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25 November 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 5 December 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) 872305 or by e-mail at rebecca.brough@dover.gov.uk.

Yours sincerely

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**

To confirm the Minutes of the meetings of the Committee held on 26 September 2013 and 19 November 2013 (to follow).

5 **TREASURY MANAGEMENT QUARTER TWO REPORT** (Pages 4 - 23)

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

6 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 24 - 40)

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

7 **GOVERNANCE COMMITTEE UPDATE** (Pages 41 - 51)

To consider the attached report of Grant Thornton.

8 **ANNUAL AUDIT LETTER** (Pages 52 - 65)

To consider the attached Annual Audit Letter 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) 872305 or email: rebecca.brough@dover.gov.uk for details.

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

Subject:	**TREASURY MANAGEMENT QUARTER TWO REPORT**
Meeting and Date:	**Governance – 5 December 2013**
Report of:	**Mike Davis, Director of Finance, Housing & Community**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the Council's treasury management for the quarter ended 30 September 2013 (Q2) and an update of activity to date.
Recommendation:	That the report is received

1. **Summary**

As at 30 September 2013, the Council's in-house investments (approximately £6.5m or 33% of total investments) and investments with the investment managers, Investec (approximately £12.9m or 67% of total investments) are currently outperforming their benchmark[1]. The total interest received for the quarter is £87k, which means that income for the year-to-date is now £11k ahead of budget. With deposit interest rates offered continuing to drop, and Investec currently under-performing against the budget, this position may change by the end of the year.

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

However, for a brief time during the period (15^{th} – 20^{th} November), Barclays Bank moved into "Monitoring" on Capita's ratings, which means that the suggested duration for investment dropped one position to "No Colour", effectively meaning that no money should be invested. Dover has a £5m in-house investment with Barclays, which also attracts bonus interest of 0.36% (£18k p.a.) if the deposit remains with them for a full 12-month period. Nevertheless Dover has instant access to these funds and they can be withdrawn at any time.

The Treasury Management Strategy states that "sole reliance will not be placed on the use of this external service [Capita]. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government." The Council reviewed the half-yearly report for Barclays and, in particular, information available on the Financial Times website to ascertain that Barclays Bank was still creditworthy and therefore, by keeping the deposit with Barclays, the Council was not jeopardising these funds. The portfolio holder was advised and agreed with this approach. The fact that the Capita rating for Barclays Bank has come back to 'within range for investment' in less than one week, supports our approach as having been a reasonable one.

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

[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.

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 from the Council's Treasury Management Advisers, Capita.

Council adopted the 2013/14 Treasury Management Strategy on 6 March 2013 as part of the 2013/14 Budget and Medium Term Financial Plan.

3. Annual investment strategy

The investment portfolio as at the end of September is attached at Appendix 2. Since the end of quarter two, a £1.2m deposit with Nordea Group has matured and been reinvested with them for a further three months.

An update is attached at Appendix 4. There is a temporary increase in cashflow funds from 30th September (£16.0m – see Appendix 2) to 15th November (£23.8m – see Appendix 4), but this will reduce when the precepts are paid on 22nd November (£4m approx).

Capita have reviewed their own 'creditworthiness methodology' and removed from their calculations the credit default swap elements where activity has been very low (i.e average contracts outstanding of less than 1000 over the last five years). This brings some banks back within our investment parameters, for example, Santander UK.

The investment manager, Investec, has returned lower rates than those achieved through in-house investments. Investec have continued to be used as they are able to offer a wider spread of our counter party risks and use of additional financial instruments (e.g. gilts). A review will be undertaken in the year to assess whether to keep the same level of investments with Investec, transfer additional investments back in-house or investigate alternative options.

4. Economic background

The report attached contains information up to the end of September 2013; since then we have received the following update from Capita (please note that their references to Q1 and Q2 are based on *calendar* years):

Bank of England Inflation Report (November 2013)

Britain's unemployment rate will fall much faster than previously expected due to a strengthening economic recovery, the Bank of England said in its latest Inflation Report, but it stressed that it was in no hurry to raise interest rates. New central bank governor Mark Carney committed in August to keep interest rates at a record low 0.5% until unemployment fell to 7% - something the BoE predicted could take three years. But in a new set of economic forecasts, the central bank said unemployment could hit 7% in the last three months of 2014, if interest rates stay at a record low 0.5%, around two years earlier than it expected in August.

"In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand," the BoE said in its quarterly Inflation Report. However, the central bank stressed that it was not about to raise interest rates any time soon, as headwinds remained, particularly from the Eurozone.

UK GDP

Britain's economy picked up more speed between July and September, growing at its fastest pace in more than three years and building on an unexpected turnaround that has buoyed the government. Gross domestic product rose 0.8%, faster than 0.7% in the April-June period. Britain's economy has staged a surprising recovery since early 2013 when it avoided falling back into recession and since then has accelerated to out-pace most other advanced economies. The turnaround has given a boost to Conservative finance minister George Osborne who defied calls from the International Monetary Fund and the opposition Labour party to bring forward spending in order to get the economy off the ropes.

UK Inflation

British inflation unexpectedly dropped to its lowest rate for more than a year in October, offering reassurance for the Bank of England that it has ample time to allow the economy to strengthen before it raises interest rates. Consumer price inflation fell to an annual rate of 2.2% in October from 2.7% in September, echoing a similar sharp fall in inflation in the Eurozone last month. This is well below economists' forecasts of an average drop to 2.5% and is the lowest rate since September 2012, due to lower petrol prices and other transport costs and technical effects related to a multi-year programme of university tuition fee rises.

UK PMI Services

Activity in Britain's services sector increased at the fastest rate since May 1997 last month, raising the prospect of a big jump in economic growth in the final three months of 2013. Financial data company, Markit, said its services Purchasing Managers' Index **(PMI)** rose to 62.5 in October from September's 60.3, easily beating economists' forecasts for a fall to 59.8. Britain's economy - which looked on the verge of its third recession in five years at the start of 2013 - has repeatedly surprised on the upside this year, and Markit's composite PMI is its highest since records began in 1996.

UK PMI Manufacturing

The fastest growth in export orders in more than two years helped British manufacturing grow solidly last month, in a sign that the country's economic recovery may be gaining a broader base. Britain's manufacturing sector has grown strongly in recent months, but it remains around 9 percent smaller than before the financial crisis, unlike the services sector which has now recovered the ground it lost in the 2008-09 recession.

US Non Farm/GDP

U.S. job growth unexpectedly accelerated in October as employers shrugged off a government shutdown, suggesting the budget standoff had a more limited impact on the economy than initially feared. Employers added 204,000 new jobs to their payrolls last month. The unemployment rate, however, rose to 7.3% from September's nearly five-year low of 7.2%.

The U.S. economy grew faster than expected in the third quarter as businesses restocked shelves, but a slowdown in consumer and business spending pointed to an underlying weakness. Gross domestic product expanded at a quarterly annualised rate of 2.8% in the third quarter and rose 1.6% on the year, the quickest pace since the third quarter of 2012. It was an acceleration from a 2.5% reading in the second quarter, beating economists' expectations for a 2.0% rate.

European Central Bank

The European Central Bank cut its main interest rate to a new record low of 0.25%, responding to a surprise drop in inflation by easing policy to support the Eurozone's weak economic recovery. The quarter-point cut was largely unexpected and highlights the ECB's concern about the slowdown in Eurozone inflation to 0.7% in October - a rate far below its target of just under 2%.

5. **Interest Rates**

Although the Bank of England inflation report suggests unemployment could fall to 7% (the trigger for the BoE to consider interest rate rises) by the end of 2014, it is unlikely that it will consider raising interest rates at that time. Capita does not expect any interest rate changes before 2016.

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 Capita.

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 31 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 £552,242, leaving a balance of £447,758 as shown in Appendix 2, which is approximately 55% of the original investment.

