H M L	0 0 0
b)	EK Services – Housing Benefit Fraud	Reasonable	Reasonable	H M L	0 2 0	H M L	0 0 0
c)	Members' Allowances and Expenses	Substantial	Substantial	H M L	0 1 1	H M L	0 1 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.

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: ICT – Network Security, Housing Repairs and Maintenance, Disabled Facilities Grants, Dover Museum and VIC, Business Continuity and Emergency Planning, and Recruitment and Induction.

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.

Attachments

Annex 1	Summary of High priority recommendations outstanding after follow-up.
Annex 2	Summary of services with Limited / No Assurances
Annex 3	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.
There are no recommendations to escalate at the present time		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED				
Service	Reported to Committee	Level of Assurance	Management Action	Follow-up Action Due
Business Continuity	June 2011	Limited	On-going management action in progress to remedy the weaknesses identified.	Work in Progress
CSO Compliance	June 2012	Limited	On-going management action in progress to remedy the weaknesses identified.	As part of planned audit in 2013-14
VAT Compliance	March 2013	Reasonable/ Limited	On-going management action in progress to remedy the weaknesses identified.	Work in Progress
Data Protection Act Compliance	March 2013	Reasonable/ Limited	On-going management action in progress to remedy the weaknesses identified.	Work in Progress
EK Services – Software Licences	June 2013	Limited	On-going management action in progress to remedy the weaknesses identified.	Quarter 2 of 2013-14
Absence Management	June 2013	Limited	On-going management action in progress to remedy the weaknesses identified.	Quarter 2 of 2013-14



ANNEX 3

AUDIT ASSURANCE

Definition of Audit Assurance Statements

Substantial Assurance

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

Reasonable Assurance

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

Limited Assurance

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

No Assurance

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

Subject:	TREASURY MANAGEMENT YEAR END REPORT
Meeting and Date:	Governance Committee – 20 June 2013 Cabinet – 8 July 2013
Report of:	Mike Davis, Director of Finance, Housing & Community
Portfolio Holder:	Councillor M D Conolly, Corporate Resources and Performance
Decision Type:	Non-Key Decision

Purpose of the report:	To provide details of the Council's treasury management for the year ended 31 st March 2013.
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Recommendation:	That the report is received
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1. Summary

The Council's in-house investments (approximately £6.5m or 34% of year end investments) outperformed their benchmark¹ and achieved an average return of 1.26% for the year. The investments with the investment managers, Investec (approximately £12.9m or 66% of year end investments) also outperformed the benchmark¹ and achieved an average of 1.01% for the year.

The total interest received for the year was approximately £350k. This is higher than the original budget of £287k, which is almost entirely due to in-house investments (a mix of some special rate deals obtained and additional cash flow funds held in call accounts/money market funds). Investments with the investment managers marginally exceeded their 1.00% target.

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 Appendix 1 contains a full report for quarter 4 from the Council's Treasury Management Advisers, Sector.

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

3. Annual investment strategy

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

The investment portfolio as at the end of March is attached at Appendix 2. Since the end of year, in-house investments with Lloyds totalling £2m have matured and are currently held in a call account, returning 0.75%. In addition, a number of externally managed investments have matured or been sold since the end of the year. An update is attached at Appendix 4.

During the quarter, Sector overturned their recommendation to keep investments short term (i.e. with a maximum duration of 3 months). The limits that apply to all entities on the suggested Sector Credit List revert to those outlined in the Treasury Management Strategy included in the Medium Term Financial Plan.

4. **Economic background – need update from Sector**

The report attached (Appendix 1) contains information up to the end of March 2013; since then we have received the following update from Sector:

UK GDP

Britain's economy grew 0.3% in the first quarter of 2013 as originally estimated, but consumer spending rose at its weakest pace since the third quarter of 2011. The quarterly figure confirms the initial forecast and will reassure the government, which has been fending off calls to place a greater emphasis on economic growth in its three-year-old drive to erase Britain's budget deficit. This year, Britain's economy has shown signs of a slow recovery but still remains weak. On 22nd May the International Monetary Fund said Britain should spend more now to fund investment and speed up its recovery.

UK PMI Services & Manufacturing

Britain's service sector grew much faster than expected in May with new business increasing at its fastest rate in over three years, showing that the economy is picking up speed. The Purchasing Managers' Index (PMI) for services rose to 54.9 in May from 52.9 in April. That was the strongest reading since March 2012 and easily beat the top forecast of 53.6, of 30 economists. The figure was helped by better weather and was boosted by a rise in new orders which hit their highest level since February 2010. The strong service sector reading will bring relief to Finance Minister George Osborne, who has faced criticism at home and from the International Monetary Fund for his austerity programme. It also reinforces expectations that the Bank of England will refrain from further bond buying to stimulate the economy.

A strong rise in new orders helped Britain's manufacturing sector grow at its fastest pace in over a year last month. The sector's expansion for a second month running will boost optimism that Britain's recovery is becoming more broad based and less reliant on the services sector. The Markit/CIPS Purchasing Managers' Index rose to 51.3 in May from an upwardly revised 50.2 in April, more than a full point higher than the consensus forecast. April's reading was originally below the 50-mark that divides growth from contraction.

UK Inflation

British consumer price inflation fell last month for the first time since September, giving incoming Bank of England governor Mark Carney more leeway to support the economy should the recovery weaken. Inflation eased to 2.4 percent in April from 2.8 percent in March, official data showed on 21st May, a better reading than the 2.6 percent rate economists had forecast. The main downward thrust came from petrol and diesel, which accounted for almost half the drop in the annual rate. Inflation has been above the Bank of England's 2 percent target since the end of 2009 but the

recent weakness in commodity prices has made policymakers more confident it will ease over the next two years.

5. **Interest Rates**

Sector undertook a review of its interest rate forecasts following the issue of the latest Bank of England Inflation Report in February 2013. Sector has left unchanged its forecast for the first increase in Bank Rate to be in March 2015.

6. **New Borrowing**

The Council's borrowing portfolio is attached at Appendix 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 judgement 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.

The winding up board published details of LBI's (formerly Landsbanki) financial position as at 31st December 2012. This showed that LBI's assets, including partial payments already made in respect of priority claims were greater than the sum of the priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits. However, the value recovered 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 Appendix 2, which is approximately 50% of the original investment.

The current position on estimated future payouts is as shown in the table below

December 2013	7.5%	December 2017	7.5%
December 2014	7.5%	December 2018	7.5%
December 2015	7.5%	December 2019	5.35%
December 2016	7.5%		

10. **Corporate Implications**

10.1 Comment from the Section 151 Officer: Finance have no further comments to add. (S.G.)

10.2 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.

10.3 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>

11. **Appendices**

Appendix 1 – Sector treasury management report for quarter four

Appendix 2 – Investment portfolio as at 31st March 2013

Appendix 3 – Borrowing portfolio as at 31st March 2013

Appendix 4 – Investment portfolio as at 30 April 2013 (Investec) and 31st May 2013 (In-House)

12. **Background Papers**

Medium Term Financial Plan 2012/13 – 2014/15

Contact Officer: Stuart Groom, extension 2072

Treasury Management Update

Quarter Ended 31st March 2013

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 midyear reports). This report therefore ensures this council is implementing best practice in accordance with the Code.