10. Appendices

Appendix 1 – Capita treasury management report for quarter one

Appendix 2 – Investment portfolio as at 30 September 2013

Appendix 3 – Borrowing portfolio as at 30 September 2013

Appendix 4 – Investment portfolio as at 31 October 2013 (Investec) and 15 November 2013 (In-House)

11. Background Papers

Medium Term Financial Plan 2012/13 – 2014/15

Contact Officer: Stuart Groom, Senior Accountant (Revenue)

Treasury Management Update

Quarter Ended 30th September 2013

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code. (Please note that the references to Q1, Q2 and Q3 in Appendix 1 are based on the *calendar* year, whereas the covering report is based on the financial year so that Q2 is the period ended 30th September 2013).

1. Economic Background

- The quarter ended 30 September saw:
  - Indicators suggested that the economic recovery accelerated;
  - Household spending growth remained robust;
  - Inflation fell back towards the 2% target;
  - The Bank of England introduced state-contingent forward guidance;
  - 10-year gilt yields rose to 3% at their peak and the FTSE 100 fell slightly to 6460;
  - The Federal Reserve decided to maintain the monthly rate of its asset purchases.
- After strong growth of 0.7% in Q2, it appears that UK GDP is likely to have grown at an even faster pace in Q3. On the basis of past form, the CIPS/Markit business surveys for July and August point to quarterly growth of potentially over 1.0% in the third quarter of 2013. Similarly, the official data have continued to improve. Admittedly, industrial production was flat in July. But even if it held steady in the rest of the quarter, it would still be 0.9% higher in Q3 than in Q2. In addition, the service sector expanded by 0.2% m/m and the construction sector grew by 2.2% m/m in July after growth of 1.8% q/q in Q2.
- Consumer spending also continued to rise and may beat the increase seen in Q2. While the 1.1% monthly rise in retail sales in July was almost entirely offset by a 0.9% fall in August, the unusually warm weather in August is likely to have had a part to play in this. The retail surveys also painted a positive picture for household spending growth, with the Bank of England's Agents' Scores, BRC and CBI retail sales indicators showing stronger growth in Q3. And while growth in non-high street spending may have slowed, it probably remained robust. For example, although annual growth in new car registrations eased from the 24% rate seen in Q2, it was still a strong 15% in August.
- The run of good news on the labour market continued, with the ILO unemployment rate falling to 7.7% in July from 7.8% in June. Employment rose by

80,000 in the three months to July, supported by an even bigger rise in full-time employment. This meant that the ratio of full-time to part-time workers continued to rise after it troughed last summer. The timelier claimant count measure of the unemployment rate also fell. Indeed, the cumulative fall in unemployment of 68,900 in July and August – the biggest two month fall since May and June 1997 – brought the claimant count unemployment rate down from 4.4% at the end of Q2 to 4.2% in August. Despite this, the headline (3 month average of the annual) rate of pay growth fell from 2.2% in June to just 1.1% in July. Excluding bonuses, earnings growth ticked up slightly to 1.1% y/y, but this remained well below the rate of CPI inflation at 2.7% in August, meaning real wages continued to fall.

- Meanwhile, the cost of new credit has continued to fall, perhaps in response to the extension of the Bank of England's Funding for Lending Scheme (FLS) earlier this year. The quoted interest rate on a 5-year fixed mortgage at a 75% loan-to-value ratio was 3.34% in August, 7 basis points lower than in June and 77 basis points lower than when the FLS was introduced in July 2012.
- Demand in the housing market continued to grow at a fast pace, supported by the FLS and the Government's Help to Buy scheme, which provide equity loans to credit-constrained borrowers. The RICS housing market survey reported that new buyer enquiries hit their highest level on record in August. Mortgage approvals for new house purchase rose to their highest level since February 2008 in August. Consequently, house prices continued to rise, with the Halifax and Nationwide measures recording 6.2% and 3.5% y/y rises in August, respectively. ONS data, though, shows that in real terms only London experienced year-on-year price rises in July. All other regions saw modest falls.
- The economic recovery may finally be feeding through to the public finances. Although the government registered a surprise deficit in July (a month that normally delivers a surplus), in August net borrowing was 'just' £13.2bn, compared to £14.4bn in August 2012.
- The new Governor of the Bank of England, Mark Carney, took office in July. Alongside the August Quarterly Inflation Report, the Bank introduced its new policy of forward guidance in which the Monetary Policy Committee (MPC) pledged not to raise official interest rates, or reduce the size of the asset purchase facility, until the ILO unemployment rate falls to 7%. At this point, the MPC would discuss whether or not to alter official policy. This guidance was subject to three 'knockouts' which, if breached, would invalidate the guidance. These are that the MPC forecasts inflation at or above 2.5% in 18-24 months' time, inflation expectations are no longer sufficiently well anchored or financial stability is threatened by the stance of monetary policy. On the MPC's current forecasts, the unemployment rate is most likely to reach 7% in late 2016.
- However, financial markets continued to price in increases in Bank Rate by mid-2015, with overnight index swap rates and gilt yields rising after the announcement of forward guidance. Members of the MPC subsequently

appeared at the Treasury Select Committee and three gave further speeches to clarify the guidance, but there was little market impact. However, the Bank of England's surveys suggest the message may have got through to the public as the balance of people expecting interest rates to rise over the next 12 months fell from 29% in May to 24% in August.

- Meanwhile, CPI inflation fell from a 2013 peak of 2.9% in June to 2.7% in August. The fall was primarily the result of a drop in the contribution from petrol prices and a reduction in core inflation from 2.3% in June to 2% in August. CPI inflation looks likely to have edged down again in September, perhaps to about 2.5%, reflecting a further fading of both energy prices and core inflation.
- The big news in financial markets was that the Federal Reserve unexpectedly decided not to taper its asset purchases in September. In announcing its decision to maintain monthly purchases at $85bn, the Fed explained that it wanted to *"await more evidence that [the economic recovery] will be sustained before adjusting the pace of its purchases."* This came despite previous hints of tapering from the Fed and the fall in the unemployment rate in both July and August. It currently stands at 7.3%.
- Across the quarter as a whole, advanced economy bond markets sold off, suggesting the rise in UK gilt yields was not solely down to markets' scepticism about domestic forward guidance. Gilt yields tracked US Treasury yields up, with ten-year gilts rising by around 60 basis points to reach 3% in early September for the first time since mid-2011. After the Fed's decision not to taper, gilt yields fell back, although not enough to offset the previous rise. Ten-year gilts finished the quarter at 2.7%. Equity markets stayed relatively flat over the quarter. While the FTSE 100 rose from 6470 to 6620 over the first few weeks of June, the index closed the quarter at 6462.
- Meanwhile, Eurozone business surveys suggested that the economy continued to expand in Q3, albeit at a moderate pace. There was also a general election in Germany in which the incumbent Chancellor, Angela Merkel, performed better than expected by winning 41.5% of the vote. She is now likely to form a coalition, but it remains to be seen what form this will take.

2. Interest Rate Forecast

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

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%

10yr PWLB rate	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%
25yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%
50yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%

Capita Asset Services undertook a review of its interest rate forecasts in late September as a result of an increase in confidence in economic recovery, chiefly in the US, but more recently, also in the UK and Eurozone. The latest forecast now includes a first increase in Bank Rate in quarter 3 of 2016 (previously quarter 4).

SUMMARY OUTLOOK

UK economy

After the previous Inflation Report included a somewhat encouraging shift towards optimism in terms of a marginal upgrading of growth forecasts, the August Inflation Report occurred in the midst of a welter of economic statistics which have left economists and forecasters speechless in terms of finding suitable words to describe a major simultaneous shift up in gear of the economy in all of the three sectors of services, manufacturing / industrial AND construction! It is therefore not surprising that the Report upgraded growth forecasts for 2013 from 1.2% to 1.4% and for 2014 from 1.7% to 2.5%. However, Bank Governor Mark Carney put this into perspective by describing this welcome increase as not yet being “escape velocity” to ensure we return to strong AND sustainable growth, after what has been the weakest recovery on record after a recession. So very encouraging - yes, but, still a long way to go! As for inflation, it was forecast to be little changed from the previous Report – falling back to 2% within two years and staying there during year three.

In addition to the stimulus provided by QE, the Funding for Lending Scheme (FLS) is aimed at encouraging banks to expand lending to small and medium size enterprises. The FLS certainly seems to be having a positive effect in terms of encouraging house purchases (though levels are still far below the pre-crisis level), and causing a significant increase in house prices – but only in London and the south east. FLS is also due to be bolstered by the second phase of ‘Help to Buy’ aimed to support purchasing of second hand properties, which is now due to start in October.

Forward guidance caveats

The Bank of England also issued forward guidance with the Inflation Report which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years. The UK unemployment rate currently stands at 2.5 million i.e. 7.7 % on the LFS / ILO measure. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The Capita Asset Services view is that the recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession. The latest Inflation Report noted that productivity has sunk to 2005 levels. We are, therefore, concerned that there has been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major reduction in unemployment.

In summary, our current views are centred around the following: -

UK

- Growth has been on an upward trend – 0.3% in Q1; 0.7% in Q2 and likely to be much stronger in Q3. The so called double dip recession at the beginning of 2012 was erased by the latest revision of statistics.

- Business surveys, consumer confidence, consumer borrowing and house prices are all on the up and may help to create a wide spread feel good factor. However, this is still a long way away from the UK getting back to sustainable strong growth.
- 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 still vulnerable to what happens in overseas markets.
- Consumer expenditure is likely to remain suppressed 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.
- There is little sign of a co-ordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.
- Government inspired measures to increase the supply of credit to small and medium enterprises (which are key to achieving stronger growth) by banks are not succeeding.
- Gilt yields remain vulnerable to pressures to rise, especially as they are powerfully influenced by US treasury yields and American investors have been spooked by Chairman Bernanke's comments on tapering QE. The Fed's reluctance to start tapering in September has, potentially, only delayed a trend for gilt yields to rise.

Eurozone

- Most Eurozone countries are now starting to see a return to growth after a prolonged recession. The prospects for growth, at least in the short term, have also improved. However, for some countries, austerity programmes could prove to be a self defeating spiral of falling demand, tax receipts, and GDP, leading to a rise, not fall, in debt to GDP ratios. Debt ratios in excess of 90% will cause market concern as beyond this level, the costs of servicing such debt becomes oppressive and growth inhibiting. This could, therefore, lead to an inevitable end game over the next few years of withdrawal from the Eurozone bloc in order to regain national control of a currency, government debt, monetary policy and, therefore, of setting national interest rates. The ECB's pledge to provide unlimited bond buying support for countries that request an official bailout means that market anxiety about these countries is likely to be subdued in the near term. However, the poor economic fundamentals and outlook for some economies could well mean that an eventual storm in financial markets has only been delayed, not cancelled.
- The European Central Bank maintained its central policy rate at 0.5% in this quarter.
- Greece: after the agreement to a further major financial support package amounting to nearly €50bn in December 2012, it now looks almost certain that the country will need another, smaller, bailout package as progress has not been quick enough in rectifying the national finances.
- Spain: there is also increasing concern over the Spanish economy; the social cost and pain of a very high level of unemployment of 27%, similar to the level in Greece, could mean that both countries are approaching the limit of operating

austerity programmes within democratic systems. Spain has, to date, resisted asking for an official national bailout, although it has received financial support to recapitalise its four largest banks.

- Italy: the general election created a highly unstable political situation where the two dominant parties initially formed an unlikely coalition due to the blocking power of the new upstart Five Star anti-austerity party which has 25% of seats and has refused to enter a coalition agreement with ANY party. There could therefore be volatility in Spanish and Italian bond yields over the next year, depending on political and economic developments.
- Germany: the general election in September returned Angela Merkel's party to power, but not with an overall majority. It will have to form a coalition, but with a new makeup, as the previous junior party was wiped out.
- Cyprus: the fallout from the bail out in March 2013 has done huge damage to the Cypriot economy and many commentators consider it is only a matter of time before another bailout will be needed – or exit from the Euro.
- The Eurozone remains particularly vulnerable to investor fears of contagion if one country gets into major difficulty.

US

- There has been a marked improvement in consumer, investor and business confidence this year.
- Unemployment has continued on a steady, but unspectacular decline to 7.3%, but is still a long way from the target rate of 6.5% for an increase in the Fed policy rate.
- The housing market has turned a corner, both in terms of rising prices and in increases in the volume of house sales. More householders are, therefore, escaping from negative equity.
- US equities have reached all time highs.
- The package of tax increases and cuts in Government expenditure starting in 2013 does not appear to be having a major impact on depressing growth.
- GDP in Q1 was disappointingly downgraded from +2.4% to a sub par +1.8% before rising to 2.5% in Q2.
- The shale gas revolution is providing some solid underpinning to the US economy by enhancing its international competitiveness through cheap costs of fuel.
- There has been a start to the repatriation of manufacturing production from China to the USA as Chinese labour costs have continued their inexorable rise and new forms of high tech production have made home based production more viable and flexible.

China

- Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector.
- There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted

expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan

- The initial euphoria generated by "Abenomics", the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and introduce other economic reforms, appears to have stalled.

Our forward view

Economic forecasting remains difficult with so **m**any external influences weighing on the **UK**. Major volatility in bond yields is likely during the remainder of 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

Near-term, there is some residual risk of further QE - if there is a dip in strong growth or if the MPC takes action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years. This could cause shorter-dated gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in the table below. The failure in the US, (at the time of writing), over passing a Federal budget for the new financial year starting on 1 October, and the expected tension over raising the debt ceiling in mid October, could also see bond yields temporarily dip until any binding agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Fed could cause bond yields to rise.

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

The overall balance of risks to economic recovery in the UK is currently weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

Downside risks currently include:

- The conflict in the UK between market expectations of how quickly unemployment will fall as opposed to the Bank of England's forecasts
- Prolonged political disagreement over the US Federal Budget and raising the debt ceiling
- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in

engineering economic growth to correct their budget deficits on a sustainable basis.

- The Italian political situation is frail and unstable.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds

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

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

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2013/14, which includes the Annual Investment Strategy, was approved by the Council on **06/03/2013**. 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 cash flow needs, but also to seek out value available in higher rates in periods up to 12 months, with highly credit rated financial institutions, using our suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita Asset Services.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th September 2013.

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. Additional 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 quarter ended 30th September 2013

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.36%	0.74%	£87K

As illustrated, the Council outperformed the benchmark by **38 bps**. The Council's budgeted investment return for 2013/14 is **£258K**, and performance for the *year to date* is **£11k** above budget. However, this figure excludes unrealised losses of £37k at 30th September, mainly relating to gilts, which are subject to market fluctuations during the remainder of the year that may increase or reduce such potential losses.