1. Economic background:

- During the quarter ended 31 March: -
 - Indicators suggest that the economy was very near to a second consecutive quarter of negative growth in GDP;
 - Household spending strengthened, both on and off the high-street;
 - Unemployment rose for the first time for a year;
 - Inflation remained stubbornly above the MPC's 2% target;
 - Three members of the MPC voted for further QE;
 - UK equity prices rose and sterling fell;
 - The US economic recovery gathered pace.
- It remains touch-and-go whether the UK economy contracted again in the first quarter: if so, it would result in a triple-dip recession. On the basis of past form, the CIPS/Markit business surveys point to next to no growth in the first quarter of 2013 and the first official sets of output data have been fairly disappointing. Although the index of services rose by a monthly 0.3% in January, this did not fully reverse its drop in December. Meanwhile, industrial production posted a 1.2% monthly fall in January. This was partly driven by lower output in the volatile energy sector, but manufacturing output was down 1.5% on the month too. Note also that unusually bad weather at the end of the quarter may have depressed activity in certain sectors, such as retail and construction.
- Household spending appears to have started the year on a stronger footing. The 2.1% monthly rise in retail sales in February more than offset January's 0.7% fall. Non-high street spending has been robust too, with new car registrations up by 7.9% in the year to February.
- The latest data tentatively suggested that the labour market's recent resilience is coming to an end. Employment continued to grow, by 131,000 in the three months to January, but this was slower than the 175,000 gain seen in the fourth quarter. The unemployment data was also softer, with the ILO measure

showing a 7,000 rise in unemployment in the three months to January, the first increase in a year. Admittedly, the timelier claimant count measure still fell in February, albeit by a trivial 1,500. Meanwhile, pay growth remained subdued, with the headline (3m average of the annual rate) measure of earnings falling to 1.2% in January.

- Elsewhere, the housing market has been revived a bit by the Bank of England's Funding for Lending Scheme (FLS) which helped to bring down some mortgage rates, primarily on fixed products. The quoted interest rate on a 2-year fixed mortgage at a 90% loan-to-value ratio has fallen around 80 basis-points since the introduction of the FLS back in August.
- This is helping to support house prices. Both the Halifax and Nationwide measures reported monthly gains in February, rising by 0.5% and 0.2% respectively. The Halifax measure rose by 1.9% on a 3-month-on-3-month basis, the fastest pace since the beginning of 2010. But there were some early signs of weakness in the housing market in the first quarter. Mortgage approvals as measured by the BBA fell in both January and February, and are now 8% lower compared with the end of last year. But this may be overstating the fall, as smaller lenders, not measured by the BBA figures, have been gaining market share recently. The broader Bank of England data, which also includes non-bank lenders, showed that approvals fell by just 1.6% in January.
- On the fiscal front, the public borrowing figures for this year have been flattered by a number of one-offs, including the transfer of the Royal Mail pension fund and the revenues of interest generated by the Bank of England's Asset Purchase Facility. On an underlying basis, however, the OBR forecast net borrowing of £121.9bn in 2012/13, is basically unchanged from the outturn seen in the last financial year. Underlying borrowing is now not forecast to fall substantially until 2014/15.
- This year's Budget contained many good individual measures, but they were on a small scale and their overall effect was fiscally neutral. The further 1p cut in corporation tax and the "employment allowance", which helps to reduce employers' national insurance contributions, were welcome moves that should help business. But giveaways were matched by further cuts, including a further 1% reduction in departmental spending in the next two fiscal years.
- The Budget also contained a reaffirmation of the MPC's 2% inflation target along with some minor tweaks to the MPC's remit, which will allow the MPC more flexibility in the communication of its policy. This fell short of speculation that the government could suspend, or even scrap entirely, the 2% inflation target.
- Inflation, meanwhile, remained high, with the CPI measure rising from 2.7% to 2.8% in February. The latest rises have been driven, mainly, by higher energy

prices. This reflected a sharp rise in sterling oil prices as well as the final price rise from a “big six” utility company filtering through.

- The MPC has said that it would “look through” the latest energy driven price rises when setting monetary policy. Indeed, the minutes of February’s meeting showed that three members of the MPC, including Governor, Mervyn King, voted for further quantitative easing. The size of the Bank’s asset purchase programme has remained at £375bn since November.
- Turning to the markets, both UK and global equity prices have rallied since the start of the year, with the FTSE 100 rising from 5,897 to 6,400. Gilt prices were volatile over the quarter, with the yield on 10-year gilts hitting 2.2% in early March, before falling back to 1.72% at the end of the quarter, similar to the level seen at the start of the year. Meanwhile, the pound has fallen sharply against the dollar, from \$1.63 to \$1.51. Sterling was slightly weaker against the euro, too, slipping from €1.23 to €1.19.
- Internationally, the economic recovery in the US appeared to gather momentum over the first quarter. A weighted average of the ISM indices is consistent with annualised GDP growth of close to 3%. What is more, the growth in private payrolls accelerated to a 3-month average of 200,000 in February. While the expiry of the payroll tax cut at the start of the year will hit real incomes, the 0.4% rise in underlying retail sales in February looks consistent with consumption growth of 2% annualised.
- The Eurozone crisis flared up again at the end of the quarter, after it was agreed that bank deposits could be subject to a “haircut” as part of an international bail-out package for Cyprus. While a bailout package agreed by European Finance Ministers should avert disaster, the episode has raised fears about the safety of bank deposits in other periphery countries. Meanwhile, the underlying Eurozone economy looks weak. On past form the composite Eurozone PMI points to a 0.3% quarterly contraction of GDP in Q1.

2. Interest rate forecast

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

	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
5yr rate PWLB	1.80%	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%	2.40%
10yr rate PWLB	2.90%	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.50%

25yr rate	PWLB	4.10%	4.10%	4.10%	4.20%	4.20%	4.30%	4.40%	4.60%
50yr rate	PWLB	4.20%	4.20%	4.20%	4.40%	4.40%	4.50%	4.60%	4.70%

Sector undertook a review of its interest rate forecasts following the issue of the latest Bank of England Inflation Report in February 2013. Sector has left unchanged its forecast for the first increase in Bank Rate to be in March 2015. However, forecasts for PWLB rates have been increased as a result of the marked recovery in confidence in equity markets, anticipating stronger economic recovery in America, supported by growth in the Far East. The rise in equity prices has, conversely, resulted in a selloff in bonds and some diminution of the UK as a safe haven from more risky assets. However, towards the end of March, the Cyprus crisis has partially reversed these general trends during the quarter, although this is likely to be a temporary phase – at least, until the next Eurozone crisis!

SUMMARY OUTLOOK

UK economy

As has become usual, the Bank of England February Inflation Report downgraded its forecasts for growth and pushed back the timing of economic recovery. In addition, it also raised its forecasts for inflation (peaking at 3.2% in Q3 this year) and pushed back the timing of when inflation would fall back to the 2% target rate by eighteen months, to Q1 2016. The Bank has, therefore, continued its trend of correcting its repeated over-optimism on the speed and strength of recovery and it is now forecasting growth reaching about 1.9% in two years time.

In both the Chancellor's Autumn Statement, and then his March budget, he again extended the timetable for reducing the annual budget deficit and total outstanding debt due to weak growth depressing tax revenues and increasing benefit payments. The one slightly more optimistic area has been the housing market, as the Funding for Lending Scheme looks to be having a positive effect in improving the supply of credit via mortgages.