4. New Borrowing

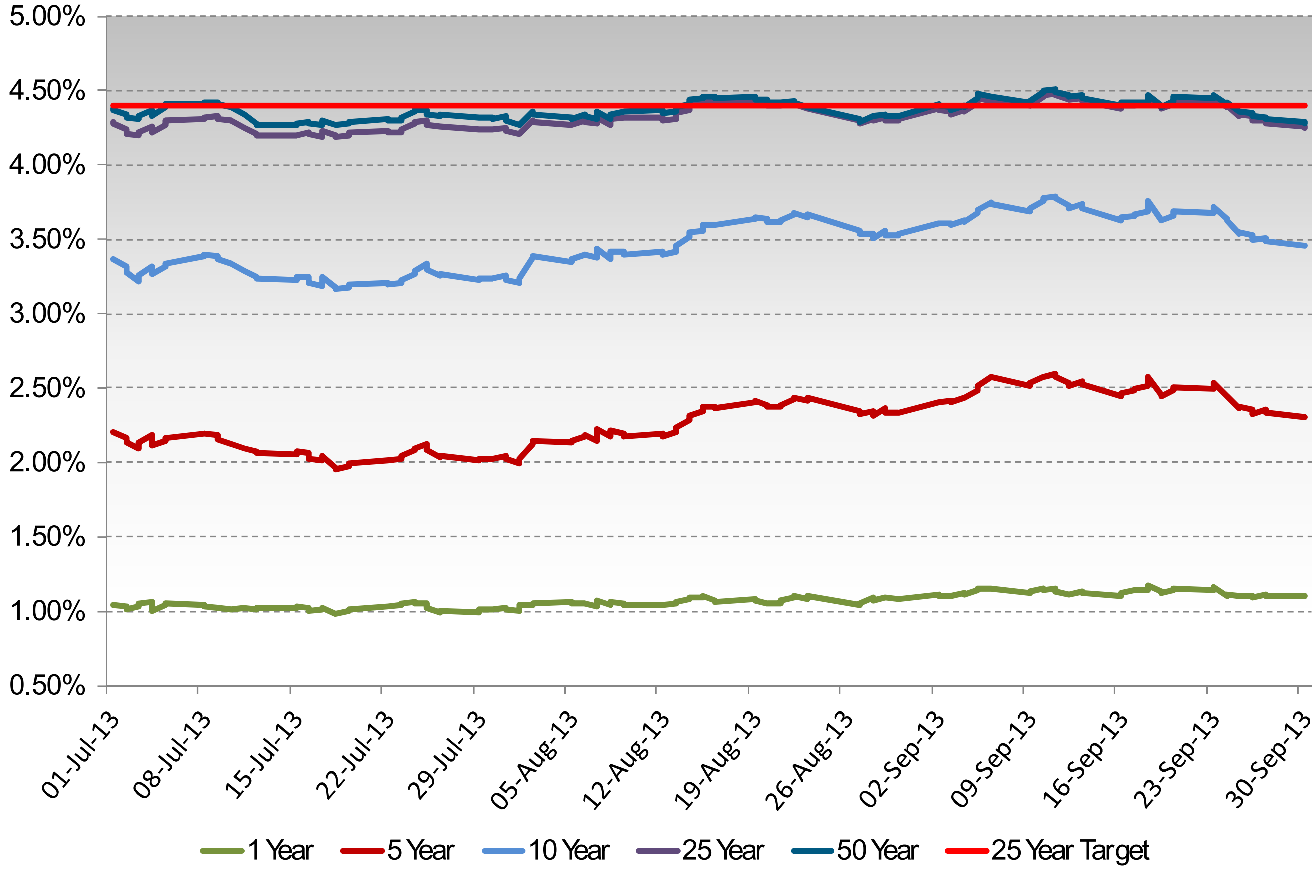
The 25 year PWLB target rate for new long term borrowing for the quarter rose from 4.10% to 4.40%.

No borrowing was undertaken during the quarter.

PWLB certainty rates, quarter ended 30th September 2013

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.98%	1.95%	3.17%	4.19%	4.27%
Date	18/07/2013	18/07/2013	18/07/2013	18/07/2013	18/07/2013
High	1.17%	2.6%	3.79%	4.48%	4.51%
Date	18/09/2013	11/09/2013	11/09/2013	11/09/2013	11/09/2013

Average	1.07%	2.27%	3.47%	4.32%	4.37%



Borrowing in advance of need.

This Council has not borrowed in advance of need during the quarter ended 30th September 2013 and has no intention to borrow in advance in 2013/14.

5. Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. 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 (affordable capital expenditure limits – Scottish local authorities). The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

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

Prudential and Treasury Indicators as at 30th September 2013

Treasury Indicators	2013/14 Budget £'000	Quarter 2 Actual £'000
Authorised limit for external debt	113,500	113,500
Operational boundary for external debt	108,000	108,000

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	2,100	2,100
12 months to 2 years	3,022	3,022
2 years to 5 years	6,489	6,489
5 years to 10 years	12,272	12,272
10 years and above	71,190	71,190

Prudential Indicators	2013/14 Budget £'000	Quarter 2 Actual £'000
Capital expenditure *	10,035	2,394
Capital Financing Requirement (CFR) *	98,223	98,223

Investec Funds as at 30/09/13 - In-house as at 30/09/13

APPENDIX 2

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Investec Investments							
Standard Chartered Bank	Certificate of deposit	AA-/F1+/1	18/11/13	0.500	300,000	UK - Gov 'AA+'	
Svenska Handelsbanken	Certificate of deposit	AA-/F1+/1	29/11/13	0.430	1,500,000	Sweden - Gov 'AAA'	
Nordea Group	Certificate of deposit	AA-/F1+/1	08/10/13	0.360	1,200,000	Sweden - Gov 'AAA'	
Nova Scotia	Certificate of deposit	A/F1/1	02/12/13	0.430	2,350,000	Canada - Gov 'AA+'	
Deutsche Bank	Certificate of deposit	A+/F1+/1	18/11/13	0.430	2,500,000	Germany - Gov 'AAA'	
Commonwealth Bank	Certificate of deposit	AA/F1+/1	19/11/13	0.430	1,200,000	Australia - Gov 'AAA'	
Nordea Group	Certificate of deposit	AA-/F1+/1	18/11/13	0.490	1,300,000	Sweden - Gov 'AAA'	
Toronto Dominon Bank	Certificate of deposit	AA/F1+/1	31/12/13	0.440	100,000	Canada - Gov 'AA+'	
					10,450,000		
European Bank for reconstruction	Fixed bond		01/12/13	0.510	314,895		
United Kingdom	Gilt		22/07/18	1.550	1,919,321		
United Kingdom	Commercial Paper		25/11/13	0.380	199,886		
Rabobank	Deposit		01/10/13	0.350	10,003		
GBP cash - settled balance					**29,232**		
GBP cash - outstanding settlements							
					12,923,337		
In-house Investments - Portfolio							Duration
Landisbanke Islands	Term deposit	Not rated by sectc	26/11/08	6.170	447,758	Iceland - Gov 'BBB-'	364 days - Repayment received £499,514.61
Lloyds	Term deposit	A/F1/1	17/12/13	1.500	3,000,000	UK - Gov 'AA+'	364 days
BOS	Bond	A/F1/1	07/11/13	1.900	1,000,000	UK - Gov 'AA+'	364 days
Lloyds	Term deposit	A/F1/1	30/01/14	0.750	2,000,000	UK - Gov 'AA+'	182 days
					6,447,758		
				Total Portfolio	**19,371,095**		

Cashflow

Call Accounts/MMF (as at 30/09/13)		Rate
DMA	0	
Global Treasury Fund	455,106	0.33%
SIBA	1,931,361	0.50%
SIBA SEEDA	55,541	0.50%
SIBA HCA	47,306	0.50%
SIBA ASDA	10,998	0.50%
Santander	4,979,025	0.80%
BoS	5,053,069	0.40%
Barclays	3,507,166	0.75%
Abbey	1	
Total Cash flow	**16,039,572**	
Total Portfolio and Cashflow	**35,410,667**	

Dover District Council Borrowing - 2013/14 **APPENDIX 3**

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-13	Interest Rate %	Principal Repaid 2013/14	Annual Interest 2013/14	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	602	2.50	44.64	15	PWLB	Equal installment of principal
Fixed	27/09/46	27/06/26	JUNE-DEC	131583	113	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 Finanz AG	Repayable if called by bank
Fixed	26/03/12	26/03/42	SEPT-MAR	499853	88,633,727	3.18	1,898,227.02	2,803,581	PWLB	Annuity
Fixed	01/05/12	01/11/27	MAY-NOV		121,934	0.00	8,709.60	0	Lawn Tennis Association	Interest free
Fixed	01/03/11	31/12/14	MAR-SEP		9,289	0.00	6,192.50	0	Salix	Interest free
					95,765,665		**1,913,182**	**3,208,598**		

Investec Funds as at 31/10/13 - In-house as at 15/11/13

APPENDIX 4

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Investec Investments							
Standard Chartered Bank	Certificate of deposit	AA-/F1+/1	18/11/13	0.390	300,000	UK - Gov 'AA+'	
Svenska Handelsbanken	Certificate of deposit	AA-/F1+/1	29/11/13	0.390	1,500,000	Sweden - Gov 'AAA'	
Nordea Group	Certificate of deposit	AA-/F1+/1	08/01/14	0.410	1,200,000	Sweden - Gov 'AAA'	
Nova Scotia	Certificate of deposit	A/F1/1	02/12/13	0.380	2,350,000	Canada - Gov 'AA+'	
Deutsche Bank	Certificate of deposit	A+/F1+/1	18/11/13	0.390	2,500,000	Germany - Gov 'AAA'	
Commonwealth Bank	Certificate of deposit	AA/F1+/1	19/11/13	0.380	1,200,000	Australia - Gov 'AAA'	
Nordea Group	Certificate of deposit	AA-/F1+/1	18/11/13	0.390	1,300,000	Sweden - Gov 'AAA'	
Toronto Dominon Bank	Certificate of deposit	AA/F1+/1	31/12/13	0.410	100,000	Canada - Gov 'AA+'	
					10,450,000		
European Bank for reconstruction	Fixed bond		01/12/13	0.680	314,895		
United Kingdom	Gilt		22/07/18	1.440	1,919,321		
United Kingdom	Commercial Paper		25/11/13	0.350	199,886		
Rabobank	Deposit		01/11/13	0.350	40,000		
GBP cash - settled balance					**756**		
GBP cash - outstanding settlements							
					12,924,858		
In-house Investments - Portfolio							Duration
Landisbanke Islands	Term deposit	Not rated by sectc	26/11/08	6.170	447,758	Iceland - Gov 'BBB-'	364 days - Repayment received £499,514.61
Lloyds	Term deposit	A/F1/1	17/12/13	1.500	3,000,000	UK - Gov 'AA+'	364 days
BOS	Bond	A/F1/1	07/11/14	0.980	1,000,000	UK - Gov 'AA+'	364 days
Lloyds	Term deposit	A/F1/1	30/01/14	0.750	2,000,000	UK - Gov 'AA+'	182 days
					6,447,758		
				Total Portfolio	**19,372,615**		

Cashflow

Call Accounts/MMF (as at 15/11/13)		**Rate**
DMA	0	
Global Treasury Fund	3,555,106	0.33%
SIBA	5,123,861	0.50%
SIBA SEEDA	55,541	0.50%
SIBA HCA	47,306	0.50%
SIBA ASDA	10,998	0.50%
Santander	4,979,025	0.80%
BoS	5,053,069	0.40%
Barclays	5,007,166	0.75%
Abbey	1	
Total Cash flow	**23,832,072**	
Total Portfolio and Cashflow	**43,204,687**	

Subject:	**QUARTERLY INTERNAL AUDIT UPDATE REPORT**
Meeting and Date:	**Governance Committee – 5 December 2013**
Report of:	**Christine Parker – Head of Audit Partnership**
Decision Type:	**Non-key**
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 30th September 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, together with details of the performance of the EKAP to the 30th September 2013.

2. **Introduction and Background**

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

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

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

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

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

2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

SUMMARY OF WORK

2.7 There have been three Internal Audit reports that have been completed during the period, of which one review was classified as providing Substantial Assurance and one as Reasonable 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 four follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.

2.9 For the six-month period to 30th September 2013, 116.12 chargeable days were delivered against the planned target of 270, which equates to 43.07% plan completion.

3 **Resource Implications**

3.1 There are no additional financial implications arising directly from this report. The costs of the audit work will be met from the Financial Services 2013-14 revenue budgets.

3.2 The financial performance of the EKAP is currently on target at the present time.

Appendices

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

Background Papers

- Internal Audit Annual Plan 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

EAST KENT
DOVER • SHEPWAY • THANET • CANTERBURY
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 30th September 2013.

2. SUMMARY OF REPORTS:

	Service / Topic	Assurance level
2.1	Local Code of Corporate Governance	Substantial
2.2	EK Services – Council Tax Reduction Scheme	Substantial
2.3	Right to Buy Applications	Reasonable
2.4	EK Services – Housing Benefit Quarterly Testing (Qtr 2 of 2013-14)	Not Applicable

2.1 Local Code of Corporate Governance – Substantial Assurance:

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established in the systems, to ensure that the Council's governance arrangements are adequately designed to lead to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users.

2.1.2 Summary of Findings

Good governance should enable an authority to pursue its vision effectively as well as underpinning that vision. CIPFA / SOLACE produce the 'Delivering Good Governance in Local Government' framework and guidance documents. These guidance notes refer to the 6 core principles of good Corporate Governance and this audit has reviewed how the Council ensures that these core principles have been achieved.

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

- The Local Governance Code is based on the guidelines provided by CIPFA / SOLACE.

- The Corporate Plan is prepared by the Leader and his Cabinet.
- The Authority has set out a clear statement of the respective roles and responsibilities of the executive and of members.
- Codes of Conduct exist in the Council's Constitution.
- The Authority maintains effective scrutiny, risk management and whistleblowing functions.

2.2 EK Services – Council Tax Reduction Scheme – Substantial Assurance

2.2.1 Audit Scope

To ensure that the recently introduced Council Tax Reduction Scheme has been implemented correctly by EK Services as intended by the partner authorities of Canterbury CC, Dover DC and Thanet DC.

2.2.2 Summary of Findings

As part of the Welfare Reform Act 2012 the Government announced that from 1st April 2013 council tax benefit would be abolished and councils would need to design and operate their own local Council Tax Support Scheme. The new scheme had to be created and adopted by councils by the 31st January 2013 in order to be eligible for support funding. Applications were made by all three EK authorities for support funding, these were approved and the monies were paid to the councils in April 2013.

EK Services developed a scheme which was approved by all three partner authorities. The relief reduction agreed was:-

- Canterbury City Council – 5%
- Dover District Council – 6%
- Thanet District Council – 5.5%

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

- New Council Tax Reduction Schemes were developed and adopted by the deadline set by the Department of Communities and Local Government.
- The new parameters were robustly and extensively tested prior to them being loaded into the live systems for the commencement of the scheme on the 1st April 2013.
- All relevant staff were provided with detailed training and guidance notes on the new scheme.
- Monthly management information is being produced by EK Services for the partner authorities to review and monitor the number of 'new payers'.

2.3 Right to Buy Applications – Reasonable Assurance:

2.3.1 Audit Scope

To examine and evaluate the system of controls, both financial and otherwise, established by management in order to carry on the business of the enterprise in regard to Right to Buy applications in an orderly and efficient manner, ensure adherence to management policies, safeguard the Authority's assets and secure as far as possible the completeness and accuracy of its accounting records

2.3.2 Summary of Findings

The Right to Buy process is generally working well and most of the expected controls are effective. Positive action is taken to control risk however the main issue that needs to be addressed is that the Northgate System parameters have not been updated to take into changes from April 2012 and still shows that the maximum discount available is still £38,000.