In summary, our concerns around a slowdown in prospects for GDP growth in the western world are as follows: -

UK

- The Bank of England February 2013 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%. If quarter 1 2013 results in negative growth, this would be the first triple dip recession since records began in 1955. Over the year to Q4 2012/13, total growth came in at only 0.2%.
- A fair proportion of UK GDP is dependent on overseas trade; the high correlation of UK growth to US and EU GDP growth means that the UK economy is likely to register weak growth over both 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 continue to be eroded.
- The Coalition government is hampered in promoting growth by the need to tackle the budget deficit. However, the March budget did contain measures to boost house building and the supply of mortgages, and brought forward, by one year to April 2014, the start of a £10,000 tax free allowance for incomes.
- Little sign of a co-ordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.
- There is a limited potential for more QE in 2013, which would help to keep gilt yields lower than they would be without further QE.
- In February 2013 Moody's downgraded the UK's AAA credit rating one notch to AA+. There was little reaction in financial markets, as this had been widely anticipated. Fitch put its AAA rating on negative watch in March.

Eurozone

- Most Eurozone countries are now battling against negative economic growth in 2013, although Germany is experiencing a resurgence of business confidence and surveys are pointing towards a resumption of growth. Growth prospects, for many Eurozone countries, are poor due to the need to adopt austerity programmes to bring government deficits under control.
- Although market anxiety about Greece has subsided after the agreement to a further major financial support package amounting to nearly €50bn, in December, concerns still remain that the eventual end game could be that Greece is eventually forced to exit (dubbed "Grexit") the Eurozone and to 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 possibly 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 resisted asking for an official national bailout, although it has received financial support to recapitalise its four largest banks.
- The general election in Italy has created a highly unstable political situation where no party can form a viable coalition to govern without the support of the new upstart Five Star anti-austerity party. Five Star has won a blocking vote 25% of seats and has refused to enter a coalition agreement. It looks increasingly likely that there will be another general election – which could have been as inconclusive a result as the first!
- There could therefore be volatility in Spanish and Italian bond yields over the next year, depending on political and economic developments.

- A general election is due in Germany in the autumn of 2013. It currently looks likely that this will lead to little change in current policy on the Euro and support for peripheral countries. However, polls are indicating that 25% of the electorate now favour Germany leaving the Euro and stopping the flow of money from Germany to profligate southern countries. Any further disasters in the Eurozone could see this sentiment increase significantly.
- A bailout for Cyprus was eventually agreed in the last week of March after a traumatic first proposal was resoundingly rejected by the Cypriot Parliament. Financial markets remained largely calm after the final agreement and there has been little evidence to date, of potential contagion to other peripheral Eurozone countries. Slovenia, however, looks increasingly likely to be the next in line for a bailout, so their bond yields have risen. However, huge damage will be done to the Cypriot economy by the fallout from this bailout and many commentators consider it is only a matter of time before another bailout will be needed – or exit from the Euro.

US

- There has been a strong resurgence of confidence in US financial markets as the “fiscal cliff” has been largely averted or postponed. Confidence has bolstered recovery in employment and the housing market and has provided the wider economy with a solid base for optimism looking forward. This is reflected by US equities reaching all time highs.
- The Federal Reserve is unlikely to increase the central rate until 2015, as it has now set a specific target of first reducing unemployment to 6.5% (currently 7.7% at the end of March).
- The housing market is showing signs of having turned a corner, both in price rises and the volume of house sales.

China

- Efforts to stimulate the economy appear to be succeeding. However, there are still concerns around an unbalanced economy, heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also increasing concerns around the potential size, and dubious creditworthiness, of some lending to local government organisations and major corporates during the Government promoted expansion of credit, aimed at protecting the overall rate of growth in the economy since the Lehmans crisis.

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 2013/14 as investor fears and confidence, ebb and flow, between favouring more risky assets i.e., equities, and safer bonds. Equity prices have staged an ongoing rise since mid 2012. Correspondingly, there had been a trend of a fall in bond prices and a rise in bond

yields, until the Cyprus crisis reversed this trend in late February. Key areas of uncertainty include:

- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Failure of Italian political parties to form a viable coalition after the general election due to the blocking vote of the Five Star anti-austerity party, which has refused co-operation with any major party.
- The impact of the Eurozone crisis on financial markets and the banking sector.
- Monetary policy action failing to stimulate growth in western economies.
- The impact of the UK Government's austerity plan on confidence and growth.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and recovery of economic growth.
- The potential for weak growth or recession in the UK's main trading partners - the EU and US;

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 of bond issuance in other major western countries. However, near-term, the prospect of further QE is likely to keep gilt yields lower than they would otherwise be. However, any concerns that central banks are getting to the point where they are likely to view the beneficial effects of further QE as being exhausted, could lead to the reversal of this effect.

Given the weak outlook for economic growth, Sector sees the prospects for any increase in Bank Rate before 2015 as very limited indeed, and the first increase could be even further delayed if growth disappoints.

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 7th 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. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Sector.

Investment rates available in the market have continued at historically low levels and have fallen further during the quarter as a result of the Funding for Lending Scheme. The average level of funds available for investment purposes during the quarter was **£5m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds **£19m** core cash balances for investment purposes (i.e. funds available for more than one year).

Investment performance for year ended 31st March 2013

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.39%	1.15%	£350,000

As illustrated, the Council outperformed the benchmark by **0.76%**. The Council's budgeted investment return for 2012/13 is **£287k**, and actual performance for the year is **£63K** above budget.

4. New borrowing:

No new borrowing was undertaken during the quarter.

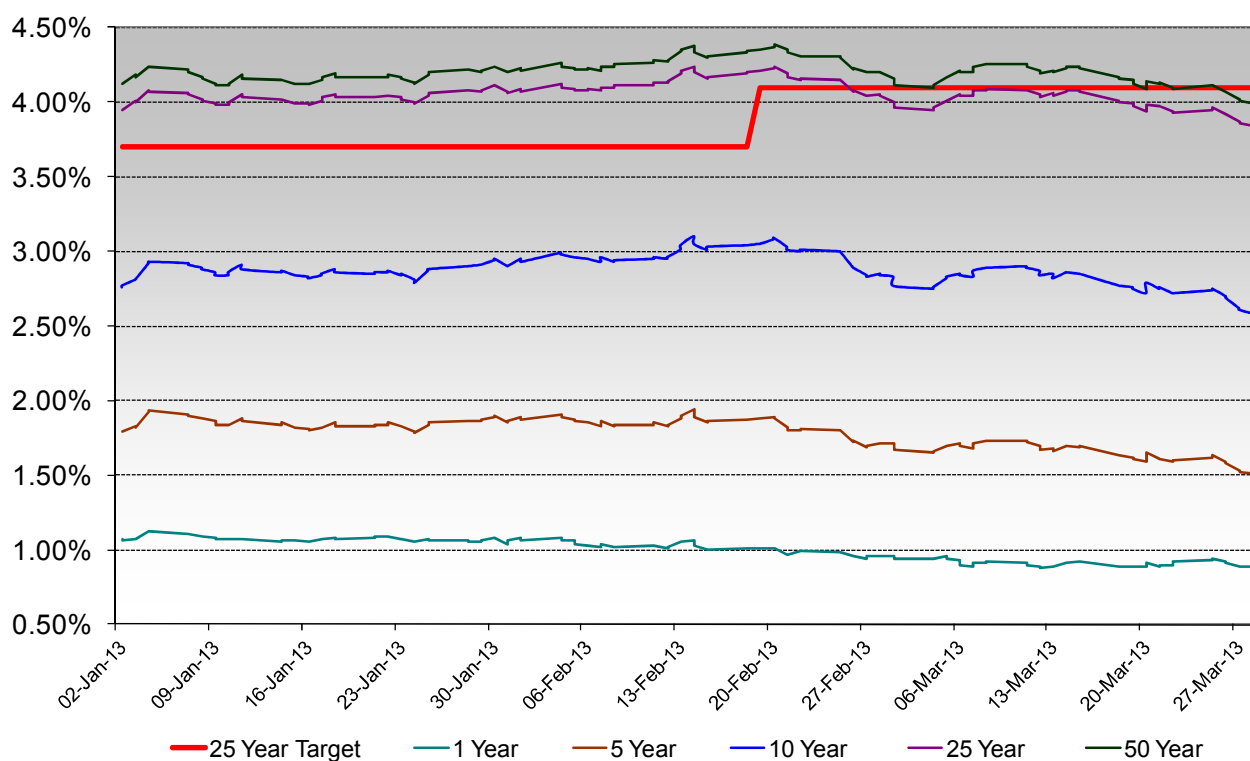
Sector's 25 year PWLB target rate for new long term borrowing for the quarter was raised from 3.70% to 4.10% in its revised February forecasts.

However, gilt yields (on which PWLB rates are based), generally rose during the quarter until near the end of February, since when they have fallen back on safe haven flows caused by the Cyprus crisis.

PWLB certainty rates quarter ended 31.3.2013

1 Year	5 Year	10 Year	25 Year	50 Year
--------	--------	---------	---------	---------

Low	0.88%	1.51%	2.59%	3.84%	3.99%
Date	12/03/13	28/03/13	28/03/13	28/03/13	28/03/13
High	1.12%	1.94%	3.10%	4.24%	4.39%
Date	04/01/13	14/02/13	14/02/13	14/02/13	20/02/13
Average	1.00%	1.78%	2.87%	4.05%	4.20%



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 in appendix 1.

7. Prudential and Treasury Indicators as at 31st March 2013

Treasury Indicators	2012/13 Budget £'000	Quarter 4 Actual £'000
Authorised limit for external debt	111,000	111,000
Operational boundary for external debt	105,473	105,473
Net borrowing	91,229	91,229
Capital Financing Requirement (CFR)	98,223	98,223
Maturity structure of fixed rate borrowing - upper and lower 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

Investec Funds as at 31/03/13 - Inhouse as at 31/03/13

APPENDIX 2

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Investec Investments							
ING Bank	Certificate of deposit	A+/F1+/1	15/05/13	0.440	400,000	Netherlands - Gov 'AAA'	
Svenska Handelsbanken	Certificate of deposit	AA/F1+/1	20/06/13	0.440	700,000	Sweden - Gov 'AAA'	
Svenska Handelsbanken	Certificate of deposit	AA-/F1+/1	31/05/13	0.440	1,500,000	Sweden - Gov 'AAA'	
Nordea Group	Certificate of deposit	AA/F1+/1	15/05/13	0.440	1,200,000	Sweden - Gov 'AAA'	
Nationwide BS	Certificate of deposit	A/F1/1	10/05/13	0.440	1,500,000	UK - Gov 'AAA'	
Deutsche Bank	Certificate of deposit	AA-/F1+/1	15/05/13	0.440	2,500,000	Germany - Gov 'AAA'	
Rabobank	Certificate of deposit	AA/F1+/1	16/08/13	0.500	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	0.430	900,012	UK - Gov 'AAA'	
Barclays	Certificate of deposit	AA/F1+/1	26/06/13	0.450	1,300,000	UK - Gov 'AAA'	
					12,500,012		
European Bank for reconstruction	Fixed bond		01/12/13	0.580	314,895		
Bank of Nova Scotia	Deposit		02/04/13	0.320	74,000		
Rabobank	Deposit		01/03/13	0.350	8,000		
GBP cash - settled balance					1,536		
GBP cash - outstanding settlements					0		
					12,898,443		

5
Op**In-house Investments - Portfolio**

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Landisbanke Islands	Term deposit	Not rated by sectc	26/11/08	6.170	500,485	Iceland - Gov 'BBB-'	Duration 364 days - Repayment received £499,514.61
Lloyds	Term deposit	A/F1/1	17/12/13	1.500	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
					6,500,485		
					19,398,928		

Total Portfolio**Call Accounts/MMF (as at 28/2/13)**

		Rate
DMA	0	
Global Treasury Fund	50,106	0.34%
SIBA	1,599,832	0.75%
SIBA SEEDA	55,485	0.50%
SIBA HCA	47,259	0.50%
SIBA ASDA	10,987	0.50%
Alliance & Leicester	24	0.80%
BoS	2,047,279	0.75%
Barclays	3,500,000	0.75%
Abbey	1	
Total Cash flow	7,310,973	

Total Portfolio and Cashflow**26,709,901**

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
					97,604,412		1,848,036	3,267,553		

Investec Funds as at 30/04/13 - Inhouse as at 31/05/13

APPENDIX 4

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Investec Investments							
ING Bank	Certificate of deposit	A+/F1+/1	15/05/13	0.460	400,000	Netherlands - Gov 'AAA'	
Svenska Handelsbanken	Certificate of deposit	AA/F1+/1	20/06/13	0.470	700,000	Sweden - Gov 'AAA'	
Svenska Handelsbanken	Certificate of deposit	AA-/F1+/1	31/05/13	0.460	1,500,000	Sweden - Gov 'AAA'	
Nordea Group	Certificate of deposit	AA/F1+/1	15/05/13	0.460	1,200,000	Sweden - Gov 'AAA'	
Nationwide BS	Certificate of deposit	A/F1/1	10/05/13	0.460	1,500,000	UK - Gov 'AAA'	
Deutsche Bank	Certificate of deposit	AA-/F1+/1	15/05/13	0.460	2,500,000	Germany - Gov 'AAA'	
Rabobank	Certificate of deposit	AA/F1+/1	16/08/13	0.490	1,200,000	Netherlands - Gov 'AAA'	
Nordea Group	Certificate of deposit	AA/F1+/1	02/07/13	0.470	1,200,000	Sweden - Gov 'AAA'	
Standard Chartered	Certificate of deposit	AA/F1+/1	08/07/13	0.470	100,000	UK - Gov 'AAA'	
Barclays	Certificate of deposit	AA/F1+/1	26/06/13	0.470	1,300,000	UK - Gov 'AAA'	
					11,600,000		
European Bank for reconstruction	Fixed bond		01/12/13	0.580	314,895		
Bank of Nova Scotia	Deposit		02/04/13	0.320	980,126		
GBP cash - settled balance					6,119		
GBP cash - outstanding settlements					0		
					12,901,140		
On-house Investments - Portfolio							
Landisbanke Islands	Term deposit	Not rated by sectc	26/11/08	6.170	500,485	Iceland - Gov 'BBB-'	Duration 364 days - Repayment received £499,514.61
Lloyds	Term deposit	A/F1/1	17/12/13	1.500	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
					4,500,485		
Total Portfolio					17,401,625		
Call Accounts/MMF (as at 31/5/13)						Rate	
DMA					0		
Global Treasury Fund					560,106	0.34%	
SIBA					5,998,832	0.60%	
SIBA SEEDA					55,485	0.40%	
SIBA HCA					47,259	0.40%	
SIBA ASDA					10,987	0.40%	
Alliance & Leicester					24	0.80%	
BoS					4,048,566	0.75%	
Barclays					3,504,987	0.75%	
Abbey					1		
Total Cash flow					14,226,246		
Total Portfolio and Cashflow					31,627,872		

Subject:	2012/13 ANNUAL GOVERNANCE ASSURANCE STATEMENT
Meeting and Date:	Governance Committee – 20 June 2013
Report of:	Dave Randall, Director of Governance
Decision Type:	Non-Key
Classification:	Unrestricted

Purpose of the report:	To receive the Annual Governance Assurance Statement for 2012/13 which supports the draft annual accounts
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Recommendation:	To agree the Annual Governance Assurance Statement for 2012/13
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1. Summary

- The Annual Governance Assurance Statement has been prepared following input from the Council’s Statutory Officers, other directors and heads of profession; and the Director or Head of shared services. The Leader and Chief Executive have now signed this statement.
- Governance Committee is asked to accept the Annual Governance Assurance Statement alongside the 2012/13 Accounts.