2.4 EK Services Housing Benefit Quarterly Testing (Quarter 2 of 2013-14):

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

For the second quarter of 2013/14 financial year (July to September 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 only one failed the criteria set by the former Audit Commission's verification guidelines.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

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

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs Outstanding	
a)	Waste Management	Reasonable	Reasonable	H M L	1 1 0	H M L	1 0 1
b)	Disabled Facilities Grants	Substantial	Substantial	H M L	0 1 0	H M L	0 1 0
c)	EK Services – Housing Benefit Administration & Assessment	Reasonable	Reasonable	H M L	1 6 0	H M L	0 3 0
d)	EK Services – Customer Services / Gateway	Reasonable	Reasonable	H M L	2 2 0	H M L	1 0 0
e)	Value Added Tax	Limited/ Reasonable	Reasonable	H M L	8 6 0	H M L	0 0 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: Housing Repairs and Maintenance, Insurance and Inventories of Portable Assets, Coast Protection, Service Contract Monitoring, Local Code of Corporate Governance, FOI and Information Management, Main Accounting System, Budgetary Control, Treasury Management, Capital, and Planning.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2013-14 Audit plan was agreed by Members at the meeting of this Committee on 14th March 2013.

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

6.0 FRAUD AND CORRUPTION:

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

7.0 INTERNAL AUDIT PERFORMANCE

7.1 For the six-month period to 30th September 2013, 116.12 chargeable days were delivered against the planned target of 270, which equates to 43.07% plan completion.

7.2 The financial performance of the EKAP is currently on target at the present time.

7.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has improved on the range of performance indicators it records and measures. The performance against each of these indicators for Quarter 1 of 2013-14 is attached as Annex 4.

7.4 The EKAP introduced an electronic client satisfaction questionnaire, which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service. Current feedback arising from the customer satisfaction surveys is featured in the Balanced Scorecard attached as Annex 4.

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Attachments

Annex 1 Summary of High priority recommendations outstanding after follow-up.
Annex 2 Summary of services with Limited / No Assurances

Annex 3	Progress to 30th September 2013 against the agreed 2013/14 Audit Plan.
Annex 4	EKAP Balanced Scorecard of Performance Indicators to 30th September 2013.
Annex 5	Assurance statements

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTADING OR IN PROGRESS AFTER FOLLOW-UP - ANNEX 1		
Original Recommendation	**Agreed Management Action , Responsibility and Target Date**	**Manager's Comment on Progress Towards Implementation.**
Waste Management:		
Review the current outstanding work at both Dover District Council and Shepway District Council to identify when contract monitoring processes can expected to be fully implemented and Liaise with Waste Consulting Ltd to put in place a timetable for the implementation of the contract monitoring software.	The Contract Management tool has been used in test, however changes are required (undertaken by Waste Consulting) before a live version can be launched. Timescales are to be agreed by all partners. KCC are currently liaising with Waste Consulting. Paper based monitoring processes can be implemented over the coming months prior to the launch of the CMT. **Proposed Completion Date:** KCC to speak with Waste Consulting regarding the proposed changes – timetable of implementation to be confirmed by the end of June 2012. Paper based monitoring by – 31st July 2012. **Responsibility:** Waste Services Manager	Tasks have been refined within the contract management tool to ensure that they are timely and allocated to the correct officer. KCC are still finalising their responsibilities and because of this the Contract Monitoring tool is still to be launched. Paper based monitoring has been put in place and review has been carried out by the Waste Services Manager and the Health and Safety Advisor regarding health and safety. Recommendation Outstanding, but some interim progress made.
EK Services – Customer Services / Gateway :		
Review the whole process of how monies and documentation are transferred from the area offices / gateway to the main office at Whitfield and who has the responsibility for carrying out this function. If the practice is to continue then a clear process needs to be put in place as to how the staff should	**Dover District Council Response** The number and value of receipts at the Area Offices are not identified in the audit, so EKS and DDC will quantify this and design a proportionate solution by the end of September with implementation planned to take place by 1st April 2013	**Follow Up Findings as at August 2013** Discussions have taken place in October 2012 between EK Services and Dover District Council in respect of cash and documentation handling and ensuring safe delivery of these items to the Whitfield Office.

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.**
ensure the safety of the monies and documentation (i.e. housing benefit claim forms) and how they are to be kept when they are in their home. This should include any possible insurance implications that need to be addressed for staff having council monies in their own homes.	**Responsibility / Completion Date** Client Officer Dover and EK Services - April 2013	An interim process was put in place until a permanent solution could be put in place. However to date the interim solution is still being carried out some 10 months later. At the Aylesham Area Office the cash and documentation is being collected on a monthly basis by a manager and there was to be an investigation into installing a scanner for scanning the documentation Deal and Sandwich Area Offices are the busiest for cash handling so the EK Services Manager collects the money from these offices on a weekly basis. **Conclusion.** Despite EK Services contributing to meetings with statistical analysis and feedback, no further progress appears to have been made with the Dover client and the interim procedure is still in place through the good will of the manager calling in to the area offices to collect the monies. **Recommendation is still outstanding as no permanent solution has been put in place**

ANNEX 2

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

ANNEX 3

PROGRESS AGAINST THE AGREED 2013-14 AUDIT PLAN.

DOVER DISTRICT COUNCIL:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-13	Status and Assurance Level
FINANCIAL SYSTEMS:				
Capital	5	5	0.17	Work-in-Progress
Treasury Management	5	5	0.17	Work-in-Progress
Main Accounting System	5	5	0.17	Work-in-Progress
Budgetary Control	5	5	0.17	Work-in-Progress
Insurance and Inventories of Portable Assets	12	12	7.91	Work-in-Progress
RESIDUAL HOUSING SYSTEMS:				
Homelessness	10	10	0	Quarter 4
Right to Buy	5	5	6.83	Finalised - Reasonable
GOVERNANCE RELATED:				
FOI and Information Management	10	10	0.17	Work-in-Progress
Members Code of Conduct & Standards Arrangements	10	10	10.26	Finalised - Substantial
Local Code of Corporate Governance	6	6	0.17	Finalised - Substantial
Performance Management	10	10	0	Quarter 3
Business Continuity and Emergency Planning	10	10	6.45	Finalised - Substantial
Corporate Advice/CMT	2	2	2.08	Work-in-Progress throughout 2013-14
s.151 Meetings and support	9	9	6.63	Work-in-Progress throughout 2013-14
Governance Committee Meetings and Reports	12	12	5.98	Work-in-Progress throughout 2013-14
2014-15 Audit Plan Preparation and Meetings	9	9	0	Quarter 4
CONTRACT RELATED:				
CSO Compliance	10	10	0	Quarter 4
Service Contract Monitoring	10	10	0	Work-in-Progress
SERVICE LEVEL:				
Cemeteries	10	10	4.83	Work-in-Progress

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-13	Status and Assurance Level
Coast Protection	6	6	0.2	Work-in-Progress
CCTV	10	10	6.65	Finalised - Substantial
Environmental Health – Food Safety	10	10	0.17	Quarter 4
Environmental Health – Contaminated Land and Air Quality	10	10	1.55	Work-in-Progress
Disabled Facilities Grants	10	10	9.02	Finalised - Substantial
DES Project Work - Horticulture	12	12	6.19	Finalised
Health & Wellbeing	12	12	0	Quarter 4
Planning	10	10	0.34	Work-in-Progress
OTHER				
Liaison with External Auditors	3	3	0.14	Work-in-Progress throughout 2013-14
Follow-up Work	17	17	8.17	Work-in-Progress throughout 2013-14
UNPLANNED WORK				
Car Parking – under and over bankings	0	0	0.12	Worki-in-Progress
FINALISATION OF 2011-12 AUDITS				
Dover Museum and VIC	5	5	15.45	Finalised - Substantial
Recruitment & Induction			1.75	Finalised - Reasonable
Licensing			2.77	Finalised - Reasonable
Officers' Code of Conduct & Whistle Blowing Arrangements			1.22	Finalised - Reasonable
Environmental Protection Service Requests			0.30	Finalised - Substantial
Port Health			0.99	Finalised - Substantial
Days over delivered in 2011-12	0	0	8.86	Finalised
EK HUMAN RESOURCES				
Payroll, SMP and SSP	5	5	0.07	Quarter 4
Employee Benefits-in-Kind	5	5	0.12	Quarter 4
TOTAL - DOVER DISTRICT COUNCIL RESIDUAL DAYS	**270**	**270**	**116.12**	**43.07 % complete as at 30th September 2013**