2. Introduction and Background

The Accounts and Audit Regulations (England) 2003, as amended by the Accounts and Audit (Amendment England) Regulations 2006, still require that the Council conducts at least annually, a review of the effectiveness of its System of Internal Control, and then publishes a statement on internal control within the Annual Governance Assurance Statement

The statement is to be signed by the Leader and the Chief Executive, having paid due regard to any matters raised by the Section 151 Officer and the Monitoring Officer.

The proposed 2012/13 Statement is attached. Corporate Management Team agreed to its acceptance in June 2013. The statement has been prepared taking into account the following information:

- The service review work performed by Internal Audit during the year.
- Internal Audit’s review of Corporate Governance arrangements.
- Assurance Statements produced by individual Directors of Service.
- Assurance statements produced by relevant Heads of Profession
- The information gathered as a result of risk assessment and management.
- Reviews performed by other agencies and inspectorates.

The Action plan as outlined at Appendix 2 will be monitored during the year and progress reported to Governance Committee.

3. Identification of Options

- 3.1 Governance Committee agree the Annual Governance Assurance Statement including the key actions identified for inclusion with the 2012/13 Accounts.
- 3.2 Do not agree the Annual Governance Assurance Statement as provided and either adopt with minor changes or require further analysis and clarification.

4. Evaluation of Options

- 4.1 Option 1 is the preferred option. The governance statement is a collation of individual statements prepared by each DDC director, the Solicitor to the Council, EK Audit Partnership, Director of EK Services, Head of East Kent Housing and KCC Payroll and has been prepared and reviewed by the Monitoring Officer to ensure consistency.

5. Resource Implications

- 5.1 No additional resources are required.

6. Corporate Implications

- 6.1 Comment from the Section 151 Officer: Finance have been consulted and have no further comment to add.
- 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

Appendix 1 – 2012/13 Governance Assurance Statement

Appendix 2 – 2012/13 Forward looking action plan

8. Background Papers

Accounts and Audit Regulations 2003

CIPFA Guidance on Corporate Governance

Individual Governance Statements

Contact Officer: Dave Randall, Director of Governance extn 2141

Dover District Council Annual Governance Assurance Statement

1 APRIL 2012 TO 31 MARCH 2013

WHAT WE ARE RESPONSIBLE FOR

We are responsible for ensuring that our business is conducted in line with the law and proper accounting standards, and for using public money economically, efficiently and effectively. We have a duty under the Local Government Act 1999 to continually review and improve the way we work and at the same time have regard to a combination of economy, efficiency and effectiveness.

In order to meet our responsibility we have in place proper arrangements for overseeing what we do and this is called Governance. These arrangements make sure that we do the right things in the right way, that our services reach the right people and that we are open, honest and accountable in the way that we deliver those services.

We have approved and adopted a Local Code of Corporate Governance and a copy of this is available on our website here: - <http://www.dover.gov.uk> or one can be obtained from The Council Offices, White Cliffs Business Park, Dover, CT16 3PJ.

THE AIM OF THE GOVERNANCE FRAMEWORK

The governance framework details the systems, processes, culture and values that we are controlled by and which we are answerable to. It also shows what we get involved with and how we engage with the community. It also shows how we monitor what we are achieving so that we can deliver services that are appropriate and value for money.

The system of internal control is an important part of the framework and is designed to manage risk to a reasonable level. It cannot remove all risk of failure to achieve policies and aims and can only provide reasonable protection. The system of internal control is based on an on-going process designed to:-

- Identify and prioritise anything that could prevent us from achieving our policies and aims
- Assess how likely it is that identified risks might happen and what the result would be if they did
- Manage those risks efficiently, effectively and economically

The governance framework describes what has been in place at Dover District Council for the year ended 31 March 2013 and up to the date of approval of the Council's accounts.

OUR GOVERNANCE FRAMEWORK

Our Governance Framework is made up of a Code of Conduct as well as many systems, policies, procedures and operations. The key features are:-

Our Corporate Plan. This is our main strategic document providing a framework for the delivery of our services and providing context for all the other strategies and plans that we have. The Corporate Plan for 2012-2016 is published and is available on the Council's website.

The following strategic priorities have been identified:-

- Enabling and supporting growth of the economy and opportunity for investment and jobs
- Facilitating strong communities with a sense of place and identity
- Serving our communities effectively

- An effective and efficient Council

Service Plans. We have service plans in place supporting the aims of the Corporate Plan which include performance indicators that use to measure our achievements. Copies of our performance report are available on our website.

Our Constitution. Our Constitution details how we operate, how decisions are made and the procedures, which are to be followed. It also ensures that we work in an efficient and transparent way and that we are accountable to local people.

The Executive. The Executive are responsible for most decisions and is made up of the Leader and a Cabinet. Major decisions are published in advance in the Executive's Forward Plan, and will generally be discussed in a meeting open to the public. All decisions must be in line with our overall policies and budget. Any decisions the Executive wishes to take outside the budget or policy framework must be referred to Council as a whole to decide.

Corporate Management Team. The Corporate Management Team comprises the Chief Executive (and Head of Paid Service) with responsibility for Regeneration and Development, Director of Governance and Monitoring Officer, Director of Finance, Housing and Community and S151 Officer and Director of Environment and Corporate Assets.

Members of Corporate Management Team have a responsibility for the day to day running of each Division of the Council. They must regularly assess their division's assurance arrangements and provide the Council with the opportunity to keep check on the adequacy of its overall arrangements.

Overview and Scrutiny. There are two overview and scrutiny committees who support and monitor the work of the Executive. A "call-in" procedure or addition to the work programme allows scrutiny to review Executive decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered.

Standards. The standards of conduct and personal behaviour expected of our members and our officers, our partners and the community are defined in codes of conduct and protocols. These include:

- Members' code of conduct
- An effective performance management system
- Regular performance appraisals for staff linked to corporate and service objectives
- A fraud and corruption policy
- Member/officer protocols
- A Standards Committee.

We have effective formal and informal complaints procedures. Complaints of service maladministration are investigated and reported to standards committee. Lessons learned from these complaints are reviewed and acted on.

The Localism Act 2011 changed the standards regime and the Monitoring Officer is now responsible for considering allegations of Members breaches of the codes of conduct.

Our Solicitor. The Solicitor to the Council provides his opinion on our compliance with our legal obligations.

Financial procedures and Contract Standing Orders. We have to ensure that we act in accordance with the law as well as various other regulations. We have developed policies and procedures for our officers to ensure that, as far as are possible, they understand their responsibilities both to the Council and to the public. Two key documents are the Financial Procedure Rules and the Contract Standing Orders, which are available to all officers via the Council's Intranet, as well as available to the public as part of the Constitution.

Financial Management. Our financial management arrangements conform with the requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. In addition to the

Financial and Contractual procedure rules contained within the constitution, in order to maintain its financial management the Council operates budgetary control procedures which are used in conjunction with a Medium Term Financial Plan (MTFP).

Responsibility for ensuring that an effective system of internal financial control is maintained rests with the Section 151 Officer. The systems of internal financial control provide reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected quickly.

Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. On-going development and maintenance of the various processes may be the responsibility of other managers.

In particular, the process includes:

- The setting of annual budgets;
- Producing the Medium Term Financial Plan
- Monitoring of actual income and expenditure against the annual budget;
- A mid-year review of the annual budget;
- Setting of financial and performance targets, including the use of the prudential code and associated indicators;
- Monthly reporting of the Council's financial position to Members;
- Clearly defined capital expenditure guidelines;
- The monitoring of finances against a Medium Term Financial Plan;
- Managing risk in key financial service areas.
- A continuous and effective internal audit.

Through our budget monitoring processes we are able to ensure that financial resources are being used to their best advantage, this includes monthly management reporting to the Corporate Management Team and Members.

Financial planning is underpinned by service planning. Increased expenditure in any service area has to be justified to the Corporate Management Team, and where necessary approved by the Executive. Corporate Management Team is tasked with prioritising resources to ensure that the objectives within Corporate Plan are supported by the individual service plans, and that improvements are in line with corporate objectives.

Policies. Corporate policies on a range of topics such as Equality and Diversity, Customer Care, Data Protection, Human Rights, and Fraud are all subject to internal review. We keep all staff aware of changes in policy, or documentation through a system called Netconsent and where appropriate arrange training for all or key members of staff.

Risk. The risk management strategy, which was reviewed in September 2011 by the Governance Committee, shows the role both Members and Officers have in the identification and minimisation of risk. Risks are recorded in a Corporate Risk Register and are then subject to regular review.

Service Assurance. A Service Assurance Statement is produced annually by all Directors, detailing their assessment of their services. They are required to give assurance that risks have been identified, that sound business arrangements operate in their service areas, and that the service is subject to monitoring and review in order to assess performance.

Performance Management Framework. Progress towards the achievement of our objectives is monitored through our Performance Management Framework. A quarterly Performance Report is produced and reviewed by Corporate Management Team, by Members and by Scrutiny.

Internal Audit. The East Kent Audit Partnership (EKAP) Internal Audit Team reports to the Director of Finance, Housing and Community. They operate under a Charter, which defines their relationship with

our officers, and the Governance Committee. Their main responsibility is to provide assurance and advice on our internal control systems to the Corporate Management Team and Members. Internal Audit reviews the adequacy, reliability and effectiveness of internal control and recommends improvements where appropriate. It also supports the development of systems, providing advice on risk and control.

As part of the annual review of governance arrangements and in particular the System of Internal Control, we are required to undertake an annual review of the effectiveness of the system of internal audit.

Service Reviews. Delivering Effective Services (DES). The DES group has been established and consists of a small number of senior managers who carry out the following tasks:

- Act as a Corporate think-tank to aid Service Managers and CMT in decision-making
- Identification of potential budget savings.
- Offer a review service to encourage and produce innovation and transformation in service delivery.
- A review team holding a strategic overview of the organisation (and wider environment) to consider potential duplication as well as the benefits of links between services, both internally and externally, supporting the prevention of silo decision-making and services.

Core Strategy. The Core Strategy is the overarching statutory planning document for the District and was adopted by the Council in February 2010. The Core Strategy identifies the overall economic, social and environmental objectives for the District and the amount, type and broad location of development that is needed to fulfill those objectives.

State of the District report. This was first introduced in May 2010, it is also published on our website. It is revised annually and is a backward look over the last year using the latest information available at the time of drafting.

Land Allocations Document. This follows on from the Core Strategy. Its primary purpose is to identify and allocate specific sites that are suitable for employment, retail and housing development in order to meet the Core Strategy's requirements and makes a major contribution to delivering the Strategy. It covers the same plan period as the Core Strategy.

Communication and Consultation strategies are in place. Our website has a Have Your Say Area where members of the public can communicate their views on current changes and implementations.

Equality. We have published our equality objectives and annual report helping to ensure that all groups in our community have a voice, can be heard and know how we make our decisions.

Whistle Blowing. A confidential reporting hotline is in place to enable internal and external whistle blowing. Informants are requested to be open in their disclosure, but it is recognised that on occasions informants will wish to remain anonymous. There are also processes in place for staff to report through their line managers or East Kent Audit.

Employment Stability. The Employment Stability Group was approved by the Council in 2010 to consider all requests to fill staff vacancies. The group is chaired by the Director of Governance and supported by the Financial Services Manager and a Human Resources representative. Their recommendations are considered by the Head of Paid Service who provides the final decision as to which posts can be filled.

Partnerships. Partnership evaluation criteria have been established to help ensure that all key governance criteria are incorporated into new and existing partnerships.

REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

We have a responsibility for conducting, at least annually, a review of the effectiveness of our governance framework including the system of internal control. This review is informed by the work of our Internal Auditors and the Head of the Audit Partnership's Annual Report, the work of our Directors and managers who have responsibility for the development and maintenance of the governance

environment and by the findings and reports of our external auditors together with any other review agencies or inspectorates.

The Director of Governance has a responsibility for:-

- Monitoring the Constitution and keeping it up to date
- Overseeing and monitoring the Corporate Code of Governance
- Maintaining and updating the code if required by best practice
- Reporting annually to members on compliance with the code

Cabinet

- Setting robust and challenging targets and
- Monitoring the achievement of key priorities

Scrutiny (Policy and Performance) Committee:-

- Monitoring the achievement of key priorities

The Governance Committee:-

- receive quarterly updates from the Head of the Audit Partnership on the assurance which can be placed against various systems and processes during the year,
- Review the annual assessment at the year end.
- Receive the annual review of internal control
- Receive the annual constitutional review
- Review risk management arrangements

Internal Audit:-

- required to provide an independent annual statement showing areas of concern
- the level of assurance in respect of systems
- The overall level of assurance

This year's review has involved:-

Council

The Corporate plan for 2012-2016 was published in 2012. The Constitution was reviewed in May 2012 and is being reviewed again in 2013.

A new code of conduct came into force on 1st July 2012. This is detailed within our constitution.

Cabinet

The Council's Quarterly Performance Report was reviewed regularly and shows our performance against our key priorities.

Scrutiny

The Council's Quarterly Performance Report was reviewed regularly and shows our performance against our key priorities.

Governance Committee

The Governance Committee receives quarterly updates from the Head of East Kent Audit Partnership on the assurance which can be placed against various systems and processes during the year, including

reviews of internal controls, along with an annual assessment at the year end. The Committee keeps a check on those areas that have not achieved expected levels of audit assurance. Additionally, this Committee reviews the effectiveness of the Council's risk management arrangements.

The Director of Governance and Solicitor to the Council are responsible for ensuring that the Constitution is subject to annual review. A review of part three of the constitution was considered by the Governance Committee in March 2012 and adopted by Council on 16 May 2012. The significant changes are the alignment of new delegations and new executive arrangements.

Standards Committee

The Standards Committee receives a quarterly report on progress of formal complaints against the Council and lessons learned from those complaints.

There was one finding against Dover District Council from the Local Government Ombudsman in 2012/13 and appropriate procedures and processes have been put in place to prevent a recurrence of the issue.