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-13	Status and Assurance Level
Planned Work:				
Audit Committee/EA liaison/follow-up	8	8	4.24	Work-in-Progress throughout 2013-14
Rent Accounting, Collection and Debt Management	12	12	0	Quarter 4
Leasehold Services	40	40	0.28	Work-in-Progress
Sheltered Housing	20	0	0.27	Postpone until 2014-15
<u>Finalisation of 2012-13 Audits:</u>				
Housing Repairs and Maintenance	9	29	27.50	Work-in-Progress
Days over delivered in 2012-13	0	0	6.65	Finalised
Responsive Work:				
None in Quarter 2				
Total	**89**	**89**	**38.94**	**43.75% Complete as at 30-09-2013**

EK SERVICES:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-13	Status and Assurance Level
Planned Work:				
Housing Benefits – Overpayments	15	15	0	Quarter 4
Housing Benefits – Fraud Investigation Unit	15	15	0	Quarter 4
Council Tax Reduction Scheme	0	15	0.27	Work-in-progress
Housing Benefits – Quarterly Testing	40	40	13.54	Work-in-progress throughout 2013-14
Business Rates	30	23	15.31	Work-in-Progress
Debtors and Rechargeable Works	15	15	0	Quarter 4
ICT – Change Controls	15	15	0.37	Work-in-progress

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-13	Status and Assurance Level
ICT – Procurement and Disposal	15	15	14.58	Work-in-progress
ICT – PC Controls and Application Controls	15	15	0	Quarter 4
Corporate/Committee	0	2	1.35	Work-in-progress throughout 2013-14
Follow-up	0	5	4.53	Work-in-progress throughout 2013-14
New Homes Bonus	0	0	0.34	Work-in-progress
Finalisation of 2012-13 Audits:				
Housing Benefits and Assessment	0	9	8.68	Finalised
ICT – Network Security	0	4	4.02	Finalised
Days under delivered in 2012-13	0	-28	-28.11	Work-in-progress
Total	**160**	**160**	**34.88**	**21.8% Complete as at 30-09-2013**

EAST KENT
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ANNEX 4

BALANCED SCORECARD – QUARTER 2

INTERNAL PROCESSES PERSPECTIVE:	2013-14 Actual	Target	FINANCIAL PERSPECTIVE:	2013-14 Actual	Target
	Quarter 2				
Chargeable as % of available days	82%	80%	Cost per Audit Day (Reported Annually)		£319.56
Chargeable days as % of planned days					
CCC	50%	50%			
DDC	43%	50%			
SDC	40%	50%			
TDC	46%	50%			
EKS	22%	50%			
EKH	44%	50%			
Overall	41%	50%			
Follow up/ Progress Reviews;					
• Issued	35	-			
• Not yet due	31	-			
• Now due for Follow Up	20	-			
Percentage compliance with the CIPFA Code for Internal Audit 2006	97%	97%			

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ANNEX 4

BALANCED SCORECARD – QUARTER 2

CUSTOMER PERSPECTIVE:	**2013-14 Actual** Quarter 2	**Target**	**INNOVATION & LEARNING PERSPECTIVE:**	**2013-14 Actual** Quarter 2	**Target**
Number of Satisfaction Questionnaires Issued;	55		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	23 =42%		Percentage of staff holding a relevant higher level qualification	33%	32%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	13%	13%
• Interviews were conducted in a professional manner	100%	100%	Number of days technical training per FTE	1.61	3.5
• The audit report was 'Good' or better	100%	90%			
• That the audit was worthwhile.	100%	100%	Percentage of staff meeting formal CPD requirements	33%	32%

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ANNEX 5

AUDIT ASSURANCE

Definition of Audit Assurance Statements

Substantial Assurance

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

Reasonable Assurance

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

Limited Assurance

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

No Assurance

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

Governance Committee Update for Dover District Council

Year end 31 March 2014

November 2013

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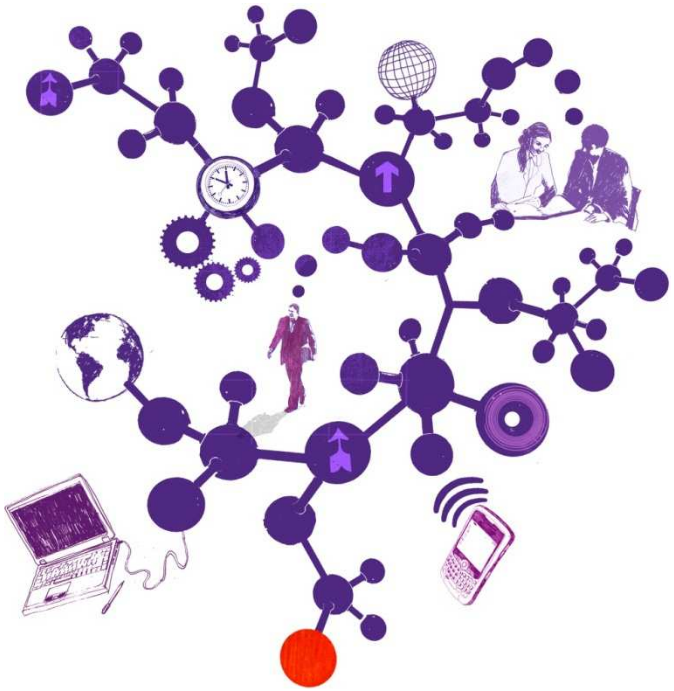

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Agenda Item No 7

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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 District Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Governance 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' and '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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Daniel Woodcock, Audit Manager, T 01293 554 122, Daniel.woodcock@uk.gt.com

Progress at 22 Nov 2013

Work	Planned date	Complete?	Comments
2013-14 Audit Fee Letter We are required to communicate the planned audit fee for the year to the Council.	26 April 2013	Yes	Reported to the Governance Committee on 27 September 2013.
2013-14 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 Council's 2013-14 financial statements.	20 March 2014	Not required	
Interim accounts audit Our interim fieldwork visit includes: •updating our review of the Council's control environment •updating our understanding of financial systems •review of Internal Audit reports on core financial systems •early work on emerging accounting issues •early substantive testing •proposed Value for Money conclusion.	January to March 2014	Not required	
2013-14 final accounts audit Including: •audit of the 2013-14 financial statements •proposed opinion on the Council's accounts •proposed Value for Money conclusion.	July to September 2014	Not required	

Progress at 19 Nov 2013

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises a review to ensure that: • The organisation has proper arrangements in place for securing financial resilience. • The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	January to September 2014	Not required	
Other areas of work Grant Certification 2012/13	November 2013	In progress	The National Non-domestic Rates and Pooling of Housing Capital Receipts claims have been certified. The Housing and Council Tax Benefit will be certified before the end of November.
Other activity undertaken Liaison meeting with the Chief Executive and Director of Finance, Housing and Community	28 October 2013	Yes	

Emerging issues and developments

Local government guidance

Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth.

In October, the Audit Commission published 'Business rates: using data from the VFM profiles October 2013'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:
•supporting existing business to do well and attracting new businesses to the area
•identifying and billing all business properties with a rateable value promptly
•using discretionary relief in an effective way, targeting businesses most in need
•preventing and tackling fraudulent claims for relief
•improving collection rates
•reducing collection costs.

Challenge questions:
•Has your Head of Finance, Housing and Community reviewed the costs and performance of your authority against similar organisations?
•What steps could your authority take to increase the amount it collects from business rates?
•Is an action plan in place?
•Are you satisfied that your authority has made a robust estimate for its provision for business rate appeals?