During 2012/13 the way in which complaints against members changed and these were considered as follows:-

- 1/4/12 to 30/6/12 – Considered by Standards Committee. - 3 allegations of breaches of the code of conduct were received and none were upheld.
- 1/7/12 to 31/3/13 – Considered by the Monitoring Officer. - 29 allegations of breaches of the code of conduct were received.

The Annual Report of the work of the Standards Committee for 2012/13 was presented to the Annual Council Meeting on 22nd May, 2013 and gave a positive opinion on the ethical conduct of the members of this Council.

Internal Audit

Review of Internal Audit.

The effectiveness of internal audit is monitored jointly by the monitoring Officer and the S151 officer through:-

- Quarterly review meetings with the Head of Internal Audit
- Sign off of the Audit Plan
- Review of the internal audit annual report
- Attendance at Governance Committee
- Review of individual audit reports
- Meetings with the S151 officers of the other partners

The Work of Internal Audit. Based on their work undertaken during the year, the Head of the Audit Partnership considers that there are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control, concerning either the main financial systems or overall systems of corporate governance. The report also considers that the Council can have very good level of assurance in respect of all of its main financial systems and a good level of assurance in respect of the majority of its Governance arrangements. Many of the main financial systems, which feed into the production of the Council's Financial Statements, have achieved a Substantial assurance level following audit reviews. The report goes on to state that the Council can be very assured in these areas and that this position is the result of improvements to the systems and procedures over recent years and the willingness of management to address areas of concern that have been raised.

There were five areas where only a limited assurance level was given; VAT, Data Protection, New Homes Bonus (partially limited), Absence Management Flexi and Annual Leave where further reviews

are planned for 2013/14 and SLA Management Arrangements where a further review has been undertaken and the outcome remains the same.

There were no fraud investigations carried out.

External Reviews.

- Regulatory and Investigatory Powers Act (RIPA). This review gave a positive opinion of DDC and stated that we have very good procedures in place and best practice in some areas of our work.
- Office of the Surveillance Commissioner. This review considered that further procedures were needed to ensure DDC maintained its standards. We have now joined the National Anti Fraud network to act on our behalf and address issues in the report.

Service Reviews during the Year

During the year there were reviews held in the following areas:-

Communication and Engagement

P.A. and administration support. –Looked at the wider service to ensure continuity.

Regeneration and Development

Training

A resourced training and development plan is being developed for officers and members of the Council, clearly linked to the Corporate and Service Plans and statutory responsibilities.

Members Code of Conduct

The Principles of Good Conduct are contained within the Member Code of Conduct which is part of the Constitution. It is kept refreshed and the last review was in May 2012. It is currently under review again.

SIGNIFICANT GOVERNANCE ISSUES DURING THE YEAR

- Information Commissioner's Office (ICO)
A complaint was received from the ICO that we had divulged email addresses to all the recipients in a global email. We took immediate steps to apologise to those affected and started an investigation. Procedures have been put in place to ensure this does not happen again and the ICO has accepted that this was a human error for which they will not be taking formal regulatory action at this point.
- Local Government Ombudsman.
There was one finding of maladministration against the Council involving the processing of a homelessness application. Details were given to full Council on 26/9/12.
In response to this complaint appropriate training has been given to staff together with a full review of procedures.
- Welfare Reforms

The government are in the process of making a number of significant reforms to welfare benefits. The two most significant reforms for 2013/14 are the Council Tax Reduction Scheme and the Social Sector Size Criteria.

- Council Tax Reduction Scheme

The Council Tax Reduction Scheme (CTRS) has been introduced to replace Council Tax Benefit (CTB), which ended in March 2013.

Where CTB was a benefit that “paid” the Council Tax of those who qualified, the CTRS is a discount which does not pay the Council Tax of claimants, but instead reduces the bill that they are sent, by providing a “discount”.

In setting up the CTRS, the government have reduced the funding to Councils by 10% from that provided for CTB. Pensioners, who comprise around 50% of the claimants, are protected from the reductions, so they equate to a reduction of around 20% for all other claimants.

In making this change, the government have required all Councils to introduce their own local CTRS to replace the national CTB. Dover, working with partners Canterbury City Council, Thanet District Council and Kent County Council, has implemented an East Kent CTRS which addresses the reduction in government funding by stopping all empty property and second home discounts, limiting the loss of benefit to 6%.

- Social Sector Size Criteria

The Social Sector Size Criteria (SSSC) has been introduced by government to reduce the costs of providing housing benefit (HB) to Council tenants.

Where tenants have one surplus bedroom for the size of their family or household, they will see a reduction of 14% in their HB. Where they have two surplus bedrooms, they will see a reduction of 25%.

Dover District Council has worked with their housing managers, East Kent Housing, to prepare tenants for this change and to assist those tenants who are affected, to downsize to smaller units.

Although the size of households changes, and so a precise figure cannot be provided, it is estimated that around 10 – 15% of households in Dover Council housing will be affected by this change in HB. Given the limitations of available stock, the Council cannot guarantee to be able to assist all those who wish to downsize – but every effort will be made to do so.

Other significant welfare reforms which will be implemented in 2013/14 and following years include:

- Universal Credit

This combines a number of benefits into a single, monthly payment.

- The Benefits Cap

This caps the amount of benefit a family can claim to the average national wage. That is around £26,000 per annum.

- This Council is a defendant, (as are virtually all District and Unitary Councils), in proceedings brought by a group of Property Search Companies for fees paid to the Council to access land charges data. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be against the Council.

IMPROVEMENTS DURING THE YEAR

- Anti-fraud and corruption policy.
In line with the Audit Commission’s recent publication called “Safeguarding the Public Purse” our Counter Fraud and Corruption Policy was reviewed and updated. The policy comprises:-
 - A Prevention of Fraud and Corruption Strategy
 - A whistle blowing Policy

- A Protocol for Dealing with Allegations of Fraud or Corruption
 - An Anti Money Laundering Policy
 - An Anti-Bribery Policy
- Building on the open Golf 2011 event, we have, along with our multi-agency partners, successfully developed the Safety Advisory Group which effectively supported the Olympics Event.
 - The Olympic Torch Event enabled us to enhance our events management planning process and this in turn has been the catalyst for major improvements in event planning. We now have a team of people who can help plan events and advise on best practice.
 - A new code of conduct for Members was adopted at an extraordinary Council meeting on 26th June, 2012 and came into force on 1st July.

STATEMENT OF THE LEADER OF THE COUNCIL & THE CHIEF EXECUTIVE.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and plan to address weaknesses and ensure continuous improvement of our systems is in place.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified and will monitor their implementation and operation as part of our next annual review.

Signatures:

Date: _____

Leader of the Council _____

Date: _____

Chief Executive _____

Governance assurance statement Forward Looking Action Plan to 31st March 2013



Action Code	Action Description	Status as at 31st March 2014
GASAP001	The corporate plan to be been kept up to date and any necessary update is published	0%
GASAP002	The Constitution and Code of Conduct are subject to an annual review and updated where applicable	0%
GASAP003	Service Plans Prepared and Published for each division	0%
72 GASAP004	Quarterly performance reports all reviewed by Cabinet and Scrutiny P&P Committee	0%
GASAP005	Quarterly performance reports all reviewed by scrutiny	0%
GASAP006	Audit reports reviewed quarterly by Governance Committee and follow up reviews undertaken where the audit review show the expected levels of assurance had not been achieved.	0%
GASAP008	Standards Committee have received quarterly reports on the progress of formal service complaints against the Council and lessons learned from those complaints.	0%
GASAP009	Alleged breaches of the Members' Code of Conduct by District, Town and Parish Councillors are considered by the Monitoring Officer in a timely manner	0%
GASAP010	An annual review of the effectiveness of systems of internal control is undertaken	0%
GASAP011	All service reviews that are planned are undertaken	0%
GASAP012	Issues arising from the new welfare reforms are monitored, progressed and reported as appropriate	0%
GASAP013	The actions brought by property search companies are carefully managed and addressed	0%

Action Code	Action Description	Status as at 31st March 2014
GASAP014	Governance Framework revised and incorporated with Performance Management Framework	0%
GASAP015	The provision for clawback of MMI insurance claims is reviewed and is adequate	0%
GASAP016	Employee Code of Conduct Developed	0%

Governance Committee Update for Dover District Council

Year ended 31 March 2013

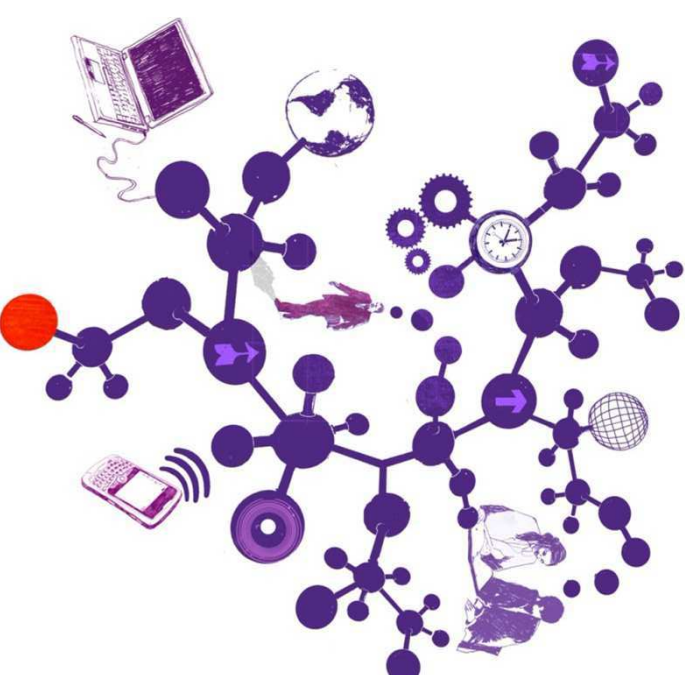
31 May 2013

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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, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

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

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Progress at 31 May 2013

Work	Planned date	Complete?	Comments
<p>2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.</p>	28 February 2013	Yes	We agreed the accounts audit plan with officers and presented it to the Governance Committee in March 2013.
<p>Interim accounts audit Our interim fieldwork visits include the following:</p> <ul style="list-style-type: none"> • review of the Council's control environment • documentation and walkthrough of financial systems • review of Internal Audit and their reports on core financial systems • early substantive testing 	<p>On-going w/c 4 March 2013 w/c 28 February 2013 April 2013</p>	<p>Yes Substantially complete Yes Yes</p>	<p>We have reviewed the Council's control environment and confirmed that it is designed effectively. We carried out our first interim visit in March 2013. During the visit we documented the Council's financial systems and carried out the majority of the required walkthroughs. We reported the results of the interim work in our accounts audit plan. We will report the findings of all substantive testing in our Audit Findings report.</p>
<p>2012-13 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the Council's accounts • Whole of Government Accounts review 	22 July- 17 August 2013	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. Our year end audit visit is planned for completion in July and August 2013.

Progress at 31 May 2013

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</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"> • securing financial resilience • challenging how it secures economy, efficiency and effectiveness in its use of resources. <p>Our review will focus on arrangements relating to financial governance, strategic financial planning and financial control.</p>	<p>w/c 8 April 2013</p>	<p>No</p>	<p>We have completed our VfM planning. The specific areas we plan to review are set out in our audit plan. We carried out the majority of our financial resilience review work 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>Other areas of work – grant certification</p> <p>We will be required to certify the following grants for the Council in 2012/13:</p> <ul style="list-style-type: none"> • Housing and council tax benefit • National non domestic rates • Pooling of housing capital receipts (if value of claim greater than £500,000) 	<p>Dates for individual grants yet to be agreed. We will carry out the majority of the certification work before the end of September 2013</p>	<p>No</p>	<p>Dates of grant certification work have been discussed with officers. These have been 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. We started our initial testing on this claim at the end of May. All initial testing will be completed before the end of September and used to support our audit opinion on the financial statements.</p>

Emerging issues and developments

Accounting and audit issues

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

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

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

Challenge question:

- Has your Head of Financial Services reviewed the guidance and assessed the potential impact for your financial statements?

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Emerging issues and developments

Accounting and audit issues

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

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

- amendments for the requirements of the localisation of business rates in England
- amendments to how 'other comprehensive income' is presented in the Comprehensive Income and Expenditure Statement. These changes follow the June 2011 amendments to IAS 1 Presentation of Financial Statements.
- amendments to how authorities should account for the cost of employees. This is as a result of the June 2011 amendments to IAS 19 Employee Benefits and include amendments to the classification, recognition, measurement and disclosure of local authority pension costs. This is accounted for as a prior period adjustment which means that the figures for previous years will need to be restated.
- clarifications and improvements of the Code as a result of the CIPFALASAAC post-implementation review of IFRS on issues such as:
 - the recognition and measurement of property, plant and equipment – in particular, paragraph 4.1.2.35 of the Code now requires items within a class of property, plant and equipment to be revalued simultaneously. The Code does permit a class of assets to be revalued on a rolling basis provided the revaluation is completed within a short period and provided the revaluations are kept up to date.
 - leases and lease-type arrangements (for example where lease rentals are charged at peppercorn rents)
 - service concession (PFI/PPP) arrangements in relation to assets under construction and intangible assets
 - the recognition of non-current assets held for sale
- amendments relating to deferred tax which may be applicable to authorities with group accounts. These follow amendments to IAS 12 Income Taxes issued in December 2010.

The Code also notes that guidance on the adoption of IFRS 13 Fair Value accounting and on accounting for schools has been deferred to the 2014/15 Code.

Challenge questions:

- Is your Head of Financial Services aware of the changes to the 2013/14 Code and has she assessed the potential impact? In particular, has she consulted:
 - your actuary to ensure you will have the information you need to restate amounts relating to pensions from previous years
 - your valuer to ensure that your revaluation programme complies with the new requirements for property, plant and equipment?

Emerging issues and developments

Accounting and audit issues

Internal audit – practice case studies

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

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

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Examples of the practical advice these case studies provide are:

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

Challenge question:

- Has your Head of Internal Audit considered these case studies and how the internal audit service could be further enhanced?

Emerging issues and developments

Local government guidance

2010/11 Whole of Government Accounts

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

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

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Challenge question:

- Has your Head of Finance considered these reports and any lessons for the authority?
- Has your Head of Finance produced a robust and adequately resourced timetable for the production and submission of 2012/13 WGA returns?

Governance statements

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

Challenge questions:

- How do you plan to make your Annual Governance Statement be more transparent and relevant to your authority?
- Have you used the challenge questions in the fact sheet to help inform your review of the Annual Governance Statement?

Emerging issues and developments

Local government guidance

Openness and transparency on personal interests - A guide for councillors

In March, DCLG published "Openness and transparency on personal interests – A guide for councillors".

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

Challenge question:

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



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