Emerging issues and developments

Local government guidance
Voluntary Code of Practice on the Housing Revenue Account In October, CIPFA and the Chartered Institute of Housing (CIH) issued the 'Voluntary Code for a Self-financed Housing Revenue Account'. The voluntary code aims to give authorities the tools necessary to control and evaluate the performance of their HRA and increase the value it returns to both councils and rate payers. It will also help authorities to assess and develop effective governance and financial management frameworks for their HRA. This code is designed to be self-regulatory and compliance is not formally required. Challenge questions: •Has your authority reviewed the HRA in light of this new guidance? •Has your Head of Finance, Housing and Community considered whether there are opportunities to improve the governance, financial and management arrangements in place to manage the HRA? •For opportunities identified, is there an action plan in place?

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Emerging issues and developments

Accounting and audit issues

Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in Room 151, the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

•learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
•de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were are only half the length of those for 2011/12 and were much easier to follow.

Challenge questions:
•How are you planning to improve the preparation of your financial statements for 2013/14?
•Do your financial statements provide a clear overall picture of the financial performance of your authority?
•Has your Head of Finance, Housing and Community carried out a de-cluttering exercise to ensure that disclosures are relevant, material and up to date?

Emerging issues and developments

Accounting and audit issues
Public briefing on the Local Audit and Accountability Bill In September, the Audit Commission published a briefing note on the Local Audit and Accountability Bill. The Bill is currently going through Parliament. The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are: •collective procurement arrangements •audit appointment arrangements •the National Fraud Initiative •small bodies •supporting accountability to Parliament and the public •reporting on arrangements to secure value for money •updating the legislative framework governing local public audit. Challenge question: •Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect you?

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The Annual Audit Letter for Dover District Council

Year ended 31 March 2013

28 October 2013

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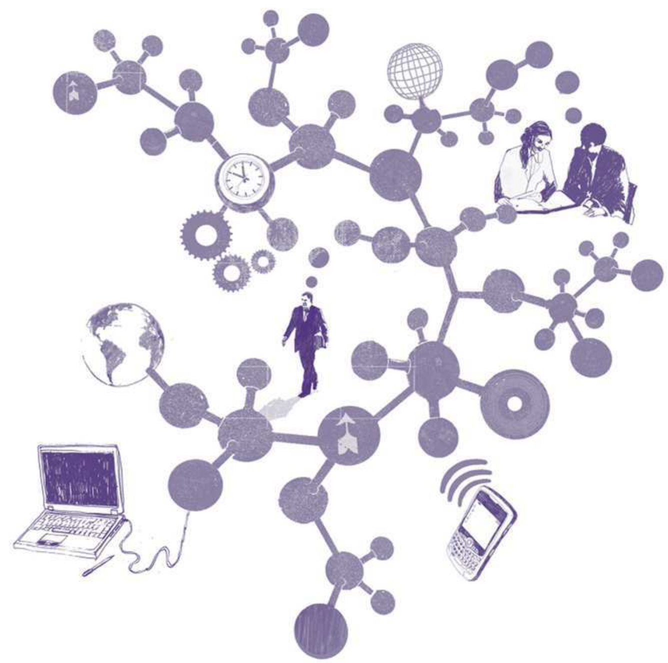

Agenda Item No 8

Contents

Section 1: Executive summary

Executive summary

Purpose of this Letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the following work that we have carried out at Dover District Council (the Council) for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 26 September 2013.

Responsibilities of the external auditors and the Council

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

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 14 March 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice (the Code), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the Council's Whole of Government Accounts submission
- we have certified 2 grant claims and returns, both of which required minor amendments prior to being certified. Our work on Housing and Council Tax Benefit Subsidy, which has a deadline of 30 November, is still in progress.

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The accounts were prepared to a good standard, although we identified a material misstatement in relation to the valuation of the Council's Land and Buildings due to an error by the valuer. This resulted in an overall reduction in the Council's net assets of £21,750k. As a technical accounting adjustment, this had no effect of the resources available to the Council.

The Council determined on 25 September 2013 to approve a transfer from Housing Revenue Account (HRA) reserves to the General Fund amounting to £12,500k. We considered the actions taken by the Council to satisfy itself as to the legality of the transaction, the governance arrangements around approval and the Council's financial modelling of the 30 year HRA business plan in securing the financial resilience of the HRA. We were satisfied that the Council has obtained its own legal advice, followed due process in approving the proposal and had reflected the transfer appropriately in the 2012/13 financial statements. We were therefore not minded to challenge the transfer.

The Council is currently updating its medium term financial strategy and budgets to reflect this transfer. We will consider this as part of our value for money conclusion review in 2013/14.

As a result of close monitoring and control, the Council's 2012/13 net General Fund revenue outturn and capital programme were within budget despite a challenging external climate. However, there remains continued uncertainty over the future levels of local government funding. Even with increased levels of General Fund balances, members will need to be prepared for further difficult decisions, to secure the financial resilience and sustainability of the Council.

Acknowledgements

This Letter has been agreed with the Chief Executive and Director of Finance, Housing and Community and will be presented to the Governance Committee on 5 December 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below.

Preparation of the accounts

The Council presented us with draft accounts on 28 June 2013, in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced 22 July 2013.

Working papers were of a good standard and officers responded promptly to audit queries.

Issues arising from the audit of the accounts

During the audit we identified a material misstatement in relation to the valuation of the Council's Land and Buildings due to an error by the valuer. This resulted in and overall reduction in the Council's net assets of £21,750k. As a technical accounting adjustment, this has no effect of the resources available to the Council.

The Council determined on 25 September 2013 to approve a transfer from HRA reserves to the General Fund amounting to £12,500k. The Council was of the view that the transfer should be recorded in the 2012/13 financial statements. We reviewed the suggested amendments and were satisfied that the transfer was recorded appropriately.

Annual Governance Statement

No issues were identified through our review of the Annual Governance Statement.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our report to the Audit Committee on 26 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 27 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our overall conclusion is that the Council is responding well to the financial challenges it faces. But with continued uncertainty over the future levels of local government funding and need to address a funding gap over the medium term members will need to be prepared for further difficult decisions, to secure the financial resilience of the Council.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies. Overall appropriate arrangements for challenging economy, efficiency and effectiveness were found to be in place.

Further details are provided in our Financial Resilience report issued in September 2013.

We will review the changes to the Council's medium term financial plan and annual budget as a result of the transfer of reserves from the HRA to the General Fund in 2013/14.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

Certification of grant claims and returns

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

We have certified the National Non-Domestic Rates and Housing Capital Receipts returns for the financial year 2012/13. Our work on the Housing and Council Tax Benefit Subsidy, which has a deadline of 30 November, is still in progress.

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

Key messages
Our work on certification of grant claims is on-going. Our work to date has not identified any issues which we wish to highlight. The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.

Summary of the Council's arrangements

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	Claims were submitted to audit on time and were certified before the required deadline.	GREEN
Accuracy of claim forms submitted to the auditor (including amendments & qualifications	Minor amendments were made to both certified claims to date.	AMBER
Supporting working papers	Supporting working papers were accurate and officers provided these in a timely manner.	GREEN

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	70,680	70,680
Grant certification fee	19,200	TBC
Total fees	**89,880**	**TBC**

Fees for other services

	Actual fees £
None	Nil

Our grant claim work is still in progress. On completion of our certification work of the Housing and Council Tax Benefit Subsidy claim we will confirm the certification fee. Any fee variation will be discussed with officers and subject to approval by the Audit Commission.

Reports issued

Report	Date issued
Audit Plan	14 March 2013
Audit Findings Report	26 September 2013
VFM – Financial Resilience Report	26 September 2013
Certification Plan	26 September 2013
Certification Report	Planned for 5 December 2013
Annual Audit Letter	October 2013

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